

Relationship between Partnership Negotiation Strategies and Selection of Suppliers in Private Milling Companies in Eldoret-Kenya

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Abstract: *Selection of suppliers is one of the most important decision making problems to management of firms. Selecting the right suppliers significantly reduces the purchasing costs and improves corporate competitiveness. Although all organizations undertake suppliers' selection, most of them fail to find and retain the right suppliers who can perform to the expected levels because they fail to recognise the effects of their selection strategies. This raises issues on the suppliers' selection strategies given that incompetent suppliers are characterised by late deliveries, poor quality products, and wrong delivery, high damages due to mishandling of products, poor communication and high cost which are finally offloaded to customers through product prices. All these are undesirable as they make organizations not realize their pre-set objectives. The main purpose of this study was to establish the effect of partnership negotiation strategies on the selection of suppliers. The specific research objectives were to determine the effect of partnership negotiation strategy on the selection of suppliers. A census of the three private milling companies in Eldoret was taken for the study. The design of the study was correlational method involving a combination of qualitative and quantitative research methodologies. The target population was 460 respondents, out of which a sample size of 210 respondents was drawn from the five major departments in the companies and their suppliers, using stratified random sampling and simple random sampling to select respondents from among company employees, management and suppliers. The researcher then used questionnaires and interviews as research instruments to collect primary data from the respondents. From the Pearson's correlation coefficient findings, the partnership negotiation strategy had positive significant effect on the selection of suppliers ($r = .730$). The results showed that the partnership negotiation strategy significantly affect the selection of suppliers. The research is an important source of information to millers and other business entities particularly in deciding negotiation strategy to adopt and in reviewing supplier selection policies. Thus the researcher recommended the use of partnership negotiation strategy in the selection of suppliers and further research on impact of adversarial negotiation strategy on the long term relationship between buyers and suppliers.*

Keywords: *Negotiation, partnership, supplier, selection*

1. INTRODUCTION

The ability to adopt appropriate negotiation strategy to select efficient suppliers who can consistently meet delivery schedules for the various product or service specifications is the single greatest challenge encountered in procurement operations (Guttman, et al., 1998). Objective negotiation requires investigation on the appropriateness of the negotiation strategy to employ and suppliers on every area of negotiation concerning consideration on both short and long term objective performance. Negotiating is the appropriate method of purchasing when competitive bidding is impractical (Lowe et al, 1994).

Knowledge of the current economic conditions in the market for the product in question is also an essential element of preparation. Negotiation strategies should be rated effectively by the negotiators and should have attractive records as well as low incidence of implementation failure to avoid going back to issues already negotiated if the strategies selected fail to achieve the best results. The behavioural aspect has attracted more academic attention as argued by Spekman et al, (1999) that persons in the roles of negotiation are regarded to communicate positions, make demands and concessions, respond to changing signals and arrive at outcomes.

Partnership arrangements being collaborative in nature between buyers and sellers have become a major catalyst of change, and where it is established on a long-term basis, it offers a way of

employing the expertise of suppliers in supporting innovative strategies. Saunders (1997) pointed out that partnership sourcing is a commitment by both buyers (customers) and suppliers, regardless of size, to a long-term relationship based on clear, mutually-agreed objectives to strive for world-class capacity and competitiveness. He asserted that partnership model is held up as possessing the possibility of a 'win-win' outcome – both parties winning simultaneously, through the adoption of problem-solving approaches. Lysons and Farrington (2006) concurred with Saunders (1997) in stating that partnership negotiation model is characterised by: high frequency of both formal and informal communications, co-operative attitudes, long-term business agreements, open sharing of information by multi-functional teams, vendor certification and defect prevention approaches, strategies are predictable, problem-solving, 'win-win' negotiating styles, with an emphasis on managing total costs.

According to Saunders (1997) Partnership negotiation approach is characterised by a desire to satisfy all interests in a win-win solution and it is appropriate when: finding a long lasting or creative solution is required; both sets of interests are too important to be compromised; reaching a consensus is required; developing and maintaining a relationship with the supplier is wanted; and there is a need to learn – to test assumptions or better understand the views of others. The potential negative consequences of collaborative are: it is time consuming to reach agreement; too much time can be spent on insignificant issues; unfounded assumptions about trust can lead to the other party taking advantage of your positions; ineffective decisions as a result of including input from many people.

