

## **Case 6 – IRS**

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CIS 410 – 01

March 20, 2019

## **Mission, Overview, Problem**

“IT is leading to changes in our relationships with the organization and its members, in how we conduct our work, and in how we are supervised and evaluated,” (Cash). As new technologies emerge, opportunities to improve business functions through automation become more apparent. Through automation, greater efficiency and effectiveness can be achieved which can lead to fewer costs and greater profits, by requiring less manual labor, time, and effort on the part of employees and managers. “Corporations and whole industries throughout the world are restructuring and downsizing to improve their efficiency and competitiveness,” (Fried). The automated collection system (ACS) adopted by the Internal Revenue Service (IRS) was an attempt to maximize the efficiency and effectiveness of employees by automating key business processes. Through this system, managers were given greater control over employees, and employees had their job responsibilities and task minimized to several key functions, in an attempt to make the overall collection process more streamlined. The controls put in place with ACS were designed “to create a set of conditions that improve the likelihood that desirable outcomes will be achieved,” (Cash), by modifying employee behavior. As is human nature though, many employees and managers expressed disdain with their new job functions, and the new controls put over them, which has led to high turnover rates.

The mission of the IRS is to collect the correct amount of taxes from the citizens of the United States in the most cost efficient manner for themselves and the public, and in a way that earns public confidence in their integrity, fairness, and efficiency. ACS was an attempt by the IRS to deliver on this mission, as the older collection office function (COF) system, designed with 1950’s technology, had begun to fall short in many areas. With the COF, inventories of tax cases were nearly unmanageable, as many records and files were lost, which caused major delays

in solving tax collection cases and generally serving the public. Tim Brown, assistant commissioner for collection, and many other in charge of managing the IRS, recognized the organization was failing the public not because of lack of effort on the employee's part, but because the system was working against them. To remedy this, they decided to make an unprecedented effort to modernize their systems, and through this effort ACS was developed.

ACS consisted of three main pieces of technology; the integrated data retrieval system (IDRS), which served as a master computer in the ACS call sites, the IBM system which consisted of a mainframe computer that contained the database for accounts and set priorities on cases, and then the Rockwell ACD (automated call distributor) that allowed employees to make outgoing calls and routed incoming calls to employees. The structure of collection sites was also changed, going from six distinct areas with the COF to just three with the ACS. The three basic functions in an ACS call site was contact, investigation, and research. Contact representatives worked through cases and tried to resolve issues for callers, investigation staff focused on finding missing taxpayer information when it could not be found in the ACS, and the research function staff handled more complex cases and was in charge of correspondence. With these more streamlined functions and greater focus, there was almost a 50% reduction in employees, and the number of district offices, or call sites, dropped from 63 to just 20.

The COF allowed employees greater autonomy and decision making rights than they get in the ACS, as employees often worked cases to completion and had to spend a lot of time hunting down information. In addition, managers with the COF had very little accurate information to use to assess employee's actual performance. With the ACS, for the functions they serve, employees have almost all the information they need to complete their tasks right at their desk, in their cubicle, so they had less of a need to interact with their coworkers and leave

their desks. This led to many employees feeling isolated from their coworkers. The ACS also allowed managers to monitor all kinds of performance indicators for employees more accurately and efficiently than before. While some managers viewed this as a positive thing, as it allowed them to reward good performance, and recognize bad performance, some expressed discontent with the effort required on their part to monitor employees. This has led to an employee turnover rate of almost 100%.

Despite its problems the ACS has proven to be quite successful so far. Dollars collected by the IRS increased almost 33%, inventories decreased considerably, and the total number of cases closed increased almost 100%. In other words, the IRS had increased its throughput with more dollars collected, decreased its inventories with more closed cases, and decreased its operational expenses by doing more with less employees; productivity increased. However, concerns of the labor situation has made management in the IRS question if other options should be pursued. Before detailing the alternative, let's analyze the IRS's market environment.

### **Porter's Five Forces**

Since the IRS is a government organization they face relatively little threat from their competitive environment in the traditional sense. Threat of existing competition is low. While there may be other financial services available in the private sector, all citizens rely on the IRS to collect and process their tax return, and issue their refunds, so no other organization will realistically be able to imitate the IRS. Threat of substitutes is also low for much the same reason. The IRS is basically a monopoly, since there are no other organizations citizens can go through to pay their taxes to the government. The threat of new entrants remains low for the IRS, even though the technology they use is relatively easy to imitate, the scale at which they operate,

and the support they receive from government laws and regulations make it impossible for a new business to break into their “market” and pose a threat.

