

# Assessing the Effectiveness of Negotiation in the Procurement of Goods and Services in a Manufacturing Industry

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## **Abstract**

*Negotiation is an essential business activity for establishing trade relationships between partners (Yuan and Turel 2004). As the business environment becomes more dynamic in this global setting, negotiation between partners is required more often. Negotiation is the key decision-making approach used to reach consensus whenever partners cannot achieve their goals (Thompson 2000). This study was aimed to ensure that there is an effective negotiation in the procurement of goods and services in Unilever Ghana limited, in the greater Accra. The major objective of the study was to find out the effectiveness of negotiation and efficiently use of negotiation when procuring for goods and services in order to satisfy the needs and wants of Unilever Ghana limited. I use both descriptive and quantitative research design with a sample size of 18 respondents. It was obtained through computation and analysis. Primary data were used and the data collection method used was questionnaire. The data obtained from the questionnaire were analyzed using statistical package for social sciences. Excel as well as Microsoft word was used during data analysis. The project was organized in five chapters, chapter one introduces the background of the study its objective, statement of the problem, objective of the study. Chapter two reviews relevant literature, while chapter three deals with the methodology adopted for the study.*

**Keywords:** Negotiations, Procurement of Goods & Services, Contract Negotiations

## **I. INTRODUCTION**

As part of the award of the Higher National Diploma (HND) programme, students are to identify and undertake research into a problem area which is related to his or her field of study and after that present appropriate recommendation. Negotiation is an essential business activity employed in establishing trade relationship between partners (Yuan and Turel 2004). As the business environment becomes more dynamic, negotiation between partners must occur on a regular basis. Advancement in information technology have help to design information systems, which in turn facilitate effective solution for negotiation (Bichler et al. 2003). However, factors such as culture, trust, and partner sourcing also play a role in the negotiation process (Bichler et al. 2003). Negotiation is the key decision-making approach use to reach a consensus in regards to whether or not partners can achieve their goal. For this reason, organizations need to understand the important of the negotiation process in the procurement environment. Procurement plays a role in providing fundamental support to the way that organisations on that traditional procurement activities, by automating and simplifying many business process and transactions (Turban et al. 2008). One of the processes supported by procurement is sourcing, and this has been identified as an important component of the procurement process (Cerquides et al. 2007). Aguiler et al. (2007) claimed that the sourcing of multiple goods or services usually involves complex negotiations that may include the discussion of a product's features, as well as its quality, services and availability. As such, there is a need for a negotiation strategy to be integrated into the sourcing process, in order to ensure that effective and mutually-beneficial negotiation can be achieved. The negotiation process will be judged by results, which include efficient and effective communication between two or more parties, in order to achieve explicit objective. In acquiring goods and services effectively and efficiently, there is the need for an effective negotiation. Negotiation is any form of verbal communication in which the parties seek to exploit the relative strength of their bargaining positions to achieve implicit or explicit objectives within the overall purpose of seeking to resolve the identified areas of disagreement. Negotiation according to Wikipedia a free online encyclopedia is a dialogue between two or more people or parties, intended to reach an understanding, resolve point of difference, or gain advantage in outcome of dialogue, to produce an agreement upon courses of action, to bargain for individual or collective advantage, to craft outcomes to satisfy various interests of two people/parties involved in the negotiation process.

Negotiation is a bargaining (give and take) process between two or more parties (each with its own aims, needs, and viewpoints) seeking to discover a common ground and reach an agreement to settle a matter of mutual concern or resolve a conflict.

## **II. LITERATURE REVIEW**

### *A. Negotiation*

Michael Maiese (2003) defines negotiation as a discussion between two or more disputants who are trying to work out a solution to their problem. In the recent definition of negotiation the researcher have emphasized that negotiation process of interaction. Nevertheless, Weingart and Olekalns (2004, 143) point out that the negotiation process has not been prioritized in the negotiation research. It is notable that researchers' individual perspectives in contexts of negotiation research shape their definitions accordingly. Therefore, for example, there are differences in dispute resolution scholars' definition compared to communication scholars' definitions, which emphasize different aspect and take slightly different perspectives. The success of business relationships depends on effective business negotiations. Negotiators need to be well prepared. Understanding how to achieve business negotiation outcomes and the factors relevant to the process will allow negotiators to be more successful. Negotiation is regarded by some as the most important feature in the buyer's toolbox. It is often through negotiation that buyers achieve their objectives in the areas of quality, price and delivery. The more effective buyers are in negotiation, the better their performances will be in obtaining the best possible buy. Negotiation is defined in the Oxford English Dictionary as "discussion with another view to compromise". This suggests obtaining a mutually acceptable outcome and is therefore different from "horse trading" or "haggling as it involves a more orderly and a logically developed pattern of discussion. Negotiation is any activity that influences another person.