Hertz (2001) stated that in the real world of business, the results often tilt in favour of one party over the other because it is unlikely that both parties will come to the table at even strength, when they begin the talks. Nonetheless, there are many advantages to be gained by both parties, when they take a cooperative approach to mutual problem solving. The process generally involves some form or combination of making value for value concessions, in conjunction with creative problem solving. Generally, this form of negotiation is looking down the road, to them forming a long term relationship to create mutual gain. It is often described as the win-win scenario. Hertz (2001) identified four basics of partnership negotiation stated hereunder: multiple issues in partnership negotiations usually entail a multitude of issues to be negotiated unlike the other negotiation strategies which generally revolve around the price, or a single issue. In partnership negotiations, each side wants to get something of value while trading something which has a lesser value; to fully understand each other's situation, both parties must realistically share as much information as they can to understand the other's interests in that problems are not solved without knowing the parameters and cooperation is essential; negotiators strive to find solutions to each other's problems by offering something of lesser value which gives their counterpart something which they need resulting in realising objective and integration of the problems into a positive solution; More and more businesses are engaging in long term relationship (Bridge Building) because relationships offer greater security. This is a key distinctive feature of partnership negotiation from the others.

Modern competitive and dynamic business world has pressurised organizations irrespective of their orientation, to position themselves strategically in a way that enables them remain in the market to achieve their core objectives. In the recent past, most milling firms in Kenya have been doing badly economically while others have closed. This could be attributed to among others, changing competitive environment and the forms of negotiation strategies they used in selecting their suppliers. Proper selection of suppliers is key in firm's market positioning and its maximization is only possible through strategy and negotiations, more so to organizations which have realised that they can only be as strong as their weakest supplier, because inefficient suppliers affects production schedule and service delivery and thus the need to strategically select and improve suppliers using a sound negotiation strategy.

This has been greatly attributed to lack of crucial information on the effect of negotiation strategies on the selection of efficient suppliers to support firms survive in competitive business environment. The study sought to bridge this gap by establishing the effect of each partnership negotiation strategy in the selection of suppliers. Several research have been done on the effect of negotiation on the selection of suppliers and on the contribution of negotiation process to the selection of suppliers but none have been done on the effect of negotiation strategies on the selection of suppliers. This study therefore sought to establish the effect of partnership negotiation strategies on the selection of suppliers.

2. THEORETICAL FRAMEWORK

The study was based on Druckman (1997) negotiation theory based on four approaches to negotiation: negotiation as puzzle solving, negotiations as a bargaining game, negotiation as organizational management and negotiation as diplomatic politics. His five levels of approaches namely the structural, the strategic, the processual (which we call “concession-exchange”), the behavioral and the integrative approaches. Structural, strategic and process oriented approaches to negotiation tend to share a distributive understanding of negotiations. These approaches involve the presupposition that negotiations are zero-sum transactions. In other words, negotiators look at negotiations as contests over a limited or fixed amount of some mutually desired benefit such that one person’s gain is another person’s loss. The totality of available benefits is often represented metaphorically as a ‘pie’. Because negotiators battle over a fixed amount of some good or benefit, negotiators hope to ‘win’ a portion or ‘slice’ of the pie at the expense of a corresponding loss (of pie) by the other. This approach is in contrast to approaches that seek to use negotiations as a way to enlarge the pie, or in other words, to multiply gains in order to make both parties better off. As a result, these approaches tend to invoke strategies that are distributive or predatory in nature. Distributive Strategies, also known as “zero-sum”, competitive, or “win-lose” strategies are based on this competitive view of negotiations. They are designed to secure the biggest slice possible of the proverbial pie for one side (also called “claiming value”), while leaving the other side with the smallest helping possible. The study found more relevance in structural and strategic approach.

3. CONCEPTUAL FRAMEWORK

The research adopted a conceptual framework where effect of partnership negotiation strategies was taken as an independent variable while selection of efficient suppliers was itemised as dependent variable. Appropriate negotiation strategy facilitates firms to select efficient suppliers who are characterised by provision of quality products, competitive prices, quick delivery, low acquisition cost, favourable terms and conditions as illustrated in the Conceptual figure 1.

