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Managing Change: Reflections on Innovation in the Public Sector

Ira A. Jackson and Jane P. O'Hern

In January 1983, when Governor Michael S. Dukakis appointed Ira Jackson as commissioner of revenue, the Commonwealth of Massachusetts was facing an estimated \$300 million deficit. The state was also suffering from a severe loss of public confidence in the integrity of its tax administration. His first and most urgent priority being the restoration of that confidence, Commissioner Jackson implemented a three-part strategy to improve voluntary compliance with the tax laws: raising the stakes for evaders, treating honest taxpayers as customers rather than victims, and changing public attitudes about tax evasion. Productivity gains and innovative procedures at the Department of Revenue are illustrative of this plan's success: the dollar value of audits conducted and delinquent taxes collected has tripled; a visible and vigorous seizure and criminal prosecution program has been instituted; and a highly effective tax amnesty program that generated \$86 million has been completed. Since Jackson's appointment, annual revenue collections overall have risen 60 percent, without any broad-based tax increases. This article tells the story of change at the Department of Revenue and suggests generic principles that may be inferred from the experience.

The country needs and . . . the country demands bold, persistent experimentation. It is common sense to take a method and try it: If it fails, admit it frankly and try another. But above all, try something.

—Franklin Delano Roosevelt

Public-sector managers struggle with a unique set of challenges. Especially in large agencies, they are frequently confronted with entrenchment, information mongering, poor employee morale (with few meaningful and tangible opportunities to improve it), and a sometimes perverse set of external incentives that reward crisis (at least with attention), engender mediocrity, and hinder excellence. Just as often, the mission of the agency is unclear, which makes successful accomplishments difficult, if not impossible, to discern. Most of the organization is involved in routine tasks which vary little day in and day out, which haven't

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been altered substantially this side of the twentieth century, and which may have long ceased truly to serve the public.

This is the story of one public agency, the Massachusetts Department of Revenue (DOR), whose dramatic problems provided an opportunity for equally dramatic change—with tangible and measurable results. The story is intended to provide a backdrop for a few reflections about what has worked and a few confessions about what hasn't. Although the jury is still out on the long-term implications of the changes that have taken place, experience so far may provide food for thought or fodder for debate. At the very least, it will offer a firsthand perspective on risk taking and substantial organizational change.

Welcome to the Department of Revenue

In January of 1983, the employees of DOR were just past a traumatic election campaign in which public perception of corruption in the agency had become a central issue. A high-level and much revered deputy had committed suicide, and several employees had been indicted. The incumbent governor was defeated by Michael S. Dukakis, who announced, as his first postelection action, the appointment of a blue-ribbon commission whose task was to thoroughly analyze the entire range of DOR operations and to make recommendations for change.¹

Allegations of misconduct, alas, are not uncommon with respect to tax agencies. Even the Internal Revenue Service, now renowned for its integrity, was the target of a major corruption investigation in the 1950s.² In agencies responsible for the collection of massive amounts of revenue—DOR collects about \$7 billion annually, or \$30 million a day—there is a great deal of discretion for staff in administrative functions and, consequently, inherent opportunity for wrongdoing. Yet as recently as 1983, no meaningful internal guidelines and procedures were in place at DOR to ensure the integrity of employees. Also lacking were routine mechanisms such as annual tax-filing checks on employees or criminal background checks prior to hiring to guarantee the most basic standards of conduct. As a result, allegations were difficult to dispute; and the lack of internal controls made the agency extremely vulnerable to charges of corruption. Whether such charges were founded in reality was almost beside the point; little hard evidence could be offered to the contrary. A serious crisis of public confidence in the integrity of DOR had developed—and had to be urgently addressed.

One obvious result of all this was a highly demoralized work force. Even the most insulated employee was affected by the public perception of corruption and misconduct. Back in January 1983, DOR workers reported that it was an average occurrence for them to encounter cynical comments or at least to imagine they were the recipients of insults from neighbors when shopping at the local store. "Help give us back our pride," was the oft-heard refrain of many career employees when they were asked what could be done to help them.

The consequences of public perception of misconduct went beyond severely impaired employee morale. In a tax department, the vast bulk of collections is dependent upon the citizenry's willingness to comply voluntarily with the law. In fact, the collection of taxes is the one function of government which both financially and intimately affects each and every adult citizen each and every year. A good case could be made for the thesis that the competence, honesty, and fairness with which a government taxes its citizens is a fundamental measure of the

degree to which it upholds the public trust, and it follows that the public is not likely to be honest in its financial declarations or tax payments if the agency that handles those transactions is itself perceived to be exploiting taxpayer dollars.

It wasn't surprising, then, in 1983, that revenue collections in Massachusetts hadn't kept pace for four years running with the growth in the state's personal income. In two of those years, revenue growth had not even kept pace with inflation. Clearly, ever larger amounts of tax payments were being evaded annually by people who either didn't take the system seriously or were cynical about just who would get to use any tax dollars they did pay, or both.

Added to this were predictions that the Commonwealth was embarking upon hard times, with a \$300 million revenue shortfall forecast for the fiscal year as we entered its final half in January of 1983. It all indicated either an opportunity to build internal and external constituencies for change or—to pessimistically inclined minds—a fast track to disaster.

What to Do?

A few days into the month of January 1983, Governor Dukakis appointed as commissioner of revenue a man who was leaving behind a reasonably challenging yet certainly more rational job as associate dean of the John F. Kennedy School of Government at Harvard. A commissioner who didn't belong to the Bar and who had literally no formal tax training was unheard of in the Commonwealth. The appointment was precedent setting and carried political risk for the governor. The opinions of the new commissioner's Harvard associates ran a common course: some argued that it was a no-win job, others that it was too routine and bureaucratic, with little or no room for innovation or policy impact.

In fact, DOR in January of 1983 presented a wide range of opportunities. Given the events of the time, it was poised for radical organizational change; and because of fiscal pressures, the potential for developing external allies was there. All that was required was the conviction that most people—in this case, the two thousand employees of DOR—want to do, and will do, a good job if management provides them with the strategy, resources, and power to get it done.

