

Negotiation, an Effective Tool for Ensuring Best Value for Money in Public Sector Organizations

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Abstract

This study was carried out on negotiation an effective tool for ensuring best value in public sector organization. Due to the dramatic transformation in the business world, procurement is now regarded as a strategic function for cost saving and profit maximization. Negotiation as part of procurement is one of the best technique of purchasing goods, services and works which also guarantee value for money spent. Both primary and secondary data were obtained from procurement officers, management and those who are directly involved in procurement activities in some selected public sector institution in Sekondi-Takoradi metropolis by the use of questionnaires. The data was analyzed descriptively and presented pictorially by tables, bar charts and pie charts. From the data analyzed, it was established that all the institutions interviewed have procurement department on its own. Also it was established that the institution source for its materials. It was also established that though, the people have knowledge in negotiation, but they lack the techniques and skills and brings about win-lose situation. It was concluded that negotiation is one of the best technique of purchasing goods, services and works which also guarantee value for money spent and serious attention must be given to it.

Keyword: Negotiation, Value for Money, Procurement Contract, Effective Negotiation

1.0 INTRODUCTION

Negotiation is an inevitable or forgone conclusion we employ in our everyday life in all our undertakings, be it whispering conferences, conflict resolution, engagement of contractual arrangement, dialogue, etc (Lyson et al,2006). Hence, an element of negotiation prevails at that particular moment, since the major aim is to arrive at a consensus (Burt et al, 2003). The concept of negotiation is to create economic merit against the opponent. However, it may end up in the signing up of agreement on certain terms and conditions that may be mutually binding on either side for duration. The duration is it long term, short term or medium term depending on the negotiations agreement (Burt et al, 2006).

Sourcing on the other hand is involved in seeking and locating suitable and economical sources of supply of goods and services (Famer, 1995). This is one of the aspects of purchasing which must always be taken into consideration so as to get the right price, right quantity and the right quality of goods and services. Succeeding, the process of negotiation is essentially a needed factor which has a bottom line and an end line. According to Lyson and Farrington (2006), they define negotiation as occasion where one or more representatives of two or more parties interact in an explicit attempt to reach a jointly acceptable agreement in business transaction. In this contest, negotiation could be seen as a process of planning, receiving and analysis used by a buyer and seller to reach acceptable agreements or compromises (Moore, 2002). Over the past years issues like conflicts between buyer and seller, business collapsing where due to poor negotiation techniques used when materials are being sourced for (Trepte,2007).

1.1 Statement of the problem

Negotiation is one of the best techniques of purchasing goods, services and works which also guarantee value for money spent. Negotiation is use in procurement when prices of item cannot easily be estimated and the buyer anticipates change in specification. However, many organizations have failed to get value for money in their negotiation for purchase of goods, services and works as a result of the approach they adopt during pre-negotiation and post negotiation stage. This study therefore, seeks to examine critically the various approaches to negotiation and how it impact can help in achieving value for money for the organization.

2.0 LITERATURE REVIEW

This present a review and discussion of the literature related to the topic of this research. It is generally accepted that a key competence in procurement and purchasing executive is an ability to negotiate. Negotiations may involve dealing with a single issue or many. They may be conducted on a one-to one bases or between teams of negotiators' representing different interests, and may be conducted over a day or take many month to complete. It is also worth mentioning that negotiations are necessarily confined with the buyer-seller relationship, many procurement

or purchasing negotiations take place on an intra-organizational bases, involving the reconciliation of the views of supplies staff and colleagues (Markowaski, 2010).

According to Lyson, (1994) Negotiation is defined as any form of verbal communication in which the participants seek to exploit the relative strengths of their bargaining position to achieve explicit or implicit objectives within the overall purpose of seeking to resolve the identified areas of disagreement. Trybus (2010) continuous to highlight the fact that, negotiation has proved to be one of the most effective means of avoiding unnecessary cost in business transaction to the following objectives;

- To develop a sound and continuing relationship with competent suppliers.
- It aims at obtaining a friar on reasonable price for quality specification.
- To persuade a supplier to give maximum co-operation to the buyers company
- To create a long- term partnership with a highly qualified supplier.
- To get the suppliers to perform the contract on time.

