Case 6.1 IRS

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The Problem

The Internal Revenue Service is the federal tax collection agency for the United States government. It was broken up into six divisions, with collections being the most important among them. By 1984, the collection operation, called the COF, had become so encumbered with paper documents that an automated process was needed to keep track of all the data. To do this the IRS implemented the ACS, or automated collection system. Performance was considerably better after the new control system was implemented, but problems began to arise when IRS employees voiced their complaints about the new system. While ACS didn't immediately lead to lower performance outcomes, however, it did cause some employees to lose their motivation to do the job. Thus, the main problem of this case is centered around the choice that ACS presents to the managers of the IRS, and how it impacts the entire collections division: Should management value the increase in performance over employee satisfaction or is it the other way around, and does the ACS system need to be adjusted? That is the main problem of this case study.

Industry Competitive Analysis

Mission Statement
The mission of the IRS is that they are a collection agency for the US government that aims to "collect the proper amount of tax revenues at the least cost to the public." There is only one federal tax collection agency, so they operate with a focus differentiation strategy.

Organizational Structure
The organizational structure of the IRS is divisional. According to James Cash, "a divisional structure groups diverse functions such as manufacturing, research and development, and marketing within each division, and it is organized by outputs." The COF is an acronym for

collection office function, and it is a part of the collections division. The IRS is also split into five other divisions complete with their own functions. That is why the IRS has a divisional structure.

Business Model

The IRS is a value shop. They provide different services that satisfy the needs of the government, and they aren't manufacturing anything. Those are the reasons why the IRS is a value shop and not a value chain.

Generic Strategy

The generic strategy of the IRS is focus differentiation because they offer multiple products to many different customers on an economy of scope, which means that they provided their services in a way that they could be sold anywhere in the world. They also associate specific customer needs with a specific product or service. The IRS is the only collection agency for the US government, so it produces a service so well that no one tries to compete with them. That is why the IRS uses a focus differentiation strategy.

Analysis of Porter's Five Forces

1. **Intra-Industry Competition**: **Low Risk** because they are a government agency and no competition exists

2. **Threat of new entrants**: **Low Risk** because the IRS isn't really in an industry, it's a government agency

3. **Customers**: **Low Risk** because the US government and the citizens have to use the IRS as their collection agency

4. **Suppliers: Low Risk.** There are no supplies involved

5. **Threat of Substitutes**: **Low Risk** because there is no agency that exists to copy the services of the IRS

Maslow's Hierarchy of Needs

To better understand the issue that the IRS was having with its employee's' attitude toward the ACS, it needs to examine Abraham Maslow's Hierarchy of Needs. This is used "to study how humans intrinsically partake in behavioral motivation" (Wikipedia). In Maslow's hierarchy, physiological traits like making enough money to eat in order to survive, are the most important and sit at the bottom of the list, while intellectual traits like self-actualization, or meeting one's expectations of oneself, sit at the top.

Maslow's Hierarchy of Needs for the IRS Collections Division

1. **Physiological Needs: Met** - These needs are generally always met if the employee has a job and gets a paycheck. The IRS employees' physiological needs are met.

2. **Safety Needs: Met** - Assuming that the IRS is a safe place to work, the employees' need for safety is met.

3. **Social Belonging: Not Met** – Many of the employees stated that they felt confined to their office space and were concerned about the lack of interaction between fellow employees. The need for social belonging is not met.

4. **Self Esteem: Not Met** – Many employees stated that the monitoring system was used as a "gotcha" tool instead of a constructive one. The employees wanted the managers to respect the employees for their ability to do the job without being spied on all the time. According to Maslow, if you demand respect from others you have low self-esteem. The need for self-esteem is not met.

5. **Self-Actualization: Not Met** – The motivation for the employees to continue to do their job is lowered by the ACS system, so they are not doing the best that they could. The need for self-actualization is not met.

These the needs of the IRS employees, and if the ACS system satisfied them or not.

Stakeholders

The stakeholders within this case are:

- Tim Brown, Assistant Commissioner for Collection of the US IRS

- IRS Managers

- IRS Employees

Brown is a stakeholder because he decided to implement the ACS, and his decision will be the basis of whether the IRS improves upon the system or keeps it the same. The managers and employees are a stakeholder because they are the users of the ACS system. Their feedback is crucial for the system to grow and for potential problems within the system to be fixed. Those are all the stakeholders within the case.

Alternatives

The problem presented within this case is diverse, and as such, many alternative solutions to the problem exist. They are:

- Do Nothing

- Restructure ACS into semi-autonomous teams

- Retrain all ACS employees

- Change the way that ACS is managed

1. Do Nothing

The first and most obvious alternative solution to the ACS problem is to do nothing. From a performance perspective, the ACS is doing a great job of improving employee productivity response time, and the IRS rarely lost a case completely. The ACS had many downsides as well. Many cases no longer got completed in a timely manner because the system did not allow

employees to choose which case they got. It simply picks the case that has the highest rank of importance and assigns that to the employees. This caused employees to receive only pieces of a case and they usually didn't follow them through to completion. Another downside is the monitoring system. This system caused many employees to lose motivation because the system gave them low skill variety and little task identity. This meant that the job didn't require the employees to have very many skills to do the job, and each case was pretty much indistinguishable from another. Employees didn't have the option to leave an impression of their self within the system. If the IRS does nothing, performance will probably stay good for the time being, but it will gradually decline as employee dissatisfaction with their job grows.