Working from the Outside In

Most public managers focus on what they believe they can control—hiring, firing (not much firing in a union/civil service environment), organizational structure, and internal performance targets. Owing to the nature of the tax business and to the crisis of public confidence, taking steps to alter the outside world's view of the department seemed an equally important key to positive change in the first months of 1983.

It began with the Governor's Advisory Task Force on the Department of Revenue, the blue-ribbon commission appointed by Governor Dukakis and chaired by Professor Paul McDaniel, a noted tax authority at Boston College Law School. There was every likelihood that the relationship between the McDaniel Commission (the alternative name for the task force) and DOR management would be strained. Certainly some internal forces would have preferred the final outcome to be an innocuous document that would collect dust in the statehouse library,

as so many previous task force reports had; others on the inside feared that the task force would further denigrate DOR by exposing systemic failings and justifying the previous allegations of individual wrongdoing.

We took a different approach to the commission.³ We supported and encouraged its presence and worked to broaden its staffing so that pro bono participants from some of the most well-known accounting firms would be included. We then considered the commission the equivalent of our own, even if independent, high-priced consultants and placed our confidence in it to diagnose and articulate our problems and prescribe their solutions.

Six months later, the task force did just that. Its final report was a fifty-six-point agenda for making changes over a five-year period.⁴ This report became our own version of a business plan—one that we hoped would channel our energies and that we expected to be held accountable for pursuing. We also hoped our own version of venture capitalists in the public sector—the governor, the legislature, the media, fiscal watchdog groups, leadership councils, and others—would invest in the plan because of the dramatic return that was forecast if resources were committed and changes were made.

The process for compiling the report was key: task force members were given open access to DOR, and high-level managers took the opportunity to volunteer suggestions for improvements. The report became a bible for change at DOR and was distributed widely to the legislature, the governor's office, area business groups, and virtually anyone who expressed an interest in positive change at DOR. It became the vehicle for building the popular support required for some of the legislative alterations and for obtaining the necessary appropriations.

Long before the appearance of the final report, we had used the task force process to help develop a legislative package of changes that would assist DOR in administering and enforcing the tax laws and that would be responsive to the governor's desire to crack down more effectively on tax evaders and delinquents, thereby eliminating the need for either tax rate increases or draconian budget cuts. We organized a brainstorming session to bring forth a host of sundry ideas, the "what if we could" notions that had been incubating at DOR for years. Some of these ideas, in fact, had been incorporated in previous DOR legislative packages that had simply not gotten the top-level support they deserved.⁵ Other ideas were more "blue sky," but all of them were the result of a quick but concentrated collaboration between the old-timers and the newcomers, and the results were suggestive of how a working partnership between these two groups could yield synergistic results greater than the proverbial sum of the parts. Dan Breen, the state's veteran revenue estimator—a wise craftsman with decades of experience in the business—chaired the brainstorming group, and Nick Metaxas, general counsel to the commissioner and the most skilled legislative draftsman in state government, translated the ideas into legislation.

We presented the final product—an omnibus 101-section bill—to the governor and his secretary of administration and finance, Frank Keefe. It was accompanied by a request for a supplemental budget that would substantially increase our auditing staff as well as resources for computers. We called the overall package the Governor's Revenue Enforcement and Protection Program—REAP, for short—and gave our best estimate of the additional revenue it would allow us to bring in for the Commonwealth.

To our great good fortune, executive support from the highest level was never in question. The governor himself submitted our proposal and request to the legislature. He steadfastly backed our ambitious revenue commitment in the face of countless cynics, and Secretary Keefe was also a courageous believer from the outset.⁶

Among the provisions of REAP were tax law changes ranging from the remedial to the radical. In the latter category, REAP gave us the authority to revoke the business and professional licenses of over a million individuals and corporate taxpayers if they failed to meet their state tax obligations. A similar provision allowed the nonrenewal of any of the \$2 billion worth of state and local contracts with 225,000 vendors for the same failing. On the remedial side, tax evasion became a felony in Massachusetts, with sharply increased penalties attached. In the past it had been only a misdemeanor—and one that the courts did not take seriously. Interest on delinquent accounts would rise to 18 percent; we were authorized to contract with private collection agencies; and a provisional tax amnesty was authorized (a friendly legislative amendment, incidentally, that the administration was happy to embrace).

Because of the predicted \$300 million revenue shortfall facing the Commonwealth, it occurred to us that many public interest groups—to whom the funding of programs was of vital importance—had a stake in our successfully collecting revenue that was due but not paid. Human services advocates had to choose between witnessing painful budget cuts to their programs and joining the bandwagon. And the legislature saw the potential to avoid difficult program-cut or tax-hike decisions by going for a promised \$10 to \$1 return on a DOR budget investment.

Still, most people—both in government and in the public—were unconvinced in the absence of evidence to the contrary that investing additional resources in DOR would not be sending good money after bad. And the public, in particular, was wary of additional authority being placed in the hands of employees whose integrity it found suspect.

So we began with the most basic programs to restore public confidence. First, we conducted tax and criminal record checks of existing employees and put a system in place to ensure that those checks would be made in advance on new hires. What we found was reassuring almost without exception. We also moved quickly and publicly to discipline that small fraction of our employees who had not met the threshold tests of integrity. In a few unfortunate cases, employees were terminated.

More substantive assurances of integrity were delivered with the creation of a Division of Inspectional Services, modeled after a similar function at the IRS. Here we established two new bureaus to protect employees from external corruption and to audit the integrity of internal accounting systems on an ongoing, in-depth basis. In charge of the division was Tom Herman, first deputy commissioner, who had left the law firm of Hale and Dorr to become central partner and “number two” at DOR in January. He worked with the task force to assess the integrity needs of DOR and recruited the right managers and staff to implement the new functions.

At the same time, we elevated the importance of the personnel function in the department and created a new Division of Human Resources Management. Tom

Fitzpatrick, with a strong private-sector consulting background in the field, was recruited as the first deputy commissioner for human resources. He began to build a formal Training Bureau where there had been none, as well as an Affirmative Action office and support functions to provide employees with the tools they needed to do their job professionally.

