Patrick Warren

Case Study – IRS

Due: 04/03/2018

CIS410-02 SP2018

Overview

The Internal Revenue System (IRS) was created by the United States government in 1862 for assessing the nation's first ever income tax; at the time, it was for the American Civil War. Fast forward to many years later in 1953 when the name for IRS was finally established and would stay that way to present day. By 1960, with information technology already established in many other industries, the IRS jumped on the bandwagon and IT became a significant role among the agency; manual systems were still in place to fill the gaps that IT had not yet entered.

As of 1989, Tim Brown, assistant commissioner for collection of the IRS, noticed that the numbers he was receiving from the different branches regarding employee reviews and the new Automated Collection System (ACS) were odd at best. The data collected showed that though production rates were very high using the new ACS system, employee satisfaction was the complete opposite.

Mission Statement

The Internal Revenue Service's primary mission was to collect revenue for the U.S. government in the form of taxes. "To collect the proper amount of tax revenues at the least cost to the public, and in a manner that warrants the highest degree of public confidence in our integrity, efficiency, and fairness." (Cash)

Company Generic Strategy

The IRS's generic strategy is based on cost-leadership since they want to bring in the most amount of revenue for the least amount of cost. By keeping employee costs and IT maintenance costs down, they can bring in a lot of money. Based on an annual budget of $5 billion with 120,000 employees employed across all branches, the average employee was paid $41,666 a year. This does not consider any building maintenance or overhead costs, so it is more likely that employees were paid significantly less (around $20,000). When you bring in $935 billion a year, it's very easy to see the organization is based on cost-leadership.

Organizational Strategy

Since the generic strategy for the IRS is of cost-leadership, it is safe to say that the organizational strategy is functional. Their services must be extremely efficient to keep costs down. All information at the IRS flows directly from the top (the government sets laws which need to be enacted by the IRS), and the data collected directly from customers flows upwards to politicians. The division of labor at the IRS was broad at the lower levels. Employees working directly with customers had to know almost everything about the IRS (i.e. how to file in certain situations, taking customer calls, etc.) and supervisors working with the new ACS had a very narrow job – monitor and review employee contact with customers. Supervisors at each branch were the ones who made decisions locally, and then higher above them decisions were made for the branches. Employees did not have the power to make their own decisions and the organizational boundaries are extremely rigid – one employee did not bother themselves with the work of another. (Cash)

Porter's Five Forces

"Whilst understanding the macro-environment is essential for developing your strategy it only gives you half of the picture. You also need to have a thorough understanding of your competitors and the impact they can have on your organization. To gain this knowledge, you need to conduct Porter's Five Forces Analysis," (Porter). Porter's Five Forces Analysis is used globally by companies either entering a new market or trying to get a better understanding of the current market they are in to improve their standing.

Bargaining Power of Customers: The bargaining power of customers is low, given that as taxpayers, we don't have anywhere to go or anyone else to use. Aside from moving to a different country, we will be paying money into the United States government by using the IRS to file our taxes.

Bargaining Power of Suppliers: The bargaining power of suppliers is high. IBM and Rockwell can set a reasonable price above market given that they are the only players working with the IRS. They would both have contracts set up to handle various parts of the IRS's IT.

Threat of New Entrants: Threat of new entrants is extremely low. The U.S. government is not going to take on another organization not created by themselves. It would be harder to control and would be costlier.

Threat of Substitutes: Threat of substitutes would be low here. Even if other software was created by independent companies to handle various tasks laid out by the IRS, everything is still flowing through them.

Competitive Rivalry: Competitive rivalry would also be low as there is no other branch of federal government currently collecting revenue from taxpayers.

Problem

The main problem that the IRS is facing is the extremely negative reviews they are receiving from supervisors and lower employees alike regarding the new ACS system. The supervisors were spending twenty-five to thirty hours a week on computer monitoring, telephone monitoring, and teach reviews with their employees - these were the "three distinct sources of performance monitoring information" (Cash). However, direct computer statistics coming from an employee's terminal could not be used during formal reviews with the employee based on the union contract. The second option, telephone monitoring, allows supervisors to listen directly to calls in real time when employees spoke with customers. After the call a review was given to the employee (sometimes much later than the call) and these reviews had a direct impact on promotions (Cash). The last source was teaching reviews, completed on a weekly basis with employees, showed all cases an employee worked during a certain period.

