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IRS

Case Study

Background

The Internal Revenue Service (IRS) is a U.S. Government agency that collects taxes from the country’s taxpayers. The IRS provides taxpayers with the ability to file their annual taxes with ease, as well as receive their tax revenues efficiently. In its history, the IRS has brought in over $935 billion from about 195 million tax returns. The agency has also assisted over 83 million taxpayers by providing information for them to easily pay their taxes. The IRS has over 120,000 employees spread across 700 offices across the country, headquartered in Washington, D.C.

Recently, the IRS replaced their collection office function (COF) with a new system – the automated collection system (ACS). This new system aims to improve the service quality and productivity in order to help customers solve their issues. In the previous system, employees struggled finishing cases before deadlines, often resulting because cases would be lost within the transitions. When cases were lost, it took employees an average of three hours to find missing cases. Employees were required to help in other function areas as there were constant jams in certain functions. With the implementation of ACS, employees were able to easily navigate the system to find taxpayer accounts, find cases, and receive incoming calls as well. The system operates similarly to an inventory system, so the IRS has benefitted from an organizational standpoint.

The problem, though, is that ACS has led to mass turnover. The IRS was able to let go of many employees, but those that stayed were not satisfied either. Older employees did not want to look at a computer terminal all day at work and did not like the level of monitoring that the management was doing. At its peak, employee turnover was as high as 100% during the transition to ACS. Ultimately, the IRS hired employees that were less skilled so that they could train them while not having to pay them as much. Supervisors were required to monitor and review the work of their employees to make sure they were meeting their baseline level of production.

Mission Statement

The IRS is an agency created by the U.S. Government to collect taxes from taxpayers. Because their previous collection office function was inefficient and outdated, the company elected to install a new automated collection system. The mission of the IRS is to collect tax revenue efficiently, confidentially, and fairly (Cash).

Stakeholders

**U.S. Government**

The U.S. Government is a stakeholder here because they are the ones who need the IRS to be able to fulfill their needs. The Government is reliant upon the agency to collect tax revenue and make sure that all taxpayers are compliant.

**Executives**

Executives are stakeholders because they are the ones making the changes. The executives want the turnover rate to be close to 0%, as it has reached up to 100% at peak times. This would do wonders for the company by allowing employees to gain familiarity.

**Management**

Management within the IRS is a stakeholder because they are the ones enforcing change that is brought down by the executives. Currently, management is struggling to find ways to create a culture that employees are comfortable in, but they need to be able to trust the employees to do their jobs.

**Employees**

Employees are stakeholders in this case because the decision made by the IRS will determine much about their work-life. Currently, employees are being watched by managers that want to make sure they are being productive.

**Customers**

The U.S. taxpayers are stakeholders in this scenario because their way of filing taxes and contacting the IRS with any questions is at risk. Depending on the route taken by the IRS, the process of paying taxes could become easier or more difficult.

Competitive Analysis

“Competitive threats to the firm’s products and services, as related to information technology, may be derived from several primary and secondary sources” (Fried). Because the IRS is the sole enforcer and collector of taxpayer revenue in the United States, there is no competition within its respective industry. The U.S. Government prevents any other organization from collecting taxes, therefore, the competitive side of things is not a worry in this case.

Generic Strategy

The IRS operated under the Cost-Leadership strategy. The IRS must run in the most efficient way possible, serving every single taxpayer in the United States. The product operates “at a relatively low cost and (is) made available to a very large customer base. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business” (Tanwar).

Porter’s Five Forces

Porter’s Five Forces is an organizational strategy that helps businesses determine the level of attractiveness of a market. These forces break down the level of competition within the industry, considering many different things along the way, ultimately looking for opportunities and risks involved. These are present within the IRS case, and are examined below:

1. Competitive Rivalry:

The competitive rivalry for the IRS is zero, as there is no competition. The IRS is a monopoly and is the government’s way to collect taxes. This means that any competitive rivalry is non-existent.

1. Threat of New Entrants:

Because the U.S. Government created the IRS as a monopoly, there is no way that competitors enter the industry. This makes the threat of new entrants zero. “Governments create or permit what are seen as ‘natural’ monopolies, such as utility organizations” (Porter). Each citizen must pay their taxes to the same organization – the IRS.

