

Organizational Transformation, Logics of Action and the IRS, 1998-2007

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Research on organizational change has evolved in recent decades toward an emphasis on organizational “transformation,” or extensive, fundamental change. We investigate an organizational transformation initiative at the Internal Revenue Service (IRS) during the period 1998 – 2007. The key structural changes occurred during the period 1998 – 2002. Subsequently, many of the initial changes have been consolidated, others reversed. These developments provide an opportunity for the analysis of a major change initiative at one of the most significant organizations in American life.

The change effort at the IRS was triggered in large part by the failure of a massive data systems modernization effort called Tax Systems Modernization (TSM) during the early 1990s. Critics in Congress charged that much of the approximately \$3.5 billion spent on TSM went to waste. Many of the new systems developed as part of TSM were over budget and did not meet specifications. Critics from many sources also accused the IRS of abusing taxpayers, of mismanaging tax collection, and of poor service in general as exemplified by a flawed system for responding to taxpayers’ account and tax law inquiries.

In 1996, Congress created the National Commission on Restructuring the IRS (NCRI) to investigate the TSM failures and the management shortcomings at the IRS. The commission’s report served as the basis for the Internal Revenue Restructuring and Reform Act of 1998 (RRA ’98) and the modernization program that ensued. The modernization process included the replacement of a geography-based regional structure with a new set of “customer-oriented” operating divisions, and a reduction in layers of management. It included efforts to develop a more strategic approach to tax

administration and collection, a new system of multiple, “balanced measures” for evaluating organizational performance, an emphasis on improved “customer service” for taxpayers (such as improved telephone services and improved “prefiling” information), and numerous new structures and procedures for organizational and human resources management (including, for example, an “agency wide shared services” division, a “paybanding” compensation system for managers, and new leadership development and evaluation procedures).

A first priority is to develop a theoretical framework for understanding what has transpired at the IRS. Our review of the change literature identifies numerous alternative conceptualizations of organizational change and transformation (see, for example, Fernandez and Rainey, 2006b). For present purposes, we concentrate on three major conceptualizations that we have labeled “contingency theory/post-bureaucratic organizations,” “open systems theory/organization development,” and “change as a cognitive phenomenon.” This latter perspective, change as a cognitive phenomenon, provides the most theoretically coherent approach for the present analysis. Transformation, in this perspective, constitutes change in the collective schema or paradigm of organizational members.

In the first section below, we identify issues relating to the contingency theory/post-bureaucratic organizations and open systems theory/organizational development formulations. In the second section, we review existing ideas relating to change as a cognitive phenomenon. In the third section, we introduce the term, “logic of action” as an alternative to “schema” and “paradigm.” We present a series of propositions relating to the logic of action construct and to organizational change. In

section four, we review the change process at the IRS for the period 1998 – 2007, highlighting how the “change as a cognitive phenomenon” framework and the logic of action construct apply. We conclude with a review of our findings and a discussion of unresolved questions and issues.

I. Conceptualizing Organizational Change and Transformation

Prior to our review of two widely-employed theories of organizational change, we note an important distinction, attributed to Bennis (1966), between two types of change theory, change process theory and implementation theory. In this article, we focus primarily on change process theory, which “describes the underlying dynamics by which change occurs” (Porras & Robertson, 1987, 4). Implementation theory, in contrast, focuses on the, “activities change agents must undertake in effecting planned change” (4). Change process theories include those reviewed below under the contingency theory, open systems theory and change as a cognitive phenomenon headings. Examples of implementation theory include, Dunn and Swierczek (1977), Kotter (1995), and Fernandez and Rainey (2006). In the longer run, we intend to integrate these two general theoretical perspectives for analysis of the IRS transformation initiatives, but concentrate for now on change process theory.

A. Contingency Theory/Post-bureaucratic Organizations

The theoretical origins of the contingency theory formulation of organizational transformation emerged in such sources as Burns and Stalker’s *The Management of Innovation* (1994), and their distinction between two alternative “management systems,” the “mechanistic” management system and the “organic” system. They concluded that mechanistic systems are well adapted to “stable conditions” (119) and organic systems to

“changing conditions” (121). The essential differences between the two relate primarily to formal structure. For example, mechanistic organizations feature “the specialized differentiation of functional tasks into which problems and tasks facing the concern as a whole are broken down” (120), whereas in organic structures the emphasis is on, “the contributive nature of special knowledge and experience to the common task of the concern” (121). Mechanistic structures are characterized by “the abstract nature of each individual task” (120) whereas organic structures are characterized by, “the realistic nature of the individual task, which is seen as set by the total situation of the firm” (121).ⁱ

Kanter (1983) expressed the essential difference between the two forms by labeling the mechanistic form “segmentalist” and the organic form, “integrative.” In integrative organizations, members are encouraged to treat “problems as wholes” by minimizing structural barriers that “compartmentalize actions, events and problems...keeping each piece isolated from the others” (28). Thus, in an organic or integrative organization, job descriptions are broad, hierarchy is minimized, communication between individuals of different rank and function is encouraged.

Nadler and Gerstein (1992b) present a similar formulation. Rather than “mechanistic” or “segmentalist,” they use the term “bureaucratic” and rather than “organic” or “integrative,” they use the term “high-performance work system” (HPWS). They trace the origin of the HPWS concept to the Tavistock Institute and sociotechnical theory. They also broaden the argument and depart from contingency theory in arguing that the bureaucratic model is generally obsolete and that the HPWS model is therefore appropriate to all organizations. The terms “post-bureaucratic” (Heckscher & Donnellon,

1994) and “post-industrial” (Huber, 1984) have also been employed to describe nontraditional, HPWS-like organizational structures.

These authors state or imply that “transformation,” from a contingency theory perspective involves a major change from a mechanistic/segmentalist/bureaucratic structure to an organic/integrative/post-bureaucratic structure. This radical change is driven by the need to adapt to conditions of the organization’s operating context, i.e., contingencies of task and technology, environmental uncertainty, and other conditions, if the organization is to survive. Empirical verification of whether or not transformation has occurred is accomplished through an examination of changes in structure and process that reflect such a transformation.

One conceptual difficulty with this formulation is that although the bureaucratic model is well understood, no consensus has emerged on what constitute the key elements of a post-bureaucratic model. Commonly identified elements of a post-bureaucratic structure include, 1) the use of cross-functional teams, 2) fewer hierarchical layers, and 3) front-line employees afforded more discretion in the conduct of their jobs (Nadler & Gerstein, 1992a; Daft & Lewin, 1993; Heckscher et al., 1994). To this list could be added, “technology to expedite the transfer of information, learning as a means of maintaining organizational flexibility, and networking with other organizations as a means of achieving objectives” (Thompson, 1998, 5). Barzelay’s (1992, 8) version includes;

- A focus on “customer needs and perspectives”
- A focus on “results” rather than controlling resources
- Communication with “customers”

While many organizations include one or more of these elements, there is no basis for determining what mix of elements is required to qualify as “post-bureaucratic.” Theory would suggest that a post-bureaucratic structure is characterized by the absence of bureaucratic attributes, but no empirical example of such an organization has been identified. Moreover, the theory does not answer the question of how many and what organizational elements must change to qualify as a “transformation.” The term “transformation” implies a difference of *type*, yet the contingency theory template allows for the possibility that an organization may adopt some but not all of the post-bureaucratic attributes and therefore accomplish a change of *degree*. Observers are left with a clear basis for assessment.