In the course of these actions, we spread the story to anyone who would listen while also looking hard for opportunities to bring our enforcement efforts to the attention of the public. The great majority of tax law enforcement is conducted under the veil of confidentiality, but some provisions enabled us to pursue evaders in broad daylight and to encourage the media to report on what we were doing.

The law allowed us to publish the names of all tax delinquents who owed over \$5000, and we did so, with full coverage of the lists in local papers. Seizure of the property of egregious delinquents was another existing enforcement option that the department had rarely utilized. We began employing this tool, with a special emphasis on businesses that collected "trustee taxes," such as sales and withholding taxes, and then failed to turn the money over to the state. We also conducted a special project to locate boats whose owners, through sophisticated corporate arrangements, had avoided paying the sales or use tax. Ten of the owners who didn't take notices to pay seriously had their yachts seized in the summer of 1983.

Finally, as these tougher new laws were enacted, we offered a last window of opportunity for both tax delinquents and outright evaders: an amnesty period, during which criminal immunity was promised and civil penalties were waived. Over \$86 million and fifty-two thousand forgiven taxpayers later, we had exceeded by four times the revenue estimates of the department's wildest optimists. With the amnesty and other enforcement initiatives, we also collected far more than the original revenue estimates for the entire REAP program.

Best of all, the public was beginning to view DOR in a different light. People appreciated stirring examples of selected, symbolic actions against flagrant evaders. A sense of justice was awakened. The public began to understand that the enemy was not the tax collector but the tax evader, that the majority was being cheated by a minority, and that tax evasion was not a harmless and socially acceptable quirk but a serious crime. To emphasize the last point, a prior study on tax evasion in Massachusetts was updated, improved with research from other states, then widely publicized.⁷ The study's new evasion total of \$640 million annually—12 percent of collections at the time—was probably conservative, but it was still a shocker. It certainly provided a fiscal incentive to support DOR initiatives. In a series of contemporaneous actions, we published our tax evasion estimate, made public the list of delinquents, and stepped up our seizure program. These initiatives worked to overcome legislative inertia and convinced unlikely allies to back us.

Riding the White Horse

The McDaniel Commission confirmed a growing conviction that the first and foremost item on the DOR agenda should be changing the public's perception of the agency's integrity, or lack thereof. First off, under Tom Herman's leadership,

we altered the realities of integrity controls and systems. We publicized as widely as possible both the new systems and the high caliber of the new managers recruited to direct them. We also moved to build a constituency within the public sector to work in partnership with DOR against tax evasion. But at the same time, internal measures were required to ensure that public mistrust was not based on reality.

Three considerations guided initial management actions to ensure internal integrity.

First, like many large public agencies, DOR is a bureaucratic factory. Nearly two thousand people show up for work every day in fifteen locations in the state and five other locations around the country that provide audit coverage of larger, multinational corporations with offices in Massachusetts. Some 20 million financial transactions occur annually; our computer runs twenty-four hours a day. Several thousand taxpayers call or walk in daily, expecting to receive assistance—thousands more in the peak filing season. Obviously, the new commissioner did not have the option of calling a halt to all activity and personally reviewing the deposit of every check or the conduct of every audit.

Second, much of the routine work at DOR was conducted without the benefit of explicit procedures. Work routines were basically idiosyncratic and somewhat tailored to fit individuals' or specific managers' styles. There were no generic mechanisms that could be placed on automatic pilot while spring housecleaning took place at DOR. Even if a massive purge of top management had been indicated, it would have been impossible to enact.

Finally, as noted before, the agency as a whole was demoralized and traumatized at the start, in January 1983. A positive message from the top was imperative to encourage the honest employees who, in the face of blanket indictments against DOR, had been giving their all to their not particularly exciting or well-compensated jobs.

Our filing and background checks had shown that all but a tiny fraction of employees had been faithful in meeting their tax obligations. A slightly larger number had past criminal records, and employees who had lied about those records or who had committed past offenses that might compromise their Department of Revenue duties were discharged. The new Inspectional Services function provided the capacity to move beyond basic character checks to thorough investigations of specific allegations. The goal was to create an "integrity presence" throughout the agency. In brief, we came to view our key internal management challenges as (1) the setting of a tone and a context which would allow the bulk of honest employees to make their best contribution to the agency from a position of pride, and (2) the provision of protection against those few corruptors from within who might otherwise try to drag their honest coworkers down.

The troops needed positive messages, and they got them. Every employee received a letter soon after January 1983 with assurances that the new commissioner was aware and supportive of staff efforts. Visits by the commissioner to various areas of the organization and talks with employees about their concerns and suggestions became a daily routine. In many areas and offices, employees reported that no commissioner had ever visited before. With additional funding we began to improve working environments. The first efforts were marginal—the addition of a water cooler here, a new filing cabinet or fan there, and new and

more comfortable chairs for the several hundred employees who prescreen and sort income tax returns. In time, the physical improvement involved the renovation of whole areas and the relocation of many crowded offices to new, more spacious, and thoroughly professional quarters.

On the other hand, previously rubber-stamped appointments, contracts, and recommendations were sent back for analysis and explanation, and top managers with substantial authority were held to the highest possible standards of performance. New rules were established for the massive bulk of correspondence written directly by taxpayers to the commissioner. Managers had to have a response prepared for the commissioner's signature rather than merely pass off—or potentially bury—the problem. This gave the commissioner an opportunity to identify systemic problems that taxpayers were encountering and assess the quality of DOR's communication with the public. Frequently, letters were returned for re-drafting, and, more often than not, a revised version arrived on the manager's desk from the commissioner's office to provide an example of more responsive communication. We also instituted an internal management vehicle known around the agency as the "Sunday night memo." A remarkably effective communication sent directly to managers, it was written by the commissioner as he caught up with paperwork and met with staff every Sunday evening.

These sorts of expectations and interventions were new to veteran DOR managers, and the organization was not universally structured to provide anything close to the required level of responsiveness. Virtually no layer of middle management existed between bureau chiefs and their troops (with sometimes more than a hundred employees reporting to a single manager). Tom Fitzpatrick developed a bold strategy for "empowering" career employees through promotions and attracting young talent from the outside. Using our supplemental budget appropriations, and with the support of the task force recommendations behind us, he doubled the number of managers in the agency and created a new level of non-unionized "deputy bureau chiefs" in the major bureaus.

