

Norma M. Riccucci, Editor

Hal G. Rainey

University of Georgia

James Thompson

University of Illinois

Administrative Profile

Leadership and the Transformation of a Major Institution: Charles Rossotti and the Internal Revenue Service

Hal G. Rainey is Alumni Foundation Distinguished Professor in the School of Public and International Affairs at the University of Georgia. His research concentrates on organizations and management in government with an emphasis on performance, change, leadership, incentives, privatization, and comparisons of governmental management to management in the business and nonprofit sectors. The third edition of his book *Understanding and Managing Public Organizations* was published in 2003. He was recently elected a fellow of the National Academy of Public Administration.
E-mail: hgrainey@uga.edu.

James R. Thompson is an associate professor in the Graduate Program in Public Administration at the University of Illinois–Chicago, where he teaches courses in public personnel management, information technology, and public management. Before earning his doctorate, he worked in local government in New York state at the city and county levels. His research focuses on organizational change and bureaucratic reform in the public sector and the modernization of human resource management practices in government. He and Dr. Rainey are currently working on a book on the modernization of the IRS.
E-mail: jthomp@uic.edu.

Charles Rossotti took the helm at the Internal Revenue Service in 1997 amid complaints of abuse of both IRS workers and taxpayers. Did he succeed at improving the agency's image without sacrificing its principal mission to enforce the tax code fairly and effectively? This retrospective on Rossotti's five-year tenure suggests that he, his leadership team, and teams of IRS employees managed effective changes that substantially improved services to taxpayers and the administration of a beleaguered revenue-collection system. His leadership offers valuable lessons and insights for administrators in all settings. Are there invaluable lessons that public administrators might learn from Rossotti's management strategy?

When Charles Rossotti was approaching the end of his five-year term as commissioner of the Internal Revenue Service (IRS) in late 2002, the agency held a reception for him at the IRS headquarters building at 1111 Constitution Avenue.¹ Representatives of numerous authorities and groups praised Rossotti, including members of Congress, a member of the IRS Oversight Board,² the secretary of the Treasury, the president of the National Treasury Employees Union (NTEU, the major union for Treasury and IRS employees), and representatives of tax professionals' groups (such as tax accountants and other tax-preparation professionals). As these testimonials ended, Robert Tobias, who had been president of the NTEU during most of Rossotti's tenure, asked another guest, "How often do you think you will hear such sincere praise, from every group or authority with which he dealt, for an agency head who led a major, challenging reorganization of that agency?"³

Such an outcome would have seemed improbable five years earlier. Shortly before Rossotti became commissioner in late 1997, Senator Bob Kerrey told him that he was glad Rossotti owned a dog, because if he took the IRS job, he would need a friend. Kerrey drew a diagram showing all of the authorities, stakeholders, and critics who would be trying to give Rossotti orders, each with an arrow pointing toward a bull's-eye clearly representing Rossotti (Rossotti 2005, 48–49).

Later, Rossotti would have a team collect all of the recommendations for improvements to the IRS advanced by six congressional committees and multiple oversight organizations and advisory committees. When the number of recommendations totaled 5,000, he stopped counting. Rossotti thus assumed leadership of what is arguably the most unpopular and controversial agency in government, an organization with about 100,000 employees spread across the nation—120,000 during tax season—that each year handles more than 240 million tax returns and collects about \$2 trillion in taxes. Adding to this complexity, as the bull's-eye analogy shows, a chorus of critics keeps close watch, usually with skepticism (Rossotti 2005, 17).

The agency had problems to match its vast size and complexity, and for decades, controversy and legislative action had focused on them. For years, critics had claimed that IRS managers aggressively required their subordinates to maximize the taxes they extracted from citizens and to intensify the enforcement actions to do so. According to some IRS employees, a swinging pendulum complicates these pressures: Congress and critics press the IRS to show less aggression toward taxpayers, but when tax revenues start to fall, the pendulum swings to the other extreme, and the same authorities and critics call for the IRS to step up tax collection and increase revenues. Around the time of Rossotti's swearing-in, the pendulum was swinging toward the protection of taxpayers. The Senate held widely publicized hearings at which taxpayers told shocking stories of abuses by IRS agents or extremely frustrating and stressful mishandling of their tax situations. Some IRS employees testified about the encouragement of excessively aggressive tactics and abuses by other IRS managers and employees. Investigations later found many of these allegations to be false or exaggerated, but Rossotti knew that all too often, faulty IRS procedures imposed hardships on taxpayers. Fueling the criticism, during the late 1980s the agency had undertaken a very expensive modernization of its woefully obsolete information technology (IT)

system, only to abandon the initiative about a decade later in what one member of Congress condemned as a “four billion dollar fiasco.”⁴