An empirical problem is that while many organizations incorporate post-bureaucratic elements, there are few, if any well-explicated examples in the literature of an organization of any size transforming from a predominantly bureaucratic to a predominantly post-bureaucratic structure (Kanter, Stein, & Jick, 1992; Heckscher et al., 1994). One possible explanation is that the theory is flawed. Another is that the theory is valid but that implementing change of this magnitude is difficult. This is implicit in much of the change literature in which the focus is on tactical issues of, “getting from here to there,” (Kanter et al., 1992, 5).

B. Open Systems Theory/Organizational Development

Organization Development (OD) represents an important subfield within the general field of organizational change. OD theorists generally rely on the open systems model of organizations to explain how OD interventions affect organizations.ⁱⁱ

The origins of OD as an area of practice and of theory are generally traced back to the 1940s and the work of Lewin (1947) among others. Distinguishing features of “early OD” included the following:

1. A humanistic orientation, in particular, the idea that organizations should provide for the personal well-being and promote the development of their members. According to Mirvis (1988, 5), “OD’s core beliefs and values can be found in McGregor’s (1960) Theory Y assumptions about human nature and in Maslow’s (1954) conceptions of self-actualization.”
2. Interventions targeted at the group level. OD practitioners employ a variety of techniques designed to improve work group relations such as “t-groups” and survey feedback (Beer, 1983).
3. Change targeted at the informal organization, including the values and beliefs of the members, how members interrelate, and problem-solving capabilities (Mirvis, 1988).

In recent decades the ideas and strategies associated with OD have shifted. There has been more of an emphasis on intervening at the organization level and OD interventions now target the formal as well as the informal organization (Beer, 1980). These shifts are consistent with the grounding of OD by many theorists in the open systems model of organizations.

Tenets relating to organizational change that derive from open systems theory include the following:

1. Organizations consist of multiple “subsystems,” which, for the organization to perform effectively, must be congruent with each other. The congruence hypothesis, in turn, implies that, a change in any one subsystem must be accompanied by change

in the other subsystems. (Beer & Huse, 1972; Beer, 1980; Nadler, 1981, 192)

2. Since all subsystems must change in a consistent manner, successful change, when it occurs, needs to be system-wide in scope. This idea is consistent with the idea of “transformation” to the extent that it implies a change in “state” or “type” rather than only in “degree.” (Alderfer, 1983; Romanelli & Tushman, 1994).
3. Organizational culture, sometimes defined as an organizational subsystem, is a change target.

As with contingency theory, there are conceptual problems with the open systems formulation. One relates to the validity of the organizational subsystem construct. As is depicted in Table 1, authors who have adopted this perspective on change have only loose agreement on what constitute the relevant organizational subsystems. It is also not clear whether the congruence hypothesis reaches a level of abstraction that qualifies as theory. For example, when an organization determines that job responsibilities of employees should be broadened, the notion that it must therefore enhance training opportunities qualifies less as a theory than as a practical consequence. Similarly, it is logical to surmise that an organization shifting to a team-based structure will adjust recruitment criteria in ways that take an individual’s interpersonal skills into account.

Table 1 about here

The cultural “subsystem,” alternatively labeled, “people,” “human-social,” and “informal organization” (see Table 1), presents particular problems with regard to issues of congruence and “fit.” First, unlike “structure,” and “technology,” organizational culture fits a nominalist as opposed to a realist perspective on organizations (Burrell & Morgan, 1979): Structure and technology have an objective existence, while culture is

socially constructed. A related issue is whether culture properly qualifies as a “subsystem” similar to “structure” or “technology,” and as such, can be managed or manipulated (Schein, 1992; Frost, Moore, Louis, Lundberg, & Martin, 1985). Smircich (1983, 347) endorses the idea that culture is not something an organization has, but, “is something the organization is.”

As with the contingency theory approach, empirical questions arise with regard to how one verifies that a transformation has occurred, that an alternative “type” or “state” has been achieved. The theory provides no helpful answers to questions such as; What magnitude of change is required within each subsystem to qualify as a transformation? Can change that does not include all subsystems qualify as “transformational”?

Another key question is, how does one assess whether change has occurred? Porras and Robertson (1990, 726) argue that organizational change is manifested in the behaviors of individual participants and hence, to ascertain whether change has occurred, an investigation of those behaviors must occur. In contrast with the contingency theory perspective, the role of formal systems is downplayed:

Changes in variables such as formal structure, cost control systems, budgetary systems, machinery, techniques for doing the job, policies and procedures, or job designs and responsibilities, will not have much impact on the outputs generated by the organization unless people behave differently as a result of these prescribed alterations. If aspects of the organization are changed, yet its members do not change their basic work-related behaviors, there will be no long-term organizational change.

There are both empirical and theoretical problems with this formulation. The empirical problem arises from the extreme difficulty of ascertaining the collective change in behaviors among members of a large organization such as the IRS. Moreover, in the case of the IRS, as discussed below, many of the key changes are in the attitudes of and framework employed by the participants as made manifest in the decisions they make. One then faces the challenge of linking such attitudinal and cognitive changes to overt behavioral changes.

II. Change as a Cognitive Phenomenon

The essential concept underlying the conception of change as a cognitive phenomenon is that of a “collective schema.” A schema is a psychological construct whereby individuals “frame” and assign meaning to information they receive from the environment. Bartunek (1993, 327) comments,

Schemata are best understood as generalized cognitive structures or frameworks that people use to impose structure on and impart meaning to some particular event or domain. Schemata are data reduction devices derived from the perceiver's past experience. They guide people to attend to some aspects of their current experience and ignore others ...; they also guide subsequent behavior...

Hastie (1981, 44) describes a schema as a, “mental model” of the current "subjective world" of the information processor.” Taylor and Crocker (1981) use the example of computer software and the idea of a format statement to explain the schema concept. In both situations, information can be accepted and understood only to the extent that it is “readable.” This allows for the possibility that information that does not fit a pre-existing schema is dismissed or ignored.

Argyris (1982), who employs the term “theories-in-use” rather than schemata, argues that theories-in-use are in part socially determined. A common schema or framework for interpreting events can facilitate interaction and communication among members. This also implies, however, that a person cannot unilaterally change his or her theory in use because others will not understand his or her actions.

The concept of a collective logic of action has similarities with other widely used concepts. The concept of a “paradigm,” for example, captures elements of the concept of collective schema. Kuhn (1996) popularized the term in the context of scientific discovery, but authors have applied it to a variety of social contexts. Merriam-Webster defines “paradigm,” as, “a philosophical or theoretical framework of any kind.”

