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Case 6: IRS

Introduction to the IRS

The Internal Revenue Service, or IRS, is a branch of the federal government that is responsible for the collection of taxes and processing tax returns from individuals and companies that operate or sell goods in the United States. Not everyone files the proper paperwork to pay their taxes, so a division of the IRS sets out to collect the proper amount of tax revenues for the government when their reminders are continuously ignored.

In 1988, the IRS had a budget of $5 billion dollars and 120,000 employees spread between 700 offices. Despite this, the amount of paperwork involved in the collection process substantially slowed the branch down. The IRS transitioned from the Collection Office Function (COF) to the Automated Collection System (ACS). By the late 80's, the COF was outdated, the business process structure wasn't efficient, and information couldn't always be validated. The ACS could automate tasks for IRS employees and was better suited to organize the growing number of documents and case files.

The Problem

The COF was a physical system comprising of the manual compilation of paperwork in different units of the office. Units included the walk-in, process review, and incoming calls. The paperwork was walked or passed to different units and additions were made to the case file. This system made taking notes easy but locating files on the spot for walk-ins and callers was extremely difficult. As such, they switched to the ACS in 1984.

The ACS was an electronic system comprising of digital storage for the IRS' files. The database made retrieving taxpayer information much easier. Instead of walking paperwork between units, IRS employees completed their work at a terminal individually. Productivity skyrocketed, the dollars collected increased 33% annually, inventory levels declined, and the total number of closed cases improved by 100%. Employees could make calls from their computers and be assigned cases with priority determined by taxpayer's balances. The system was not without its flaws though. Productivity was not reaching initial projections, and employee turnover was high.

IRS employees were accustomed to walking around the office and asking their colleagues for procedural advice. Working at a terminal alone meant they were not able to socialize or move about freely. On top of this, employee dissatisfaction rose with the introduction of monitoring. As James Cash states, "Electronic monitoring systems can help improve efficiency and reduce errors by providing workers with timely and accurate performance feedback" (Cash). However, in the IRS' case, a mutual distrust was building between employees and their supervisors.

Supervisors could track, record, and evaluate their employees' performance. They had access to an employee's work environment and observed their progress. Supervisors were required to listen to an hour of calls between each of their employees and taxpayers every day. However, as Cash states, "Monitoring can have the effect of disconnecting the worker for the larger process, which in turn gives workers less opportunity to broaden their skill base and advance in the organization" (Cash). Some of the performance feedback was helpful. Employees were split, some enjoyed knowing how they were doing, but others felt supervisors were biased and looking for mistakes.

Supervisors were focused on efficiency instead of assisting their employees. ACS collected data including the number of outgoing and incoming calls, the number of calls answered or missed, the time it took to answer, the length of the call, the number of closed cases, the number of dollars collected, etc. While supervisors listened in on calls they rated how well they followed procedures, general attitude and courtesy, and if they could stay on topic.

Employees who are monitored this closely may face increased work stress (Morgan). Working in isolation and deteriorating colleague relationships created an acute level of employee dissatisfaction. The IRS had to hire 50% of new employees from outside the branch because internal employees did not want to transfer to the department and become tied to their desks. ACS raised concerns about unfair work standards, the loss of skill, and privacy concerns (Cash).

Porter's Five Forces

Porter's Five Forces do not completely apply to the IRS. As they are a branch of the federal government, they do not operate as a business does. Though, their goal is still rooted in making money, their function is to bring in revenue for the United States (Goldratt). There is no threat of new entrants, substitutes, or competition because the government does not have another collection agency (Porter). They operate in an industry that requires high levels of investment (Tanwar). Their $5 billion dollar budget is nearly impossible for anyone to compete with. It is very unlikely that the United States created another branch or contracts a private collections agency in place of the IRS.

The IRS' suppliers are taxpayers. They can create delays by neglecting to pay their taxes, but the collections side will catch them. Following this vein, their only bargaining power is time. The IRS' customer is the government. The government created the IRS and created the laws and regulations the branch must follow to retain their budget.

Since the IRS is a branch of the federal government, continuing to promote a cost leadership strategy is in their best interests. Collecting the proper amount of tax revenues from the public at the least cost is their goal.

Stakeholders

The stakeholders in this case are IRS employees, the assistance commissioner for the IRS, Tim Brown, high ranking officials, taxpayers, and the US Government (Destination Innovation). If changes are made to the ACS, IRS employees, taxpayers, and the US Government will be the most affected. IRS employees will have their daily duties changed, taxpayers could see higher or lower wait times, and the US government will have to consider changes to funding.

