**Case Analysis: IRS**

**Hannah Sadikovic**

**Problem Statement**

The Internal Revenue Service (IRS) faced some turnover problems in the 1989 after the organization changed its operations to be more automated, switching from the collection office function (COF) system to the automated collection system (ACS) despite increases in productivity. The new system took the offices from being a chaotic “zoo” where the desks were on top of each other and everyone moved around to discuss problems with everyone, and it significantly reduced the amount of physical paperwork that was causing inventory to rise. However, many employees were unhappy with the new system because they felt they were being overly monitored in a ‘big brother’ manner and that they were now confined to their workstations and felt isolated as a result. The assistant commissioner for collection, Tim Brown, needed to figure out what to do going forward since the organization was looking to automize other functions as well.

**Industry Competitive Analysis**

I. **Mission Statement**

The Internal Revenue Service (IRS) is a federal organization that collects revenue for the US government in the form of tax returns, operating through a focus strategy. A focus strategy is one where the organization does one thing so well that it is difficult for others to compete (Barker). Because the IRS does not sell commodities or anything in fact that would cause them to have competitors, they do not need to employ neither a cost leadership strategy nor a differentiation strategy.

**II. Five Forces**

Porter’s five forces are power of suppliers, power of customers, threat of new entrants, threat of substitutes, and competitive rivalry. The following is an analysis of each force and how it affected Symantec and the company’s environment.

The first, power of suppliers, explains the relationship between supplier and buyer where if the supplier holds bargaining power, then they can influence prices in the market and availability of supplies (Team FME 23). The IRS does not need suppliers to provide their services, so they do not need to concern themselves with this force as there are no suppliers to hold bargaining power over them.

The second force, power of customers, explains the relationship between customer and seller, where if the customer holds bargaining power, then they can influence prices and quality of products in the market (Team FME 25). Because the services that the IRS provides to US citizens are free and required by the law, neither the IRS nor its consumers have bargaining power over each other.

The third force, threat of new entrants, describes the threat companies face when there are new entrants in the market who can increase the bargaining power of customers. Current sellers in the market will try to erect entry barriers, such as copyrights, patents, or contracts (Barker). The services that the IRS provide are unique and because they are federally sponsored, do not allow for new entrants to enter the market. The IRS does not have competitors that they need to concern themselves with.

The fourth force, threat of substitutes, explains how the threat of substitute products or services, which meet a consumer’s need but in a different market, can affect the competitive environment and subsequently profitability for the producers of current products or services by allowing consumers to choose the substitute products or services instead. Similarly to the threat of new entrants forces, the threat of substitutes is not a concern for the IRS as there is not availability in the market for other organizations to provide these types of services for US consumers.

The last force in the model, competitive rivalry, describes the threat to existing sellers in the market by other competitors in the same market. There are no currently existing competitors in this marketplace.

**III. Organizational Structure**

A firm’s organizational structure is determined by the environment. It is the way in which businesses deploy assets in an environment in order to achieve their organizational goals (Barker). The IRS’s organizational structure is a function one, where the organizational boundaries are rigid, decision rights are vertical and centralized, and is bureaucratic in nature, as in the case of the IRS.

**Key stakeholders**

A stakeholder of an organization is anyone who is affected by the organization’s operation and performance, and he or she typically has a vested interest in the company, either internally or externally. The key stakeholders in the IRS consist of the following: all executives, subordinates, and other employees, and all tax-paying consumers (who are the external stakeholders). The top executives include all ADP staff, the District Director, the Problem Resolution Officer, the Resources Management Division, the Facilities Management Branch, the Personnel Branch, the Training and Development Branch, the Examination Division, the Coordinated Examination Branch, the Examination Branch, the Planning and Special Programs Branch/Staff, the Quality Review Staff, the Examination Support and Processing Branch, the Collection Division, the Field Branch, the Special Procedures Function, the ACS Branch, the Employee Plans and Exempt Organizations Division, the Examination Branch, the Technical Staff, the Criminal Investigation Division, and the Taxpayer Service Division. All of these branches and divisions would be affected as stakeholders to any changes or decisions made by the organization.

**IV. Possible Solutions**

Although the transition to the new automated system ACS improved productivity and reduced some disorganization problems that the collection division faced, many employees and managers were unhappy with the new system, so much so that turnover rate increased almost 100% in some offices. If the IRS wanted to automate other divisions of the organization, they would need to figure out what they could improve about the current system before they did so.

**Semi-autonomous Teams**

The first solution the IRS could consider pursuing is to restructure ACS’s work organization into semi-autonomous teams that would consist of members who had all the necessary expertise and knowledge to handle cases to completion. This solution would affect stakeholders in the following ways: first, this would require the organization to invest an additional $1 million to redesign the technology in order to allow the teams to handle cases to completion. It would also require an increase in wages. Second, this would reduce the amount of monitoring which would make employees feel less “watched” and scrutinized for their work without taking into account quality control. These changes would not negatively impact external stakeholders because services would only be improved.

**Versatility Re-Training**

The second solution they could explore is to retrain all ACS employees to make them “versatile” and be capable of handling all aspects of the collection system, which would include handling cases from start to finish. Like the previous solution, this would impact stakeholders in that it would require the organization to invest in retraining costs and increase wages to compensate the employees for the skills added. It also would not negatively affect external stakeholders as it would only better the service offered to them.

**Change the System Management**

The third solution the IRS could consider is to change the management of the system without changing the technology. This would mean changing the frequency and nature of monitoring employees. Instead of having someone sit next to employees while they work and monitor them constantly, they could check in once in a while and be more intentional with their feedback. Many employees and managers alike complained that the feedback was beginning to be useless and ineffective. They also need to create a system where there is more social interaction between the workers, so they do not feel so isolated at their workstations. Teams and group efforts on cases would help accomplish this. This solution would not financially impact internal stakeholders, turnover rate would likely go down due to the increased job satisfaction, and external stakeholders would receive only improved customer services.

**Change Nothing**

The last option the IRS has is to change nothing and continue with their current system as is. This would impact stakeholders in the following ways: internal stakeholders would not be impacted financially, managers and employees would continue to monitor all work constantly, which would likely continue the trend of high turnover rates, and because of this, external stakeholders could suffer decreased customer service.

**V. Recommended Solution**

The recommended solution is for the IRS to change the management of the system without changing the ACS technology. Many of the issues stem from the way that the employees are being monitoredand isolated at their workstations. This solution would fix these issues which would result in turnover rates decreasing since job satisfaction would be increased. It is important to note that increased satisfaction would not necessarily increase productivity. The ACS itself has increased productivity while still decreasing job satisfaction. This is because there is zero correlation between job satisfaction and job productivity (Barker). Instead, there is a positive correlation between job motivation and productivity, and negative correlation between job motivation and turnover rates. The ACS has allowed for motivation to be increased in the workplace, but if the IRS wants job satisfaction to also increase, they need to change the management of this system to increase job satisfaction. The other solutions of change, semi-autonomous teams and versatility re-training are not recommended because they will create too big of a change and will also be costly. People don’t like change because of the uncertainty that comes with it, which turns into anxiety (essentially fear) (Barker). The option of doing nothing is also not recommended because it will not improve the high turnover rates, which could only get worse over time. The best option is to change the management of the system because it will increase job satisfaction without decreasing productivity and changing too much of the current system that has already been invested and implemented. These changes should be incorporated to any new automations of other divisions in the organization.