A. Collective Schemas and Organizational Change

A number of authors have applied the concept of a paradigm/collective schema to organizational change. Porras and Robertson (1990, 802) describe transformation as;

...a change in the organizational paradigm, which can be defined as the fundamental set of beliefs or organizing principles that are unquestioned and unexamined assumptions about the nature of reality ... or the system's meta-rules that unnoticeably shape perceptions, procedures, and behaviors Thus, transformation can be viewed as consisting of a radical shift in the typical ways individuals perceive, think, and act, for example, through schema change ...or through reframing perceptions of reality or raising consciousness about the transformation process

Ranson, Hinings, and Greenwood (1980, 5) use the term “interpretative scheme,” which they describe as follows:

... deep-seated bases of orientation which operate in every encounter in organizations as shared assumptions about the way to approach and proceed in the situation. Such frames typically remain taken for granted and incorporate both evaluative sentiments about the relative worth of things, as well as implicit "stocks of knowledge" and systems of belief "which serve as the reference schema for my explication of the world"

Bartunek (1993) distinguishes between two levels of change. She describes "first-order change" as change that, "consists of incremental modifications that make sense within an organization's already shared schemata" (327). Second order change, in contrast, "refers to qualitative, discontinuous shifts in the schemata organizational members use to understand significant dimensions of their organization" (327) Similarly, Weick and Quinn (Weick & Quinn, 1999, 368) comment:

The image of an organization built around the idea of second-order change in frames of reference depicts the organization as a site where shared beliefs operate in the service of coordinated action ... These shared frames of reference may be "bent" when first-order changes produce minor alterations in current beliefs or "broken" when second-order changes replace one belief system with another

B. Logics of Action

As noted, a variety of different terms have been employed to capture the concept of a collective schema. The term "logic of action" effectively identifies three key characteristics of this phenomenon; one is that a schema is not a random collection of ideas but incorporates an inherent logic with elements that appear mutually consistent and without major contradictions to those who share the schema. The term "logic of action"

also captures the cognitive rather than the affectual nature of this phenomenon. A third feature of the idea of “logic of action,” is that the ideas implicit in the schema drive action. People act in ways consistent with the ideational frame through which they perceive the world.

Bacharach, Bamberger and Sonnenstahl (1996) rely on the term “logic of action” to explain organizational transformation in the airline industry. They describe “logic of action” as follows:

The logic of action allows actors to frame...the specific means and ends that they bring to an exchange relationship. To the degree that they are abstract, general, and form a cognitive map, logics of action may be seen as similar to schemas...In contrast to schemas, the concept of logics of action is specific to the means-ends relationship that individuals and parties bring to an exchange...In essence, a logic of action may be seen as the implicit relationship between means and ends underlying the specific actions, policies, and activities of organizational members...(477)

In describing changes within the airline industry, Bacharach et al. (1996) hypothesize that different logics of action can prevail at the institutional, managerial and technical levels. This would constitute a situation of “misalignment.” They argue that the deregulation of the airline industry during the 1980s caused the disruption of the “communalistic” logic of action that had prevailed at all levels. As a result of deregulation, top management adopted a “Tayloristic” logic of action designed to control labor costs through “routinization and standardization” (501). The initial state of misalignment, with a communalistic LOA at the technical level and a Tayloristic LOA at

the institutional level was eventually resolved when the airline worker unions adopted tactics consistent with management's Tayloristic approach. Alignment between logics at different levels was thus restored.

III. Logic of Action - Propositions

Descriptions of the various terms such as "logic of action," "interpretative scheme," and "paradigm" are sufficiently similar to conclude that they refer to the same essential construct. However, they are inherently diffuse constructs that raise the potential for alternative interpretations and explanations. In this section we draw on the works of others to develop our own conceptualization, and present a series of propositions explicating the logic of action construct.

Proposition #1 – "Meta-logics" exist at the institutional level.

As the work of Bacharach et al. (1996) cited above suggests, logics of action exist at different levels, including the societal level. Major societal institutions such as the state and the church include distinctive "rationalities" (Kalberg, 1980). These rationalities represent collective schemas or logics of action to the extent that they help individuals interpret and assign meaning to features of the environment and to act on the basis of those interpretations. Friedland and Alford (1987, 248) comment as follows;

Each of the most important institutional orders of contemporary Western societies has a central logic—a set of material practices and symbolic constructions—which constitutes its organizing principles and which is available to organizations and individuals to elaborate. The institutional logic of capitalism is accumulation and the commodification of human activity. That of the state is rationalization and the regulation of human activity by legal and bureaucratic hierarchies. That of

democracy is participation and the extension of popular control over human activity. That of the family is community and the motivation of human activity by unconditional loyalty to its members and their reproductive needs.

Pursuant to this formulation, the public sector, i.e. the state, incorporates a distinctive logic. The private sector incorporates an alternative, market-based logic. The two respective logics are shaped by the institutional structures that characterize each. Scott (1987, 508) comments that,

Institutional frameworks define the ends and shape the means by which interests are determined and pursued. Institutional factors determine that actors in one type of setting, called firms, pursue profits; that actors in another setting, called agencies, seek larger budgets; that actors in a third setting, called political parties, seek votes; and that actors in an even-stranger setting, research universities, pursue publications.

Similarly, Chubb and Moe (1988) provide an example of the argument that alternative institution-level logics govern the attitudes and activities of individual officials within public and private schools. They contend that the dominant purpose of the institutional rules that govern the public sector is democratic accountability. Those rules permit many groups to influence the educational process for their own purposes. That influence is generally exercised through hierarchical mechanisms employed by policy-makers to direct the work of administrators. A consequence is that an array of constraints is placed on principals and teachers. These constraints, in turn, often inhibit the extent to which these officials can be responsive to the needs of their clients. Educational outcomes can be compromised as a result. Chubb and Moe (1069) comment that,

The system, in short, is inherently destructive of autonomy. Politicians have the authority to shape the schools through public policy, and, precisely because they have this authority, they are consistently under pressure from interest groups to exercise it. It is in their own best interests to impose choices on the schools

Private schools, in contrast, compete in a market environment. To survive in this environment, schools must be responsive to their customers, i.e. students and their parents. Responsiveness can be achieved by granting substantial discretion to those who actually deliver the service. A fundamental difference between public and private schools therefore, is the degree of autonomy afforded lower level officials, a difference which derives directly from the institutional context in which each group is embedded. Chubb and Moe (1988) argue that reforms which have as an objective the granting of greater autonomy to principals and teachers will fail because they contradict the dominant logic of the institution in which they are embedded.

Other authors sharply dispute Chubb and Moe's conclusions about differences between public and private schools and their causes (Smith and Meier, 1995). Chubb and Moe's analysis, however, has much in common with more prominent authors' observations about the influence of institutional context on public and private organizations, and on such factors as organizational structures, accountability processes, and financial decisions (among many examples, see Dahl and Lindblom, 1953; Niskanen, 1971).

Proposition #2 – Subordinate logics exist at the subsector and organization levels.

Implicit in Proposition #1 is that the logics embedded in institutional rules govern the activities of subordinate units. For example, religious organizations will be subject to

the higher level logic associated with that sector. However, we posit that subsidiary, subsector-level and organization-level logics can exist within institution-level “meta-logics.” Further, such logics can coexist and compete with each other and with the dominant logic at the institutional level. They become harder to sustain, and have less influence, to the extent that they conflict with the dominant logic of action. Communist political ideology exists in the United States, but barely.

Sparrow (1994) provides an example of a logic that prevails among regulatory organizations, specifically tax administration, environmental protection, and policing organizations. Sparrow (ix) describes how these regulatory agencies have traditionally been dominated by an “enforcement” mentality, “built upon the fundamental assumption that a ruthless and efficient investigation and enforcement capability will produce compliance through the mechanism of deterrence?” Based on Sparrow’s analysis, the existence of this common “logic” appears to derive from a number of factors including the nature of the task, how the “operators” (Wilson, 1989) define the mission as well as accountability mechanisms.

Individual organizations may also be characterized by distinctive logics characterized by, for example, the agency’s structure, mission, technology and culture. Below we describe an attempt to change the dominant logic at the IRS. At issue in part, was the enforcement mentality as described by Sparrow that has prevailed historically.