### *B. Objectives of Negotiation*

The aim of contract negotiation is firstly to achieve certainty, to record what is being supplied, when, in what quantities and to what standard, and what the consequences of delay or failure to meet the agreed requirements are. Many a dispute is caused by the failure of the parties to define at the beginning of their relationship exactly what is going to happen; one example in my experience was the failure of a major IT agreement because the parties both thought that their man was project managing the project, in fact the issue had never been agreed. This is especially important in the case of complex projects, where project plans and methodologies will normally be prepared as part of the contractual documentation (Palmer, 2006).

#### *i. Achievement of an Organization's objectives*

Klinger and Burnett (1994) also outline one objective of negotiation as "The goal of every negotiation must be to achieve a result which, even if it falls short of the original objective, can be considered a satisfactory advancement towards it. Compromise is an essential feature of most successful negotiations: each party needs to walk away afterwards feeling that he or she has gained." To this end, negotiation generally formulates precise objectives to promote its competitive advantage. Some of these precise objectives are as follows;

- To obtain fair and reasonable price and lowest cost of ownership.
- To get the supplier to perform the contract on time (delivery).
- To exercise some amount of control over the manner in which the contract is performed.
- To persuade the supplier to give maximum co-operation to the buying firm.
- To develop a sound and continual relationship with competent suppliers (partnership or co-makership).

Knowing the overall objectives of the negotiation is essential because this will help you decide the most appropriate strategy or approach to be used for the negotiation. Without broad goals or clarity of desired outcome of the purchase, it is very difficult to control the negotiation. Once a strategy is clearly defined, it is possible to decide on consistent objective for the negotiation and to develop a negotiation plan.

### *C. Elements of Negotiation*

Adams (2003) presents the following as elements of negotiation.

1. Relationship: Negotiation involves relationships. It is important when we need the consent of others to achieve our ends, when we can meet our ends better by involving others, or when unilateral means are not morally, socially, or politically acceptable. Negotiation is interactive.

2. Communication: A central process in negotiation is communication. This can take place implicitly in bargaining processes, or more explicitly in different kinds of conversation. Communication should not be taken for granted.
3. Alternatives: Things you can pursue away from the table. It is especially important to understand your Best Alternative to a Negotiated Agreement or BATNA
4. Interests: What is important to you that you can achieve in the negotiation? You get at them by asking, "Why?"
5. Options: Tangible steps that serve interests and can be part of an agreement
6. Legitimacy: Sources of justification such as legal standards or precedents, professional norms, market value, social or economic standards (e.g. blue book value)
7. Commitment: How do we guarantee we both will follow through on our agreement?

#### *D. The Nature and Principles of Effective Negotiations*

Negotiations have been likened to a game of 'Blind Man's Buff' where both parties are trying to achieve objectives with little information on the practices, mindsets or objectives of the other party. This means that negotiations are very complex – and can be chaotic – and require a range of different approaches. We often learn about negotiation from models, many of which are overly simple, and so are unhelpful to practitioners.

At this point, we will consider the cycle of negotiation we can see the range of activities requiring considerable attention and competence from the buyer/negotiator.

#### *E. Planning the negotiation*

Farrington (2007) outlines some steps in planning negotiation. In any kind of negotiation the planning stage is probably the most important. Too often we go in badly prepared and end up giving concessions that reduce the overall profitability of the final deal. The importance of planning is in having a very clear idea before entering into the negotiation i.e.

- What are my objectives?
- What does the other side wish to achieve?
- What information will influence the final outcome of the negotiation?
- What concessions can I make?
- How am I going to achieve my objectives?
- What part will other people play in the negotiation?

Generally, the more time that is spent in planning and preparing for the negotiation, the more beneficial will be the final outcome.

##### *i. Objectives*

Before entering into the negotiation, you need to have a clear idea of your objectives and try to work out those of the other side. Ask yourself the following questions:

- What exactly do I wish to achieve from this negotiation?
- Which of my objectives:
  - Must I achieve?
  - Do I intend to achieve?
  - Would I like to achieve?
- What options or alternatives would be acceptable to me?
- What are the other sides of objectives?
- How does the other side see the negotiation?

##### *ii. Information*

It has often been said that information is power. In any negotiation, there will be four types of information that is important to the final outcome.

- What information do I have that the other side has also?
- What information do I have that the other side does not have?

