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**Summary**

The Internal Revenue Service’s (IRS) main function was to collect revenue for the U.S. government. The IRS can process over 194 million tax returns a year, so the organization knew that they needed to invest in IT to make the process more effective and efficient. Information technology was used to automate redundant processes, such as filing and processing tax returns. One of the largest systems that the IRS had in place to automate operations was the collection office function (COF). COF quickly became unusable to the IRS because it could not handle the workload, so the IRS decided to switch to the Automated Collection System (ACS).

The IRS began using IT to process tax returns in 1960. They made frequent updates to the system and added new equipment but there was only a limited amount that they could do because the system design was based on 1950’s technology. The COF was still very paper-based. When cases were received they were categorized and then batched on trays holding approximately 500 paper documents. When an outgoing call was required a representative would review the paper case, call the taxpayer and record any information on another paper document, the history sheet. There was a separate department for incoming calls. When a taxpayer would call in, the representative was seldom able to resolve the case immediately because they did not have access to the taxpayer’s information. They would have to take the time to locate the paper case, research the case and then return the call later. Storing all the cases also presented significant challenges. By 1982, the IRS had to keep inventory for nearly 2 million accounts. Just the task of locating a case could take hours before any work could even begin. Once employees started working a case than they usually worked it to completion. This created a very unstructured work environment where employees had the freedom to move about to look for cases or consult with others regarding information relevant to the case they were working on. There was open communication between departments. Supervisor’s primary responsibility was to track the accuracy of the cases, not the employees who worked on them. To reduce the dependency on paper and increase the efficiency the decision was made to switch to an ACS. The ACS was made up of three parts. An integrated data retrieval system (IDRS) that was a master computer that provided taxpayer information to all the ACS sites, an IBM system that housed the ACS accounts database and controlled work processing to the ACS terminals, and an automated call distributor (ACD) which provided routing for incoming and outgoing calls. Cases were worked based on priority. Time-constrained cases had the highest priority because these taxpayers were only available for calls during specific times. Scheduled follow up cases had the lowest priority but made up the highest number of cases in the system. The scheduled follow up cases were worked on a first in – first out basis. According to author Michael Hammer, “Whenever you change a process, you change the nature of the work that people do”.

**Problem**

“The IRS Strategic Goals will guide resource decisions, programs and operations to meet the changing needs and expectations of taxpayers and members of the tax community who serve taxpayers.” (IRS). The ACS was one of the systems implemented in hopes of meeting the needs of taxpayers by increasing efficiency within the organization. The ACS consisted of an integrated data retrieval system, IBM, and Rockwell ACD. The IDRS was used as a last resort to notify taxpayers if they had not filed a tax return, and it kept sites relevant with updates about account data. IBM was the mainframe that held the database of accounts. ACD provided the most cost-effective routing of telephone calls.

The introduction of ACS helped address some of the problems that the COF had caused. Overall, the ability to find cases, perform follow-ups and managing phone calls more efficiently were the largest improvements that ACS provided. Although the system proved to be successful in some respects, many employees had issues with monitoring that the new system brought with it. Many supervisors felt as though their only job was to watch the employees below them. They thought of themselves as controlling others or being controlled themselves. One of the largest issues among supervisors was that anywhere from 25 to 33 hours a week could be spent on reviews and monitoring. Employees were extremely unhappy with having to feel confined to their terminal. Overall, the organization saw that ACS could be improved.

**Industry Competitive Analysis**

The IRS’s mission is 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). Their main goal is to collect money for the government.

IRS was created by the US government to be a monopoly for every citizen, so no other competitor will be able to enter the market. “…governments create or permit what is seen as ‘natural’ monopolies, such as utility organizations” (Porter). Each citizen has one organization they must pay their taxes to. There is no industry competitiveness because the IRS is the only agency with the authority to collect taxes. Therefore, Porter’s five forces are not applicable to this case. There is no threat of substitutes or new entrants. No bargaining power of suppliers or customers and no competition.

**Generic Strategy**

The strategy that IRS uses is Focus Cost Leadership because they are the focus on one market segment and doing it the most cost-effective way. “It is hoped that by focusing…on one or two narrow market segments and… you can better meet the needs of that target market” (Porter). Their narrow market is a collection of taxes for the government which they are a monopoly for. All taxpayers must go through the IRS to pay their taxes to the government. The IRS also wants to be more cost effective by doing more cases daily and finding cheap employees. The ACS was implemented because they wanted to be able to find more cases and finish cases much more efficiently than before. The ACS also gave them the opportunity to find employees with fewer skills than previous IRS employees because of the automated system helping them. Also, being able to reduce employee size in half and offices to from 63 to 20.