The National Performance Review (NPR) provides an example of an attempt to introduce management practices/policies at the organizational level that were at odds with a higher-level logic rooted in the institutions of government. The alternative logic, as presented in the *Report of the National Performance Review* (Gore, 1993) was at core,

a private sector logic. The reinventing government movement, from which NPR derived, promoted “entrepreneurial” behavior by public officials. As described by Chubb and Moe (1988), it was an attempt to expand managerial autonomy in a system that inherently abhors such autonomy. An example is the NPR recommendation that Congress refrain from incorporating “earmarks and allotments” in the federal budget. The contention was that agencies and managers should be given more discretion in how the money is spent. However the recommendation flies in the face of the electoral considerations that dominate the activities of members of Congress (Arnold, 1990). Earmarks and allotments are a primary means by which funds can be targeted for electorally-consequential purposes. Another virtually comical example came in the form of the presidential directive in the Clinton Administration that ordered all federal agencies to reduce their rules by 50%.

Proposition #3 – Organizations are subject to multiple, alternative logics

As suggested above, consistent with the term “dominant logic,” we posit that multiple, alternative logics may be simultaneously present in an organization, with one maintaining dominance. In the example cited by Bacharach et al. (1996) above, a “communalistic” logic that prevailed in the airline industry was displaced by a “Tayloristic” logic as a consequence of deregulation. In that instance, the change in institutional rules drove a change of logics at the organizational level.

Cooper et al. (1996) provide an example of competing logics in the legal sector. Traditionally, according to Cooper et al. (627), law firms have operated as “professional partnerships” which they label “P2.” They describe the associated logic or “archetype” as follows.ⁱⁱⁱ

The P2 interpretive scheme also values professional knowledge and peer control; work responsibility as indivisible; strong links with clients; widely distributed authority, not just among partners, but also to other senior professionals who have not yet achieved partnership; a minimum hierarchy.

Over time, a “managerial-professional-business” archetype, characterized by words and phrases such as, “`productivity', `client service', `executives and directors', `competition' and `marketing and growth strategies” (631) came to dominate within the sector. In short, a market-oriented corporate logic displaced a professional, partnership logic. Importantly however, according to Cooper et al. both logics continued to be present in the sector. Cooper et al. argue that the dynamic is less one of substitution than of “sedimentation.” They reject, “the transformational view of change, in which one archetype sweeps away an earlier one,” and contend instead that old logics continue to be present even where new logics are adopted.

Proposition #4 – Organizational transformation requires a change in the dominant logic

This proposition is consistent with the template provided by Bartunek (1984; 1993; 1987), Levy and Merry (1986) and others regarding the nature of organizational transformation. As the term “logic” implies, the elements thereof must be mutually consistent and configure into a logical whole. The construct is thus consistent with the idea of a change in state implicit in the term “transformation.”

Relatively few examples of genuine transformation involving a fundamental change in logics of action can be found in the literature. The law firms described by Cooper et al. (1996) may be one. In that instance, change in logics at the organizational level reflect a broader secular trend towards the erosion of professional autonomy.

Sectors such as health, law and accounting where professionalism once reigned are increasingly dominated by a market orientation. Dacin, Goodstein and Scott (2002, 52) describe a process in the health care field whereby business considerations have, “influenced the character of professionals delivering health care services and their loyalties, commitments, and perceptions of their ethical obligations to patients and providers.”

Our analysis pursues the question of whether the experience of the IRS 1998-2007 qualifies as a transformation in the sense described just above. The evidence tends to support the conclusion that it does not, and illustrates the extreme difficulty that government agencies confront in undertaking fundamental organizational change, especially because the particularly strong institutional constraints with which they must contend. However, we also note that some basic changes in IRS operations (described earlier) have been sustained. These include, for example, increased attention to customer service, a strategic approach to tax administration, and a change in management roles.

Proposition #5 – Formal structures shape logics

That these particular elements have been sustained can be traced to changes in the formal structure including the new system of balanced measures, the centralization of authority over enforcement matters coincident with the creation of new operating divisions and a reduction in management layers. We conclude that these structural changes, in essence, contributed to the creation of a subsidiary logic of action. For example, the new balanced measures system assigns equal status to customer satisfaction, employee satisfaction and business results. That the system is in the form of a regulation makes it less susceptible to revision than if it were only a matter of internal policy.

The balanced measures system serves as a basis for the evaluation of individual and organizational performance. Individual managers thus have incentives to give customer and employee satisfaction more attention than had been the case in the past and likely that would be the case in the absence of the balanced measures system. Creation of the subsidiary logics requires their formal incorporation into the organizational structure, that makes them less susceptible to change than they might otherwise be.

Proposition #6 – Change in logics is a political process

Logics have a political dimension; how organizational members frame their purpose, their work their relationships to key stakeholders has consequences for different stakeholders and these stakeholders will therefore act to influence the adoption process.

Bacharach and Mundell (1993, 429) comment as follows:

the Weberian perspective assumes that there may be many different logics of action, with individuals and groups in the organization vying to impose their different logics of action on the organization as a whole. In this context, organizational politics can be seen as a struggle among various interests to establish unity around a particular logic of action, whether this unity is established by consensus or domination.

A question is whether a dominant logic can be created de novo. That logics are institutionally embedded suggests that logics are not created de novo but are simply replaced by other pre-existing logics. Seo and Creed (2002, 236) come to this conclusion in arguing that,

change agents are unlikely to invent totally new frames or logics of action unfamiliar to other participants, because to do so would make it difficult and

costly to gain consensus and support from those participants. Instead, agents are likely to adopt a frame or set of frames available in the broader, heterogeneous institutional context—a frame that is sufficiently incompatible with the existing institutional arrangements to generate a fundamental departure from the past while also sufficiently resonant with some existing societal systems of belief to mobilize substantial support and resources from other participants.

Reinventing government provides an example of this phenomenon. In that instance, agents sought to introduce a logic with which organizational participants were already familiar, i.e. a market-based logic. That the logic has widespread legitimacy at the societal level gives it currency.

In other instances, however, organizations have adopted logics not institutionally grounded. Total quality management is an example of a logic that was, in essence created by Deming (1982), Juran (1988), and Ishikawa (1985) and which some organizations have made work. The quality of work life “paradigm” cited by Bartunek (1987) provides another example.

In the IRS case discussed below, the change agent, former commissioner Rossotti attempted to introduce a logic that was substantially *de novo*. In developing his “vision,” Rossotti relied heavily on Sparrow’s (1994) reconceptualization of the nature of regulatory work. He also drew ideas from the management consulting sector.

The CEO is, by virtue of his/her visibility in a unique position to present and advocate an alternative logic of action. This alternative logic often takes the form of a “vision.” Beer and Walton (1987, 348) state that, through the “vision or agenda... the leader assigns meaning and significance to events, expectations, and the vision, and in so

doing, structures a cognitive world. Gioia and Chittipeddi (1991, 446) highlight the key role of the CEO and the idea of a vision as an alternative logic:

Ultimately, strategic change is a negotiation process. The nature of the resulting change depends upon the kind of negotiated reality that the CEO and top management team are able to arrive at with other organizational stakeholders In this negotiation process each group tries to sell its vision of the future to the others (sensegiving),

IV. The “Transformation” of the IRS, 1998-2007

As described earlier, the IRS has undergone extensive change over the past decade. Below, we interpret these developments within a logic of action framework. In the first section, we review the elements of the alternative logic of action that the new commissioner, Charles Rossotti introduced. We note the points on which the new and the old LOAs conflict. In the second section we review outcomes of the transformation effort with a particular focus on whether the new LOA has persisted, i.e. is there a new dominant logic at the IRS? Has the IRS been “transformed”?