Another problem with this solution is that it treats employees as a part of the machine, and that is definitely not a good thing. The IRS employee are probably experiencing a great deal of techno stress, or adverse effects of working on a computer all day, because they never interact with their fellow employees. In his book, *Images of Organization,* Gareth Morgan describes how "when managers think of organizations as machines they tend to manage and design them as machines with interlocking parts that play a clearly defined role in the functioning of the whole. At times, this can prove highly effective; at others, it can have many unfortunate results." In an organization like the IRS, and especially in the collections division, it is not a good idea to create a work environment that revolves around numbers alone. Employees are dependent on the information that others have provided in their cases, and if that information is lacking in any way, the employees must get in contact with the original other of the case. It should also be noted that the IRS managers felt that employees should avoid discussing case procedures with one another because it "wastes time," when in fact they needed to do so in order to be effective in their jobs. Again, if the IRS does nothing the situation only grows worse over time until productivity takes a hit due to turnover or lack of employee motivation. That is the do-nothing solution.

2. Restructure ACS into semi-autonomous teams

In this solution, the IRS improves upon the need for the employees to self-belong or be in a group among others. This would improve productivity for those employees that were in the semi-autonomous teams, but the costs associated with scheduling alone would be well over one million dollars. This number doesn't take into account the fact the employees would likely all have to be payed the same rate, thus raising the cost of wages even more. If the IRS choose to go with this alternative, Tim Brown is satisfied with the good job that he has done to handle the implementation of the ACS and the boosts in productivity, the managers don't have to review as many cases, in other words they have less work, and the employees are able to interact with people as opposed to being isolated at their desk. The only major downsides are the larger and scheduling costs. That is what happens if the IRS decides to restructure ACS into semi-autonomous teams.

3. Retrain all ACS employees

This solution could be effective and increase productivity if all employees are not averse to the training. Retraining employees to do the job helps increase job satisfaction while reducing losses in motivation and turnover. This directly combats the effects of deskilling, or the process of breaking jobs down into small immeasurable tasks that disconnect the worker from the larger process, which in turn gives the workers less opportunities to broaden their skill base and advance in the organization (Cash). If the IRS goes with this alternative, Tim Brown enjoys a successful implementation of ACS and boosts in productivity, the managers are more confident in their employees' ability to do the job, and the employees are satisfied because more skill variety was added to their jobs, and they have sufficient knowledge to complete all of their tasks. This solution also presents another large labor cost as a downside. That is the retraining solution.

4. **Change the way that ACS is managed**

If the IRS changes the way that the ACS is managed, it can improve the system without spending too much extra money. For example, if evaluations were given to employees less often they would mean more, and employees wouldn't become unmotivated as quickly. In its current state, many employees view the ACS as a "gotcha" instead of a means to improve on their cases. From their point of view, the ACS system is unfair, and it requires them to be at their desks all day. This may be evidence of an unfair work standard. According to Cash, an unfair work standard is created when "productivity increases are gradually ratcheted upward, placing new pressures on employees." If the IRS choose to change how the ACS is managed, the unfair work standard could potentially be fixed. In the case it was also stated that Brown was able to pinpoint the specific areas of the ACS system that had the most impact on employee motivation. This would have been the main downside to this solution had the Brown not already figured out the areas that needed improvement. If the IRS implements this solution, Brown gets the rise in productivity, the managers are now more effective in their reviewing, and get more job satisfaction, and the employees are more productive at their jobs due to the more effective management. The employees also enjoy a higher level of job satisfaction if Brown adheres to his findings about the seven factors that directly influence employee motivation. That is what would happen if the IRS changed the way that the ACS is managed.

My Solution

The correct solution to choose in this case is to do nothing. The implementation of the ACS system has already caused massive performance boosts, and despite some claims from a few employees, the ACS system seems to already be making a positive impact in the IRS workplace. Some employees are actually for increased monitoring and don't mind the extra evaluations. In the case, it was never explicitly stated just how many employees didn't like the new control system and how many did actually like it. The numbers also don't lie. The number of

lost cases is drastically different from before the new system was implemented. Before ACS, it was estimated that the IRS could only associate a taxpayer with their account 20% of the time meaning that 80% of the time they couldn't. After the switch to ACS it is stated that there was rarely a lost case. This boost in performance speaks for itself, and it's not like the IRS can just go back to keeping paper records either, so for all intended purposes the ACS is a success. The employees complained because they were forced to work harder than they had to before, but that does nothing to deny the fact that the IRS simply performed much better with the ACS. The problems really don't affect productivity and performance is up, so doing nothing is the best alternative solution.

Conclusion

This case study involves the IRS, the tax collection agency for the US government, and the decision on how to improve the new ACS system. The alternatives to the problem presented in this case are to do nothing, restructure ACS into semi-autonomous teams, to retrain all ACS employees, or to change how ACS is managed. The best solution is to do nothing because it involves the least cost and maximizes productivity. That's the IRS's problem within this case, the alternative solutions to solve the problem, the best solution, and why the IRS should have pursued this solution.