

7 keys to manage change in the 21st century

IESE's José Ramón Pin looks at the processes that enable radical innovation to succeed, taking a Portuguese hospital's e-procurement system as an example.

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Enabling suppliers to bid for contracts electronically is not just a technical process. Rather, for public institutions, it can and should be a lever for change to help pursue the efficiency that is demanded of them.

Such is the view of IESE professor [José Ramón Pin](#), who wrote the prologue to and a chapter in a management guide on electronic bidding. Published in April 2015 by the Federation of Municipalities of Madrid, the report aims to encourage best practices in handling public tenders via electronic means.

In his chapter, Pin explains the experience of the Portuguese Institute of Oncology in Lisbon, which was the subject of a joint study he wrote in 2011 with Luis Valadares of the Technical University of Lisbon.

Many public institutions were forced to boost their efficiency during the economic crisis, and the Portuguese hospital was no exception. In 2009, it was required to shorten its waiting lists and trim its annual budget by 4 percent. Its administrators had to answer the \$64,000 question: What do we cut?

Pareto was right

The Pareto principle states that, for most events, 80 percent of the effects come from 20 percent of the causes. With budgets, this might mean that 80 percent of spending comes

from 20 percent of the line items in the budget.

As such, in order to achieve a significant cut in spending, it makes sense to seek savings (even minor savings) in one of the major budget costs. In a public institution, the major costs tend to be salaries and the procurement of goods and services.

The decision was fairly clear-cut in the case of the Portuguese Institute of Oncology: In order to leave salaries alone, procurement costs would be trimmed. Accordingly, the traditional purchasing system was phased out in favor of one based on electronic tenders, moving to best practices for e-procurement.

It was a logical move, as studies of similar steps elsewhere in the EU have shown that e/procurement can result in savings of up to 20 percent. The European Commission has used these studies as a starting point to make e-procurement obligatory for all areas of public administration in Europe.

Three alternatives were proposed for choosing an economic platform: (1) create a new one, (2) share one with another public institution or (3) seek a ready-made solution on the market. After assessing the different options, a ready-made platform based on cloud computing was chosen.

Seven keys to success

So what's the takeaway from the Portuguese example? For Pin, it illustrates the idea that the means to successful change should fulfill the requirements set out two decades ago by John P. Kotter in his article, "Leading Change: Why Transformation Efforts Fail." They are:

1. **Create a sense of urgency.** In the case at hand, the government's demand was clear: cut the hospital's budget by 4 percent and reduce waiting lists and do it within a year. Essentially, deadlines and pressure work.
2. **Outline a vision of the future.** The new system posed major challenges — with both technical and mindset changes required. But the need to meet these challenges was well-explained. Apart from the advantages of e-procurement for efficiency, the staff understood that the alternative was to cut salaries and jobs.
3. **Establish mechanisms for communicating the vision** — *on all levels of the organization*. The director of the purchasing department took it upon himself to draft a document outlining all the challenges and opportunities posed by transitioning to electronic bidding for contracts.

4. **Build an alliance for change that unites all groups inside and outside the organization.** To forge commitment (which, in the Theory of Change, is known as building a "coalition for change") the hospital's managers worked to promote collective participation, create plans to re-train excess staff and to persuade suppliers of the benefits of the new system.
5. **Seek short-term successes.** Another key to the success of these processes of change is, in fact, succeeding. As Pin explains it, strong short-term results can be the best way to win over remaining skeptics. And there will always be some who hold back.
6. **Create organizational structures that are up to the task.** After the first bids were handled with no major complications, thanks to the work of experienced technicians and a platform that worked, the new system gained legitimacy. When all goes well, people eventually start to wonder how they could ever have done things any other way.
7. **Generate new improvements periodically.** In order to ensure progress, one has to keep the organization on its feet. It is necessary to seek new challenges, Pin explains. In the Portuguese case, this was done by linking electronic bidding to an automated inventory management system.

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