A. An Alternative Logic of Tax Administration

Charles Rossotti became commissioner of the Internal Revenue Service in October 1997, a few months prior to passage of RRA '98. His mandate from both the Clinton administration and from Congress was to implement the provisions of RRA '98 and to fix the many managerial and organizational problems at the IRS.

Rossotti spent the six-month period between when his appointment was announced and when he took office consulting with experts in management, organizational change and tax administration about the challenges facing the IRS. The

result of his research was published in the form of a report entitled *Modernizing America's Tax Agency* (2000), which set forth Rossotti's ideas about changes needed at the IRS and about how the IRS should approach tax administration more generally. Key elements of the new "vision" included, reducing the emphasis on enforcement relative to service and outreach activities, improving service quality, and taking a strategic rather than a reactive approach to tax administration.

1. Reduced Emphasis on Enforcement Activities

In *Modernizing America's Tax Agency* (2000), Rossotti endorses a number of key ideas about how regulatory agencies like the IRS should conduct their activities that were first formulated by Malcolm Sparrow in his book *Imposing Duties: Government's Changing Approach to Compliance* (1994). One of Sparrow's main recommendations is that tax administrators redefine their missions. Whereas the traditional mission was to, "catch tax cheats," a more appropriate mission is to increase voluntary compliance with the law.^{iv} The switch is justified on the basis that a very high proportion of all tax revenue (98 percent)^v is paid voluntarily and that the amount directly generated by enforcement activities such as audits represents a small proportion of the total. Further, the overall level of voluntary compliance is only 83 percent. A small increase in this figure would generate a large amount of additional revenue.

An emphasis on improving voluntary compliance shifts the focus to the honest rather than the dishonest taxpayer. Rather than emphasizing enforcement as a means of catching tax cheats, the focus is on what can be done to assist honest taxpayers in meeting their tax obligations. To the extent that compliance by honest taxpayers is inhibited by a lack of information, Sparrow argues, resources directed toward improved

service or toward educational and outreach activities can impact overall compliance levels. Underlying the alternative strategy is the premise that, “much noncompliance is unintentional and...long-term voluntary compliance will increase only when taxpayers understand their tax obligations and can satisfy those obligations in a reasonably direct and simple manner.”^{vi}

A second reason for a reduced emphasis on enforcement relates to relative cost. In an era of restrictive budgets, he argues, the IRS is not able to hire a sufficient number of auditors to provide much of a threat to most taxpayers.^{vii} Sparrow contends that it is more cost effective for the agency to direct a higher proportion of its resources to activities that improve compliance by enhancing access to information that taxpayers require in order to pay their fair share of taxes. This is accomplished in part by improving the quality of service and also through education and outreach activities.

Figure 1 about here

Modernizing America's Tax Agency (2000) incorporates many of Sparrow's arguments including that voluntary compliance is the single best measure of overall performance. The report also emphasizes the importance of “preventive” tactics such as education and outreach. Rossotti also endorses Sparrow's thesis relating to the relative importance of enforcement vs. service and outreach. He argues that the IRS traditionally devoted a disproportionate amount of its resources to enforcement. Figure #1, above, taken from the report, shows that only approximately 8 percent of the IRS budget (as of 1999) was spent on what Rossotti defined as “pre-filing” activities such as taxpayer services, volunteer tax assistance, and telephone-based tax law assistance, whereas about

73 percent of the budget was spent on “post-filing” activities such as auditing returns and taking collection actions. The report states that,

...nine times as much is spent addressing problems after the fact than is spent in preventing them...Experience at the IRS and elsewhere shows that there are many opportunities to improve service and compliance and increase productivity by pursuing more aggressive use of techniques to prevent errors and address recurring and systematic compliance problems.^{viii}

2. Improved Service Quality

Improving the quality of service provided taxpayers was a central objective of the modernization effort. Poor service was cited as a problem by the NCRI and a provision was included in RRA’98 directing the IRS to improve the service it provides taxpayers. The emphasis on service was consistent with Sparrow’s argument for a reduced reliance on enforcement activities and for focusing agency activities on the honest rather than the dishonest taxpayer.

In *Modernizing America’s Tax Agency* (2000), Rossotti affirms the importance of providing high quality service to taxpayers. Under his direction, the IRS developed a new mission statement which highlights the importance of good service; “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.”^{ix}

Consistent with the mission statement, the first of three strategic goals listed in *Modernizing America’s Tax Agency* is “Top quality service to each taxpayer” (5). The report states that progress towards this objective would be assessed according to various

measures of customer satisfaction including that generated by the American Customer Satisfaction Index.

One vehicle for promoting improved quality of service was the creation of four new customer-oriented operating divisions. Pursuant to the provisions of RRA '98, Rossotti proposed scrapping the 50 year old functionally-based organizational structure in favor of one centered around four operating divisions each addressing the tax needs of a distinct group of customers, The groups around which the new structure was created were individual taxpayers, small business and self-employed individuals, large and mid-sized businesses, and tax exempt organizations and “government entities.” In *Modernizing America's Tax Agency* (2000, 33) Rossotti comments, “The needs and problems of the taxpayers served by each of these operating divisions are very different...and consequently serving them effectively and efficiently requires different services and different ways of delivering that service.” This change was consistent with the “one-stop shop” concept promoted by Sparrow as a means of improving service quality. With one-stop shop, the customer is provided a single point of contact for the transaction of business. Each operating division, in essence, served as that point of contact.

3. A Strategic Approach to Tax Administration

The NCIR had criticized the IRS for being “reactive” rather than “strategic.” NCIR identified the IRS’ “governance structure” as the source of the problem and recommended the creation of a board of directors with operational responsibilities. The IRS Oversight Board was created pursuant to this recommendation.

Sparrow (1994) also urges the importance of a strategic orientation. He makes two primary points in this regard; 1) that successfully improving voluntary compliance

requires that a range of tactics be employed, and 2) agencies need to use risk assessment techniques to categorize their work and their customers. The first point is simply that broadening the definition of the mission to one of voluntary compliance also broadens the discussion about tactics. Instead of an almost exclusive focus on enforcement, there now needs to be a discussion of whether and how improved service, education and outreach can affect compliance.

Sparrow (1994) advocates the use of risk-assessment techniques for the purpose of improving voluntary compliance. He contends that enforcement agencies have traditionally abided by the principle that, “the law should be uniformly applied, without fear or favor” (xii). There are operational advantages to this approach: to the extent that each case is treated the same, processes can be standardized and an assembly-line model adopted. Risk assessment, in contrast, implies a segregation of cases such that resources are targeted to those that have the greatest impact on performance. One implication of this approach is that in some instances, action would not be taken against known violators so that resources can be targeted toward even larger violators.

In *Modernizing America’s Tax Agency* (Internal Revenue Service, 2000, 25), Rossotti endorses the use of “risk based compliance techniques,” observing that, “since the IRS has limited resources, it is essential to apply resources where they will be of most value in reducing noncompliance, both in specific cases and in patterns of noncompliance.

B. Modernization Outcomes

In this section we review modernization outcomes relating to the three elements identified above: a reduced emphasis on enforcement relative to service and outreach

activities, improving service quality, and taking a strategic rather than a reactive approach to tax administration.