All these controls in place made employees and supervisors feel extremely scrutinized since everyone had eyes on everyone else. Supervisors jobs became more focused on monitoring employees using ACS while employees were much more restricted in their movement (which included not being able to leave their terminal). The turnover rate at some branches were reported to be 100%.

Stakeholders

Employees: Employees are directly affected by this new system and any other process that gets introduced. Regardless of whether the system succeeds or fails, employees will be directly impacted by the next decision.

IBM: The software was designed by IBM, so there is a large stake in the success of the new ACS control system.

Customers: If the program does not go well, customers may see a decline in customer service from the IRS.

Alternatives

Do Nothing: The IRS can elect to do nothing with regards to the high turnover rate and poor reviews from supervisors and employees. They will keep seeing a high turnover rate and will eventually spend more money than they should be to keep training new employees.

Impact on Stakeholders:

Employees: Greatly affected still. With no change in their process, employees will continually leave their job and feel overwhelmed by the entire process.

IBM: The IRS will continue to fund IBM for their software, so it's a win for them no matter what.

Customers: Customers may begin to see the negative ramifications of keeping this system around whenever they call in about an issue.

Restructure ACS's Work Organization: This alternative would create semi-autonomous groups that would be given a batch of cases to work on and the expertise among them would allow them to make decisions about solutions without the need for supervisors constantly having to monitor. There would still be monitoring completed by supervisors, but only on a need basis. This alternative would require a $1 million investment to redesign the system.

Impact on Stakeholders:

Employees: Employees would gain a lot more freedom and autonomy to make their own decisions and should boost morale within the organization. They would have to undergo training for the new system and learn how to work closely with others. Many of the employees interviewed expressed that they enjoy being able to work by themselves.

IBM: IBM's software would still be used by the organization, so they will not be affected.

Customers: Customers would get a collective group of minds to handle their cases, so satisfaction from them should rise.

Retrain ACS Employees: This means that employees would be trained to handle every single aspect of the collection function. Much like restructuring ACS's work into semi-autonomous groups, would mean a larger investment in the training as well as offering a higher pay scale to employees.

Impact on Stakeholders:

Employees: They would have to undergo heavy training to learn all aspects of the collection process. This may be overwhelming for many employees and could cause higher rates of turnover.

IBM: No impact to IBM or their software.

Customers: Customers may see a negative impact as employees will not be able to handle cases all the way through to the finish. Customers will see longer wait times.

Change How the System Is Managed/Monitored: According to Mr. Brown, "seven factors were significant in influencing employees' reaction to ACS," (Cash). 1) immediacy of feedback, 2) nature of the feedback, 3) clarity of performance rating, 4) method of monitoring, 5) supervisor's knowledge, 6) supervisor's leadership style, and 7) how employee's previously regarded computer monitoring.

Impact on Stakeholders:

Employees: Will feel like they have a better understanding of how to do their job and how effective they are at completing collection process jobs. Turnover rates may start to job.

IBM: No real impact to IBM.

Customers: Customer satisfaction could be on the rise, given that employees are happier in their jobs and thus feel a need to please the customers.

Solution

Change How the System is Managed/Monitored:
My normative recommendation would be to change how supervisors are currently managing and monitoring their employees. For instance, step back from twenty-five to thirty hours of monitoring and performance reviews per week and allow employees to focus on their job. No one wants “Big Brother” breathing down their neck with every decision is made. This could lead to poor decisions made regarding collection process jobs, poor customer satisfaction, and higher turnover rates.

Job Redesign Theory created by Greg Oldham and J. Richard Hackman provide a set of implementing principles for enriching jobs in organizational settings. The characteristics they touch on that would provide a better work environment for employees and overall improvement of job satisfaction are skill variety, task identity, task significance, autonomy, and feedback. Without the first three, absenteeism and turnover go up, which is exactly what is happening with the IRS.

<u>Sources:</u>

Management of Information Systems CIS410-02 Cash – Gray’s Books

Goldratt, Eliyahu M. The Goal. Great Barrington: North River Press, 1984 Print

“Porter’s Five Forces: Strategy Skills.” Team FME, 2013, pp 1-33