Each year, IRS employees would send out more than 100 million notices to taxpayers, usually telling them they owed more taxes. In response to these notices and for other reasons, citizens often needed to question IRS employees by phone. An unacceptably high proportion of their calls would go unanswered, and far too often the advice and information that IRS representatives gave them was inaccurate. Years of criticism and complaint led Congress to authorize a reform commission in 1996, which resulted in the U.S. Internal Revenue Service Reform and Restructuring Act of 1998 (RRA 98). This act mandated major reforms at the IRS that Rossotti would be charged with implementing. Anyone taking on such responsibility faced high risks. Rossotti and other IRS leaders recognized that they would have to implement the reforms while still administering the tax system effectively; a serious breakdown in revenue collection during the changes could be disastrous for the nation. The modernization would be like repairing an airplane while flying to a new location.

Rossotti actually influenced important provisions of RRA 98 because he saw many organizational problems at IRS. While Treasury Department executives were recruiting him for the job of commissioner, he had begun to think about a plan for addressing these problems. Rossotti and other IRS officials proposed reforms that the legislators incorporated into the act. One of these reforms focused on the organization's structure. Rossotti regarded the IRS's structure as a fundamental source of its problems. During the 1950s, scandals had led to reforms that removed from the IRS any political appointees other than the commissioner and otherwise insulated the agency from improper political pressure. Rossotti acknowledged that these reforms allowed the IRS to become “one of the world's most honest tax administration agencies,” but they also posed problems (Rossotti 2005, 149).

The agency adopted a geography-based structure that went largely unchanged until RRA 98. In this structure, 33 district offices and 10 service centers processed all types of taxes within their geographic areas. A complex matrix of regional directors and assistant commissioners overlay this structure, but the 33 district directors held highly prestigious positions and exercised considerable autonomy. Rossotti felt this dispersed and fragmented structure was justifiable during earlier times—before advances in information and communications technology—but judged it obsolete for the late 1990s and beyond. Among other problems, this structure assigned IRS representatives to tax cases on the basis of where they were, not what they knew. That is, IRS agents might be assigned to work on the taxes of

a corporation in their region even though they did not really understand the business or its industry.

Rossotti also saw this structure as hampering change and coordination. The problems with the phone services arose in part because there were multiple phone service operations in different regions, operating independently with no central policy or coordination. The questions that IRS phone service representatives had to answer could be very complex, and with the immense intricacies of the tax code, no one could answer all of the possible questions. The fragmentation of the structure, however, prevented the sharing of expertise across regions.

The structure made it more difficult to address the daunting challenges of modernizing the IRS's archaic computer and information system. Facing some of the most demanding information-processing responsibilities of any existing organization, the IRS had to retain records over time of every transaction with every taxpayer in the nation. A massive master file of these records had fallen into obsolescence. Programmers had coded it in a computer language that had become outmoded, and they had repeatedly jury-rigged it to accommodate the numerous changes in the tax code.⁵ The programmers who understood the intricacies of the master file were retiring. This master file had to be moved into a modernized database in a way that involved painstaking, time-consuming work. Data moved slowly in and out of the file; data updating taxpayer records was entered twice a week from the obsolete technology of computer tapes, flown from processing centers around the nation to a main processing center in Maryland. IRS agents inadvertently created problems for taxpayers because they were working with records for which updated information had not yet been entered into taxpayers' records in the master file.⁶ Because of the problems with the master file and for other reasons, IRS employees devised dozens of special systems and databases for specific tasks, further complicating the coordination of information.

The IRS faced many other challenges in improving its IT capabilities. For example, RRA 98 directed the IRS to have 80 percent of tax returns filed electronically by 2007, so IRS employees had to work toward that IT objective, as well as many others. The IRS had 15 independent IT departments, and the chief information officer had very limited authority over them (Rossotti 2005, 207). Rossotti regarded the fragmented organizational structure as aggravating these problems of coordination. He saw reorganizing the IRS as integral to reforming the way the agency carried out its business and coordinating its IT resources with that way of doing business. He and others emphasized this point by labeling the IT initiatives “business systems modernization.”