- What information do I need to have before negotiating with the other side?
- What information does the other side need before it can negotiate with me?

This can be particularly important when negotiating with people who concentrate on price issues.

- What other things are important to this person?
- What pressures does he have on him to conclude the deal?
- How well is his company doing at the moment?
- How important is it that he deals with my company? etc.

The early phases of negotiation consist of both sides finding out more information before talking about a specific deal or set of alternatives. For example, if you find out the other side has a time deadline that only your company can meet, it may give you the chance to negotiate on more favourable price. If you know that the other side has recently expanded their production capacity, you may be able to negotiate more favourable terms in return for a commitment to buy certain volumes over an agreed time period.

By spending time as part of your preparation in listing what you already know and what you need to know, you will give yourself a better chance to negotiate well on your company's behalf.

#### *F. Concessions*

Negotiation is a process of bargaining by which agreement is reached between two or more parties. It is rare in negotiation for agreement to be reached immediately or for each side to have identical objectives. More often than not, agreements have to be worked out where concessions are given and received and this is the area where the profitability of the final outcome will be decided.

When preparing for negotiation, it is advisable to write down a realistic assessment of how you perceive the final outcome. Find out the limits of your authority within the negotiation and decide what you are willing and able to concede in order to arrive at an agreement, which satisfies all parties.

Concessions have two elements; cost and value. It is possible during negotiations to concede issues that have little cost to you but have great value to the other side. This is the best type of concession to make. Avoid, however, conceding on issues that have a high cost to you irrespective of their value to the other side.

When preparing for negotiations, ask yourself the following questions:

- What is the best deal I could realistically achieve in this negotiation?
- What is the likely outcome of the negotiation?
- What is the limit of my authority?
- At which point should I walk away?
- What concessions are available to me?
- What is the cost of each concession and what value does each have to either side?

#### *G. Strategy*

Planning your strategy is important in negotiation. Once you know your objectives, you need to work out how you are going to achieve them. It is also useful to try and see the negotiation from the other side and try and work out what their strategy will be.

During the negotiation there will be opportunities to use various tactics and you need to decide which of these you feel comfortable with and at the same time recognize the tactics being used by the other side. Ask yourself the following questions:

- How am I going to achieve my objectives in this negotiation?
- What is the strategy of the other side likely to be?
- What tactics should I use within the negotiation?
- What tactics is the other side's likely to use?

#### *i. Tasks*

If you go into negotiation with a colleague or colleagues, you need to decide during the preparation phase:

- What role will each team member take in the negotiation?
- How can we work together in the most effective way?

Some teams of negotiators appoint team leaders, note takers, observers and specialists, each with their own clearly defined authority and roles to perform. Having a clear understanding of roles within the negotiation will make the team approach much more effective.

#### *H. Negotiation Tools and Techniques*

We are all negotiators. Life is full of opportunities to negotiate and libraries are full of textbooks and theories claiming sure-fire techniques and winning strategies. Negotiation is just as much common sense as it is science and art. Armed with a few practical tips and guidelines, our negotiations can be efficient and mutually rewarding.

##### *i. When to negotiate*

Though it was earlier stated that negotiation is ideal when considering high value or volume items, one must however recognize that high value purchases do not automatically dictate the use of negotiation. Zenz (1987) outlines some of the circumstances that may necessitate the use of negotiation. These are:

- When competitive tendering is not possible. Where what to be ordered for are proprietary or exclusive, then one will have to negotiate. High value products. For the purchase of very high value items, the buyer has to negotiate comprehensively to get value for money spent.
- Where the purchase involves many price components, ambiguous delivery schedules and other services, i.e., where total cost of supply factors are involved.
- Special unique items e.g. capital equipments.
- Undetermined final price construction.
- When standard terms and conditions cannot be applied to certain items, e.g., capital equipments.

##### *ii. What to negotiate*

Lysons and Lenders (1993) have the same view areas on what to negotiate.

- Price modification – this can be either a process of seeking price reduction or using price amendments formulas convenient to both parties to reflect on the future effects of price fluctuation. Terms and conditions to accompany the purchase.
- Delivery (if to deliver as and when required, bulky delivery or to practice just in time).
- Quality – to impress upon the supplier to supply items that conform to the specification outlined and agreed upon. Also to discuss the implications of delivery defects.
- Warranty, carriage, rejects, title, packaging etc.
- Amendments to delivery, quantity, specification etc.
- Legalities – what the end result will be in the event of late delivery or if as a result of force majeure.
- Issues related to installations, especially, if heavy duty equipments are the items under contract.