1. Reduced Emphasis on Enforcement Activities

The argument that service, outreach, and educational activities should be given increased emphasis relative to enforcement activities provoked extreme controversy within the IRS for a number of reasons. First, there are a large number of employees engaged in enforcement activities and many perceived the shift of emphasis as downgrading their importance. RRA '98 mandated a new mission statement that emphasized service to taxpayers. The new mission statement did so, and omitted any reference to enforcement. Complaints from IRS employees indicated that this change took on symbolic significance as a diminution of their duty to enforce the tax laws and prevent tax delinquency. Rossotti (2005, 105) describes meetings with employees staunchly opposed to this new emphasis on service; one employee, for example, complained that, "All we're doing is making it easy for the deadbeats to get away with not paying". Second, the idea that the agency's purpose is to catch tax cheats was culturally engrained, perhaps because it allowed them to present themselves as the "good guys" out to catch the "bad guys." "Improving voluntary compliance" is more ambiguous and less compelling. Third, success in "catching tax cheats" can be assessed through the use of measures such as enforcement revenue assessed and collected. Further, the link between audit and collection activities and revenue collected as a measure of success is easily demonstrated. Not only is it difficult to measure the level of voluntary compliance but it has been very challenging methodologically to determine whether improved service results in increased compliance.

Despite Rossotti's attempts to explain that he was not anti-enforcement but rather favored a balance between service, education and outreach, on the one hand, with enforcement, on the other, much of the workforce proved unreceptive to this message. As the employee quoted above exemplified, evidence indicated a widespread perception that Rossotti and the major changes underway deemphasized enforcement. A shift in personnel from enforcement to service activities during the tax seasons in years 2000-2002 reinforced this perception, as did dramatic drops in collection activities such as levies, liens, and seizures, even though one can make a strong case that factors other than a deemphasis on service caused these changes .^x

The strength of these perceptions about deemphasis on enforcement appear to explain why Rossotti's successor, Mark Everson, made a renewed emphasis on enforcement a hallmark of his tenure. In public statements, Everson implied that Rossotti had put too much emphasis on service to the detriment of enforcement. For example, soon after taking office in 2003, Everson told a New York Times reporter, "Clearly in an effort to do better on the customer service side we poached from law enforcement."^{xi}

The switch in emphasis at the commissioner level paralleled a similar shift in emphasis in Congress. During the late 1990s, when the economy was booming and budgets were in surplus, the emphasis on Capitol Hill was on service. As the economy and revenues declined, members shifted their focus. In 2002, the chairman of the Senate Finance Committee told the Wall Street Journal in reference to his change in attitude, "I see such a drive by people who want to avoid taxes and their ingenuity, that I'm going to opt for a little while on breaking the back of tax cheats."^{xii}

One indicator of the rejection of an emphasis on education and outreach as means of improving compliance appears in the downgrading in importance of the Taxpayer Education and Communication (TEC) Office in the Small Business/Self-Employed Division, after Rossotti's departure from IRS. This unit was created as part of the restructuring and embodied Rossotti's concern that increased emphasis be placed on "pre-filing" education and outreach rather than "post-filing" enforcement activities. Echoing Sparrow (1994), Rossotti had argued that by partnering with outside groups, the IRS could make more effective use of its limited resources.

Although the TEC unit was intended to ramp up to a total of 1200 positions, by 2005 only 520 employees were assigned to the unit. In October 2005, TEC was merged with other units to create the Communications, Liaison, and Disclosure Unit. In her 2006 annual report, the National Taxpayer Advocate reported that only 219 employees were assigned to stakeholder liaison function.^{xiii}

The evidence indicates that the idea promoted by Sparrow, that enforcement should be viewed as only one of several tactics available for increasing voluntary compliance, has not been accepted within the organization, or by important external stakeholders. Rossotti thus failed to displace this element of the prevailing paradigm. To its detriment, the change proved inconsistent with a higher-level logic whereby policymakers look for more explicit causal relations between agency activities and outcomes than the balanced approach allows. The IRS simply has not been able to demonstrate that education, outreach and service have direct consequences for revenue. For audit and collection activities, the link is much more direct.

With the rejection of this key element, could the paradigm as a whole prevail? The developments at the IRS indicate that no transformation occurred, as the term is defined in most of the literature and as we define it here. Some of Rossotti's ideas, however, including the two discussed below, did in fact "take." We attribute this outcome to changes in the formal structure that contribute to the creation of subsidiary logics that have been sustained.

2. Improved Service Quality

As discussed, the idea that service is equal in importance to enforcement has been rejected within the organization. However, service quality has improved over the past ten years, in some cases dramatically. We account for this apparent disparity by two key structural changes that have had as a consequence, the creation of a subsidiary, pro-service logic that continues to prevail within the agency.

The first of the structural changes is the customer-oriented divisional structure, described above. Implicit in this structure is a focus on the needs of distinct groups of customers. The new structure was mandated by RRA'98 (at Rossotti's behest) and as such is resistant to change regardless of whether it is consistent with higher level logics. In fact this attitude is at risk over the long term given that the higher level institutional logic mitigates against an emphasis on service quality. This institutional logic reflects the conviction among members of Congress and among other stakeholders that high quality service provides little or no electoral benefit for policy makers.

The second structural element that has contributed to a continued emphasis on providing good service is the new system of "balanced" performance measures. The IRS has traditionally made extensive use of measures as a basis for assessing unit and

individual performance. However the measures were exclusively “business” measures, i.e. measures of work product such as dollars assessed, dollars collected and audit hours per return. The poor quality of service delivered by the IRS in the past was attributed by some to the relative neglect of measures of service quality. Rossotti sought to remedy the problem by creating a set of measures which gives equal weight to measures of business results, customer satisfaction and employee satisfaction. He further helped institutionalize the system by implementing it in the form of an official regulation, part of the Code of Federal Regulations so that it could be revoked or revised only by going through a formal process. Balanced measures were also integrated into the business review process, the performance appraisal process, and the set of leadership competencies that are used as a basis for appointing managers and executives. Recent interviews with high-level executives confirm the continued importance assigned the measures within the organization.

Improvements in service quality have been particularly apparent with regard to telephone service. There are two basic categories of calls those involving questions about tax law and those involving questions about accounts. About half of the tax law questions are handled via automated means. In a 1995 report, the GAO reported that only about 23 percent of the assistor calls got through during the 1995 tax season with the balance either receiving a busy signal or abandoned before an assistor got on the line. Even the calls that got through often only did so after a lengthy time on hold. GAO cited average on-hold times as high as 34 minutes depending on the site and the day. A 2007 GAO report notes that the IRS telephone “level of service” i.e. the percentage of calls answered increased to 82%. The accuracy of responses to both tax law and account

questions has also improved significantly.^{xiv} In 2003, GAO reported that, “On the American Customer Satisfaction Index (ACSI) Survey, taxpayers gave the IRS an overall score of 62, an 11% increase in satisfaction among individual tax filers over 2000, and a 22% increase over 1999. This was the largest favorable gain of the 30 federal agencies surveyed by the ACSI.”^{xv} By 2007, the IRS’s score was up to 65.^{xvi}

3. A Strategic Approach to Tax Administration

To act strategically implies having clear objectives and acting in ways to achieve those objectives. Prior to modernization, the IRS had not articulated clear objectives. Rossotti successfully convinced internal and external stakeholders to make the level of voluntary compliance the primary measure of agency performance. In 2007, the IRS Oversight Board officially approved five long-term measures and targets of which one was to increase the rate of voluntary compliance from 83 percent to 86 percent.^{xvii} In the context of Rossotti’s broader strategy, this action was important because of its tactical implications. Issues of voluntary compliance could be addressed not only through enforcement but through improved service as well as education and outreach. This measure thus legitimizes the emphasis on “pre-filing” activities promoted by Rossotti. Still an obstacle however, was the difficulty of demonstrating scientifically that these alternative strategies affected compliance.