1. Threat of Substitutes:

The IRS has zero threat of substitution, as there is no other entity that collects taxes from the U.S. citizens. Citizens must report to the IRS, and only the IRS, for tax-paying purposes.

1. Bargaining Power of Suppliers:

The power of suppliers is medium. Because the IRS is a U.S. Government entity, the suppliers must sign to work with the government, and would have little power. However, the IRS does rely on the automated collection systems (ACS) to work correctly. Because of this, suppliers of the ACS would have some form of power.

1. Bargaining Power of Customers:

Because the IRS is the only company that customers can report to, there is no bargaining power for consumers. Companies are not able to enter the field, and as all monopolies do, they control everything.

Potential Solutions

1. Do Nothing

The first solution that the IRS can choose is simple – do nothing. With this solution, the IRS will remain content with an extremely high turnover rate. The organization structure will remain as is, and the productivity will continue to be increased as compared to when the COF was being used. Employees, however, will continue to be dissatisfied with the work culture as they will continue to be monitored 20 hours per week. The IRS will continue to find cheap and untrained employees to hire because the implementation of the ACS allows for less-trained employees. Taxpayers will be satisfied with this alternative as they would continue to have their issues resolved in a more efficient manner than they had in the past with the COF. Management would be unhappy because they will continue to spend their time monitoring and training employees. The U.S. Government and Executives would have detrimental results from this alternative as the high turnover would mean that the company is spending money on new employees rather than making profit or advancing their services. However, “the goal of every organization is to make money now, and in the future” (Goldratt). If the organization is focusing their assets on recovering from the high turnover rate, the IRS will not be making any money. They must be able to retain employees in order to make profit.

1. Change the System’s Management and Monitorization

A second alternative for the IRS is to change their management policies, including the level of monitorization. One of the biggest complaints from the employees is the amount of time they get monitored for their productivity. This seems to be a privacy issue for their employees. The customers would not be a fan of this, as there is a definite chance that the level of production from the IRS employees would decrease. Not only would the production, but the quality of the work would also take a hit. Employees would be very happy with this alternative as they would not be monitored as much and would be able to interact. Management would notice both good and bad from this alternative. While they would gain more free time, they would be blinded by the levels of production of each of their employees which could reflect on them. The Government and Executives would not be happy unless the employees are held to a standard that could lead to termination if it is not met.

1. Train Employees + Job Enrichment

The last alternative is for the IRS to retrain the employees to allow them to finish cases on their own, making their work more efficient. In hopes of raising their job satisfaction, the IRS may also be able to assign extra roles to workers in hopes of not tiring out their employees. Through job enrichment, employees may be able to rotate roles and combine tasks, so they are not stuck in front of a computer terminal for 40 hours a week. This may also help the employees feel a sense of privacy, as they will not be observed by their managers. The Executives and U.S. Government would be paying a lot of money to do this, putting a halt to the IRS for a specific amount of time to train the employees. The customers would be happy with this decision because there would not be as many transfers as before. Management would also be unhappy as they would have to see the loss of money to afford to train the employees. However, managers may benefit because with proper training, the employees may not have to be monitored. While the costs of the training is an alarming negative, each of the stakeholders would see some form of positive out of it as the efficiency and effectiveness of the employees would skyrocket.

Course of Action

The course of action that the IRS should take is Option C, Train the Employees and create Job Enrichment. By doing this, the IRS will be taking a hit with the amount of money being spent on training, however it will pay off down the road. The monitoring system is not the issue at hand, as these systems help “improve efficiency and reduce errors by providing workers with timely and accurate performance feedback” (Cash). While this makes the employees disgruntled, it may train them how to work productively and management may be able to secretly decrease the number of hours they monitor their employees (if done so through computer camera). By retraining - or training - employees, their work-life will become enriched, and the employees may be able to have higher job satisfaction. By learning each role, employees will see the number of cases they are able to complete each day, something they had never been able to do before. For the U.S. Government, Managers, and Executives, they may look at this alternative as a bad idea due to the cost. However, this will increase the employee satisfaction and solve problem number one: job turnover. By increasing job retention, there will be more familiarity within the IRS and customers will not be surrounded by strangers. If the turnover rate continues to be high, the IRS will ultimately spend more money replacing workers and training the new employees rather than training all of them at once. Productivity, employee satisfaction, and job enrichment will increase with this alternative, and those are all worth the price of retraining each employee in the IRS.

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