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IRS



Tax Collection for a New Era

Internal Revenue Service

Start with a premise: The U.S. Internal Revenue Service (IRS) makes everybody just a little bit uncomfortable.

And while it makes April 15 particularly uncomfortable for many U.S. taxpayers, the IRS by and large has fulfilled its mission of “collect[ing] the proper amount of tax” according to the law and without political influence. The agency collects a staggering \$2 trillion each year in taxes—more than the total GDP of the United Kingdom and 26 times the rate of its first collection nearly a half-century ago.

Still, when Charles Rossotti became the forty-fifth IRS commissioner in 1997, it was time to revisit that mission. The American public ranked the agency among its least

admired institutions. And the U.S. Congress listened to those voices, picking up the call for reform. The Internal Revenue Service Restructuring and Reform Act of 1998 mandated that the agency “provide America’s taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.”

That was the context in which Commissioner Rossotti developed a 15-page vision for the “new” IRS. The 27 years he had spent in international business and information technology consulting before joining the IRS gave him a fresh perspective. He selected Booz Allen Hamilton in 1998 to validate his vision for the agency and become its partner for change.

At the U.S. Treasury Building in Washington, D.C. (l-r): Matt Platania and Carol Acree of Booz Allen, with William Stunder and Therese Hahn of the IRS.



Above are (l-r): Jann Buller and Ramesh Ramasjwamy of Booz Allen, with Galand Bruson and Caesar Ernesto of the IRS.



“From the start, it was clear that Booz Allen had a lot of experience with reorganizations and how to deal with the kind of problems that accompany them,” Rossotti says. “Having a methodology and the ability to move quickly and successfully on the client’s problem was important.”

Making the Transition— Successfully

Over the next four years, a hybrid Booz Allen team of more than 800 government and commercial consultants partnered with a team from all levels of the Internal Revenue Service. Together, they are helping the agency make the radical transition from a 1950s-style geographic-function matrix to a 21st-century customer-focused enterprise.

“This work defines and affects lasting change in one of the largest and most pervasive government agencies in the U.S.,” says Vice President John Jones of Booz Allen. “Virtually every individual and corporate taxpayer in America will continue to benefit over many years from the customer service improvements resulting from our partnership with the IRS. This ongoing program is more than a simple restructuring; it is a comprehensive modernization program of a magnitude that is seldom attempted and rarely succeeds.”

The geographic configuration was effective for most of IRS history. Taxpayers would call the local IRS office and receive customized service. In fulfilling that role, however, agency representatives were required

to answer a broad range of questions, which could lead to lapses in service and inconsistent advice for taxpayers. That necessity disappeared with the advent of technology—specifically, computer networks, low-cost long distance service and the opportunity to realign along customer-service lines. “Technology shrank distances,” says Rossotti, “and made it possible to create new forms of organization.”

At the heart of the reorganization is Booz Allen’s strategy-based transformation, which drives both process and cultural change through the organization. Growing from the initial IRS mission assessment, the project has realigned the 118,000-person workforce—creating a new leadership model, and an entirely new



At far left: Outside the IRS building in Washington, D.C., are (l-r) Kathy Feldmann and Rhonda Souder of the IRS, meeting with Vivek Massy and Tom Miller of Booz Allen.

At near left: Conversing with the Washington Monument in the background are (l-r) Booz Allen's Chris Siddall and Michael Khalifeh, and Charles Anthony Burke of the IRS.

strategic planning process with balanced measures in place throughout the organization.

There were some tough decisions: Wiped away in the new organization were layers of management—an average of five layers per operating unit. Gone as well is the traditional “top down” decision-making process: Key to that transition, says Booz Allen vice president Roger Blond, “was our introduction of a new concept of teamwork in which a diverse mix of levels and skill sets were brought together to focus on specific issues.”

“From the start, our commitment to the end result was clear,” says Senior Vice President Gary Mather of Booz Allen. “Everyone understood that we were there not only to objec-

tively assess and expand upon the strategy of structuring the IRS along customer segments, but also to see them through all dimensions of the required transformation. The effort was all-encompassing, and involved both major strategy and systems work. Our overall strategy struck a resonant chord.”

Specifically, the new organization includes:

- Four operating divisions—Wage and Investment Income, Small Business and Self-Employed, Large- and Mid-Size Business, and Tax-Exempt and Government Entities—which meet the specific needs of each taxpayer segment while streamlining top management and retaining most frontline employee roles.