Customer bargaining power is low for the IRS, so threat posed by consumers is low. Sure, consumers can choose not to pay their taxes, but they risk facing serious repercussions as the IRS can and will take measures to recover taxes; in other words, consumers have high switching costs. The laws and regulations put in place by the federal government prevent citizens from paying taxes to any other entity than the IRS, so they have no options to switch to. The threat posed by suppliers is low to moderate. For suppliers of technology and services, there are normally many bidders on IRS contracts, which provides the IRS with many options to choose from so bargaining power in that area is low. Employees which supply labor pose a more considerable threat. As mentioned in the case, shrinking labor pools at the time and the difficulty of attracting people to government jobs made it important to retain employees. If employees feel their needs are not being satisfied they can threaten to leave the organization, or else. Since the IRS workers are unionized they can more effectively bargain and make demands of the IRS. However, with the ACS many of the new positions require relatively low skills, so finding candidates that possess the necessary skills should not be that difficult.

### **Effect on Stakeholders**

No matter which option is pursued by the IRS to fix problems in its workforce, its stakeholders will be affected. Major stakeholders include the US government, IRS employees, supervisory and nonsupervisory, and taxpayers. Seeing as how the IRS serves as the US government’s main supplier of tax revenue collection, they have a vested interest in seeing that the organization can perform its tasks well. The government will want the IRS to do whatever it has to in order for the government to receive their tax dollars. If the IRS is unable to attract

enough employees to replace those who quit, or are unable to retain enough existing employees, they will eventually see major decreases in their productivity as their labor force is stretched thin, which will undoubtedly upset those in charge of the government.

IRS employees at all levels have a strong interest in working at a job and in an environment that meets their needs. Seeing as how the IRS is more of a functional organization focusing on efficiency with many strict rules and regulations to follow, the organization operates in a more mechanistic, bureaucratic manner. Job tasks will be narrowly defined, meaning relatively few skills will be needed to perform job functions. With the implementation of the ACS, many of the nonsupervisory jobs have become more mechanistic as employees in the three main functions have very clear jobs to perform and outcomes to achieve. These more mechanistic approaches work well, “when there is a straightforward task to perform: when the environment is stable enough to ensure that the products (or services) produced will be appropriate ones,” (Morgan). These kinds of mechanistic jobs can be dehumanizing to employees. Many IRS employees spend their entire days isolated from workers in their cubicles, in front of a computer screen punching keys.

Many nonsupervisory IRS employees noted that the new controls put in place with the ACS were necessary and beneficial. Many appreciated the feedback they got felt that it helped them better perform their jobs, though some noted that they felt that the new controls and monitoring were invasive and allowed managers to act in a more antagonistic fashion. The main problems employees seem to have with the implementation of the ACS is the destruction of the informal structure that had been established with the COF. With the COF, employees had to converse and talk with one another and were given a lot of leeway in order to perform their ordinary job functions, and in doing so, developed a strong informal structure. The new layout

requires employees to be essentially tied to their desks all day, with much more supervision and less autonomy. People are social creatures, and as such, have a tendency to want to socialize with others; the ACS prevents this type of behavior from regularly occurring. As such, some workers have developed disdain towards the ACS. If the IRS can fix their problem of high employee turnover their workforce will likely benefit, as they will likely be the reason the problem is fixed. Keeping employees at their job is the fix the IRS is looking for, and to do this IRS managers may have to make some positive change to the work environment or systems.

If the IRS could fix its labor issues, taxpayers will likely benefit, as that means more IRS employees who can process their taxes and deliver their returns faster. If too many employees leave that cannot be replaced, the IRS will have to do the same amount of work with less employees, which translates to slower processing of taxes and slower delivery on tax returns. This means taxpayers will have to wait longer to get money back, which makes no one happy. Having an adequately staffed IRS, means effective processing of taxes. The ACS has already greatly increased the productivity of the IRS and brought in more revenue for the country, so any positive changes that could be made, would only benefit the organization.

## **Alternatives**

The IRS has several options to pursue in regards to problems its facing with its workforce and the ACS. The first option would be to do nothing, that is, keep the ACS as it is now and make no changes to employee tasks. This option is the cheapest alternative to pursue, as it involves zero costs to retrain employees for new roles. As a more functional government organization, the IRS has many rules and regulations it has to follow, making it extremely bureaucratic and focused on efficiency and keeping its costs low. This is doubly true since it is a government-funded organization, and funding from the government is always low unless it is the

military. For the US government, this alternative is a definite win, as it means they do not have to increase their funding to the IRS and can continue to receive increased tax revenues from the organization.

For employees, this choice has mainly negative effects. It means their jobs will remain extremely narrow and unrewarding. They will see no improvement in the informal structure of the organization, which for functional organizations is often very important. They may continue to struggle to find motivation to do their job, which will lead to continued high turnover in the organization. Those workers that prefer the new found isolation of their work environment and increased control and feedback will likely see this alternative as ideal. Supervisory workers will face the same problems they described of how much time and effort they have to devote to monitoring employees. There may be little to no impact on taxpayers, as the IRS will continue to collect and process their taxes, though if turnover gets too high, these times may become increasingly longer.