#### *I. Understanding the context*

Negotiation always takes place within a context. Some of the important issues to consider in understanding the context of a negotiation include:

The supply market in terms of:

- **Competition:** is the market fully competitive, dominated by a few larger suppliers, filled with unsophisticated suppliers?
- **Growth:** is this a new market, a growing market, a mature market, a retracting market? What is the impact of new technology on this market?
- **Geography:** is this a global market, a distributed market, a rural market? Is distance an issue?
- **Power:** who owns the suppliers? What level of turnover do the suppliers have? What is their financial status? What proportion of their turnover does this contract represent?
- The procurement decision in term of:
  - **Purchasing risk:** what is the nature of the purchase you are making in terms of its level of expenditure?
  - **Complexity:** how complex is the good or service that is being purchased?

*J. Negotiation variables*

There are basically three major variables on the nature of negotiations. These are:

**Power** – It is important to make a realistic assessment of the power relationship in any purchasing negotiation. Power involves being able to control or manage the decisions of the other party. There are many ways in which this can be done, which range from managing their perceptions of potential loss through to reducing their alternative networks. Sometimes the balance of power will sit with the organization, simply because of the size of the contract and buying power. Sometimes the balance of power is in the supplier's favor, where the organization is a small customer or a supplier has an actual monopoly, a geographical monopoly or a virtual monopoly in the market.

**Time** – Most people describe negotiation as if it were an event. This implies that it has a definite start and finish within a fixed time frame. In fact, negotiation is a process rather than an event; the actual starting point of a negotiation is always long before the start of the formal face- to-face negotiation phase. In the preparation phase it is wise to gather as much information as possible both about the organization's interests and alternatives and the interests and alternatives of the supplier. After the formal negotiation phase has finished and an agreement has been reached, it must be documented, formally agreed, implemented and monitored. The management of time within the negotiation, slowing the process down and speeding it up according to the needs of the organization, is a common tactic. It also helps one party when situations change in an unexpected direction. Taking control of time is often a way of taking control of the rest of the negotiation.

**Information:** information is at the heart of any negotiation. Adequate attention to gathering information during the preparation phase of the negotiation can significantly enhance the likelihood of a mutually satisfactory agreement being reached during the formal phase of the negotiation. During the formal phase, it can be a common strategy for parties to try to conceal their true interest and priorities. The chance of obtaining accurate information from experienced negotiators during an adversarial negotiation is quite low. Information is normally easiest to gather during the preparation phase before the formal negotiation begins. There are many sources of information on suppliers and markets. These sources include the media, libraries, government publications and statistics, product and consumer reports, online services and professional bodies and the supplier themselves, through their literature, their websites and through their sale forces at any exhibitions at which they are displaying their goods or services.

*K. Supporting tools in negotiation*

There are a lot of supporting tools which can be used to underpin negotiation procedures. These include:

*i. Price/Cost Analysis*

This enables the buyer to assess the reasonable or otherwise of a quoted price or application for a price increase. In understanding an analysis of a quoted price, many assumptions may need to be made and as a consequence the result may not be entirely accurate; it can in reality be more than a guide, but certainly better than nothing. Assumptions need to be made regarding the way in which the firm has allocated its overheads, prices paid for inputs, the firm's costs, and the actual costing method used. Costing methods could include;

- Absorption
- Target
- Standard
- Marginal
- Activity-based; and
- Whole life

Each of these is likely to give a different result. The advantages to a buyer of undertaking price/cost analysis are; It improves the buyer's negotiation position, particularly when competition is lacking.

It can be used to validate quoted prices, particularly when there is some doubt about the price quoted; for example, where the price seems unrealistically low or high ; and

It can also be used to validate applications for price increases or to negotiate subsequent price reduction.

*ii. Breakeven Analysis*

Holland (1998) explains the concept as break even analysis as one of the most common tools used in evaluating the economic feasibility of a new enterprise or product is the break-even analysis. The break-even point is the point at which revenue is exactly equal to costs. At this point, no profit is made and no losses are incurred. The break-even point can be expressed in terms of unit sales or dollar sales. That is, the break-even units indicate the level of sales that are required to cover costs. Sales above that number result in profit and sales below that number result in a loss. The break-even sale indicates the dollars of gross sales required to break-even.

Marginal Cost: is the variable cost incurred as a result of undertaking a specified activity and composed of;

- Direct material cost
- Direct labour cost
- Direct expenses

**Contribution:** the difference between sales and the marginal cost of sales. It remains unchanged as selling price and marginal cost are assumed to be constant.