Leading Change

Treasury Department executives and other leaders sought out Rossotti because he had a strong background in private business and significant knowledge and experience in organizational management. He had been the chief executive officer of American Management Systems, a large consulting firm specializing in the modernization of large data systems. This managerial experience showed as he moved into his new position at the IRS.

A Plan

Refreshingly, Rossotti never made much use of the now-hackneyed term “vision,” but he had one. He realized that, even with support, he had to have a plan. He and the Treasury Department executives developed a conception of the transition to a new IRS in a report titled *Modernizing America’s Tax Agency*. This plan included a new mission statement, a revision of the mission statement that the IRS had used. The new one emphasized service to taxpayers and helping them understand their responsibilities. In the *Modernizing* report, Rossotti embraced a new approach to taxation that emphasized service, support, and information for honest taxpayers rather than the threat of being caught and penalized for noncompliance. Because most taxpayers comply with the tax laws, he argued, compliance could be enhanced by support, outreach, and education for taxpayers to increase their voluntary compliance and the accuracy of compliance.⁷

Critics in the press, some IRS employees, and others argued that the IRS could not fulfill its tax-collection duties while being nice to taxpayers. Rossotti, however, contended that the IRS could balance enforcement with service. He pointed out that business firms have to achieve a similar balance all the time because they cannot sell their products at any price customers want, but they still have to provide good customer service.

Rossotti, together with other leaders at the IRS, undertook a comprehensive set of reforms aimed at achieving this balance. In addition to the new operating divisions described below, they put in place a “balanced measures system” (BMS) for measuring the agency’s performance. The BMS assessed customer satisfaction, employee satisfaction, and business operations results.⁸ They also undertook innovative steps in human resource management and other aspects of the structures and processes of the IRS.⁹

Leadership, Ideas, and the Plan: Four New Operating Divisions

Rossotti’s concerns about the IRS’s organizational structure led to the most lasting change in the agency. The modernizing plan proposed reorganizing the agency into four new “customer-oriented” operating

divisions. The new divisions, which “stood up” in October 2000, replaced the 50-year-old structure of geographic districts and regions. Layers of management were reduced by half, top jobs were redefined, and managers were assigned new roles through a competitive process.

Rossotti based the idea for the operating divisions on the way many large private sector financial institutions are organized. Many of these institutions have one operating division to provide retail banking services to individuals and another division to serve small businesses that have needs distinct from those of retail customers, such as payroll and business taxes. Still another division serves large and medium-sized corporations, which have different needs than the customers of other divisions. The new IRS structure involved four new operating divisions, each oriented to serving a particular type of taxpayer.¹⁰ This structural redesign supported the increased emphasis on service and support for taxpayers. As discussed earlier, it also removed the district directors and their high levels of autonomy.

Leadership and the Reform Legislation: RRA 98

RRA 98: Advantage Rossotti

The act carried provisions that supported the change initiatives. It directed the IRS to adopt a structure oriented to types of taxpayers, to “eliminate or substantially modify the existing national, regional and district structure,” and to “establish organizational units serving particular groups of taxpayers with similar needs.” This mandated the structural redesign that Rossotti and his colleagues had proposed. This authorization of the restructuring in the legislation headed off objections that opponents might have raised. And the change would have opponents—at least some of the managers in the old structure who had to compete for jobs in the new one could be expected to resist, as could attorneys in the Treasury Department who might question any change (Rossotti 2005, 77).

A Five-Year Term

The short tenure of most political appointees in the leadership of government agencies impedes successful change. The people in the agency can simply wait them out if they want to resist the change. The RRA 98 legislation allowed Rossotti a five-year term of office, and this gave him significant advantages in following through on change initiatives. Former Deputy Commissioner Robert Wenzel commented,

There were career people in headquarters that basically said, “well, we’ll wait out this commissioner because there will be another one coming down the road some time. Today is different . . . the five-year format doesn’t allow that to happen.”¹¹

