

THE IMPACT OF RESTRUCTURING ON MIDDLE MANAGEMENT DECISION MAKING IN THE AUSTRALIAN TAXATION OFFICE.

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Abstract:

Organisational restructuring, a common phenomenon in the Australian public sector, aims at making public administration more adaptable and efficient in a competitive global environment. It promises improved communication, organisational flexibility and efficiency that strengthens relationships and leads to better management decision making. An empirical study, using focus group and survey data, investigated how structural change in the Australian Taxation Office altered formal and informal power coalitions that affected relationships between middle level managers and their leaders. The paper concludes that the journey from centralisation through decentralisation to regionalisation and recentralisation damaged corporate unity and reduced cohesion between management levels. Many middle level managers were left disempowered, cynical but pragmatic as they “lined up with the new team” for another restructure.

Key Words: *Public management. Decision quality. Organisational change.*

INTRODUCTION

Organisational structures help shape, direct and control workplace activities to achieve organisational goals. They are instrumental in reducing environmental uncertainty (Morgan, 1986:83) but they are not static. They change in response to environmental stimuli and organisational circumstances. Formal and informal structures are central to the dissemination of political power through the organisation and in shaping the decision environment (Pfeffer, 1981:266; Stacey, 1996:278). For decision making to be effective it must be supported by formal structures, management arrangements and information technology. Such structural arrangements are important determinants of the quality of decision making because they a) reveal power relationships and communication paths that regulate behaviour and b) reflect cultural attitudes, values and beliefs that direct and constrain behaviour.

High quality decision making is more likely if organisational structures foster a systemic view (Senge, 1990: 42-47) that enable middle level managers (MLM) to make decisions with a corporate focus, achieve key outcomes and understand the impact of their decisions on the total organisation. Similarly, decision quality is enhanced when management arrangements support communication flow, participation in decision processes and cohesive relationships between individuals and groups (Hames, 1994).

Cohesion exists when middle level managers (MLM) and their leaders maintain a shared understanding of and agreement about the goals they seek to achieve. High cohesion enables translation of vision so that MLMs understand the context in which they operate. The elements of a cohesive relationship include free flowing, open communication, shared learning and teamworking (Sargent, 2003; Samson & Daft, 2003). Cohesion is characterised by empathy, partnership and confidence in each actor's capacity to achieve desired outcomes. It suggests mutual appreciation of problems, the ability to support each other and value differences. A cohesive environment encourages honest performance feedback and collaborative problem solving that mitigates risk and is not punitive. In this environment corporately focused decision making is more likely as is a balance between corporate outcomes, quality of working life of staff and client service. Conversely lack of cohesion is characterised by confusion of vision, disorder, poor communication, little transfer of knowledge and expertise and little likelihood of co-operation to achieve corporate purpose. Resistance, conflict and disagreement are likely to create tensions between groups who lack cohesiveness.

Organisations that restructure are often motivated by a desire for adaptability, economic efficiency, competitiveness and cultural renewal (Dunphy & Stace, 1991:2; Kanter, Stein & Jick, 1992:126). They may wish to "shake up" complacent or apathetic staff, destabilise power coalitions, regain leadership control, avoid dealing with difficult issues, or covertly introduce other organisational changes. Inevitably, restructure changes relationships between individuals and groups and emphasises the importance of some aspects of organisational life and activities over others. Reorganisation challenges values and compels managers to behave differently. Nevertheless, they adapt to new organisational arrangements, form fresh relationships and in so doing, alter the environment in which decision making occurs.

For MLMs continual restructure can be stressful. Central to the change process, they bridge policy development and workplace implementation. They are intermediaries between leaders and operational staff and must adapt to changes in their personal circumstances whilst accepting, supporting and enabling change. Consequently, the quality of their decisions may be affected not only by their experience of changing circumstances but also by their understanding of corporate directions and the degree of cohesion that exists between themselves and their leaders.

Since 1988 the Australian Tax Office (ATO) has experienced fundamental structural changes that have modernised the work environment, transformed traditional bureaucratic corporate culture and altered relationships between MLMs and their leaders. This paper draws on responses from six focus groups, an electronic survey of 133 MLMs and documentary evidence to explore the impact of restructuring on the quality of MLMs' decision making. It examines: a) the impact of restructure on managers' ability to make decisions with a corporate focus and meet corporate goals and, b) whether changing management

arrangements support participative practices, contribute to organisational efficiency and foster cohesive relationships between manager and managed.