Some of the new positions created new functions and were filled with outside talent. For fully half of the new positions, however, we promoted internally, identifying young and not-so-young talent and competence within each functional area. For many individuals so promoted, it was as if we had unlocked a cage. Employees who knew what the problems were but had not previously been able to tackle them directly were suddenly given the authority to take responsibility for solutions. Scores of employees at the next lower level were inspired to work harder, now that the number of rungs on the DOR career ladder had been doubled and risk taking was finally being rewarded with record-fast promotions to positions of authority and responsibility. Senior management meetings with the commissioner were held every six weeks to ensure communication from the bottom up and the top down.

The organizational purpose of some public-sector agencies has at times become hazy and ambiguous, but within a very brief period, DOR's mission had become quite clear: to collect the taxes due the Commonwealth as firmly, efficiently, and professionally as possible. Quality is typically difficult to measure in agencies that employ large numbers of people to serve the public interest, but countless bottom-line indicators existed at DOR to judge performance. Many of these indicators had never been fully developed or utilized, oddly enough, and

employees' sense of organizational purpose was not nearly as clear as it should have been.

Over time we articulated that mission in simple, understandable terms: honest, fair, and firm administration of the tax laws. We took every opportunity to disseminate that corporate value statement among employees. Staff in the commissioner's office compiled all existing performance data, and managers received graphs accompanied by probing questions or deserved acknowledgements regarding key performance indicators. Microcomputers were procured and training was provided. Also, increasingly sophisticated management-reporting systems were developed for and by operations managers.

With these supports established at least in their preliminary stages, we began a headlong push for change at DOR. The task force had set a long agenda, and we added to that list. A wide range of initiatives and internal improvements were undertaken. The story of two of them may provide some real life examples of change at DOR.

Amnesty

You might as well fall flat on your face as lean over too far backward.

—James Thurber

When the REAP legislative package was put together, the notion of an amnesty—a limited period of time for delinquents and nonfilers to come in, come clear, and avoid both criminal prosecution and penalty charges—was discussed and discarded. Later on in the legislative process, an amnesty period was added to the bill—with little objection but equally little enthusiasm from mainstream DOR.

The idea had been tried before in several states but had met with real success only in Arizona. There the amnesty was tied to a campaign to heighten public awareness of tough new enforcement laws and the costs of tax evasion. In point of fact, no one is ever prosecuted for voluntary disclosure of owed taxes. Criminal cases require a hefty test of willfulness, which cannot be established when a taxpayer is voluntarily complying. Penalty charges are imposed mainly as an incentive to get taxpayers in the door to pay; they are frequently abated if a taxpayer can show just cause or a reasonable excuse. Given these precedents and the fact that the Massachusetts amnesty program would be mandating the payment of a great deal of interest, accrued over all the years the taxes were owed, the idea seemed worth a try—delinquent taxpayers would be spared penalty charges as well as the threat of prosecution but would not be let off the hook for the taxes and interest that they owed.

The official estimate for revenue from the program was \$5 million, with the wildest DOR optimists going out on a limb to predict \$20 million. We were concerned that we would “offer an amnesty” to which no one would come!

Other measures to collect this revenue had been initiated prior to the amnesty. A program of stepped-up seizures against major delinquents had been instituted in the spring of 1983. After that we had begun planning for an even broader civil and criminal enforcement effort. We also developed procedures to run the amnesty program. The statute required that it be held for three months sometime during FY 1984 but left it up to us to determine the actual period. With just one

day's public notice—having made a major effort to impress upon the public our new and tougher approach—we launched the amnesty program on October 17, 1983.

The nuts and bolts management of the Massachusetts amnesty is hardly a story for the textbooks. Because the program was completely new—and because we completely underestimated the public response to it—we established initial procedures for thorough case research which were probably too stringent. We placed the responsibility for running the program in our Enforcement Division and staffed the effort with collectors who had been trained to pursue those who owed us taxes. The collectors knew how to bring in money, but they were not accustomed to providing thorough taxpayer assistance for individuals coming in to file ten years' worth of returns. As a group of employees driven by the bottom line, these folks probably were not the best equipped to guide the program.

In the meantime, we sent hundreds of thousands of notices to taxpayers—individuals and businesses—that we knew were delinquent or that we suspected were nonfilers on the basis of computerized matches with the Internal Revenue Service. The response was overwhelming. On the last day alone of the amnesty, 30,000 taxpayers contacted us, and 10,800 of them walked through the doors of our Boston office to settle up. A long-time veteran of DOR called it “the Boston tea party in reverse.” During the program, countless taxpayers told us that they felt as though a great weight had been lifted from them; they'd gotten into bad tax habits during hard times, they said, and later, when times had improved, they had been afraid to report their income accurately because of inconsistencies in prior years.

Perhaps the best explanation for the success of amnesty programs is a combination of fear, guilt, and gratitude on the part of taxpayers. A sociologist would have a field day analyzing the phenomenon. The success of our program sparked other programs in many states, and several states—notably California, New York, and Illinois—met with success that was equal to or greater than ours. There is something about a second chance that deeply appeals to people. A modicum of common sense and generosity—plus a puckish enthusiasm—is also welcome relief, it seems, from the monotony of bland government and business as usual.

From a management perspective, the most remarkable thing about the amnesty program was its impact on DOR employees. By the time we had collected \$86 million and had handled 120,000 taxpayer contacts, virtually the entire professional staff of the department had become involved. So for starters, it was an initiative that included everyone. Unlike most of the routine work, which had long been separated by function and divvied up into pieces that each bureau owned, the amnesty was everybody's. It was impossible to figure out where to pass the bureaucratic buck if something needed to be done. Obviously, this approach would be inappropriate for the management of ongoing operations, and inevitably, strict project management and delegation of authority were resumed in the aftermath of the amnesty. However, for a few brief and still shining moments, employees were empowered to look around, see what had to be done, and make sure it happened.