According to Loffler, (2003) define negotiation as an application where there is disagreement or potential disagreement between supplier and buyer. A good buyer will be sensitive to potential areas of conflict and will seek to resolve these before they arise by ensuring that terms and conditions applicable to the purchase provide for such contingencies. Baily, et al (1994) defines negotiation as a process whereby agreement is sought, they also highlight the phases of negotiation are yet to be treated.

According to Dobler et al, (1993). Negotiation is defined as conferring, discussion or bargaining to reach an agreement in a business transaction. In this contest negotiation could be seen as a process of planning, receiving and analysis used by a buyer and a supplier to reach acceptable agreements or compromises. In the above definitions therefore, we realized the word agreement cut across because in every negotiation or an effective negotiation, there must be an agreement. A buyer of an organization who negotiate well stands the chance of improving his company's profit in that, he or she will get the goods at an affordable price and as well from the right first class and will make the public sector organizations gain good negotiation,(Van Weele, 2010).

Value: Value is defined as its importance or usefulness or its worth in relation to the money that costs,(Active Learners Dictionary,2004).Value is concerned with questions relating to what is right, good and bases on which we make decision (Caranta, et al,2010)

Value Adding: Value adding is a means of analyzing an organization's strategic relevant activities in order to understand the behavior of costs competitive advantage comes from carrying out those activities in more costs effective way one's competitors (Porter,1985). Value added is any activity that is valued by the customer or required by law (Lester and Benning,1989). Value added is defined as the difference between the overall cost of manufacturing or making process and the final value of the goods or the degree of usefulness or desirability (Chambers 21st Century Dictionary,2000). From the definitions above, it can be said that, negotiation's contribution's towards value adding in an organization's profitability cannot be over ruled.

Nonetheless, procurement staffs are representatives of their organization's in its dealings with suppliers, and as such there is the need to portray a good image first of themselves and that of their organizations. They are the eye', "windows", or "package " of the organization. However, it is important to emphasize the point that the, general objective of procurement is to achieve right quality, from the right place, at the right quantity, at the right time, and at the right price. This can only be realizing through a good negotiation. Good negotiation conduct in dealing with suppliers is essential to the creation of price (i.e. how much an organization must pay for any bought out item).This is the most essential element in the cost reduction process.

Nonetheless, the interface communication between the negotiation teams, reduce the levels of contract disputes to workable limit. Since, the responsibilities of both parties will be spelt out during the negotiation process. Hence, cost of legal battle will be save as a means of value adding. Negotiation also helps organizations to deal with vague technical specifications and ambiguities in specifications and deliverables expected of the contract as anything agreed upon by the parties will be stated in the memorandum of understanding during the negotiation. It goes a long way to help corporate organization's to avoid misunderstanding and confusing in contract agreements. This is the surest way of saving cost.

Phases of negotiation: Pre-Negotiation phase: preparation that is normally must be done before negotiation takes place. For instance:

- Formation of the negotiation team.
- Selection of leaders.
- Selection of the site of negotiation if possible.
- Sitting arrangement.
- Defining what cannot be negotiated.
- What can be bargained?

- What can be offered as free gift? (Lyson, 2006).

Actual negotiation phase: There is a lot of discussion on what must be done and not to do. For instance; Purpose of the negotiation (agenda). Presentation by each party's point of view, Explanation, Argumentation, Summing up, Signing of the minutes of meeting. Post negotiation phase: Involves the formation of agreement, approval of contract, signing of contract and performance of contract. For instance; Formation of the agreement, Drafting of approval of the contract, Signing of the contract, Performance of the contract (Lyson, 2006).

2.1 Preparing for negotiations

Planning and preparation for negotiations starts long before the actual negotiation takes place. It is important to find out at an early stage what the other party's view of the negotiations will be; what exactly are they hoping to achieve? In exceptional case a supplier doesn't want to sell at all, but keeps the discussion going to collect basic information about changing usage patterns and or competitors. To get some idea, a useful tactic can be used to ask what subjects the other party wants on the agenda (this in itself can prompt preliminary negotiations between the Americans and the soviets in Geneva in the late 1980's). Good negotiator plans, organizes and executes his operation systematically. He has the information, skills and the fitness to interpret structures and formulates his tactics with agility; there are few points to consider when preparing for negotiation;

Have as much information as possible on what you want and what you want to have (negotiation is all about information) you have to take into account how it will benefit the other party by offering some sort of reward or incentive.