AN HISTORICAL PERSPECTIVE 1988 – 2000

Prior to 1988 the ATO was formal, ordered and stable with rigid hierarchical, functional structures. Information seeped through layers of autocratic management control. Decision power was preserved in 'National Office' in Canberra, though some Deputy Commissioners (DC) exercised considerable influence. MLMs were task oriented and parochial; their role narrowly defined according to workplace function. They were deferential to experts and those at more senior classifications. Decision making was slow, reliable and documented and hard work was generally rewarded with promotion. However the environment that delivered certainty, security and order was unsustainable and the ATO was in crisis. Tax avoidance, outdated technology, inflexible management and administrative processes and low public confidence constituted the conditions that compelled momentous change (Matthews, 1992:1; ATO, 2001)

When the ATO began modernising in 1988 it made several important decisions. It reviewed inefficient administrative processes, replaced old technology, decentralised its administration and devolved much management decision power to branch offices (Matthews, 1992:37-40; ATO, 2001). These strategies were crucial in tackling the twin problems of a dwindling tax base and resistance to change by a few powerful figures. Modernisation revitalised the ATO. Technology streamlined work processes and reporting arrangements and offered faster, more efficient communication and information transfer. Computerisation facilitated decentralisation of functions and devolution of management arrangements; a shift congruent with a strong focus on closer relationships with taxpayers in an environment of taxpayer self assessment.

Decentralisation was promoted on the basis of creating smaller, more intimate offices where staff felt empowered to contribute to organisational outcomes (Boucher, 1991:9). Eight metropolitan centres became 26 smaller, functionally structured branch offices. Each had responsibility for a local "patch"; was managed by a DC and supported by a group of Executive Level (EL) directors who generally formed a 'management board'. DCs fostered intraoffice co-operation, teamworking and learning. Generous funding was available for training and the culture facilitated 'employee friendly' decisions. While modernisation introduced uncertainty and resistance to change (Morrigan, 1997), respondents described the workplace as unstructured, exciting, relatively free of authoritarian constraints and a great place to work. Management philosophy was participative and democratic when compared with the recently bureaucratic past.

MLMs had considerable autonomy. The planning process fostered ownership of decision making (Saliba, 1991) and respondents believed managers could influence corporate activities within the office and the

community. Nevertheless, they criticised budget overspends and branch office excesses and believed there was too little accountability. Although modernisation introduced some discomfort, disagreement and industrial disputation, it generated high energy and strong union and worker participation in decision making (Matthews, 1992:70-71). Most focus group respondents believed they had a sense of corporate identity and pride in their work under the branch structure. DCs were visible in local affairs and respondents believed this added to their own sense of identification with the office and the community.

Technological transformation was vital for the ATO to confront tax avoidance and become efficient, but modernisation offered more than that. It provided vision, direction and purpose that was inclusive. Decentralisation purposely upset old authorities and caused both uncertainty and excitement. Hierarchies began to yield to the development of ideas and innovation. Devolution raised morale and offered opportunities for job enrichment and career progression. Planning processes encouraged a more participative work environment where cohesion and understanding existed between levels of management within the branch, though not necessarily between branches and National Office. MLMs exercised delegations and a degree of decision freedom never before experienced. It was an energetic, vibrant organisation that provided MLMs with a strong sense of identity that the then Commissioner¹ believed was so important to the success of modernisation.

However the environment was not static and new pressures emerged. By 1991 the rise of branch office power signalled new risks. Decentralisation and devolution were hosts to mounting competition that threatened efficiency and quality client service. The Commissioner argued that decentralisation generated a "tribal" mentality that promoted unhealthy competition between branches and prevented systemic decision making with a corporate focus (Boucher, 1991:11). The cohesion established within branches had not extended between branches or with National Office. Managers developed strong branch affiliations that led to advancing local achievements at the expense of corporate context and consequences. While applauding decentralisation and technology for streamlining activity and offering individuality and identity, the Commissioner warned against the divisive effects of decentralisation. He rebuked staff for creating barriers to corporate unity and hinted at a market oriented restructure.