RRA 98: Disadvantage Rossotti

As the bull's-eye analogy shows, multiple authorities and groups sought to influence the IRS, often at cross-purposes. Rossotti had to struggle with "micro-mandates" from Congress and other authorities. For example, the White House sometimes simply announced that the IRS would follow new procedures, such as providing telephone service around the clock (Rossotti 2005, 129–30). In addition, past IRS leaders had sometimes made hasty assurances in response to pressures, that later they could not fulfill. These quick-fix announcements, followed by inadequate action, bred more skepticism toward the IRS. One very troublesome version of these pressures came from the RRA 98 in the form of the "10 deadly sins." The legislation contained a provision that required IRS employees to be fired if they committed any of 10 broadly defined offenses, such as violating any provision of the 83,000-page IRS manual. The offenses had always been forbidden, but the provision for immediate firing made IRS employees feel vulnerable and led to a slowdown in enforcement actions. Employees pointed out to Rossotti and other leaders that they felt they might be mired in an investigation for months if a disgruntled taxpayer decided to make an unwarranted allegation (Rossotti 2005, 158–59).

Actually, RRA 98 also tightened some of the required procedures and clearances for enforcement actions. This simply made it harder and slower to take them. Evidence indicates, however, that the deadly sins provision accounted for much of the falloff in enforcement because IRS leaders had to spend time and resources reassuring worried employees (Rossotti 2005, 158–59). At the same time, other critics, complaining that Rossotti's shift toward more customer service would weaken enforcement, pointed to the slowdown as evidence of such weakening.

Implementing the Reforms

Confronting Resistance

The RRA 98 legislation provided support for the reforms but also for those who resisted them. Any major change prompts resistance, but the IRS leadership had to contend with a legacy of skepticism and criticism. Many employees faced with the new structure and new procedures felt uncomfortable, especially in view of the 10 deadly sins and other worrisome developments. Some of the managers who had been successful in the old structure resented losing their positions and having to compete for new ones. Aggravating such concerns, according to Rossotti, was an atmosphere of distrust of management among IRS employees and distrust of IRS headquarters by managers and employees in the regions.

Rossotti recounts that observers and stakeholders expressed doubt that the IRS could really change or

that it could serve as an effective tax-collection agency while emphasizing service. Former IRS commissioners and commentators in the media, for example, expressed doubts about the new emphasis on service. Representatives of the Office of Management and Budget (OMB) resisted providing resources to support the reforms; they had sought repeatedly to halt funding of the small taxpayer-assistance offices that the IRS operated. The OMB representatives felt that the assistance offices did nothing to increase revenue collected and thus should be closed. Many IRS employees shared similar doubts. Rossotti describes how, in one of his many meetings with employees, some sarcastically challenged his emphasis on service; one referred to taxpayers as "adversaries," and another complained that "All we're doing is making it easy for the deadbeats to get away with not paying" (Rossotti 2005, 105).

Building Support for Change

Successful change leaders build support internally and externally through communication and participation. Rossotti provides a textbook illustration of this process.

Communication

Upon taking office, Rossotti opened the normally closed door of the commissioner's office, propped it open with a doorstop, and gave instructions that the doorstop was to stay in place to keep the door open (Rossotti 2005, 54). He thus took a symbolic action to emphasize his commitment to "open and honest communication," both internally and externally, which he saw as necessary to counteract the "death spiral of distrust" into which IRS had fallen (Rossotti 2005, 88). He constantly met with every type of person or group associated with the IRS. Internally, he resolved to talk with "every key person" who had a stake in the modernization plan, and he did so. He consulted senior IRS executives and was pleasantly surprised to find them receptive to reform. He conducted a videoconference with Robert Tobias, the NTEU leader, as well as all of the union chapter presidents. He and Wenzel assembled about 600 field managers and union representatives—the first assemblage this large in the history of the agency—and, with efforts to enliven the meeting to distinguish it from the traditionally dry IRS meetings, talked to them about the theme of "mission possible." They sought to counteract the skepticism that many failed changes at IRS had engendered and explain the modernization plan. Rossotti also made videotapes about the modernization plan and circulated them. He traveled frequently to meet with groups of employees, such as those who had referred to taxpayers as "adversaries" and "deadbeats." The IRS conducted tax problem-solving days, at which IRS employees would meet with taxpayers who came in for help with tax problems. Rossotti attended many of these and sat with

IRS representatives and taxpayers to hear firsthand about the challenges that frontline IRS personnel and taxpayers faced and to observe closely what the basic work involved.