**Contribution and Profit:** this is above the breakeven point, all contribution is profit.

An estimate of a supplier's breakeven point is a useful tool to aid the preparation stage for negotiation or price analysis. It can of course, be no more than an estimate if the supplier's cost are unknown to the buyer, but by using published trading profit and loss accounts as a data source and using industry capacity utilization as an indicator of the firms capacity utilization, it is possible to make an approximation. Clearly the buyer is in a stronger bargaining position when a supplier is operating with spare capacity. There are dangers, however, of obtaining contracts on a marginal cost basis; services may be good, and if better business comes along for the supplier, any marginal cost business will receive a low priority.

*L. Learning Curves*

This technique was developed in the USA following the article by Wright (1936)

This is an empirical relationship between the number of units produced and the number of labour hours required. We can put it simply as, the more often task is repeated, the less time it takes. It has also been referred to as an improvement curve, an experience curve, and a time reduction curve. The importance of this point is that, where a task has a labour element when there are repeated orders, the supplier's labour cost will fall and their profit margins increases; it is not unreasonable, therefore, for the buyer to expect a price reduction in such circumstances, or at least be in a position to reject applications for prices increases. "Factors Affecting the Cost of Airplanes".

The time taken to do task reduces for a number of reasons:

- The development of teamwork
- Specialization and division of labour as knowledge of the work increases
- Remembering drawings and instructions so that there is no need to refer to them
- Improving the layout of the task, such as the positioning of tools and materials
- The development of stamina and the ability to maintain high work rates
- The development of dexterity and judgment-known a psychomotor skills; and
- The improvement in working methods and management innovations.

There are limitations on learning curve applications. For example, in some industries unofficial 'shop norms' are operated or there may be a long periods between reordering and so skills may be lost. Rates may differ for similar work in different industries. If the learning curves are plotted on a graph, by showing the cumulative hours taken against cumulative units produced, it will result in a curve.

The graph below was outlined by Holland (1998) explains the concept of break-even analysis.

*M. Industries and Market Analysis*

An industry consists of all the firms and producers of a particular class of goods or services e.g. the car industry consist of all the firms involved in the production of cars. This differs slightly from the concept of a market, which is a broader concept. A market can be a place where specific goods are bought and sold or can be referred to groups of buyers and

sellers of a classification of goods e.g. the insurance markets, consumer good markets etc. For the purpose of this discussion, we will refer to industry analysis although most of the information could apply equally to market analysis. Industry analysis is useful as part of the planning stage for major negotiations. It is the investigation into the current state of an industry gleaned from variety of sources.

The typical objectives of such analysis concerns:

- Activity levels in the industry
- Capacity utilization
- Price trends

Number of firms in the industry and the level of competition

- Evidence of restrictive practices in the past
- Competitive forces at play in the industry (Porters five forces analysis)
- Analysis of cost in the industry and trends
- Manufacturing methods and technology and recent innovations in the industry
- Development in materials; and
- Materials availability

#### *N. Developing a 'BATNA'*

Negotiation is a consensual process, based on mutual agreement. You do not have to accept any offer unless you choose to. You can always say no. But we negotiate to satisfy some interest, and if we do say no we must find another way to satisfy our interest. 'BATNA' stands for Best Alternative to a Negotiated Agreement. The better a negotiator's BATNA, the greater that negotiator's power, given the attractive alternative that negotiator could resort to if an acceptable agreement is not reached. BATNA allows far greater flexibility and room for innovation than is the case with a predetermined bottom line (Goldwich, 2006). When discussing a BATNA (Best Alternative to a Negotiated Agreement) it is probably appropriate to start out by saying that it is not the so called bottom line that negotiators conceptualize to protect themselves against concluding agreements where they give too much or receive too little.

A bottom line denotes the worst possible outcome that could be accepted, and is therefore intended to act as a barrier beyond which the negotiation may not extend. It is a defense against the pressure and temptation that is often exerted on members of a party to agree to a deal that is self-defeating. Although bottom lines undoubtedly do serve a purpose, they unfortunately create rigidity and inflexibility, inhibit creativity and innovation, and reduce the incentive to seek tailor-made solutions that reconcile differences. By contrast, a BATNA does not concern what should be achieved, but what the course of action should be if an agreement is not reached within a certain time. As the standard against which an agreement is measured, it prevents a negotiator from accepting an agreement that is too unfavorable or not in its best interests, as it knows of a better option outside the negotiation. By virtue of the fact that it concerns what the alternative to a negotiated agreement would be, it allows far greater flexibility and room for innovation than is the case with a predetermined bottom line. The better a negotiator's BATNA, the greater that negotiator's power, given the attractive alternative that negotiator could resort to if an acceptable agreement is not reached.