More important was the reaction of taxpayers in general and the interaction between DOR and amnesty applicants. Here was a state agency—one that no one

had previously held in very high regard—showing a little compassion and a good measure of common sense. On the last night of the amnesty, we served coffee in the lobby of the department's main building downtown. The atmosphere was a mix of frantic and festive. Because of the remarkable response, the windup of the program received wide coverage from local and even national network news media. In time it became a cause célèbre nationally; even President Reagan acknowledged awareness of the Massachusetts tax amnesty when he was questioned about the concept at a meeting with the nation's governors in Washington.⁸ Where DOR employees had previously avoided inquiries about their jobs, they now found themselves celebrities of the white-hat variety. For individuals who even under the best of circumstances tend to be razed for their profession, it was, to say the least, a rare moment—a happy antidote to the poisoned atmosphere of the not-so-distant past.

The amnesty was not part of any conscious, long-range strategy for morale and team building. It turned into that almost accidentally, and as it evolved, we saw its full worth as an example of what is possible. In a way, it became a foundation for future efforts.

SERVE '85

Next to being shot at and missed, nothing is quite as satisfying as an income tax refund.

—F. J. Raymond

When those of us who are parents draw upon whatever behavioral psychology we have absorbed, we discover that the most effective way to encourage a certain behavior is to reinforce it positively. Unfortunately, almost despite ourselves, we seem to spend most of our time negatively reinforcing the behavior we're trying to eliminate.

It occurred to us in the first few months of 1983 that DOR might similarly have the emphasis on the wrong syllable. Our enforcement programs had improved dramatically. We were making tough decisions and, we hoped, inspiring a little righteous indignation among honest taxpayers in the Commonwealth. We were hammering hard against evaders and delinquents. But meanwhile, we weren't doing much to help the vast majority of those honest taxpayers comply with our laws. And in a system built upon voluntary compliance, it seemed to us that rewarding and reinforcing good behavior was at least as important as getting tough with the bad guys.

The tax forms were incomprehensible (the resident income tax form in use for the previous twenty years won an editorial cartoon award around Oscar time in 1983 for the Best Script in a Foreign Language). Besides being unintelligible, tax forms were often inaccessible. There were very few distribution points around the state. For people who had questions, it was virtually impossible to get through to DOR by phone during the filing season, because the system couldn't handle the volume. At the end of the line, in late July, we generally got around to issuing the last refund checks to taxpayers who had filed on April 15—a wait of twelve to fourteen weeks.

All of these obstacles created disincentives to voluntary compliance for some

2.6 million individuals and families who weren't too thrilled about filing their income taxes to begin with. To the 1.8 million filers who were due a refund, it all added up to more evidence that state government was inefficient, unprofessional, uncompetitive, and oblivious of their needs and concerns. It was almost as though DOR were mimicking big government grown bloated and unchecked: here we were, holding on to \$300 million in overwithheld tax revenues, money that was earning interest for government in the state's coffers instead of being put back into the pockets of taxpayers, where it rightfully belonged.

This was an obvious target for managerial improvement, and we crystallized the concept with a goal: to treat taxpayers as valued customers rather than as victims of an uncaring state bureaucracy. We had developed the "stick" through the use of new REAP powers, such as license revocation and felony convictions, and through more vigorous and visible use of such existing powers as liens, levies, and seizures. All of this was meant to deter evaders and delinquents. And we had appealed to the public "conscience"—through the use of public service announcements and frequent speeches and press conferences, each of which underscored the theme that tax evasion is not a victimless crime—that besides being a violation of the law, it has moral and social consequences.

But now, with an effort designed to reward and reinforce good behavior, we had stumbled upon the third component of a more balanced strategy that combined the stick—the conscience—with the carrot.

We started in the spring of 1983 with the development of a user-friendly income tax form for the majority of taxpayers, who had straightforward and simple income to report, and the product was so easy to use that we labeled it Form ABC. The following year we took a deep breath and tackled our comprehensive and thus far more complicated tax form—the one that had received the editorial award the year before.

The forms had become very complicated in Massachusetts primarily because we have a pretty complicated law, with two rate structures and a variety of provisions that differ from federal tax law. We used the team mechanism to clarify definitions and requirements and to write them in English. Representatives from almost every area of DOR worked on initial revisions, and policy issues were formally settled by a group of senior managers led by the commissioner. Every manager in the organization was asked to review and comment upon drafts before the final copy was sent to the printer.

There is an action-pressing deadline for the production of tax forms: if they aren't ready by January, the consequences are very serious. Using the time frame to push for closure and confront decisions that should have been made much sooner, we got it almost right in January of 1985: tax forms were on the street and in people's mailboxes soon after the New Year. Having discovered the previous year that the availability of forms was not guaranteed even in our own ten district offices around the state, we expanded our distribution (or "marketing") network to include over a thousand post offices, banks, city and town halls, libraries, and IRS offices around Massachusetts.

Our newly revised tax forms employed color and graphics to guide the taxpayer, provided helpful examples for complicated calculations, and even included a page showing how tax dollars are spent. Right on the cover was a pledge from the commissioner to a four-week turnaround for refunds filed early.

Many moving pieces are involved in the refund-processing operation. Almost six hundred workers—half of them seasonal—pick up the mail, open envelopes, sort returns, key information, and correct mathematical errors. Another twenty professionals design processing programs and operate the computer, which in turn batches keyed data in the wee hours of the night and spits out checks on a weekly basis. Coordinated efforts are crucial. If one area doesn't deliver, the system reverberates from the effects for weeks.

We were fortunate in that we had some strong management in key areas and a reasonably loyal seasonal work force, most of whose members returned year after year. Yet we hardly had the kind of state-of-the-art equipment one would expect to find in such a high volume-processing operation, here in the high-tech capital of America. And our data entry operators, while hardworking, had never before been given a purpose beyond completion of the work directly in front of them—or any feedback on how well they were meeting targets assigned by management. With regard to turnaround time for refunds, we had no hard evidence concerning prior performance; but having made the pledge right on the tax forms, to some 3 million households, our mission was clear.