A second alternative would be for the IRS to restructure ACS's work organization into semi-autonomous teams. Each team would have all the functional expertise needed to complete cases, so essentially creating divisions within the ACS, which would all each to focus on a specific case. This option would likely increase the autonomy of employees within each team, and may create a sense of belonging and comradery that was missing before, since team based organization often, "improves coordination between functional specialisms, and makes good use of human resources," (Morgan). For employees, this alternative would have largely positive impacts as it improves the quality of their jobs, and stand to make them more rewarding. Also, it will likely decrease the amount of monitoring since teams will only be monitored on how they



handled the cases. This decreases the amount of work on part of the supervisors, which was a complaint some made apparent with the initial setup of the ACS.

The US government would probably see this alternative as less than ideal as it means the IRS will have to spend a sizeable amount of money to retrain employees and then more since wages will likely increase due to the restructuring of employee roles. Taxpayers will likely see positive effects from this alternative. If more employees are deciding to stay at the IRS, that means more warm bodies to process taxes, and potentially faster processing times. It remains to be seen whether or not this team-based approach would increase the productivity of the employee body as much as the original structure. If it does not, taxpayers may be negatively impacted due to slow processing of their taxes and longer wait times.

A third alternative would be to retrain all ACS employees to be more versatile and able to handle all aspects of cases from start to finish. This option would likely have a direct, positive impact on employees, both supervisory and nonsupervisory. Employee job functions would become deeper, creating a more enriching and fulfilling experience that may motivate employees to stay at their current jobs. This option also opens the door for greater autonomy for employees, which may also give employees more motivation to stay at their job. Supervisors may have to do less monitoring of employees, which would lessen the amount of time they have to dedicate towards that job function and allocate that effort elsewhere.

The US government would be negatively impacted by this option for many of the same reasons listed for the previous alternative. This alternative requires them to spend a considerable amount of money to retrain all employees. In addition, due to the increases in wages that employees will likely receive with this option, the government will have to spend considerably more each year in higher wages. Taxpayers could be impacted positively or negatively by this

option, as it essentially will be reverting to the way the IRS operated with the COF, but with better technology. One could argue that with the better record keeping and easier access provided by the technology of the ACS employees would be able to perform better than they were in the old system. If this assumption were to be true, taxpayers would likely see better service with the IRS and may experience faster processing times than with the COF.

### **Recommendation: Do Nothing**

As nice as it would be to provide an enriching and fulfilling work environment for all employees in every organization, it is simply not possible nor practical. The IRS is a functional organization through and through. They operate as a monopoly in a steady environment where demand is predictable and relatively steady from year to year; in other words, they have little need to innovate and make radical changes, as there are little to no environmental pressures. Jobs in functional organizations are typically very narrow, with very centralized decision making, as is evident in the adoption of the ACS. Much of the autonomy of the workers was taken away as they no longer get to choose the case they are going to work on, or how they handle the case. The increased controls and monitoring are attempts by management to get an accurate gauge of employee performance and compare that to standards in order to take corrective action where necessary. It only makes sense that a functional organization would try to improve efficiency wherever possible and the controls provided with the ACS allow the IRS to do just that.

The “problem” of high employee turnover due to unrewarding work with little autonomy is a common theme in functional organizations. Being focused ruthlessly on efficiency, the organization could care less about how rewarding jobs are for employees, and as such, many of these businesses suffer from high turnover because employees lack the motivation to stay, as this functional approach can, “routinize and mechanize almost every aspect of human life, eroding

the human spirit and capacity for spontaneous action,” (Morgan). Functional organizations offset this high turnover with providing jobs that have very few skill requirements, which make it easy for workers with few skills to find work. “Some people are committed to doing their job as an end in itself,” (Morgan). Jobs in functional organizations often fit in this category for many employees, as it provides an opportunity to get a paycheck and provide for their other needs.

The high costs and effort necessary to pursue the other two alternatives make them less ideal. Again, the IRS should care less about trying to make employees feel more motivated and more on making their processes more efficient. Spending money on retraining employees when the ACS has already increased productivity of their operations by over 30% is a bit of a waste unless it can guarantee to make employees more productive. The current system is operating as intended and is providing strong returns, so why try to change what is not broken? If the organization wanted to do anything it could try to provide more opportunities for employees to socialize and interact with one another in a relaxed manner that does not have to deal with work, this could provide them with a chance to develop rapport with each other and build up a stronger informal structure. The US government is likely happy with the new system’s performance, and probably so are taxpayers as the efficiency of the tax collection process has improved.

## Works Cited

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