When developing a BATNA, a negotiator should:

- Brainstorm a list of alternatives that could be considered if the negotiation failed to deliver a favorable agreement:
- Select the most promising alternatives and develop them into practical and attainable alternatives: and
- Identify the most beneficial alternative to be kept in reserve as a fallback during the negotiation.

Although it would be ludicrous to enter a negotiation with a preconceived decision to not conclude the negotiation, having a viable BATNA is an essential insurance policy. A well thought through, clearly defined BATNA has the advantage that it makes it possible for the negotiator to break off the negotiation if it becomes clear that a beneficial outcome is not achievable, as the negotiator would then know what the consequences would be should the negotiation fail. This 'willingness' of negotiator to break off a negotiation should it become necessary, permits the negotiator to adopt a more firm and forceful stance when presenting ideas and interests as the basis for an agreement.

To realistically develop your BATNA you must explore what you will do if you do NOT reach agreement.

To develop your own BATNA requires three very basic but critical steps

1. Planning on what steps you will take if no agreement is reached - how will it benefit you or how will it harm you?
2. Improving some of the ideas you come up with and converting them into workable alternatives for both parties ; and
3. Selecting one alternative that seems to be the best at that moment in time:

The first step is very critical. Going back to the example from our last newsletter - what are some of the things you can do if Organization X does not offer you a "good" job? Some of the ideas you could do would be - look for another job with another company, look for a job in another industry, migrate to another city, start off some business on your own, etc. The second step is to improve some of these preliminary ideas and turn them into real alternatives. If you are thinking about another city then at least get one offer from that city. With this offer in hand (or discovering that you don't easily get an offer in that city) you are much better prepared to look at newer realistic alternatives. So is starting a business a good option? Where? In which area? And so on. The final step in developing your own BATNA is selecting the best alternative. If you do not reach agreement in the negotiation, which of the realistic alternatives do you plan on implementing? These three steps to developing your own BATNA are very powerful tools which help you to get a sense of power over events.

#### *O. Preparation for negotiation*

The major source of difficulty for negotiators is inadequate management of the pre-negotiation phase. This implies that most managers would have achieved better results if they had prepared effectively. The preparation and the amount of time spent on negotiation are not the same everywhere. It is therefore the complexity of the negotiation and its importance to the organization that determines the sort of preparation and amount of time needed. The manager must decide, in each case, how long to spend on preparation. In cases involving long-term relationship (with key suppliers), it could be argued that preparation is continuous, especially, information gathering. Once the objectives of the negotiation have been developed, the team recruited, the BATNA and the negotiation style have all been developed, and one might want to review one's preparation activity. The check list below covers the activities required in completing a thorough preparation and planning process for the negotiation. We can prepare for negotiation by:

- Forming a team (if appropriate), specifying roles, rehearsal
- Reviewing your own position and underlying interest
- Obtaining inputs and advice from key stakeholders
- Reviewing the possible position and underlying interest of the supplier
- Developing some possible outline proposals which considers the needs and interests of both parties to use to start the negotiation rolling
- Developing a bottom line and some desirable targets for the negotiation (these may shift during the course of the negotiation)
- Identifying your BATNA
- Determining any deadline when a decision must be reached
- Considering location – office, conference room, your facility, the suppliers premises, or on a neutral ground
- Considering seating arrangements and the impression that you may create by your choice of seating layout
- Developing a plan for dealing with interruptions
- Providing facilities for the other party's use (telephone, fax and photocopier access, refreshments)
- Setting an agenda for the first meeting after consultation with the supplier; and
- Being prepared personally. Being well rested and alert, well briefed, confident and informed on the issues and dressed appropriately.

#### *i. Features of preparation*

- Three areas are to be considered:
- What do we want?
- How valuable is each of our "wants" to us?
- What are the entry and exit point?

*ii. Stages of Negotiation*

Negotiation generally progresses through five stages (Panjabikesan, 2012).

**PROTOCOL** – During this stage, both parties meet in the negotiation setting. If two teams are negotiating, members of each team are introduced.

**INQUIRING** – At this stage both parties exchange information and discuss concerns. The objective here for both the teams is to identify strengths and weaknesses.

**BARGAINING** – At this stage, both parties make offers and tradeoffs.

**CLOSURE** – At this stage, both parties restate their positions and confirm their tradeoffs they are willing to negotiate.

