



CHAPTER 3.2:

Crisis and Transformation

*By the Honorable Charles Rossotti, former Commissioner,
U.S. Internal Revenue Service*

Introduction: Crisis and reform

I became IRS Commissioner in 1997, when the IRS was deep into one of its periodic volcanic eruptions. For 2 years the IRS was the subject of unrelenting reports of failures and abuses. A massive technology project was canceled and labeled a multibillion-dollar disaster. Millions of taxpayers' calls for assistance went unanswered. In fact, taxpayers complained so frequently of abuse and mistreatment that some congressional offices had a full-time person on staff just to handle the complaints. The IRS' bookkeeping was said to be so bad that it would not pass its own tests for taxpayers. The firestorm reached a peak in 3 days of sensational televised Senate hearings in which taxpayers cried on camera and whistleblowing IRS employees testified behind screens to hide their identities.

The kind of crisis the IRS faced in 1997 erupts periodically, often unexpectedly, at many sensitive agencies. For example, we've since had another crisis at the IRS concerning the alleged targeting of certain political groups, and an even more massive upheaval at the VA over delayed care and falsified statistics. FEMA had a major crisis over its handling of Hurricane Katrina, as did the Securities and Exchange Commission (SEC) over questionable enforcement actions. The list is long. When the issues rise to the level of nonstop TV coverage, they can raise serious issues for the management of an agency, often revealing long-standing underlying problems that appointed political leaders and SES executives must confront and solve together.

In my case, I had my confirmation hearing to become IRS Commissioner 2 weeks after the incendiary Senate hearings. However, in the 5 months that preceded the hearing, while waiting to be confirmed, I did my best to prepare for the challenge by talking to as many people as possible who, unlike me, knew something about the IRS.

Almost universally, I was advised by people outside the IRS that my biggest and most insurmountable problem would be the stubborn resistance I would encounter from the entrenched internal leadership of the Agency. Unlike

most other agencies, at the IRS only the Commissioner and the General Counsel are political appointees. Everyone else in a leadership role is a senior career executive. So I was told that the principal source of the Agency's major problems, and the roadblock to solving them, was its SES cadre.

The myth and the reality of the IRS executive corps

The contrast between those comments and my conversations with IRS senior executives themselves was stark. True, some executives were in denial and blamed the critics for exaggerating the Agency's problems. But most of those I spoke with knew the IRS was in serious trouble and the problems were real. While their proposed solutions were not always clear or consistent, most knew that some big changes were needed, and they wanted to be part of the change. And I knew that there was no way on God's earth that we could execute any major improvements without the skills and institutional knowledge that these executives, most with literally a lifetime of service in the IRS, could bring to bear.

So the biggest thing I needed to do to succeed at leading the Agency to a better place was to find those IRS executives who could (and would) lead this massive transformational change. I also needed to recruit some executives from outside the Agency to obtain a mix of inside and outside perspectives. The situation didn't require a wholesale replacement of the Agency's corps of senior executives, as some observers were suggesting.

Over the course of the next 5 years, the IRS did transform almost every aspect of the Agency, all under the umbrella of what we chose to call "modernization" to provide a positive moniker for what we were doing. It was also an accurate moniker because in fact many of the problems confronting the IRS stemmed from its failure to adapt to new ways of doing business, including the Agency's failures to improve its information technology (IT) systems. In fact, those previous system failures were primarily caused by attempting to graft new technology onto obsolete business practices and organizational models. For example, the IRS was so fragmented into geographically stovepiped operating units, each with its own way of doing things and often with its own autonomous IT department, that no enterprise-wide systems could be deployed effectively.

In point of fact—and contrary to popular misconception—IRS career executives provided most of the leadership for this modernization program, which ultimately created a vastly different agency. We did supplement their leadership with a limited number of executives recruited from outside the IRS, including some from the private sector. We did this to provide some experience and skills that were not available internally, especially since much of what the IRS does is similar to work done in the private sector: auditing financial data, collecting money, answering phones. People who had spent their careers in large accounting firms and leading corporations could bring best practices to life in the IRS.

I don't have any reliable way of knowing the degree to which the antiquated structures and systems at the IRS were representative of those in other Federal agencies, nor do I have much current knowledge of how things have changed since I left the Agency (and government) after my 5-year term expired in 2002. But I can make some observations about what was good about the career members of the SES whom I saw in action at the IRS, as well as what was needed.

Notwithstanding the genuine problems that had accumulated at the IRS over many years, it was still remarkable just how much complicated and essential work this oft-criticized agency did every year. Considering that the Commissioner was one of only two political appointees in the entire IRS, and that this person was occupied with many external responsibilities, it fell heavily to the Agency's SES leadership to ensure all the essential jobs got done. And they did. It does not happen by accident that \$2 trillion per year is accurately and honestly collected from 175 million people and 6 million businesses. And this is done in the context of ever-changing tax laws and regulations, all of which are mind-numbingly complex.

The SES leadership of the IRS made this work happen through a combination of strong institutional knowledge, highly effective informal networks that overcame the lack of effective official communications, and, most importantly, the dedication of the Agency's senior executives, who were committed to doing the essential work everyone knew had to get done. In so doing, these leaders took smart risks to foster innovation.

Considering the vast scale of many Federal agencies, the rapid turnover and lengthy vacancies of many politically appointed positions, and the often confusing signals that come to an agency from Congress, other executive branch agencies, and outside groups, it is clear to me that the SES cadre—at the IRS and government-wide—shows great strength in somehow getting the most essential jobs done when it comes to managing existing programs. So whatever changes may come to the SES, it is paramount that this core capability—getting the practical, day-to-day, operational work of government done—be maintained. The government, and the nation, literally cannot function without it.