Doing Nothing

The IRS could choose not to take any further action. This is almost impossible because the rate of employee turnover will only increase, and some action will need to be taken. Productivity will still be higher than before the ACS was implemented, but that won't matter if no employees remain. They may have to increase spending on motivating the employees that have managed to retain. With a shrinking labor pool, this option is less than ideal.

Restructuring ACS's Work Organization into Semi-Autonomous Teams

This option entails allowing employees to be involved with a case from start to finish. Working on cases in teams would alleviate the monitorization of individuals and free up supervisors' schedules. Employees would experience increased satisfaction due to collaboration and their sense of accomplishment when interacting with and closing out cases.

This option demands an investment of $1 million dollars to alter the system and the IRS' wage bill would increase. This increase would be brought on from pay scales becoming altered since contact, research, and investigation would be combined. This combination would occur because teams would have the functional expertise necessary to handle the cases (Cash).

This option could possibly lower skill variety and feedback due to combined roles and less monitorization. Each member of the team may have less to interact with on a case, so the variety of skills could decrease. Periodic feedback may hold more weight, but those who prefer more frequent performance reviews may be dissatisfied. However, specialized roles will increase task significance and identity. Members would feel as though their work impacts the rest of the team, this would increase individual feelings of importance, autonomy, and responsibility. Overall, employees would be more satisfied, but the government would not be happy with the increased investment.

Retraining Employees to Finish Cases from Start to Finish

This option is less expensive than a substantial restructure, but there would still be incurred training expenses. Employees would be retrained to handle all aspects of a collection case. This would raise the skill variety necessary to do this because each employee would be handling additional functions. This increase would also necessitate a pay scale adjustment. Task significance and identity would be raised since they are able to start and complete a case. This would also strengthen individual feelings of autonomy. Task identity would decrease since every employee would be performing the same tasks. Feedback would stay the same since the monitorization aspect would not change. Turnover may persist if employees still resist this aspect of ACS. Employees would be slightly more satisfied, but the government would still have to fund this process.

Working Within the Present Organization but Changing System Management

This option eases tensions between supervisors and employees. Higher ranking officials can create new guidelines for supervisors regarding the use of collected employee data. Monitoring employees is important because it can increase productivity and employee satisfaction when done correctly. Whether or not a performance review contains positive and negative feedback, employees can still end up motivated when they are delivered in a positive manner. Correcting issues is necessary so business functions carry on as intended (Habas).

Employees would be moderately satisfied with this option because their privacy concerns would be taken seriously. This option does not alleviate their concerns about a loss of skills though. They would still be sitting at their desks and some unfair work standards could remain. Decreased monitorization does not mean tension between employees and supervisors would completely dissipate. The government would not have to fund this option, but higher-ups would still face difficulties with onboarding employees.

Recommendation

I recommend that the IRS alters the monitorization and management processes. When supervisors approached monitoring differently, it did make a difference in its effectiveness and their employees reacted more positively. Seven key factors influenced employees' thoughts on being monitored: The immediacy of monitoring feedback, the nature of the feedback (positive or negative), the clarity of the criteria used to rate their performance, the method of monitoring (remote or in-person), the supervisor's knowledge of the job's functions, the supervisor's leadership style, and the employee's prior feelings towards monitoring. These factors must be considered when exploring this option.

It is my understand that productivity would remain stable or increase. The current productivity level is a byproduct of ACS. Motivation correlates with productivity and turnover. Job satisfaction is a factor, but motivation must be addressed first. Increasing motivation means management needs to raise task significance and identity, personal autonomy, skill variety, and provide meaningful feedback.

Having employees work on a case from start to finish could tackle these goals, but productivity is already high. The turnover rate needs to be lowered first. All of the options could lower the turnover rate, but they could also jeopardize motivation, which will create problems with turnover all over again. Changing the management process should be the first step.

Management was spending 60% to 75% of their workweek monitoring their employees. Reducing the amount of time supervisors need to monitor their employees gives them more time to complete other tasks or prepare reviews. Changing the management system will create a more comfortable work environment for employees, decreasing workplace stress levels. Employees would experience increased feelings of autonomy since they wouldn't be dictated throughout the day. Overall, motivation would increase and turnover would decrease.

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