A general shift towards economic rationalism coupled with rising branch power created conditions for restructure and the introduction of stronger, more centralised controls by ATO leaders. In 1993, under a new Commissioner,² an organisational review recommended forming market segmented Business and Service Lines (BSL) with regionalised functions and management arrangements. As part of the 1994

¹ Trevor Boucher was Commissioner of Taxation from 1984 – 1992

² Michael Carmody became Commissioner of Taxation in December, 1992

Agency Agreement (ATO, 1994a:35; ATO, 1994b:5; Anderson et al, 2002), BSLs were established to improve efficiency, accountability and consistency of taxation advice and service (ATO, 1994a).

The new structure replaced functional groups with market segmented BSLs under regional management. Business lines formed according to client type and service lines shouldered corporate responsibilities. State boundaries loosely formed the basis of each region and new positions specified regional roles and accountabilities. Ownership of a geographic "patch" and affiliation with branch culture was discouraged in a bid to re-establish corporate unity and a single ATO culture. DC power was dispersed as regionalisation promised greater efficiencies and productivity gains. Branches became "sites" as ATO language reflected the desired cultural shift.

BUILDING CORPORATE UNITY.

Apart from economies of scale, efficiency and manager accountability, a primary aim of regionalisation and the BSL structure was to encourage corporate unity by strengthening managers' understanding of the systemic nature of ATO business and encouraging them to broaden their influence over business outcomes beyond the confines and insularity of the branch. MLMs were expected to cross structural boundaries and consider the impact of their decisions on corporate outcomes.

However restructure was problematic. BSLs developed their own infrastructure and culture. For one manager, structural change simply forged new loyalties that were not necessarily in the organisation's best interests. He noted that whenever structures change: "*... we line up to our patch and we play for our own team. And if you change the boundaries of the game plan, all we do is look for who the new players are on our team and line up with them and go with them* (Focus group participant). Moreover, some business lines nurtured conventions and customs that promoted a sense of exclusivity and superiority that placed line interests above corporate responsibilities.

Nevertheless, respondents considered that some leaders had tried to surmount the constraints of BSL "chimneys" and develop more mature relationships between management levels and a deeper understanding of each other's roles and circumstances. However, they also argued that inter-line co-operation and corporate focus were unlikely while the ATO linked performance appraisals to BSL outcomes. One respondent indicated that leaders may espouse the principles of corporate responsibility, but Australian Workplace Agreements (AWA) and individual performance bonuses linked specifically to BSL outcomes created a conflict between personal and corporate interests. Consequently, close affiliation with the immediate team and disincentives to cross BSL boundaries restricted managers' views of organisational directions and limited their sphere of influence to the immediate work area. Indeed, Figure

1 reveals that less than half the sample (46.2%) believed their sphere of decision making influence extended beyond their immediate stream³ and only one third (33%) of the sample agreed that their decision scope extended across BSLs.

Figure 1: Sphere of decision making

Nevertheless, Figure 2 shows that 58% of managers agreed or strongly agreed that their BSL enabled them to make decisions with a corporate focus. However a substantial number disagreed and over 18% neither agreed nor disagreed. Further analysis of the data revealed differences between BSLs but due to the small sample these results should be treated with caution. Nevertheless it reaffirmed focus group comments that some BSLs were more likely to encourage a corporate perspective in decision making and it was fairly common for managers to be unaware of the impact of their decisions on other areas of the office.

Figure 2: Decision making with a corporate focus

My business line enables me to make decisions with a corporate focus	Strongly Agree %	Agree %	Neutral %	Disagree %	Strongly Disagree %
ATO Corporate (ATOC)	16.67	66.67	16.67	0.00	0.00
Individuals Non-Business (INB)	10.71	39.29	14.29	28.57	3.57
Information Technology (IT)	05.88	29.41	29.41	35.29	0.00
Goods & Services Tax (GST)	06.67	66.67	06.67	20.00	0.00
Large Business & International (LB&I)	07.69	61.54	23.08	0.00	7.69
Small Business (SB)	02.63	44.74	21.05	23.68	5.26
TOTAL	7.75%	50.39%	18.60%	20.16%	3.10%