**ACCEPTANCE** – Finally, both parties reach an agreement and decide to suspend negotiation.

*iii. Negotiation styles*

The choice of negotiation style is clearly influenced by the relative power of the buyer and seller as well as the length of the trading relationship. There are four styles:

(a) Principled style – This admits the existence of conflicting interests but resists the temptation to ‘come to blow’. Each party sees each other as a problem solver. Indicators to this style are:

- They consider the goal to be agreed wise outcome. They perceive the object of the negotiation to be, to reach agreement over mutually beneficial outcome.
- Principled negotiators keep the issues clear; tackle the issue and not personalities. That is, they separate people from problems.
- They are soft on the people but hard on the problem. The problem is what matters and not the stance each party takes.
- They always precede meetings, irrespective of trust. Trust is not an issue; everything should be in the open. If one can find the truth and agree on it, then there is no need for trust.
- Principled negotiators focus on interest, that is, what they want to achieve in the negotiation; and
- They forget about offers and treats and rather discuss what the real interests are.

(b) Hard style – Parties in negotiation can be considered to have a hard style if they regard each other as adversaries. Features in this style are:

- They consider victory to be the goal of the negotiation.
- They are hard on the people and the problem.
- They issue threats.
- They search for answers that are only acceptable to them.
- They insist on their positions; and
- They like to apply pressure throughout the process.

(c) Soft style – Negotiators may be considered to have a soft style if they regard each other as friends. They:

- View the agreement as the goal to the negotiation.
- Are soft on the people and the problem.
- Trust each other.
- Change their positions easily.
- Make offers.
- Accept losses to reach agreement.
- Search for the answer the other party will accept; and
- Insist on agreement.

(d) Pragmatic style – Pragmatic negotiators regard each other as competitor who:

- Consider the goal to be the best possible long-term outcome for their organization.
- Are hard on the people and the problem as the occasion demands. If it is tactically useful and safe to be hard, then be hard. If not, then so be it.

- Precede independent of trust. Base your judgment on the best most cost-effective information you can obtain; and
- Apply pressure as the circumstances demand.

*iv. Choosing the appropriate style*

If the buyer's level of power is low, relative to that of the supplier but the relationship is likely to be long-term, then the pragmatic style is the buyer's first choice. If the supplier strongly objects to the relative hard edge of the pragmatic style, the principled style should be considered. If a buyer's level of power is low, relative to that of the supplier, but the relationship is a short term, the buyer can afford to risk the hard style in an effort to get a more favorable outcome. If the buyer's level of power is high, the buyer would be 'foolish' to consider using any style other than a hard style. With a high level of power and a long-term relationship in prospect, the principled style might look attractive. However, the underlying message is that the negotiator should above all, be flexible and capable of adopting different styles to suit different occasions. Reliance on any one style is a handicap and should be avoided at all cost.

*v. Models of negotiation*

Garvin (1996) also indicates that there are a number of models of negotiation available. Garvin's four - phase approach. Garvin's model, which he calls 'conditional assertive bargaining', is based on a prepare/debate/propose/bargain model.

Garvin's four – phase approaches are;

- **Prepare:** What do we want?
- **Debate:** What do they want?
- **Propose:** What wants could we trade?
- **Bargain:** What wants will we trade?

In answering these questions, and through asking related and derivative questions, we generate the tasks that lead the negotiators to productive outcomes, assuming that one is possible.

**a) Prepare: what do we want?**

Preparation for a negotiation involves deciding what you want to achieve, the range of your options and how much you are willing to trade to allow the other side to gain some of what it wants. The preparation process involves prioritizing and qualifying your 'wants' in such a way that you know how much movement you are able to make in the negotiation. You reduce the chance of reaching agreement if you enter a negotiation without being fully prepared. You can train negotiators to prepare by using the simulations as examples. In preparation, it is wise to consider what you think the other side might want, although you may not find out for sure until the debate phase.

**b) Debate: what do they want?**

In the debate phase people often show behaviors that are unhelpful, such as issuing demands, making sarcastic comments, stating their own positions or indulging in a hectoring manner. These behaviors seldom work as the purpose of debate is to find out what the other party wants and to them understand what you want. Often, negotiators become entrenched in argument which of course, is counter-productive.

**c) Propose: what wants could we trade?**

Once a negotiator has found out what the other side wants, he or she can make tentative proposals on a conditional 'IF – THEN' basis: 'If you could agree to an earlier delivery date, then I might be able to arrange earlier payment.' The proposal phase allows negotiators to exchange tentative suggestions of what might be acceptable. In the process there may be adjournments for further preparation or discussion when a new proposal is received, or even a return to the debate phase to find out by questioning and summarizing, exactly what is being proposed.