In communicating externally, Rossotti continued his endless series of meetings with senators and representatives, with associations of tax-preparation professionals, with former IRS commissioners, and with other authorities and groups. He invited external stakeholders, such as staff members from congressional committees, to attend problem-solving discussions at the IRS. He described meeting rooms so full of people from outside the IRS that participants stood against the walls. He recounts efforts to avoid responding to problems by offering quick fixes or hasty reassurances that the IRS could not fulfill. For example, at one point, the president convinced Congress to authorize tax refunds to stimulate the economy (and for electoral benefits, one can safely assume), and the IRS faced the challenge of computing these refunds and mailing the huge volume of checks. Other complications—the events related to 9/11 and the anthrax episode in Washington, D.C.—had already burdened the IRS and threatened the agency’s ability to conduct a timely and effective tax season. Rossotti balked at congressional demands that the refunds be sent out on a very tight schedule. He said he could not promise such a response because the IRS employees were already stretched thin. In one of the packed meetings, a congressional staffer arrogantly threatened reprisals (such as filing charges with the Inspector General) if Rossotti did not comply with demands for rapid processing of the tax refunds. Rossotti simply stated that he could not honestly and responsibly promise to meet the congressional demands.

In interviews, those who worked with him attested to Rossotti’s commitment to open and honest communication. Nancy Killefer, assistant secretary of the Treasury at the time, described Rossotti’s attempt to open up the organization:

What Charles has tried to do is invite in the outside, ... to open up the organization to its stakeholders, to invite them into decision-making processes, ... to view them as part of the organization, not ... “we versus them.”

Deputy Commissioner Wenzel affirmed Rossotti’s success in changing this aspect of the IRS culture:

In meetings ... before a decision would be made in going forward, the question would come up, “Well, have you talked to the outside stakeholders to get some of their input in this?” If the answer was yes, and it was described who they were, then we went forward. But if the answer was “No, I haven’t done that yet,” then

he would say, “Well why don’t we take a little bit longer here and make sure we touch that base and get some input?”

Dave Mader, assistant deputy commissioner during this period and a key executive in the modernization process, added the following observation:

One of the hallmarks of this reorganization is that Charles said this needs to be transparent. It needs to be transparent both inside and outside the organization ... He said, “We’re going to involve everybody. Everybody’s going to be engaged. We don’t have anything to hide. We’ll get a better product by making it transparent and inclusive.” He drove that philosophy throughout the whole organization.

Participation

According to those involved in the events, Rossotti’s time at the IRS involved teams, groups, and participation to an extent exceeding anything observed up to that time in the agency. The most noteworthy use of participation involved two dozen “design teams,” which worked out numerous details of the design of the new IRS and the implementation of the modernization plan. Rossotti, Wenzel, and a Modernization Steering Committee assembled the 24 teams with a heavy emphasis on broad participation; they included people from all levels and many different subunits and geographic locations.

One of the key challenges in developing effective participation involves convincing the participants that the process is genuine and that leaders have a sincere interest in the participants’ views and a sincere intent to follow up on participants’ proposals. All too often, participation efforts end up convincing employees only that the process is phony and the leaders are trying to co-opt or manipulate them. Rossotti’s and other IRS leaders’ interaction with the teams was exemplary in this respect. The design teams met periodically with the entire Modernization Steering Committee, which Rossotti chaired. Robert Wenzel said that rarely in the old IRS would employees from so far out in the field and so far down the hierarchical ranks actually meet with the commissioner. He said that you could see on the faces of the participants that they found meeting face to face with the commissioner emotionally moving.

Participation and the Union

Apart from including many different employees in the teams, Rossotti invited the leadership of the NTEU to have a say in appointments to the teams. Robert Tobias, the NTEU leader at the time, pointed out that the union could have seriously impeded the modernization and reorganization efforts if it had felt the need to oppose them. Tobias described this decision

to involve the union in appointing the teams as a masterstroke because it encouraged the union to buy in to the change process and support it.¹² The positive comments about Rossotti offered by Tobias and his successor, Colleen Kelley, indicate that Rossotti achieved one form of effective participation through a good working relationship with the union leadership.¹³

Participation and Partnering of Insiders and Outsiders

Rossotti made a strategic decision to bring in outsiders such as consultants and new executives and professionals, break down the agency's insular culture, and promote openness and transparency. He asked for the authority to hire new people, and RRA 98 authorized the IRS to hire 40 "critical-pay" personnel.¹⁴ This gave the IRS streamlined authority to hire new people rapidly at salaries that were high by the standards of the federal government. Rossotti paired these newcomers with experienced insiders. He chose Robert Wenzel as his deputy commissioner. Aware that Wenzel had led a task force on improving service to taxpayers, Rossotti opened up a dialogue with him about change at the IRS and later asked Wenzel to serve as his deputy commissioner. Thus, Rossotti partnered himself with a highly respected, very experienced insider.

