

# Chapter 1

## Implementing E-Procurement in Public Healthcare: The Knowledge Management Issue

**Andrea Resca**

*Luiss “Guido Carli” University, Italy*

**Tommaso Federici**

*University of Tuscia, Italy*

### **ABSTRACT**

*The evolution of public healthcare in developed countries is subject to contrasting forces. The pressure to be innovative and technologically advanced, in order to improve the quality of services, has resulted in a significant increase in spending, while governments are faced with budget constraints. Even though e-procurement initiatives can be seen as a solution for reducing expenditures, such initiatives have not been widely deployed and have not delivered the expected benefits so far. In this chapter, a case study of an e-procurement implementation of an Italian Local Healthcare Agency has been examined. This case is relevant because of the comprehensive design of the e-procurement system, the differentiation of tools adopted and the multiple solutions already implemented. The aim of this work is to analyze, adopting a knowledge management perspective, the steps that have led to the introduction of e-procurement as a new operating practice. The subsequent organisational interventions for redesigning purchasing activities, supply chain and logistic processes are then examined. Finally, main organizational issues at stake for a full deployment of e-procurement were taken into consideration.*

### **INTRODUCTION**

In large parts of Europe, the development of healthcare is subject to contrasting forces. On

the one hand, there has been an explosion in spending and, at the same time, governments are faced with strict budget constraints. On the other hand, public healthcare is under pressure to be innovative, technologically advanced and to provide increasingly better quality of services.

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In this context, e-procurement can be seen as an instrument for providing solutions to the first issue of this dilemma. In the last decade, the European Commission issued two directives (2004/18/EC and 2004/17/EC), according to the 2010 eGovernment Action Plan, with the aim of promoting e-procurement to achieve significant efficiency improvements – also in public healthcare – by reducing at the same time purchasing and administrative costs.

However, e-procurement initiatives in such area have not been widely deployed, and most of them have not so far, fully delivered the anticipated benefits. The main reason for the lack of tangible results is the traditional resistance of public institutions to IT-based process innovation and the complexity of healthcare procurement – in terms of the variety of goods, specificity, and of suppliers' numbers – that requires different supply processes and diverse competences.

In order to investigate this scenario in more detail, the case study of a large e-procurement implementation at an Italian public Local Healthcare Agency (LHA – Azienda Sanitaria Locale, ASL), considered one of the most advanced by the Central Procurement Agency (CONSIP), was explored. The same LHA has been recently awarded by the Italian Minister for Public Administration and Innovation as one of the Italy's 30 most innovative administrations, because of the later described e-Logistics introduction.

This case study is remarkable because of the comprehensive design of the e-procurement system, the differentiation in adopted tools, the robust testing (since 2000) and the multiple solutions already implemented and in process within the Agency. The decision to examine this case study is also due to the fact that the use of e-procurement tools is seen as only one aspect of a more profound reorganization of the entire supply process.

The interest of the present paper resides both on the relevance of the observed case and on its focus on the management of the complex transi-

tion process from a bureaucratic organizational structure, with fully paper-based procedures, to a more dynamic one, which is IT-based and paperless. In order to investigate these changes and the related managerial decisions, the knowledge management perspective was adopted, as knowledge seems to be one of the most critical success factors to be managed.

The purpose of this work is then to reconstruct – by performing interviews with some of the most representative players and examining documents and previous studies on this case – the managerial interventions that made this innovation possible and in particular how knowledge has been managed in this innovative programme. From this perspective, it was presumed that the introduction of e-procurement and the reorganization of purchasing, supply chain and logistical processes, had required diverse knowledge which has been investigated at the cognitive level, the organizational level and the social and institutional level of knowledge, proposed by Lam (2000).

Distinguishing between individual knowledge and knowledge related to a specific social context, this approach gives a comprehensive picture of the concept of knowledge. Furthermore, this perspective is helpful to examine the realities of Public Administrations (PAs) like LHAs, which are characterized by the importance of rules and procedures and by hierarchical organizational structures. Lam's extensive references to Mintzberg's classic studies (1979) is important in this point, as the organizational forms singled out by Mintzberg fit very well in the PA area, reinforcing the accurateness of this analysis.

## **RESEARCH STRATEGY**

The research question of this work concerns the dissemination of innovation and primarily its adoption. The focus is on the ability of a specific organization to adopt an innovation and on the elements that facilitate or hamper such adop-

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