- Four functional units—Taxpayer Advocate Service, Chief Counsel, Appeals, and Criminal Investigations—which have direct, independent access to taxpayers when needed.

- Shared services—Information Systems (IS) and agency-wide shared services—which provide more consistent delivery of systems and standardized services to internal customers, eliminating unnecessary divisional oversight of transactional services.

- National headquarters—restructured to reduce the size of the organization by 30 percent—which clarifies roles for setting policy, reviewing plans and goals of operating units, and developing major new improvement initiatives.

The combined result is a more

From left to right:
 Chris Disher, Colleen Kelly (president of the National Treasury Employees Union), John Jones, Roger Blond, Charles Rossotti (IRS commissioner), Gary Mather, Ralph Shrader, Gary Neilson, and John LaFaver (former deputy commissioner for modernization).



On-site working session (l-r): Gerry Sladek (IRS), Juliann Castell (Booz Allen), and Nieves Narvaez (IRS).



At the heart of the reorganization is Booz Allen Hamilton's strategy-based transformation approach. |

efficient organization of customer-facing business units, each with distinct responsibilities, but sharing combined services and linked by a small corporate core. Starting with the initial assessment and validation of the organizational concept, Booz Allen used a four-phase approach to design and implement the new organizational structure, transforming Rossotti's 15-page report into a 1,000-page blueprint in the process.

To build a sense of shared vision, teams of senior IRS executives and unionized frontline clerks were formed to function as forums to push change—"a concept that had never before been tried at the IRS," says Booz Allen principal Nancy Hardwick. Within these teams were IRS employees long

influential in the agency—those who had developed reputations as reformers and change agents, but had never gotten the chance to affect service agency-wide. The extra steps paid off: The initial group of 14 IRS employees participating in the project had, by early 2000, grown to more than 500 committed participants, who contributed knowledge drawn from previous positions at law firms and in the corporate world.

To effectively manage the new IRS operating model, Booz Allen established an executive team to integrate aspects of the emerging program across each of the teams. This program management process not only encouraged the joint resolution of issues among the teams, but it facilitated untold thousands of transfor-

mation decisions, big and small, and kept the overall implementation on time and on track.

A major communications program, another key part of the project, was designed to inform IRS personnel not directly involved in the planning process of the evolving project. From bimonthly newsletters to weekly voice-mail broadcasts, interactive satellite television broadcasts and training materials, staff members were informed of major decisions and encouraged to provide feedback.

Measurable Results

The increased customer focus at the IRS has already produced measurable results. Today, 400 walk-in sites pro-



Helping to set the strategy (l-r): Robert C. Turner of the IRS with Booz Allen's Dwayne Prosko, Cindy McNeese, Michael Gordon, and Karen Wilburn.

vide consistent operations, eliminating the previous variations across what had been 33 separate geographically aligned districts. In 2000, the team launched toll-free 24-hours-a-day taxpayer telephone assistance. In 2001, it started a Small Business Web site to provide pre-filing assistance to more than 45 million filers in the small business community (the second largest IRS constituency after individual taxpayers). The agency also created an organization dedicated to serving the special needs of Native American tribal governments—a taxpayer segment comprised of more than 500 officially recognized tribes.

After an eight-year decline, customer satisfaction rates have increased every month

since the new structure was adopted in late 2000. The overall IRS public confidence rating has risen 20 percent from its historic low in 1998. In recognition of Booz Allen's role in the turnaround, Rossotti awarded the prestigious Commissioner's Award to the firm, the first external recipient of the award in 20 years. And in 2000, the Booz Allen/IRS team was honored with the Hammer Award from former Vice President Gore's Council on Reinventing Government.

For Senior Vice President Gary Neilson of Booz Allen, the assignment is a clear demonstration of the firm's unique ability to merge its commercial transformational expertise with an understanding of government issues to create a powerful, unrivaled

service offering. "This project showed Booz Allen at its best," he says. "We built ownership among the IRS leadership and really helped to drive the program from concept through implementation. Think of the IRS and its overall impact in the everyday lives of U.S. taxpayers. That we helped to make it a different, more effective organization is very satisfying."

Rossotti concurs: "The new organizational structure is not the real change that is occurring at the IRS. It merely enables us to change, and enables us to put into place the leadership teams and the tens of thousands of IRS employees they lead. It enables us to give them the authority, tools, and responsibility to make a difference." |