Rossotti also paired executives when he hired critical-pay executives for major positions. For example, two of the heads of the new operating divisions were private sector executives whom Rossotti talked into joining the IRS to take critical-pay positions. Both of these executives had a long-term IRS insider as their primary deputy. Another of the new division heads was a long-term IRS executive who had a newly hired critical-pay executive as his deputy. The two people who headed up the organization of the design teams were experienced and respected IRS career executives. In his book, Rossotti emphasizes the importance of finding change-oriented insiders who knew how things worked and could help guide effective improvements (Rossotti 2005, 176). In this way, Rossotti linked internal experience and knowledge with new ideas from the outside.¹⁵

Participation and Communication: The Listener and the Analyst

For effective participation and communication to happen, leaders need to display sincere attention to participants and show responsiveness to them. By all accounts, Rossotti excelled at this.

A Sincere Listener

Rossotti convinced many of the people with whom he worked that he communicated sincerely and effectively and that he valued participatory decision making. Colleen Kelley, the current head of the NTEU, noted his openness to new ideas and how carefully he listened:

He will revisit issues. He doesn't say, "I made the decision and it's mine, and nobody's going to change my mind." He's very open. He's a good listener; he's an excellent listener; he's open to new ideas, so it's not about him having ... preconceived notions and that he won't listen to evidence, because he does.

Intellect and Analytical Ability

Rossotti became an IRS legend for his keen intellect and analytical ability. In interviews, executives and professionals referred to him as "a genius," "incredible," and "superhuman." One former IRS executive called Rossotti a "management genius" but also said that he was "an analyst's analyst." Others also attested to his extraordinary ability to cover large volumes of information rapidly and with analytical insight. In meetings with the design teams, according to participants, Rossotti constantly displayed this combination of careful listening and analytical acumen. Rossotti came to the meetings with detailed knowledge of the extensive "pre-read" material that had been circulated. According to a vice president at Booz Allen Hamilton, the consulting firm that facilitated these meetings and the reorganization process,

He would read the entire document; he wouldn't be someone who delegated and let a staff person read it. He would listen very empathetically. So we would have the team come and say, "Here is the work in the past month," in a two- to four-hour session depending upon where we were. And he politely let them go for the first two hours and maybe ask a question or two and get the sense for his group and then he would say, "I think I got your message and I like it. Let me ask a question on page 115 ..."

After the long meetings, he would go home for the weekend and return the next week with a detailed written response to the design team's presentation at the meeting. These white papers always reflected his careful attention to the teams' reports and his thoughtful, often challenging consideration of major issues raised in the reports and the meetings.¹⁶

Poise in the Bull's-Eye

Those around him saw Rossotti carrying out his role under pressure, scrutiny, and criticism with a high level of energy, skill, and commitment. He never responded to the pressures with rancor or discouragement. In his book, he rejected some of the criticisms of him and of the IRS as inaccurate, but he displayed respect for all participants and stakeholders and a tolerance of their perspectives. When a top IRS executive praised Rossotti, we asked him to identify Rossotti's main attribute that justified such admiration. The executive said, "He is never down."

Conclusion: The Success of the Reforms

In his book, Rossotti describes constraints on resources to support the reforms. He says that he verified that Treasury Department executives and other authorities provided “enough aligned forces” to support fundamental change. But he also expresses regret that he never brought up the budget increases he would need to support the change. He thus indicates that the budget constraints hindered the transformation efforts. This raises the question of just how successful the reforms and changes have been and what factors, such as resource constraints, have influenced their effectiveness. Without question, some changes succeeded. The new structure with the new operating divisions has endured. In testimony before Congress, Rossotti’s successor said that this structure needed no change.¹⁷ He also noted that the IRS’s services to taxpayers had improved markedly, according to measurable indicators and recent audits that show continuing improvement in those indicators (GAO 2005, 28ff).