Evolutionary versus revolutionary change

However, developing and implementing new programs or modernizing (transforming) old ones is a different matter. While the IRS experience shows that senior career executives can be extraordinarily effective in leading major changes—even those that drastically transform or eliminate old ways of doing things—this does not happen automatically, nor do all senior executives function equally well in this role. For new or modernized programs to succeed, two elements are necessary.

First, there must be strong leadership from the political head of an agency to define, organize, and drive the change, particularly in the face of outside political obstacles. It is unrealistic to expect career executives, no matter how talented and dedicated, to initiate and lead major changes in large government programs on their own. This is perhaps obvious, but what may be less obvious is the second key element...that is, to find and select those extraordinary career executives who are able to work on the appointee's side of the table to help him or her drive the transformation.

At the IRS, we initially handpicked a small core of executives who seemed equipped and eager to step out and lead the change. Later—in a move that remains unprecedented—we redefined every one of our senior executive and senior manager positions (more than 1,000 of them altogether) to reflect the changes in structure and culture we wanted to effect. We then made incumbents and other eligible internal candidates actually recompetete for them so executives and managers could self-select themselves into (and in many cases out of) the new roles.

It has been my experience at the IRS and other organizations that people at all levels, including senior executives, broadly fall along a spectrum concerning proposed changes in their workplace: from diehards opposing any changes at all to those willing to embrace and lead change (research by Harvard University Kennedy School Professor Steve Kelman on how to change government also supports the idea that this spectrum of attitudes tends to exist in most organizations).⁷⁴

At one end, there are those who unequivocally oppose the change and cannot be persuaded otherwise. It is easy to underestimate how large this group is. Early on in the IRS modernization effort, a few executives tried to use their connections with staffers on Capitol Hill to get me fired on the grounds that I was gutting the ability of the Agency to enforce the tax laws. It didn't surprise me, and it didn't work.

In the middle, the largest group, are those who will wait and see. At the other end are those who welcome the change and have the skills to help lead it. Some of these executives may have already seen the need for transformational change and tried to do what they could to propose or effect it. Others may see it as an opportunity to advance themselves and are willing to take the risk to try. It is extremely important to correctly identify this group of change enablers, especially at the beginning of the transformation effort, and coopt them to help lead the effort.

In thinking about the SES of the future, I think it is important to try to develop as large a cadre as possible of senior career executives who have the attitudes

⁷⁴ Mader, D., Kelman, S., & Myers, J. (2014). *What it takes to change government: Successfully executing ambitious strategies*. McLean, VA: Booz Allen Hamilton. Retrieved from <http://mena.boozallen.com/content/dam/MENA/PDF/what-it-takes-to-change-government.pdf>

(like the courage to take risks) and the capacity to lead truly transformational change, especially in the midst of what may be an existential crisis for their agency. Realistically, even though all executives are supposed to have the capacity to “lead change” (according to the ECQs), not all executives have these characteristics. But having a reasonable fraction of senior career executives with transformational leadership capacity is very important. I think this distribution of attitudes and skills is normal in any executive group. It doesn’t imply a need for more than one SES, but it does imply that we need to develop some subset of career executives with these higher order capabilities.

Most likely, the best way to develop this capacity to lead transformational change in some reasonable fraction of senior career executives is to make it a significant part of the Leading Change criteria in selecting new executives—not just leading change, but leading change that is truly transformational. By the time someone is ready to be selected to the SES, they have either shown some initiative in doing so or not. Note that I think leaders can exhibit these characteristics at almost any level of responsibility. I would guess that probing this characteristic in the practical past experience of SES candidates would best help predict what they will do in the future.

Refreshing the senior executive corps with private sector experience

Finally, as to what is often lacking in the SES of today and needed in the SES of the future, I strongly believe it is actual experience with how things are done elsewhere, within but especially outside the Federal government, namely in the private sector. No matter how talented someone is and how much training and education they have, they are the product of their actual experience. For example, as I noted, most of the activities the IRS performs are very similar to activities done broadly in the private economy; yet, when I came to the Agency, almost none of its career executives had had any experience outside the IRS, much less outside government. Although there are differences, the similarities are very important. Having executives with experience in these activities elsewhere is extremely important in bringing *government* practice up to best practice.

I am aware that various programs have been tried to allow SES executives to rotate into private sector organizations for a tour of duty, but I don’t believe these have been very successful or very extensive to date. Concerns about conflicts of interest and possibly other factors have been barriers. If there are ways to overcome these barriers so senior executives could serve in meaningful roles in private organizations for a period of time, this would be extremely useful. Another approach, one that may be more practical, is to recruit some fraction of new SES candidates directly from the private sector. Notwithstanding pay differentials and other barriers, I believe this is entirely possible to do, and we were largely successful when we tried to do it at the IRS. My experience there indicated to me that there are a reasonable number of people with great credentials who would be interested in working in important roles

in the Federal government—either as a permanent career change or for a limited-term appointment—if for no other reason than to give back to the nation. For example, at the IRS we attracted people who had been senior partners in large accounting firms and senior executives in charge of customer service in the nation’s most successful large corporations.

In summary, I think the SES of today is an indispensable asset for the Federal government and for our country. The SES keeps the trains running in government, often overcoming remarkable challenges to do so. Whatever we do, we have to maintain this capacity. At the same time, the SES can be made better by finding ways to both appoint more people with the skills and attitudes necessary to lead large-scale, transformational change and attract people with meaningful private sector experience into the SES.

Political appointees accepting leadership positions in agencies will do well to get to know their senior executives and determine how to tap their potential to help define and lead the major changes that are necessary in every agency. I believe this is an indispensable ingredient for the success of every political appointee and essential to the long-term effectiveness of the Federal government.