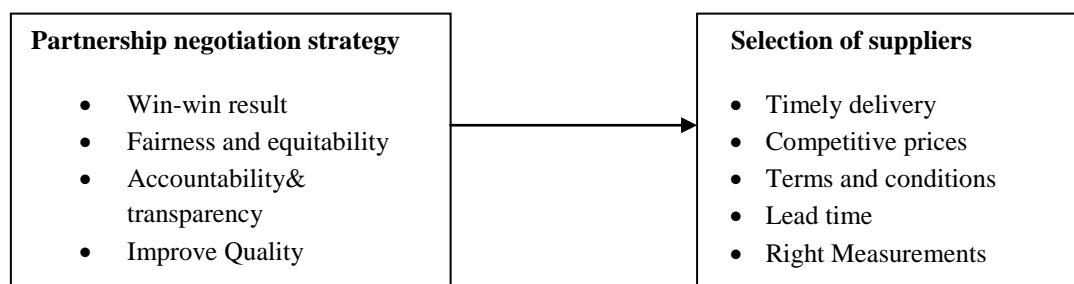


Fig1. *Conceptual Framework*

4. RESEARCH METHODOLOGY

This study established the effect of partnership negotiation strategies on the selection of efficient suppliers in selected millers within Eldoret town. The region was selected not only because it is the home town of the grain farmers who constitutes the major suppliers to the private millers under study but also a business hub for other items which are supplied to millers. Majority of these suppliers are willing and able to supply these millers and thus the need to competitively and strategically select them to ensure that only efficient suppliers entered the approved list of suppliers. This study utilised correlation method of descriptive research. A combination of qualitative and quantitative research methodology was relevant for the process of primary data collection from the millers who operated at the same level. This design was also found appropriate because it allows for diverse ways of collecting data (Nyandemo, 2002) and also the investigation of subsequent relationships between quantifiable variables, that is, correlation of variables which in the study constituted the effects of partnership negotiation strategies (independent variables) which could not be directly controlled by the researcher because their manifestations had already occurred and therefore not manipulated while selection of suppliers was taken as the dependent variable.

Target population comprises 460 respondents from various departments among the three big private millers in Eldoret town. The target population comprised of 52 purchasing, 40 finance and accounts, 38 transports, 34 marketers and 296 suppliers.

Stratified sampling and simple random sampling was used to identify the employees, managers and clients of the three selected companies that were involved in the study area. Then the sample was selected with categories similar to that of the population, at the same time maintaining their proportions in the sample, that is, proportional sampling. Sample size was determined using Krejcie and Morgan (1970) and quoted by Kathuri and Pals (1993). A sample size of 210 study units at 95% confidence level was selected for the study. Minimum sample size of 210 respondents was proportionately selected from the target population to participate in the study.

Primary data was collected through direct communication with the respondents by questionnaires and structured interviews. Primary data included actual questions asked in the questionnaire and comprise of both open ended and close ended questions. Secondary data was used particularly as a source of information to know the number of employees and who the suppliers to the three millers are. The major sources of this data are extracts from the milling company’s annual records, reports and abstracts.

Content validity of the instrument was ensured through constructive criticism from research experts. Their extensive experience and expertise in questionnaire construction, really transformed the research instruments and their advice to use peer reviews yielded positive results. The reliability of the instruments was improved through piloting and pre-testing. Furthermore, the reliability and validity of the results were obtained through member checks to help indicate whether the findings appeared to match with perceived authenticity. This was purposely done to limit the distorting effects of random errors on the findings.

The data from the completed questionnaires were cleaned, re-coded and entered into the computer using the statistical package for social sciences (SPSS V.20) for analysis. Descriptive statistics (frequency analysis) were computed for analysing the data. Descriptive statistics enable the researcher to describe the aggregation of raw data in numerical terms (Neuman, 2000). These methods incorporated the use of frequency distributions, percentage tables and measures of central tendency. The researcher used measures of variation such as: ranges, percentiles, mean and standard deviations for univariate analysis where applicable. Pearson product moment correlation was performed to predict the variability of the dependent variable (selection of suppliers) based on its covariance with all the independent variables (partnership negotiation strategies).

5. RESULTS

5.1. Factors Influencing Effective Negotiation Strategies

The respondents identified various factors that influence negotiation strategies adopted by the millers during the selecting of suppliers as summarized in Table 1. The fast delivery was identified by majority of respondents 199 (95%) to be good in influencing effective negotiation strategies, with the least identifying that it had poor influence. Low prices were identified by majority of respondents 135 (64%) to be good in influencing effective negotiation strategies, with the least identifying that it had poor influence. The high quality of services was identified by majority of respondents 193 (93%) to be good in influencing effective negotiation strategies, with the least identifying that it had poor influence. The less-time taken in negotiating was identified by majority of respondents 132 (63%) to be good in influencing effective negotiation strategies, with the least identifying that it had poor influence. The right measurements were identified by majority of respondents 173 (82%) to be good in influencing effective negotiation strategies, with the least identifying that it had poor influence.