We began by developing a database that would allow us to track the inventory of refund returns. We also used a project management model that subsequently has worked well for a number of priority tasks. We pulled together managers from all the affected areas—from form procurement and distribution to taxpayer assistance and actual processing, and we met every week in the commissioner's office to review performance, resolve any problems still standing in the way, and discuss resource allocation. A new telephone system that monitored incoming calls, call-waiting time, and call-abandonment rates brought bad news: more taxpayers were hanging up than getting through. That information was used to improve distribution of staff and to call in reinforcements from other areas of the department.

At the end of the 1985 filing season we had delivered on our four-week turnaround pledge—with room to spare. We nominated a group of over five hundred DOR workers—including the steering committee managers but largely comprised of clerical employees—for a special statewide performance-recognition award. They won it in a stiff competition, and it was presented by Governor Dukakis at an evening ceremony in a packed hotel ballroom. We called the group SERVE '85—Speedy Efficient Refunds Very Early. A few weeks later we had our own celebration, with a twelve-foot cake in the shape of a refund check. It was served to the seasonal employees and others—our unsung heroes and heroines—who had helped make our ambitious target a reality.

Interestingly, relentless hard driving was not the management technique that produced that success. The workers themselves were the toughest enforcers of weekly processing targets. Data entry operators hounded mail openers for more work. Instead of being thrilled at the prospect of having a few hours off, workers expressed consternation on the rare occasions that the computer was down.

High employee morale also did more to evoke an enthusiastic public response than did internal management. For the first time, seasonal data entry operators and workers who prepare returns for processing had been given a purpose and a mission, had been told about the results they had achieved, and had been thanked by their neighbors for an unbelievably fast refund. Instead of seeing

themselves only as part-time workers in some state bureaucracy, workers were helped to see the big picture, including the relationship between their efforts and the welcome checks that arrived in record-fast time in 1.8 million mailboxes throughout the Commonwealth.

The positive feedback was not limited to neighborly praise. When the filing season was completed, we noticed that income tax returns had increased substantially, above and beyond what we might have expected from growth in statewide employment or population. Most of the growth was in returns with payments—another reflection of a most heartening and financially beneficial increase in voluntary compliance with the tax laws.

Our 1986 refund turnaround target was three weeks, and we ended the SERVE '86 season with an average turnaround of just a day and a half over two weeks.

Generalizing from the Specific

Three and a half years ago, the Department of Revenue was an agency in turmoil and public disgrace. This year, record revenue collections have permitted a compassionate state budget and the largest tax cut in the history of the Commonwealth. A significant portion of the increased revenues over the past three years—fully a billion dollars—cannot be explained by the economy or even by increased enforcement efforts. Analysis of economic factors, controlled for enforcement revenues and cash flow considerations, showed that this portion of the overall increase was due to improved voluntary compliance: more and more people and businesses paying on time and in full before they were billed, audited, or pursued. This change in market behavior was produced by the people of DOR, who have been acclaimed by the governor for providing a model that could be followed at the federal level for deficit reduction.

Nothing terribly mysterious happened at DOR in the past three years. Employees were simply reinforced by more adequate resources, given a new context for their work, and provided with opportunities for recognition when their work was well done.

Much remains to be done. We are perhaps at the twenty-mile mark of this particular twenty-six-mile marathon. Most of the lessons we learned are transferable to almost any public-sector environment, but six themes follow that seem to have pertained in the DOR context. Most of them are almost painfully obvious, but, as Yogi Berra once said, "You can see a lot of things by just looking."

- *Articulate a common purpose.*

As necessary as this may seem, it is done all too infrequently in the public sector. In fact, we did not walk into the Department of Revenue prepared with this insight, and the process of developing the corporate value of honest, fair, and firm administration of the tax laws took shape over time. At the beginning, the linkage between the actions of one bureau and those of another, in pursuit of a common goal, was not at all manifest.

The lack of a common purpose was nowhere more apparent than in the Division of Local Services. Made up of several hundred employees, this division is responsible for monitoring the fiscal practices of the Commonwealth's 351 cities and towns; for providing administrative oversight for local property tax collec-

tions; and for distributing almost \$3 billion in local aid annually. In the 1980s, with Proposition 2½ mandating reductions in local spending and with full and fair valuation of property, these responsibilities became increasingly important, and ambitious new programs were undertaken to provide technical assistance for city management of scarce resources as well as automated support for analysis and property valuation. The accomplishments of the Division of Local Services have been significant in the past several years, but rarely were its employees and mission incorporated into the main, tax-collecting portion of DOR. Rather, it was often characterized, only half humorously, as the non-revenue-producing section of the agency, and in its own perception it was the last unit to be allotted resources and the first to have its budget cut. The new DOR corporate value gave Local Services a chance to be part of the family—taxpayers were being treated as if they were customers, and Local Services was helping cities and towns to help themselves.

At its best, a mission statement—one that goes beyond the description of function to become a definition of purpose—sets a context for the actions of all employees and gives value and meaning to otherwise routine tasks. It provides a simple and common goal, whether for an auditor trying to bring in dollars or a data entry operator cranking out refunds or a staff person certifying the tax rate of a local community. It supplies the public, which pays our salaries, with a clear and concise statement as to who we are and what we do. It is a benchmark for decisions that need to be made daily. It's also a value statement that carries pride and implies responsibility. It allows an employee to go home after even the worst day at work feeling that he or she has done more good than harm in the world that day. Finally, it sets a context for future improvements and even greater aspirations.

- *Harness public passions.*

Every public manager faces a wide range of opportunities in this area—many of which are not immediately apparent. Especially in a tax department, it is very easy to think of the public as an adversary rather than as an interested partner and potential ally. We looked for ways to develop advocate relationships with groups as unrelated as tax practitioners and human services advocates. With the former, linkage and partnership possibilities are conspicuous; but with the latter, it takes some doing to demonstrate that more revenue collections can fund needed services.

Of course, the crisis of public confidence gave us an obvious public passion to ride. But just as the Rogers Commission provided NASA with the opportunity to go well beyond recriminations over the Challenger disaster, so the task force presented us with the chance to seize opportunities from the jaws of adversity. We made use of the cyclical nature of public sentiments in a democracy by acknowledging public concerns and then harnessing them to assist us with the rest of our agency mission—obtaining tougher laws, more funding, and all the rest.