**d) Bargaining: what wants will we trade?**

Once the proposals have been properly discussed, the bargaining phase can commence. Here one side can offer (always conditional) trades: 'If you were to deliver on January 23rd then I would settle your invoice by February 15th'. The bargain statement is specific but still conditional; if the answer is 'yes' then an agreement has been achieved.

**e) Ploys in negotiation**

Nice guy/hard guy: You are faced by two people, one difficult to deal with and aggressive, the other softer and conciliatory. The idea is that you become so afraid of the 'hard guy' that you make concessions to the softer negotiator.

Russian front: Two choices are offered, of which one is so bad that you choose the second, less awful, option.

**Deadlines:** Telling the other side the deal has to be completed by a certain time otherwise it is off. The idea is to pressurize you into making a quick rather than the correct decision.

Approval from higher authority: Telling the other side that anything you agree to cover a certain amount will also have to be agreed back at base. The idea is to get you to agree to deals that do not require approval from a higher authority.

### **III. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### *A. Summary*

Every organization or institution encounters some basic problems in undertaking its business operations which Unilever Ghana is no exception. Problems identified from the research conducted indicated the following

Due to the unstable market price; that is the continuous increase in goods and services, it makes negotiation difficult since the prices agreed on can change after the contract has been signed and this can lead to misunderstanding between the buyer (Unilever Ghana) and their suppliers. A currency difference is indeed a problem when it comes to procuring of goods. Foreign exchange poses difficulty in dealing with suppliers outside the shores of Ghana. Thus it was a problem faced by Unilever Ghana. Acceptance of terms such as delivery period, warranty, service agreement was also some of the problems identified. The issues of accepting the terms of the contract between the buyer (Unilever) and their suppliers. The main objective of the study is to determine whether effective negotiation is the best practice in the acquisition of goods and services.

This project aims at the following specific objectives:

- To find out how the procurement department in Unilever Ghana negotiates in different settings.
- To find out the styles adopted by the procurement department
- To evaluate whether negotiation favors the procurement department

Sampling is a research tool the researcher hope to select and study certain number of people in the population which is considered to be representative of the entire population. Unilever Ghana Limited was chosen as the sample size to represent the entire Unilever Ghana Limited. For the purpose of this study, the quota and purpose sampling techniques was used in choosing the department in the institution in which to the researcher's opinion are relevant to the study. In all we interviewed two personnel from the procurement department.

The interview was based on a structured questionnaires prepared using both open – ended and closed – ended questions. The instruments used to conduct this research were interview and observation. The study employed interviews method to obtain information from the interviewee. The main objectives of the interviews schedule for Unilever Ghana helped us to find out from them, the information which gave satisfactory response. During the interview with the personnel, the researcher paid maximum attention to his behavior pattern with respect to certain issues. Some of the questions asked during the interview period might not need direct answers. As per finding therefore, the organization only negotiates when goods and services are needed to be purchased and also before contracts are awarded. Also other suppliers are also involved before negotiation is done. More so, negotiation has assisted them to get access to best price of goods and services, quality and agreeable delivery period therefore allowing them to easily operate the business activities without any shortage of materials needed to work.

It has also been found that there are variations in the time frame for each product. The time duration can either be few days, a month, several months and a year; all these time frames will be used depending on the type of product being acquired. Maintaining Relationship in an organization is a key context in business activities. In relating to this, we realized that, the relationship between the buyer and the supplier is maintained after the contract has been performed

leading to highly established relationship among the two parties. Finally it was also realized that due to the maintenance of good relationship between the buying organizations that is Unilever Ghana Limited and their suppliers, goods needed urgently are delivered before the terms of payments are agreed upon.

#### *B. Conclusions*

To conclude, evaluating effective negotiation in the acquisition of goods and services assures an organization of getting the right price of products, at the right time and right delivery in the safest manner. Also the organization will be able to reduce its cost of operations which leads to be highly competitive in the industry of operations. Negotiation is indeed a strong tool in the acquisition of goods and services. It aids in increasing performance levels, reduce bottom line costs, facilitate faster service deliveries, and hence increase in the market shares of Unilever Ghana Limited as compared to major players (competitors) in the industry.

#### *C. Recommendations*

In order to enjoy the various advantages offered by negotiation which in the long run improves or increases an organization's competitiveness, we recommend the following: To ensure that standards sets are met in future contracts, previous contracts should be evaluated before renewal of contract using value analysis and value engineering. Training programs should also be organized annually to educate staff in the areas of negotiation processes. Suppliers should be developed through supplier development programs as to tap their full potential by embracing supplier's expertise and aligning it to the buying organizations business need and where appropriate vice versa. It also recommended that, they maintain the relationships with their suppliers which will have a long way to help them.

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