Table1. *Factors Influencing Effective Negotiation Strategies*

| | V.G | | Good | | Fair | | Poor | | V.P | | Mean | Sd. |
|-------------------|-----|----|------|----|------|----|------|---|-----|---|------|------|
| | F | % | F | % | F | % | F | % | F | % | | |
| Fast delivery | 135 | 64 | 64 | 31 | 8 | 4 | 3 | 1 | 0 | 0 | 4.58 | .64 |
| Low prices | 59 | 28 | 76 | 36 | 60 | 29 | 9 | 4 | 5 | 3 | 3.82 | 1.00 |
| High quality | 146 | 70 | 47 | 23 | 12 | 6 | 2 | 1 | 0 | 0 | 4.56 | .84 |
| Less time | 65 | 31 | 67 | 32 | 56 | 27 | 13 | 6 | 8 | 4 | 3.79 | 1.10 |
| Right Measurement | 131 | 62 | 42 | 20 | 23 | 11 | 8 | 4 | 5 | 3 | 4.35 | 1.03 |

The mean (4.58), Sd. of 0.64 of fast delivery was high during the study, followed by high quality of services indicating it was influencing effective negotiation strategies with a mean of 4.56 and Sd. of 0.84. The right measurements had a mean of 4.35, low prices (3.82) and finally less-time taken (3.79) indicating that they were influencing effective negotiation strategies and was good in influencing

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effective negotiation strategies. From the findings it was identified that the overall mean of the factors affecting negotiation strategies was all above 3.8 thus indicating that the statements used to determine factors influencing effective negotiation strategies was good. It can therefore, be concluded that high quality of services; fast delivery, rights measurements, low prices and less-time taken were factors influencing effective negotiation strategies.

5.2. Partnership Negotiation Strategy

The partnership negotiation strategy was viewed by respondents to have varied benefits with the selection of suppliers as summarized in Table 2. Majority of the respondents 199 (95%) agreed that partnership negotiation strategy assist on win-win situation between buyers and suppliers with the least of them disagreeing and undecided that partnership negotiation strategy assist on win-win situation between buyers and suppliers. Majority of the respondents 161 (77%) agreed that partnership negotiation strategy ensure fairness and equitability in selection of the suppliers with the least of them disagreeing or undecided that partnership negotiation strategy ensure fairness and equitability in selection of the suppliers. Majority of the respondents 179 (86%) agreed that partnership negotiation strategy ensure accountability and transparency, with the least of them disagreeing or undecided that partnership negotiation strategy ensure accountability and transparency. Majority of the respondents 192 (91%) agreed that partnership negotiation strategy improves quality, with the least of them disagreeing or undecided that partnership negotiation strategy improves quality.

Table2. Partnership Negotiation Strategy

| ENHANCES: | S.A | | A | | U | | D | | S.D | | Mean | Sd. |
|------------------------------|-----|----|-----|----|----|----|---|---|-----|---|------|-----|
| | F | % | F | % | F | % | F | % | F | % | | |
| Win-win result | 80 | 38 | 119 | 57 | 5 | 2 | 4 | 2 | 1 | 1 | 4.29 | .72 |
| Fairness and equitability | 43 | 21 | 118 | 56 | 30 | 14 | 1 | 7 | 1 | 1 | 3.85 | .94 |
| Accountability& transparency | 62 | 30 | 117 | 56 | 21 | 10 | 9 | 4 | 0 | 0 | 4.09 | .80 |
| Improve Quality | 93 | 44 | 99 | 47 | 4 | 2 | 8 | 4 | 3 | 1 | 4.25 | .96 |

The partnership negotiation strategy statements used in the study had varied means. The mean of partnership negotiation strategy assisting on win-win situation between buyers and suppliers was 4.29 and Sd. of 0.72. That it ensures fairness and equitability in selection of the suppliers had the mean of 3.85 and Sd. of 0.94. Partnership negotiation strategy ensures accountability and transparency had a mean of 4.09, Sd. 0.80 and finally, improving quality had a mean of 4.25 and Sd.0.96. From the study findings, partnership negotiation strategy statement had a mean of above 4.09 except for fairness and equitability with 3.85 which is also very close to 4, hence indicating that the respondents viewed that they were good in selection of suppliers. The findings showed that partnership negotiation strategy assist on win-win situation between buyers and suppliers, ensures fairness and equitability in selection of the suppliers as well as accountability and transparency and also improves quality.