To accomplish this goal, we developed an aggressive communications strategy. Our reasoning was that public attitudes would have to change before private behavior could. We likened tax evasion to drunken driving—another “everybody does it” type of crime for which the costs are very grave. And we made every effort to put our story into English, not just on the tax forms but in press re-

leases and publications and special reports. This is a challenge for any agency in the public sector. Particularly in a tax department, what needs to be said is often cloaked in legal jargon and bureaucratise. Communicating—with clarity, precision, and even imagery—became a vital tool in our effort to change public attitudes and get people to care about what we were doing.

As we clearly saw, an internal mission that benefits the public and strong support *from* the public turn out to be mutually perpetuating. As employees frame their actions according to a defined mission in the public interest, public response is likely to become increasingly favorable. Then, as the public perception improves, employees realize that the price for feeling good about their work is accountability for their actions and their performance.

- ***Put your money where your mouth is.***

In this area, the most critical external constituency for DOR was Governor Dukakis. Without his initial support and the subsequent support of the legislature, we wouldn't have received increased statutory authority or additional appropriations for new employees and computer support.

Also crucial was the opportunity we were given to negotiate new salaries for our professional workers and to raise their status by several grades, to a level commensurate with their discretion and responsibility in administering the tax laws. In recognition of that authority, we negotiated a formal Code of Conduct for DOR employees with their union.

The ability to make major changes in compensation levels is a luxury most public managers are not afforded. However, even the smallest effort to ameliorate the working environment is noticed and appreciated. The return on investment in a fan, some plants, or a water cooler can't be quantified, but such qualitative improvements, as well as the concern they demonstrate, are sometimes valued more than one expects.

- ***Build a team and forge internal partnerships.***

Almost every public-sector agency has a hidden source of strength in its non-management employees—the ones who are almost universally responsible for actually getting the job done. Seeking these people out, empowering them to take responsibility, and shuffling the deck a bit in terms of authority in the bureaucracy were actions that proved to be key to our progress at DOR. Equally important was the provision of structured opportunities for communication among employees—through newsletters, reports, and meetings.

Team building also involves the outside talent brought in for key management. Recruits from outside a bureaucratic organization, with their advanced training, enthusiasm, and fresh approach, can markedly improve the management accountability of particular bureaus. Just as significant, their presence helps create a new peer group, a broader perspective, and some healthy competition among middle managers. At its best, this new peer group can grow into an internal partnership between the old and the new, among the artisans, the streetwise careerists, and the enthusiastic innovators.

- ***Thank 'em till it hurts.***

A good friend of ours, Bob Behn of Duke University, is responsible for this

aptly turned phrase. Certainly, it takes a lot of thanks to make up for the fact that as a public manager one usually does not have the opportunity to offer financial incentives. Finding opportunities to acknowledge individuals, discrete teams that share a common goal, or five hundred employees en masse requires some vigilance. Once a framework has been established, though, the process is easier than it sounds. The initial letter to all employees in the beginning of 1983 was followed with several such communications to everyone at DOR. On the last go-round we put together a simple brochure, which we sent to everyone's home; it contained both acknowledgement of spectacular performance in the fiscal year just past and a pep talk for the year ahead. We used our annual report to profile key performers from various areas—and various levels—in the organization. Each week, a letter was sent to an individual in the department who had done something above and beyond the call of duty. Formal programs have been developed in many bureaus at DOR, and recognition of overall performance includes everything from awards for those who go a year without using a sick day to statewide performance recognition ceremonies.

Ample opportunities exist for acknowledging excellent work, and such efforts are greeted with much appreciation by employees who are often starved for attention and deprived of appropriate recognition.

- *Practice what you preach.*

If you're propounding the corporate values of honest, fair, and firm to your employees, you'd better be all of the same yourself. Nobody is beyond reproach 100 percent of the time, but especially in a revenue-collecting agency, it's essential to make the effort. Whether the issue is timecards or tax policy, setting an example and becoming a role model are the most important ways a chief executive can affect and lead an agency. Integrity in an organization begins at the top.

More subtly, in order to energize an organization for change, an executive has to energize himself or herself. Employees are often inspired or at least shamed into increased effort by the example of a boss who consistently asks, "Why not?" And when managers know that they're liable to have their project managed for them if they don't deliver, they are a lot more likely to get it a little closer to right on the first try.

Institutionalizing Innovation

The art of progress is to preserve order amid change and to preserve change amid order.

—Alfred North Whitehead

How much of the change that took place at DOR in the past three years was a function of timing and personality? How much of it will provide a foundation for lasting improvements in the agency's capacity to be accountable to the public? How many of DOR's current initiatives involve substantive and lasting change? What portion of recent productivity gains can be attributed to merely "changing the light bulbs"?

These are the kinds of questions that keep even exhausted change agents lying awake at night. Although there are no guarantees, here are a few of the things

we've done to ensure the permanence of what is good about what has changed at DOR.

First, we have put in place mechanisms to facilitate progress. We have entered into a three-year contract with a major consulting firm to completely redesign our computer-processing systems and to fundamentally alter standard operating procedures for all bureaus that make contact with the taxpayer. This project will enable us to manage information rather than merely process returns. It will turn our current batch-processing, file-cabinet-like system into an automated on-line support for day-to-day operations throughout the agency. The provisions of the contract are quite stringent: an external constituency has been established at least for the foreseeable future to ensure funding for the contract, and a strong infrastructure of affected employees is being established to see the project through. Over the past three years we have introduced office automation tools to the agency. Another contract has been signed for blanket procurement of some three hundred workstations over the next several years; this will markedly improve productivity as well as the quality and timeliness of our communications, both internally and externally.

On another front, we have established a project called the MASSTAX Legal Guide to create a thorough compilation of all existing interpretive statements, court decisions, and guidelines for Massachusetts tax statutes. The project has broad constituency groups both within and without DOR that need answers to unresolved tax questions and guidance in interpreting the statutes. A contract with a major legal publisher binds us to a specific time schedule in the production of these documents. In the process we've committed to the development of additional procedural and tax law regulations. We have also developed a new mechanism—a generic format called DOR Directives—for addressing specific tax questions.