Indeed, respondents suggested there was little encouragement, opportunity, interest or need to cross BSL borders. Many expressed regret, they had lost touch with colleagues outside their stream and had little knowledge of events occurring elsewhere in the ATO. They did not draw on expertise from, nor transfer learning to other BSLs. Their activities were focused exclusively on the immediate job, not the corporate consequences of their decisions. One respondent claimed that lack of communication and understanding between management groups and the rigidity of the BSL structure created a divided office in which it was impossible to have a single uncomplicated point of contact for most tax interactions. He warned: "... when you're wanting to be seen doing the things that we espouse, which is whole of government approach, which implies agencies working together, it makes it a bit of a worry when you don't even know, necessarily, what's happening in other business lines in order to make a decision that might facilitate a whole of tax office approach - let alone whole of government [approach]" (Focus group participant).

³. A stream is a subunit of a business or service line.

Just as devolution encouraged management cohesion within the branch at the expense of corporate focus, the "tribal" mentality that the Commissioner criticised for prevented systemic decision making and corporate unity had emerged in a new guise as restructure to regionalised BSLs provoked a change in allegiance from one group to another. While some MLMs carved a fresh niche in the new environment restructure was unpopular with those who lost influence and status. They argued that restructuring was a deliberate tactic by ATO leaders to curb branch DC power and described the change in terms of personal sadness and loss of belonging to a corporate community. Many accused leaders of having no vision and of 'fragmenting the social fabric' of the ATO. There was less 'common ground' between themselves and their leaders as they felt they were left to struggle for identity in a ruthless and unsupportive environment. Even those who made the transition to key regional positions lamented the loss of the cascading planning processes that generated a sense of ownership and freedom not realised under regionalisation.

ACHIEVING BUSINESS OBJECTIVES

A second important aim of the regionalised BSL structure was that it supported high quality decision making to meet four key ATO objectives: a) the promotion of taxpayer compliance, b) reducing administrative costs to the community, c) meeting or exceeding operational standards and d) satisfying the quality of working life of staff (ATO, 1994c).

Focus group respondents agreed that the new structure offered managers an opportunity to become "less tasky", more informed in their thinking and sharpened their understanding of specific Line activities. Although there was duplication of corporate support functions, and communicating across BSLs was considered difficult, most respondents believed they could meet the business requirements of their roles. As Figure 3 shows, a majority of respondents agreed that their BSL enabled decisions that generally met key organisational objectives. However, focus group respondents also suggested that the Line structure, together with an increasing emphasis on contestability and economic efficiency, overshadowed the importance of the quality of working life of staff.

Figure 3: Satisfying the business outcomes of the Line

Quality of working life (QWL) is measured not only by the entitlements won in Agency bargains but also by the degree to which employees express satisfaction with their jobs and the employment relationship. Eighty percent of focus group respondents described the BSLs as "chimneys" that reduced co-operation and cohesion between management groups, weakened established support networks and exacerbated uncaring people management practices. They reported that QWL had deteriorated since regionalisation, in part because of the loss branch forums and the unifying presence of DCs who co-ordinated activities and

secured jobs for injured workers⁴ Many noted that the Taxpayer Charter and Compliance model's principles of fair and equitable treatment of clients were not modelled internally and that the focus was on decision making that saved money and time. Only 22.14% of survey respondents believed their BSL enabled decision making that satisfied, to a large extent, the QWL of staff. As Figure 4 shows, MLMs are more able to make decisions that meet business outcomes than satisfy the QWL of staff.

Figure 4: Satisfying business and quality of working life goals.

The regionalised BSL structure succeeded in focussing attention on corporate business outcomes, but communication between MLMs and their leaders did not foster sufficient cohesion to facilitate decision making with a corporate focus. By centering attention on business outcomes, the ATO stressed the value of financial management, competition and contestability at the expense of client service, the relationship between management groups and staff wellbeing. Where conflict existed between achieving business objectives and QWL objectives, BSL culture and structures favoured business objectives. Furthermore, regionalisation affected work life quality. Regional management was introduced to streamline organisational practices and introduce more co-ordinated and effective decision making. However, this generated complex management matrices that crossed site (but not usually BSL) boundaries.