5.3. Relationship between Partnership Negotiation Strategies and Selection of Suppliers

The Pearson correlation was performed to determine the relationship between partnership negotiation strategies and selection of suppliers as showed in Table 3. The partnership negotiation strategy had positive significant relationship on the selection of suppliers at 1% level of significance ($r = .730$) 2 – tailed. The findings indicate that partnership negotiation strategy had significant relationship on the selection of suppliers. It was evident that the partnership negotiation strategy significantly affects the selection of suppliers.

Table3. Pearson Correlation on Partnership negotiation strategies

| | | Partnership |
|------------------------|---------------------|-------------|
| Selection of suppliers | Pearson Correlation | .730** |
| | Sig. (2-tailed) | .001 |

**Correlation is significant at the 0.01 level (2-tailed). N=210

6. DISCUSSION

The research findings indicate that partnership negotiation strategy significantly affect the selection of suppliers. This was an indication that it positively affects the selection of suppliers and thus the researcher has determined the effect of partnership negotiation strategy as significantly positive. The results of the factors influencing effective negotiation indicate a high preference of quality,

measurement and delivery time. These findings were strengthened by the interview schedule results in which the respondents spelled out their opinion of a good supplier as one who can deliver goods of the right quality at the right quantity delivered to the right place at the right time from the right source and at the right price. It showed that there was significant effect of partnership negotiation strategy on selection of suppliers.

This finding reinforces the belief that negotiation of better agreements qualifies suppliers and this concurs with Saunders' (2001) findings that partnership model yields long term relationship based on clear, mutually agreed objectives to strive for world-class capacity and competitiveness with the possibility of a win-win outcome, which is a significant effect in itself. The findings was further supported by Lysons and Farrington (2006) assertion that partnership model enhances high frequency of communications, co-operative attitudes, win-win results and leads to proper management of total costs . As was noted, proper selection of suppliers goes a long way in improving benefits accruing to the millers. The findings also pointed to the dependence of benefits accruals on negotiation strategies and therefore millers can increase their benefits by enhancing their negotiation strategies purposely to attained planned results.

This findings also relates to Porter's (1996) competitive framework, captured in his 'five forces' model in general and in particular, two forces were relevant to the study namely: bargaining power of buyers and bargaining power of suppliers. By determining the relative 'power' of each of the forces, a firm can position itself to take advantage of opportunities and overcome threats and this is where organisations find partnership negotiation strategy more appropriate because as Barrett (1995) stated, it is important that buyers negotiate delivery schedules which suppliers can realistically meet without endangering the other requirements of the purchase. In support of the study findings, Barrett (1995) also pointed out that when negotiating with suppliers, a buyer should recognise that current actions usually constitute only a part of a continuing relationship, thus negotiating conditions which permit buyers to take advantage of suppliers invariably with time change to conditions which allow sellers (suppliers) to 'hold up' buyers. This justifies the decision to adopt partnership negotiation strategy due to its long term positive effects.

7. CONCLUSION

The partnership negotiation strategy significantly affects the selection of suppliers positively. Adopting right negotiation strategy is critical to the success of supplier selection because selecting right suppliers significantly enhances stable fast delivery of quality goods which guarantees continuous production and thus improves firm's competitiveness. However, selecting best suppliers is not a guarantee to the firm's success and as such there is need to strategically manage the transactions and relationships on a continuous basis and also to take appropriate actions to correct any operational and service deviations. This can only be possible where buyers and suppliers recognise that none can exist without the other and thus adopts partnership approach in their supplier selection transactions.

8. RECOMMENDATION

From the study the following recommendations were made:

Although the negotiation strategy determines the process of selecting suppliers, there are many reasons why negotiation and supplier selection fails. Many factors influence the negotiation process and all of them need to be identified and considered.

The researcher recommends that partnership negotiation should be divided into two aspects. One aspect should consider interpersonal skills, personal attitudes and approaches to negotiation while on the other hand there should be an understanding of the negotiation process and strategies. It is essential for both the suppliers and Milling industries to plan and put the strategy in writing before beginning negotiations purposely to set clear goals.

The researcher further recommends that the Millers should employ partnership negotiation strategies to enhance their degree of success in the selection of suppliers. Adequate preparation must start with defining firm's priorities, such as fair price, high specification goods or a specific delivery schedule, among others.

In addition, there should be reflection on the different offers the suppliers could make before settling on a compromise as well as an identification of the industries negotiating strengths and how they might use them to get the concessions it requires.

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