- Accept limits on what you want to gain from the negotiation. Know your extremes.
- Know your financial capabilities
- Get information on your opponent's side (Lyson et al, 2006).

Know what your opponent is trying to achieve by their negotiation .this is a useful information that could be used to your benefit and may well be used to reached a final agreement. Successful negotiators recognize that negotiation is about fulfillment of needs (think of satisfying your need as well as those of your opponent during negotiation). It is important to find out as much as possible about the other party. If it is a new supplier, examination of annual reports and bank references are a prerequisite. If it is an existing supplier, it is wise to analyze the past deliveries - have there been problems in the past with this supplier? (E.g. low delivery reliability, quality defects, unexpected price increases, etc). There is no harm in trying to quantify the scope of these problems. Furthermore, it is also important to know who will represent the supplier in the negotiations. Are they people you know? If not, then the authority of the negotiating partners must be investigated.

How far does their power of decision go? Do they have the authority to conclude an agreement? At first sight this may seem to detailed an approach, however, the buyer must take into account that sales people have an eye for detail and come very well prepared. It is important, after having gathered the necessary information, to have an idea of possible points of agreement between you and the other party. If they are few, you might reconsider the wisdom of negotiating (Lyson et al, 2006).

2.2.1 Types of negotiation

The process of negotiation can be carried in, Verbal form (that the face to face or telephone, Written form and Mixed form.

Verbal form: This verbal form of negotiation is an interactive type. It could take place in the form of face to face discussion where the negotiation nonparties sit across the table to negotiate or use electronic medium, such as the telephone including the chat mode on the internet but excluding the e- mail. There are some basic Dos and Don'ts during face to face negotiations. These are: Spell out underlying points that form the background, Clearly refer to the last meeting points on the issue, Be clear in the thoughts and perceptions, Remove ambiguities, Sometimes ignorance so that opponent talks more, and Be a good listener.

Negotiation over the telephone: This is the most common tool used by many negotiators. Telephonic negotiation (tele- negotiation) is usually employed as a follow up to written medium like fax, e- mail or letter has been issued for an offer. Know what the options with you are, Analyse the options and chart out plans of action, Prepare your contingency plans, Make sure the written proposal reaches the destination right on time, Put the time limit for the response and if the response does not come in time make direct contract to know the reaction.

Mixed negotiation: Generally the negotiations are not always either in verbal form or written form; they are in a mixture of both. One has to know when to resort to which form. The negotiation is the ultimate of all earlier approaches to form an understanding on a subject. When the understanding reaches a point from where the two sides must resolve their differences is the point from where the negotiators must start to do so.

2.2.2 Planning negotiations

Clyton (1984) proposed a ten-step approach when the homework has been done, planning of the negotiations can begin:

Establish the objectives of the negotiation for yourself: What exactly do you want to accomplish by means of the transaction with the supplier? What is it you want him to do? What are you willing to do in return? Make a distinction between the short-term benefits you want to achieve, and the long-term benefits you see. Sometimes it is necessary that you tone down your short-term expectation a little for the benefit of long-term interests. Take the manufactures of copying equipment, which for example are often willing to let something off the sales price, only to compensate for this reduction at a later stage through higher service rates, spare parts and suppliers.

Gather facts that can have a big impact on the negotiations: If a supplier wants to come and talk about a price increase, it is worthwhile finding out how this increase relates to his competitors.

Assess the power position of each of the parties: A power position in a negotiation can be derived from various aspects. It is important to realize that power is a relative concept. It also depends on how the position (power) is perceived by the other party

Determine the points of common interest: In many negotiations most of the time is spent on issues one cannot agree on. If these are the only issues that receive attention, will be very difficult to reach an agreement.

Make list of questions: A systematic approach is important in negotiations: Resist the temptation to respond immediately to details or new information presented by the other party. If this new information sheds a completely different light on matters, it is better to discontinue the negotiations and do your homework.