MATRIX AND REMOTE MANAGEMENT

Matrix management occurs when management structures flatten and people interact across the organisation rather than through the hierarchy. It results in people reporting, concurrently to different managers about different issues or projects. In the ATO, matrix management is accompanied by "remote" management. Like the 'adhocracy organisation' (Mintzberg, 1994:398; Dearlove, 2000:26) flexible teams form and reform according to project and organisational need. Such teams are not necessarily co-located, as expertise is drawn from a diverse population and dispersed throughout the organisation. It was not unusual for an EL manager to have no staff in the home site, but spread across sites in different States.

Ideally, matrix and remote management (MRM) contributes to efficiency, flexibility and responsiveness, by exposing managers to a variety of views that assist them to make better decisions. Survey data reveals support for this view and over two thirds of respondents believed MRM arrangements were inevitable in the circumstances of globalisation and complexity of the business world. However, it was repeatedly suggested that distance precluded effective performance management and created a hiatus in cohesion between individuals that threatened organisational purpose. Respondents described MRM as 'unnatural', 'a rip off', a 'nightmare' and an 'inhuman' way of working. They suggested the ATO had "overdosed" on MRM to the extent that managers lived a transient and nomadic life style where problem solving and

⁴ Some workers may return to work on a graduated basis. Where new placements must be found, anecdotal evidence suggests some managers avoid taking these staff because they reduce their ability to meet BSL objectives.

supportive relationships were difficult to sustain. One manager declared that during periods of upheaval leaders should be located close to subordinates in order to develop closer relationships and ensure clear translation of vision. To not do so risks alienating the MLM group and invites confusion and inconsistency in decision making. In support of focus group criticism, survey data shows that only 5% of survey respondents thought matrix management and 4.6% thought remote management contributed, to a large extent, to organisational efficiency. Indeed 30.53% thought that matrix and 33.85%, considered that remote management totally failed to contribute to organisational efficiency. Similarly, 3% of respondents considered matrix management and 1% considered remote management enhanced, to a large extent, the quality of the relationship between manager and subordinate whilst 44.6% and 51.2% respectively, believed that MRM did not facilitate a high quality relationship between manager and staff. The quality of relationships is important, yet neither matrix nor remote management enhanced cohesion or contributed to organisational efficiency. While there was a sense that the ATO adopted a more collegiate management style, it had done little more than form an awkward partnership between MLMs and their leaders that contributed to alienation and left managers confused about staffing and reporting arrangements. Nonetheless, MRM remains a prominent feature of the management environment.

The pace of change continued to accelerate. By the late 1990's there was a sense of urgency as tax reform placed intense pressure on the ATO to plan, manage and shape a new taxation system. The ATO's task to implement tax reform whilst continuing to implement an agenda of public sector reform, was breathtaking in its size and scope.

TAX REFORM AND RECENTRALISATION

New business lines based on function, not market segment were created and became a catalyst for further changes to management arrangements. The Goods and Services Tax (GST) line adopted national management arrangements to simplify and enhance communication, streamline the line of command, enable fast decision processes and ensure greater management accountability. National management promised improved communication, understanding between management levels within the BSLs, and senior management control of ATO directions. One focus group expressed optimism that co-operation, best practice and managerial accountability were likely to be achieved through greater control of systems and stronger leadership. This group also argued that while MLMs participate in decision making, they neither can nor should be involved in influencing decisions in strategic management forums.

However, opinions were divided. Centralised control was perceived by some respondents to be caused by economic rationalism, a trend towards managerialism and a decline in union power that allowed senior managers to set directions without consultation. They viewed participation in corporate planning and

decision making as particularly important and believed that ATO leadership had rejected MLM autonomy by imposing too much non-participatory executive control. They expressed a sense of disempowerment and lack of understanding of corporate directions.

Respondents complained that although the ATO required managers to adopt participative management behaviours it failed to model such behaviour at senior levels. Indeed it was suggested that decision making at senior levels was a process of undocumented 'strategic conversations' with the "right people" and that 'strategic' plans were in a constant state of chaotic flux. A common perception was that much decision making occurred "on table napkins over dinner" and behind closed doors. They believed that MLMs had little forewarning of impending announcements, were unable to add to or participate in strategic decision making forums and did not fully understand the corporate vision. Moreover, accountability and trust were key themes in the debate. Respondents argued that centralisation and national management resulted from a fear of failure to successfully implement tax reform. Decision power, they argued, was deliberately centralised because Commissioners lacked confidence and trust in managers' ability to deliver on tax reform and were concerned about lack of MLM accountability.