The IRS’s traditional, decentralized organizational structure was the primary obstacle to a more strategic approach to tax administration. That structure had been imposed in the 1950s subsequent to a scandal in which political appointees within the IRS were accused of exercising improper influence on tax matters. Under the structure that was put in place at the time, key enforcement decisions were left in the hands of

career civil servants at the district level. This created two problems; 1) that policies and practices often differed between districts, and 2) it was difficult to develop and implement strategies that applied to an entire sector of the economy.

The reorganization of the IRS into the four operating provided an opportunity to eliminate the district structure and centralize control over tax administration at the division level. The Large and Mid-Size Business Division (LMSB), which has responsibility for corporate taxpayers, provides an example of the advantages that the new structure enables. LMSB is organized according to industry rather than by geography. Through a new strategic initiative called Industry Issue Resolution, industry directors can now resolve tax issues across an entire sector of the economy. In the prior structure, policy was made on district by district basis. One former industry director described the advantages that the new structure afforded with regard to a tax issue involving the mutual fund industry:

We had thirty audit teams out there spending thousands of hours on the issue [in the district structure...With Industry Issue Resolution] we were able to meet with the [mutual fund] association, meet with the large taxpayers, meet with Counsel and come to an agreement as to what a good answer looked like. We were able to put it in a revenue procedure, roll it out and one hundred percent of the industry jumped on board and we shut down the audits. And we can move those folk into other issues that were still contentious. And the new structure allowed that to happen. The old structure would never have allowed it to happen.

Another example of the strategic approach to tax administration relates to the Volunteer Income Tax Assistance (VITA) Program. Under VITA, the IRS works with

outside groups to set up sites where volunteers assist low income taxpayers with their returns. The old structure decentralized authority over VITA to the district level, where each district director determined the importance accorded the program. The new structure centralizes control over VITA in the new Stakeholder, Partnership, Education and Communication (SPEC) unit within the Wage and Investment Division. SPEC officials have identified a business model through which the IRS can best leverage its resources.

A key element of the model is the Earned Income Tax Credit (EITC) program through which significant new resources can be brought into low income communities. For example, groups seeking to increase financial literacy among the poor have an incentive to cooperate with the IRS in setting up a VITA site; the groups recruit volunteers to assist with tax preparation as a means of gaining access to their target clientele. The refund received as a result of EITC provides the client with a deposit to use in setting up a bank account. VITA has created partnerships with banks, utility companies, schools, community groups and nonprofit organizations.

Previously, IRS personnel had managed the VITA sites. Community groups now manage them.^{xviii} Between 2001 and 2005, the number of returns prepared at the VITA sites increased from about 1.17 million to 2.11 million, an 80% increase. The VITA program contributes to a higher level of compliance among the low-income population and will thereby help in reducing the tax gap. VITA returns are also filed electronically and therefore cost much less to process than paper returns.

Discussion: Structures as Logics

Our purpose has been to explore and elaborate on the “change as a cognitive phenomenon” framework for the purpose of understanding and analyzing the organizational transformation phenomenon. We further examine whether the IRS experience during the period 1998 – 2007 qualifies as a case of organizational transformation.

We conclude that even though the IRS represents one of the most significant cases of planned change in the annals of the federal government, the organization’s dominant logic of action has not changed. Many elements of that dominant logic derive from the nature of the tax business as well as from the institution of the federal government of which the IRS is part. For example, the continued emphasis on enforcement is a consequence of budgetary concerns on the part of policy makers. It also suits the preferred way in which the employees prefer to view their purpose.

However, some elements of the “paradigm” that Rossotti sought to introduce have clearly persisted. These include a more strategic approach to tax administration and a renewed emphasis on providing good service to taxpayers (notwithstanding some erosion of the commitment to this objective since Rossotti’s departure). Our interpretation is that, 1) elements of the new paradigm that were consistent with broader “meta-logics” were retained, and 2) elements of the new paradigm that were not consistent with institutional meta-logics but were embedded in formal structure and hence became part of a subsidiary logic were also retained.

The SPEC (Stakeholder, Partnership, Education, and Communication) unit in the Wage and Investment Division provides an important example of an element of the new

paradigm that was consistent with the “meta-logics” and that remains in operation. This was the sister unit to the TEC group in SB/SE. We have noted above how the stature of the TEC unit has diminished over the past few years. Yet the SPEC unit has actually expanded. That is the case because of the fact that, by virtue of the VITA program, the IRS gains significant service efficiencies. Instead of providing taxpayers assistance in filling out tax forms with IRS employees, through VITA, this function is performed by volunteers. The proposed closing 68 Taxpayer Assistance Centers in 2005 was justified in part on the basis of the expansion of the VITA program. Unlike TEC, SPEC was thus consistent with a broader efficiency logic.

The broader meta-logic that we are referring to is what Moe (1994) describes as the “administrative management paradigm,” in which “the rule of law” is a preeminent principle. Rossotti astutely invoked this logic by basing the new divisional structure in law and by embedding the balanced measures system in regulation. The service oriented logic implicit in the two structural innovations persists despite the fact that providing high-quality service is not part of the institutional meta-logic.

A similar circumstance prevails with regard to the IRS Oversight Board. The National Commission on Restructuring the IRS recommended the board as a buffer of sorts between Congress, the president and the IRS. The NCRI concern was that congressional preoccupation with “specific complaints and problems”^{xix} impeded the IRS from addressing long-term, strategic issues and needs. To date, the Board has been an important force for retaining a focus on quality service. The longest serving member of the board commented, that, “Our existence has helped put bounds on Everson’s emphasis

on enforcement. Without the Oversight Board, there would have been cuts in service. It would have been okay for measures to decline” (Tobias 2007).

Our contention is that formal structures are themselves logics. They are cognitive representations of how individuals should relate and who is responsible for what. They are overt and subject to norms of rationality. They also impute meaning to organizational activities. The meaning that is imputed by the divisional structure, the balanced measures system and the Oversight Board is, in part, the importance of service. This logic will persist as long as these structures exist. Our findings in this regard are consistent with those of Bartunek (1984) who analyzed the “transformation” of a religious order. She comments that,

during a period of second-order change in interpretive schemes, structural properties enter a into a reciprocal relationship with interpretive schemes and actions ...these structural properties limit and enable the expression of particular interpretive schemes and actions based on them (366)

Although, as of 2007, in part as a result of the structural elements, providing good quality service continues to be a priority within the IRS, it is questionable whether such a focus will be sustained over the very long term in light of a contrary situation at the institutional level. A similar situation prevailed with regard to the IRS’s structure pre-modernization. The decentralized nature of that structure was at odds with a pro-centralization meta-logic. That the structure endured for 50 years but was eventually replaced highlights the difficulty of sustaining subsidiary logics that are not consistent with meta-logics, even when those subsidiary logics are embedded in formal structure.