Define your tasks both parties will probably make concessions during the process of negotiation: It is unrealistic to expect the other party to do it all. You can plan your concessions in advance.

Decide on the composition division of roles in your negotiating team: The composition of the team will depend on the subject of the negotiations: Who are the best people to use?

Plan your concessions: What will be your opening bid? When will you make it? Never make a concession without asking for something in return, but also never ask for a concession without offering something in return. **Agree upon the negotiating tactic you will follow:** This subject is discussed in the next section.

Indicate how you think you will conclude the negotiations: What working agreements do you think you can reach with the other party? Is it necessary to schedule the next discussion/Summarize the results and agreements for the other party, to prevent misunderstandings.

2.2.3 Stages in procurement or purchasing negotiations

In any negotiation two types of goals should receive consideration. These may be referred to as substance goals and relationship goals

Substance goals: Substance goals are concerned with the content issue of the negotiation. The possible content issues are legion and depend on the requirements relating to a situation. Most negotiation will be about high-values or usage items that is 15-20 percent that constitutes the major portion of inventory investment. Negotiation also relates to non-standard items, although a large user will, seek if possible to negotiate preferential terms for standard suppliers. Most negotiation topics affect price, either directly or indirectly. There are numerous ways in which content issues can be grouped including overseas buying and buying for construction project. Grouping may also relate to products such as information technology (IT) or commodities. Three typical grouping relation to price, contractual and delivery issues in negotiation are, the price content of negotiation, contractual content of negotiation, and the delivery content of negotiation.

Relationship goals: Relationship goals are concerned with outcomes relating to how well those involved in the negotiations are able to work together once the process is completed and how well their respective organizations or constituencies' may work together. Some areas for relationship goals include: Partnership sourcing, Preferred supplier status and Sharing of technology.

2.2.4 Factors in negotiation

Three important factors in negotiation are the Negotiator, the Negotiation situation and Time.

The negotiator: In negotiation, purchasers and suppliers are individuals usually acting as representatives of their respective organizations. Their behavior in negotiations will be influenced party by their personalities and partly by their roles as representatives.

Personality: This may be defined as the relatively enduring and stable patterns of behavior, thinking and feeling which characterize an individual. It should be recognized, however, that there is no universal agreement about the meaning of personality because behavioral scientists define the term from different perspectives. In the present

context, it can be loosely considered to mean how people affect others and how they understand and view themselves. How people affect others depends primarily on:

- Their external appearance – height, facial features, colour and physical aspects.
- Their behavior – vulgar, aggressive friendly, courteous.

Studies have shown that personality variables, such as authoritarianism, anxiety, dogmatism, risk avoidance, self – esteem and suspiciousness affect the degree of co-operation or competitiveness present in a negotiating situation. The implementation of negotiation strategies may be affected by personality factors and equally, the mix of personality characteristics of the participants may determine the outcomes of negotiations. Transactional analysis developed by Eric Berne in the 1950s, has considered relevance to the understanding of negotiating behavior.

A transaction is the unit of social interaction: If two or more people encounter each other sooner or later one of them will speak, or give some other indication of acknowledging the presence of others.’ this is called the transactional stimulus. Another person will then say or do something that is in some way related to the stimulus and that is called the transactional response.

Negotiation as representatives: In negotiation, it is important for participants to know the extent of their authority to commit the organizations that they are representing as such authority prescribes their options and responsibility for the outcome of the negotiations. The degree of authority may range from that of an emissary commissioned to present, without variation, a position determined by his or her superiors to that of a free agent. There is evidence that the fewer constraints imposed on a negotiation, the greater will be the scope for his or her personal characteristics such as knowledge, experience and personality to influence the negotiation process.

Five sets of conditions prevent negotiators from responding spontaneously to their opposite numbers:

- When they have little latitude in determining either their positions or posture. When they are held responsible for their performance.
- When a negotiator has sole responsibility for the outcomes of negotiation.
- When negotiators are responsible to a constituency that is present in the negotiations.
- When they are appointed rather than elected.