Survey data also reflected diversity of opinion about national management structures. Fifty six percent of respondents considered national management arrangements enhanced communication through the ATO to a large or some extent. Furthermore over 60% of respondents believed they could contribute ideas to strategic management forums and participate in decisions about business strategies. Nonetheless there was disquiet amongst a considerable number of respondents. Almost 36% of respondents thought that national management arrangements enabled EL managers to contribute their ideas to strategic management forums only to a small extent or not at all and over 38% thought these arrangements enabled them managers to participate in decisions about business strategies only to a small extent or not at all.

National management arrangements repositioned power at the top of the ATO hierarchy. Some respondents were at ease with that as there was much criticism by MLMs that the Senior Executive Service (SES) and Commissioners had failed to lead and set corporate directions. Nevertheless, there were tensions between the desire for firm direction that national management arrangements can offer and the desire for participation at a more strategic level. Once again, structural change had delivered some benefits and some challenges. In this case, national management had isolated and excluded a substantial group of managers and increased the distance between MLMs and their leaders. Under a centralised structure, the gap in understanding between senior and some middle level managers had widened.

CONCLUSIONS:

The Commissioner's astuteness in selecting a policy of decentralisation and devolution of decision power in a context of industrial democracy and worker participation was a popular and effective strategy. It appealed to employees and overcame resistance of managers with conservative attitudes to work organisation. Decentralisation and democratisation of the workplace resulted in a unity of purpose that lifted morale, co-operation and cohesion. But while restructuring solved some problems, it created others. Branch autonomy and participatory decision making raised the profile and power of Branch DCs and MLMs. The decentralised structure engendered loyalty to and identification with the branch and strengthened relationships between management levels. Harmony and cohesion, at its peak within branches, was less evident between branches or with National office. Territorialism, competition, inconsistency, waste and lack of corporateness and accountability threatened ATO efficiency. Inadequate checks and balances and an inability to sustain cohesive inter-office relationships resulted in decision making more likely to achieve high levels of client service and quality of working life of staff within the branch than efficient and effective corporate outcomes.

Globalisation, economic decline and changing political values and attitudes to public service influenced the directions of public sector reform and management practice. Innovation, participation and MLM independence, were over-ridden by management accountability and economic efficiency. Decentralised offices remained, but branch power was destabilised as the structure that had served the ATO well during modernisation was no longer considered appropriate. The BSL structure focused MLMs' attention on outcomes enabling the ATO to meet productivity targets and business goals. However an emphasis on economic efficiency within the Lines reduced corporate focus and the QWL of staff. Furthermore, neither matrix nor remote management contributed to organisational efficiency or management flexibility and both weakened the relationship between management groups. Self interested behaviours emerged as contestability, and later, redundancy led to competition for survival between individuals. Some managers attracted functions to their sites; many did not. Some recreated a sense of belonging and cohesion by developing loyalties to subcultures. Other respondents appeared frozen in time having failed to manage their loss of power even though they may have capably managed much change in the intervening years.

Tax reform was the ATO's greatest challenge and was daunting by any standards. Leaders were under intense pressure to succeed and memories of modernisation's excesses and lack of manager accountability did not facilitate cohesion between management levels. Lack of confidence in middle managers' and SES competence and accountability together with a fear of failure to deliver on tax reform appear likely explanations for tighter controls and greater centralisation and secrecy surrounding decision making at senior levels. Certainly, the return to central management structures within the BSLs should be viewed in

the context of the enormity of the task, the pressure of tight deadlines and the desire of the ATO to maintain a positive and productive relationship with Government.

Decentralisation and devolution sent positive messages to middle managers but regionalisation curtailed the scope of decision making. The experience of the journey from decentralisation to regionalisation and recentralisation damaged corporate unity and reduced cohesion between management levels. Many managers were left disempowered, cynical but pragmatic as they "lined up with the new team" for another restructure. If organisations must continually restructure as Stacey, (1996) suggests, then more attention may need to be paid to the way in which restructure is implemented to maintain good relationships and high levels of cohesion between MLMs and their leaders.

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