In support of the contention that the dominant institutional logic will eventually prevail we would point to some erosion in the commitment to the employee satisfaction element of the balanced measures system. Any link between employee satisfaction as an objective and the electoral priorities of policy makers is extremely tenuous. The institutional logics would thus mitigate against making employee satisfaction a priority. Since the implementation of the balanced measures system in 2000, employee satisfaction has been measured according to an annual survey. However, in 2005, top management removed a requirement that a mandatory meeting regarding the survey results take place between each supervisor and his/her subordinates. The National Treasury Employee Union then boycotted the survey and the results are therefore of dubious validity.

Conclusion

In this paper we have presented a series of propositions relating to the logic of action construct and to the “change as a cognitive phenomenon” model. We find that the model provides a useful frame for understanding the attempted transformation of the IRS. However, we also recognize that many gaps remain to be filled. A major one is that no wholly satisfactory explanation has been provided for how individuals formulate schemas/logics. We have suggested that one of the most important influences is the logic employed by others in the proximate environment. Institutional structures and the rules and roles they incorporate are a major influence on these collective schemas. Yet, as noted, individuals are simultaneously influenced by multiple institutions and the logics implicit therein. How and on what basis does a dominant logic emerge within groups? What are the consequences of exogenous factors such as technology on collective

schema? Answering these questions will be a challenge given that they involve inquiry at the micro as well as macro levels but we find the line of inquiry sufficiently encouraging to make the effort.

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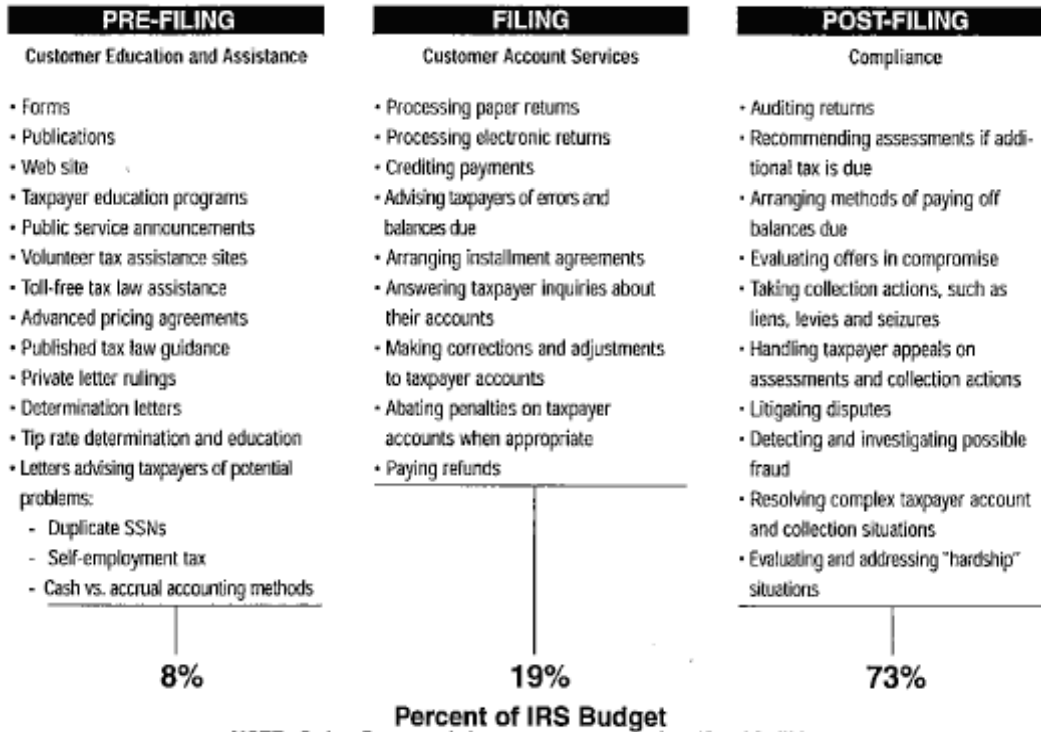
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Table 1

Alternative Conceptualizations of Organizational Subsystems

Leavitt (1965)	French & Bell (1978)	Beer (1980)	Beer & Huse (1972)	Nadler (1981)	Nadler & Gerstein (1992)
structure	goal	people	organizational structure	informal organization	information
technology	external interface	process	job structure	formal organizational arrangements	people
people	task	structures	personnel policies	individual	technology
task	technological	environment	controls	task	work
	structural		selection & training		
	human-social				
			leadership & supervision		
			communication		
			group process		
			intergroup relations		

Figure 1
IRS Activities



NOTE: Budget figures exclude support programs such as IS and facilities.

ⁱ Burns and Stalker (1994) identify 11 elements on which mechanistic and organic structures differ (see pp. 121-123).

ⁱⁱ The contingency theory and open systems theory formulations described here are not mutually exclusive and, in fact, some authors such as Nadler and Gerstein (1992) draw from both. Numerous authors treat contingency theory as a manifestation of open or adaptive systems theory.

ⁱⁱⁱ According to Cooper et al, an archetype includes three elements as follows: structure, systems and interpretative scheme.

^{iv} By rate of voluntary compliance, Sparrow is referring to the percent of revenue owed under the tax law that is paid voluntarily, i.e. without enforcement action.

^v TIGTA, Management Advisory Report: Evaluation of Reduction in the Internal Revenue Service's Compliance Activities, May 2000., 1

^{vi} Imposing Duties. P. 15

^{vii} In fact, as of the early 2000s, the percentage of total returns audited fell to below one percent.

^{viii} Modernizing America's Tax Agency, p. 17.

^{ix} Charles Rossotti, Modernizing America's Tax Agency, p. 1

^x These drops were to a substantial degree a consequence of the taxpayer rights provisions of RRA'98. See Rainey and Thompson (2007).

^{xi} D. Johnston. "New IRS Chief Plans to Focus on Enforcement". New York Times. Oct. 16, 2003

^{xii} McKinnon, J. 2002. "IRS Rides the Ups and Downs of Congressional Whims – Onetime Critics of Tax Agency's Zeal Now Clamor for Tougher Enforcement." Wall Street Journal April 8, 2002.

^{xiii} National Taxpayer Advocate. 2006 Annual Report. (available online at http://www.irs.gov/pub/irs-utl/2006_arc_vol_1_cover_section_1.pdf) Accessed 9/30/07.

^{xiv} GAO 2006. Tax Administration: Most Filing Season Services Continue to Improve but Opportunities Exist for Additional Savings.

^{xv} GAO. 2003. Financial Audit: IRS's Fiscal Years 2002 and 2001 Financial Statements. P. 21

^{xvi} R. Yu. Airlines Score Lower Than IRS in Customer Satisfaction.

http://www.usatoday.com/travel/news/2007-05-15-airline-survey-usat_N.htm. Sept. 30, 2007.

^{xvii} Treasury Inspector General for Tax Administration. 2007. *The Development of Specific Long-Term Measures and Targets Improved the Internal Revenue Service's Strategic Plan (2005 – 2009)*.

(www.tigta.gov) Such an increase would be significant because, 1) the rate had hovered around 83 percent for approximately 30 years and 2) each percentage point increase would generate approximately \$12 billion in additional revenue for the government.

^{xviii} The IRS assists with training and with software and serves as a broker for various support services, such as with computer vendors, for example, who in many instances donate the equipment. VITA returns are filed electronically are therefore much less costly to process than are paper returns.

^{xix} National Commission on Restructuring the IRS, Appendix B, p. 2