Rossotti, relying on long-term career IRS leaders, successfully consolidated the telephone service operations; an impressive operations center in Atlanta receives hundreds of thousands of calls each day and routes them to centers around the nation. The proportion of calls answered rapidly, with accurate responses to taxpayers’ questions, has gone up significantly. Rossotti substantially enhanced the taxpayer-assistance offices. By 2003, the IRS had achieved significant increases on performance measures of service and compliance activities. An employee morale survey showed an increase of about 20 percent in employee “engagement” over two years earlier. Electronic filing of tax returns increased. Customer satisfaction surveys have shown substantial improvement, with respondents who filed electronically reporting about a 20 percent higher level of satisfaction than those who did not. One nationally publicized news report pointed out that the IRS was receiving customer satisfaction ratings higher than those of McDonald’s.

Rossotti describes continuing complications with contracting for computer and IT improvement throughout his tenure, but in congressional testimony, Rossotti’s successor pointed out that the first phase of updating the master file had been completed and other advances achieved. The IRS Web site is now impressive and a valuable resource for taxpayers and tax professionals (Bozeman 2002). In addition, one should note that every tax-collection season has proceeded effectively.

On the other hand, some developments call into question whether Rossotti and his colleagues achieved a lasting commitment on the part of the IRS and its stakeholders to balance taxpayer service, code enforcement, and tax collection. The new commissioner has

proposed closing down taxpayer-assistance centers to devote more resources to enforcement. In statements made near the end of his service and in his book, Rossotti emphasizes major problems with the tax code and the tax system that the leadership and management of the IRS cannot fix by itself: collecting the massive amount of revenue that large corporations and wealthy individuals shelter from taxes in abusive schemes, reforming the tax code to eliminate unhealthy complexities, and inducing political authorities such as the president and the OMB to support investments in technology and staffing to make the nation’s tax-administration system as effective as it needs to be.

These remaining challenges—and the apparent emphasis of the current IRS leadership on enforcement over service—suggest that Rossotti’s goal of achieving balance between the two commitments has not been fully achieved, and that what has been achieved may not endure. In his book, he concludes that one of the lessons learned from this major reform initiative is that change in any large organization has limits set by constraints in its broader context. The leaders and employees of the IRS cannot fix the tax code or the tax system by themselves; political leaders must support the necessary reforms.

These contextual forces may limit the success of Rossotti’s reforms, especially in relation to the high goals that he and his colleagues set. Criticism of government in general—and the IRS in particular—is an industry in the United States. Some critics will continue to question Rossotti’s actions. The substantial progress and success achieved during his tenure are undeniable, however, as is his influence on those who worked with him. Most Americans pay their taxes honorably and want an IRS and tax system that are fair and effective. Some Americans will continue to despise taxes and vilify the IRS, as well as support radical alterations to the tax system, including outright abolition of the income tax. Even they, however, should acknowledge that the nation owes gratitude and honor to those who, as Rossotti and his colleagues did, work diligently and innovatively to make and keep the U.S. tax system one of the most honest and well managed in the world.

Notes

1. A longer and more detailed version of this article is available from the authors.
2. The Restructuring and Reform Act of 1998, described later in this article, established the oversight board.
3. Robert Tobias is now a Distinguished Adjunct Professor in the School of Public Affairs at American University.
4. Barry Bozeman’s authoritative report on the struggle to modernize information technology at