**Stakeholders**

The stakeholders, in this case, are the IRS employees, managers, and taxpayers. The IRS employees and managers are stakeholders because the ACS system directly impacts the way they do business on a day to day basis and the way that they are expected to perform. The taxpayers are stakeholders because the efficiency of the tax office determines how quickly and accurately their account issues will be resolved. The high turnover will likely lead to processing errors because not many people will be very experienced.

**Alternatives and Impact on Stakeholders**

The three alternatives are (1) do nothing, (2) restructure the work organization and (3) change how the system is managed.

The first alternative is to do nothing, the ACS system has improved productivity but has also caused a high turnover rate. Nearly 50% of workers had to be hired outside the IRS and trained to meet standards. The problem with this method is that employees are not motivated to and do not like the monitoring. Job satisfaction is low because employees does not finish a case. Under COF, each case was much like a mini-project for employees assigned to work on it, and employees would often work the case to a satisfactory conclusion. Their performance is a review which has some positive impacts that will led to employee fixing what they have done wrong. Supervisors are spending more time monitoring their employees. “Organizations has been associated with processes of social dominations where individuals or groups find ways of imposing their will on others.” (Morgan). Telephone monitoring takes up about 60% of their time. Supervisors also feel like they lack value within the company. Tim Brown has had positive impacts from productivity since the introduction of ACS but this do nothing alternative will keep turnover rates high. A high turnover rate would mean training new employees that cost money to do.

The second alternative is to restructure ACS’s work organization into semi-autonomous groups. This alternative would allow an employee to follow a case to completion. This option would require $1 million to restructure the technology to obtain this capability. Employees would need to be retrained to learn the new system. They may be happy with less monitoring. IBM and Rockwell may become upset with having to restructure the system that they just implemented. However, with the additional investment, they will be happy with the extra money from the IRS that they did not expect. Customers would be happy because their returns would be filed efficiently. The U.S. government would not be happy because they had to make an additional investment into the system and change the pay scale for employees.

The third alternative is to change the way the system is managed and monitored. IRS would change the current system used by supervisors to monitors employees. This would make employees more comfortable at work and feel like they are tied to their work space. This will try to influence employees’ reaction to ACS. Tim Brown and upper management will be happy with this decision because they will not have to spend a lot of money on retraining employees and may fix the turnover rate of employees. This will still have the productivity of automation by having a system like ACS but will have increased employee morale.” One acquires knowledge of critical interdependencies over which one may be able to secure a degree of control” (Morgan). Supervisors are affected because the process of monitoring is changed and adding factors like supervisor’s leadership and supervisor’s knowledge of job will increase they meaningfulness in their job. For taxpayers, IRS is not throwing taxpayers’ dollars at the problem but trying to focus on employees’ morale at the lowest cost and taxpayers will be satisfied with this.

**Effects on the stakeholders**

Do Nothing: For IRS management, they will continue to use the system they are using. They will also keep up with monitoring of employees to give constant feedback. IRS employees will continue to be isolated in the work they are doing. They will continuously have to work when they are at their desk because of the monitoring system. IRS customers will continue to receive efficient and quick answers of when their taxes are due and notifications from the IRS.

Restructure: For IRS management, they will be responsible for the redesign of the new team structure for the employees to work under. They will also have to pay for the redesign of the ACS because of the new structure. IRS employees are going to have to adjust to their team environment and being able to work as a team. They will have performance feedback from the team itself instead of the supervisor. They will have more interaction with employees to help complete cases. IRS customers will continue to receive efficient updates and notifications of their taxes.

Change the way the system is managed: For IRS management, they will need to focus on not monitoring the employees as often as they do. IRS employees have more autonomy now because of the monitoring that is not occurring on occasion. IRS customers will continue to receive useful information from employees depending on how well they do with less monitoring occurring.

**Best Course of Action**

The best course of action, in this case, is to keep the organizational structure the same but change the way that it’s managed. If supervisors are not doing so much monitoring, then they will have more time to focus on their other required tasks and employees will feel less stifled and have a greater sense of autonomy. According to a study in Taiwan, “The more autonomy employees had at work, the more satisfied they were with their jobs and the less likely they were to transfer or leave their positions” (Cooper). This also allows them to keep the benefits of greater efficiency and still provides enough monitoring to enable supervisors to give their employees constructive feedback. Having a sense of autonomy and receiving constructive feedback are both ways to increase motivation. This will improve the turnover problem because motivated employees are less likely to leave. Changing the organizational structure isn’t the best option because it is expensive and could possibly result in the loss of some of the efficiency that the current organizational structure provides. Doing nothing isn’t the best option because it doesn’t solve the problems that the IRS is having with high turnover.

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