Further, we've developed new routines for the agency which are now a part of standard operating procedures and are likely to persist, if only out of habit. The tax-filing status of all new employees is checked as a matter of course (and we've managed to institute this policy for senior managers throughout state government). All employees receive integrity training through a program that utilizes a film we developed to explain what the Code of Conduct is and the areas of conduct it addresses.

In a more strategic area, many DOR managers now develop business plans that set production targets and quality goals for the upcoming fiscal year. All managers also participate in a management-by-objective program, in which key goals are articulated in writing along with measures to evaluate achievement.

More subtle enhancements are the development of a DOR logo and building-wide directory signs that clearly indicate where various services are located. The presence of these signs, along with a distinctive and agency-specific logo, provides a more professional feeling among employees and, needless to say, will make it just a little tougher to disband newly created bureaus. An even more direct incentive for "institutionalization" has been created through the renting of separate space, with a five-year lease, for our Inspectional Services bureaus.

Slow but steady progress is being made in the area of legislative changes with regard to the very structure of the department—to include by statute, for example, an Inspectional Services Division. Still, the real challenge is to ensure con-

sistent resilience—to make the capacity for change ongoing.

The public has come to expect “customer service” from its DOR, and the legislature and the governor have seen what DOR can produce in the way of needed revenues. Any substantial slackening off in performance will not go unnoticed or unchallenged. In setting high standards and raising expectations, DOR has placed its future squarely at the pivotal point between government and its citizens and between the state’s spending requirements and government’s ability to raise the needed revenue without tax rate increases. It seems unlikely that having occupied this strategic high ground DOR could gracefully recede into its former less visible and in some ways more comfortable place outside the public or fiscal spotlight.

We’re often asked, “How do you know it won’t all come crashing down when the commissioner and his key staff inevitably depart?” Part of the answer may lie in maintaining a high level of expectation among the public constituencies we have developed. Another part of the answer, we hope, lies in the continued strong leadership of Mike Dukakis, the man who for the first time has made honest, fair, and firm tax administration a priority of a gubernatorial administration. But most of the answer lies in the original source of the progress: the people of DOR. The strength of their commitment to continuing levels of excellence is really the bottom line. And there are good signs for the future. Too many key people in too many key roles have come to expect success and know what it takes to get there. Too many key people now know what it’s like to feel like a winner instead of a loser, a risk taker instead of a seeker of the status quo, an entrepreneur rather than a bureaucrat. Winners inspire winners, and champions seek out equally talented successors. Maybe we have released the proverbial genie from the bottle forever. 🐉

Notes

1. This blue-ribbon commission, known as the Governor’s Advisory Task Force on the Department of Revenue, was appointed by then Governor-elect Michael S. Dukakis on December 1, 1982. It was chaired by Professor Paul R. McDaniel of Boston College Law School. Members included Alexander Aikens III; the Honorable Charles S. Cohen; Laurence D. Fitzmaurice (a past commissioner of the Department of Revenue); Marion R. Fremont-Smith; Francis W. Hatch, Jr. (former House minority leader and former Republican candidate for governor); Carole E. Marshall; Professor Oliver Oldman; the Honorable Austin T. Philbin; Catherine A. White; and John A. McMullen. Approximately twenty-five hundred hours of pro bono time were donated to the commission by the following consulting firms to conduct the analysis behind the final report: Price Waterhouse; Towers, Perrin, Forster & Crosby; Coopers & Lybrand; and Deloitte, Haskins & Sells. Jerry J. Fay and the late Joseph F. King of the Internal Revenue Service developed the recommendations relating to internal integrity assurances.
2. From 1951 to 1953, the House Ways and Means Subcommittee on Administration of the Internal Revenue Laws investigated allegations of corruption in the Internal Revenue Service. As a result of the investigation, 213 IRS employees were indicted.
3. Henceforward, the term “we” refers to the team assembled by Ira Jackson at the Department of Revenue, including First Deputy Commissioner Thomas D. Herman, who left the law firm of Hale and Dorr to join DOR; Thomas H. Fitzpatrick, who left his own private consulting firm to become first deputy commissioner for human resources; Harry M. Durning, former executive director of the Municipal Research Bureau, who became DOR’s director of communications; and a number of DOR career managers who became a part of the management team.

4. The Governor's Advisory Task Force report was completed on July 25, 1983. It provided an assessment of improvements required to guarantee the integrity of DOR operations, to improve the management of the department, and to create a model state agency that was honest, efficient, and responsive to the needs of taxpayers. Fifty-six specific recommendations for implementation over a five-year period were made in the following areas: tax administration—including computerization and enforcement activities; taxpayer assistance and dispute resolution; management of resources and organizational structure; services for cities and towns; human resources management; and integrity issues.
5. Following are some of the legislative initiatives that were compiled in the spring of 1983 for the Revenue Enforcement and Protection Program (REAP) and which had previously been submitted in DOR legislative packages: provisions to improve cigarette tax enforcement; the authority to suspend business licenses as a tax enforcement tool; the institution of reporting requirements for out-of-state boats docked in Massachusetts; and the requirement to withhold income taxes on gambling winnings.
6. REAP was enacted on July 1, 1983, as Chapter 233 of the Acts of 1983. Chapter 103 of the Acts of 1983, enacted on May 19, 1983, provided the Department of Revenue with a \$1.6 million supplemental budget for FY 1983. Chapter 289, enacted on July 15, 1983, contained the FY 1984 appropriation for the Department of Revenue, with an \$11 million, or 27 percent, budget increase over the prior year, including funds for 193 new positions.
7. The prior study on tax evasion which was updated in the spring of 1983 was called the *Department of Revenue 1981 Estimated Revenue Loss from the Underground Economy* and was released in November 1981. It was conducted by members of the staff of DOR's Audit Division and was based on an analysis of Federal Reserve and U.S. Commerce Department data in combination with the experience and estimates of tax professionals in other states.
8. President Reagan's comments were made in response to a question posed by Governor Dukakis about federal tax enforcement at an annual meeting between the president and the nation's governors on February 24, 1986.