- the IRS points out that, although the IRS did experience severe frustrations and failures, criticisms of the agency's efforts were often overstated. He points out that IRS employees and contractors used much of the IT hardware and software purchased and developed during this period in later applications, improvements, and modernization efforts. In interviews, IT executives in the IRS praised the Bozeman report, noting that it addressed the problems and failures but was also balanced and fair (Bozeman 2002).
5. It is hard to explain all of the complications with the IT challenges at the IRS. For example, programmers at one point might have faced a new requirement to keep a record of the zip code of each taxpayer. They might plug this number into some space in the computer records that was originally created for recording tax information. Keeping track of many such changes and carrying out a process for transferring the data to a modernized database involved many time-consuming complications.
 6. For example, a taxpayer might send in a check to pay more taxes as instructed by an IRS employee and later receive another notice demanding the payment. The IRS employee may have generated the additional notice because he or she had not received the updated information about the taxpayer's payment in a timely fashion. Then the taxpayer might call to inquire why he or she had received the notice after sending a payment, but it would take so long for an IRS phone service representative to answer that the taxpayer would give up. Or the taxpayer might get an answer from an IRS representative, but the taxpayer's most recent information was still not available in the file because of the slow data-entry process.
 7. Rossotti, in *Modernizing America's Tax System*, credits the influence of Malcolm Sparrow. In his book *Imposing Duties: Government's Changing Approach to Compliance* (1994), Sparrow criticizes the dominance of a distrustful, coercive, enforcement-oriented approach to compliance in such government programs as tax administration, law enforcement, and environmental protection. This approach assumes that compliance depends on the threat of being caught and penalized. Sparrow advocated measures to support and increase voluntary compliance.
 8. When Rossotti took office, the IRS already had under way an initiative to develop performance measures built on the concept of the balanced scorecard, and Rossotti supported this effort because of its consistency with the modernizing plan and its principles. In an influential 1992 *Harvard Business Review* article (and later, a book), Robert Kaplan and David Norton advanced this approach to assessing organizational effectiveness, which had a wide influence in business and government. They argued that for long-term success, a business must assess and achieve customer satisfaction, training and motivation of employees, and excellent financial returns through effective business operations. The assessment system measures of each of these dimensions. Rossotti saw the framework as applicable to the IRS and supported the development and adoption of the BMS—balanced measurement system—for both organizational- and individual-level performance evaluations. The BMS included measures of customer satisfaction, employee satisfaction, and business results (indicators of the quantity and quality of work performed, such as case closures and cycle times). The expansion of performance assessment to include measures of customer satisfaction, of course, accords with the modernizing plan's emphasis on improved taxpayer support and service. Thus, the IRS leadership sought to coordinate changes in different systems—in this case, coordinating the assessment system with the change in orientation to taxpayer service.
 9. For more description and analysis of these reforms and changes, see Thompson and Rainey (2003).
 10. The Wage and Investment Division handled the returns of individual taxpayers. The other divisions included Small Business/Self-Employed, Large and Mid-Size Business, and Tax Exempt/Government Entities.
 11. Obviously, one answer to the short-tenure problem involves providing an executive with a fixed, reasonably lengthy term of office. Such an arrangement has pros and cons. The cons include weakening the political control of the bureaucracy and the accountability of agency executives to political officials. Still, the IRS case appears to illustrate the viability of the alternative.
 12. Interview with Robert Tobias.
 13. In interviews, some participants in the IRS reforms during this period voiced different views. One person reported that some union chapter presidents had serious criticisms of the IRS reforms but did not wish to express them openly because they were loyal to the IRS and did not want to contribute to bad publicity for the organization. One executive told us he thought that involving the unions in appointing the teams sometimes allowed team members who were not well qualified to contribute to the teams' work. One high-level IRS executive commented, after Rossotti's departure, that he felt Rossotti had given too much to the union.
 14. For more description and analysis of this critical pay program, see Rainey (2001).
 15. These approaches contributed to a sense of the value and effectiveness of most of the critical-pay

newcomers, a sentiment that IRS insiders expressed repeatedly in interviews. Of course, many of the interview respondents were supporters of the modernization process and Rossotti's leadership, as well as higher-level executives and managers who often avoid negative comments and take a positive orientation. Nevertheless, again and again in interviews, they said that they felt the critical-pay executives and professionals brought valuable new perspectives to the work of the IRS and were valuable additions to the organization.

16. The consultant described the process as follows:

When very difficult issues surfaced up under which there was a conflict between his executive team and the design team, he would often go away over the weekend and write a white paper ranging from two pages to ten pages long that dealt with the issues at hand and what his perspective was. Now those white papers were seminal and sometimes he exerted a heavy hand and said this is what I really expect as a direction and other times he'd raise them as questions.

An extended version of the present article, available from the authors, discusses at greater length the involvement of this consulting firm in the reorganization process. Some critics contended that the firm's services were expensive and that the money would have been better spent on enforcement. Many of the IRS executives we interviewed, however, considered the involvement of the firm essential to the success of the reorganization.

17. Testimony of Mark W. Everson, Commissioner of Internal Revenue, before the Annual IRS Restructuring and Reform Act of 1998 Joint Congressional Review, May 20, 2003.

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Charles Rossotti, IRS Commissioner, 1997–2002.