2.3 Negotiation ethic

According to Lyson and Farrington (2006), negotiation ethics is an aspect of the wider subject of purchasing ethics, and relationships. This topic is considered because ethical perspectives largely determine whether or not a particular negotiation is adversarial or integrative. Fisher and Ury (2003) distinguish between positional and principle negotiation. Position Negotiation: Positional negotiation views negotiation as an adversarial or conflict situation in which the other party is the enemy. It is based on four assumptions.

We have the correct and only answer to a particular problem.

- There is a fixed price.
- Opposite positions equal opposite interests.
- It is not our responsibility to solve the problems of the other party.

Position and interests are closely related. Often negotiations will not move from a fixed position because of psychological pressures or needs. A leader of a negotiation team may refuse to consider alternatives for fear of losing face or being seen by team members as backing down.

Positional negotiation has at least two drawbacks: It is win- loses – it has only two ways to go, which are forwards to victory or backwards to defeat. From an ethical standpoint, positional negotiation leads to such questionable tactics as: Misrepresentation of a position, Bluffing, Lying or deception, only providing selected information or being economical with the truth, Threatening, and Manipulating. Fisher and Ury (2003) also see principled bargaining as an alternative to hard or soft bargaining. Soft bargainers demand concessions as a condition of the relationship.

3.0 CONCLUSION

3.1 Findings

The entire research focused on Negotiation: An effective tool for ensuring best value in public sector organizations.

In the light of findings, the researcher had a number of objectives which are:

1. To identify the negotiation approach adopts to purchase goods, services and works in the organization.
2. To examine the effectiveness of the negotiation style adopted by the organization in achieving value for money.
3. To evaluate the challenges that the organization encounter in the negotiation process.
4. To give recommendation and suggestion towards improving the negotiation process in public sector organizations.

In order to achieve these clear objectives, data was gathered through questionnaire and personal observations which revealed that most procurement officers follow the procurement process but they lack the skills and techniques in negotiation. Analyses shows that majority of the organizations negotiate post-sourcing for materials. Also it was found out that, on few occasions the organizations encounter problems with the suppliers relating to timely delivery of materials. Public Sector Organizations just like any other manufacturing companies spent a huge sum of money on materials they purchase; hence rely on purchasing or procurement department to undertake purchases.

3.2 Conclusion

The following conclusion has been reached out at the findings from the analysis of the statistical data obtained from the questionnaire administered and observation from the respondents. The research was on the topic, Negotiation: An effective tool for ensuring best value in Public Sector organizations. It can however be noted that negotiation is an important stage in physical procurement process. Lyson, 1994 stated that Purchasing negotiation must be utilized in its broadest context as a process of planning, reviewing, and analysis used by a buyer and supplier to reach an acceptable agreement or compromises. The agreement and compromises must be including in all business transactions and not just price. Due to the dramatic transformation in the business world, procurement is now regarded as a strategic function for cost saving and profit maximization. Negotiation as part of procurement is one of the best techniques of purchasing goods, services and works which also guarantee value for money spent. Griffith et al, 2002 indicated that a successful negotiation process should be aimed at creating a win – win situation where both parties will have a fair deal.

From the analysis, it was noted that, the supplier and the buyer has the influence on the negotiation process. This is because the quantities supplied by the suppliers are what is demanded by the buyers which should be the case and also more time is made available to the supplier to make supply.

3.3 Recommendations

The following recommendation has been provided as solution to the problems identified in the course of the study. The entire staff of Public Organizations, who have the responsibilities for purchases, must be aware of the negotiation process. The suppliers must be well informed about the terms, conditions and other factors necessary to enhance effective negotiation on sourcing of materials. It should be noted that the negotiation process should create a win – win situation where both parties will have a fair deal to reflect on the principles of total quality management. The organization must also ensure that adequate training and information are made available to the negotiation team. This will ensure maximum benefit to the organization. The management of the organisations must also have a specific time for materials purchased to be delivered. The organisation must also ensure that all problems which arise between them and their suppliers are resolved whenever it occurs. Clayton, 1984 stated that as conflict is bound to occur when problems are unresolved. Public Sector Organizations must ensure that it follows all the terms and conditions which are involved during negotiation.

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