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## **Procurement and Contract Negotiation in the Nigeria Manufacturing Industry**

***Ayodele Osatuyi***

ayodeleosatuyi@gmail.com

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### **Abstract**

This paper explores how effective and efficient procurement and contract negotiations can help improve output in the manufacturing industry in Nigeria.

The goal is to understand the various techniques and methods for creating win-win contracts in the manufacturing sector by using professional procurement practices. The paper also examines different negotiation approaches, including those used when dealing with local and international suppliers. It uses the theory of game theory as its foundation and ends with recommendations based on the findings.

**Keywords: *Procurement, Contract, Negotiation, Game Theory, Manufacturing industry, Suppliers.***

### **Introduction**

The manufacturing industry in Nigeria needs the involvement of professional procurement staff to carry out effective contract negotiations. This helps in reducing production costs and minimizing industrial waste, which are the main reasons for high prices for goods and services in the country.

Procurement is that part of Supply chain management that is saddled with the responsibilities of sourcing Quality products and Services to ensure that the company meet its Production needs. Compton et al (1995) assert that Procurement is made when various avenues are being utilised to obtain products and services from suppliers with or without any form of compensation or consideration. One year after Van Weele et al(1996) came up with a more detailed definition of Procurement and include other activities that must be undertaken

before the Product and services can be obtained from the suppliers and make it available where it is needed and this activities includes logistics, transportation, storage facility in case if the product requires storing, inspection,, quality control and quality assurance respectively Quayle,( 2006) highlights more functions of Procurement where environment issues management and salvage are being included once it relates to materials in any form, another definition placed procurement as purchasing, contracting and logistics. Quayle (2006) went further to give clarity between procurement and contracting in terms of their functions. Contracting is the procurement activity in line with major works.

Dobler (1990) highlights that the Procurement function, especially where government procurement is involved in requirement development and specification, engages in value analysis, requirement management, participates actively in market research or market surveys, and conducts Supplier materials and services negotiations, undertakes the traditional buying responsibilities, administers procurement contracts, and engages in supplier quality checks and inbound transportation respectively.

### **Statement of the Problem**

Poorly negotiated contracts can lead to a sharp rise in the cost of industrial products and services for consumers. If not addressed promptly, this can cause continuous waste and make many materials outdated. In such cases, producers may end up selling them as scrap. Additionally, poor-quality products may become common, leading to avoidable dangers for users.

Henriod et al (2002) highlight the need for engaging in a contract is to achieve the required output, on time and within budget. Anything outside that will imply that there is no contract, and the key point is that it should be within budget. Contracts properly negotiated stand the chance of being within budget and not undermining the terms and conditions of engagement.

**Methods:** The method of data gathering for this paper is the secondary data using related literature.

### **Conceptual Review:**

**Contract:** According to O'Brien (2016) Contracts can be defined as an offer and acceptance with a consideration and an intention to create legally binded agreement.

**Negotiation:** Point of view of Zohar (2015) on Negotiation as the acts of resolving conflicts between parties or group to achieve a win/win situation. In addition to the above persistent communication is key to a successful negotiation. The first step to consider if we want to have a successful negotiation is to be sure if the negotiation can actually take place and can it achieve a win/win if the parties enter into it. (O'Brien, 2016) every negotiation that will be successful must come with some sort of compromise from parties to it and parties must be ready to reach some sort of agreements. Trust is also very essential in Negotiation McKnight et al (1995). The key elements of trust revolves round Risk taking, reliance on others to the negotiation and fearless. Ashley et al (1991) affirms that relying on other parties sense of judgement with absolute trust will invariably place ones on a situation seat of authority and influence especially in a negotiation table. Trust is very key to successful negotiation.

**Winning Techniques:** In any form of tough negotiation activities there is no written techniques or tactics to win ahead of other party however O'Brien (2016) came up with some possible techniques to have an edge over others and this tactics should be applied on case by case basis, it starts with opening tactics, explore positions, bargaining and end with deal closing.

### **Empirical Review:**

## **Procurement and Contract Negotiation**

Procurement involves acquiring the right products and services that a company requires.

In modern times, the procurement function covers managing risks, overseeing logistics and inventory, and dealing with strategic, operational, and project-based procurement (Weigel et al, 2017).

Whitticks (2005) defines a contract as an agreement between two or more parties to carry out a task by providing labor or materials, with labor being a form of service.

He also explains that a valid contract must be clear so it has real meaning, and all parties involved must agree to the terms before it is finalized. The payment terms should be clear, and the value of the contract needs to be determined at the beginning. Additionally, Whitticks (2005) refers to a letter of intent as a temporary agreement that sets out certain terms, which are still open to further discussion.

“Negotiation happens when two or more interested parties communicate or interact in order to reach a mutual agreement.

It has a beginning, a middle, and an end, and it is a way to move from one situation to another. It allows the parties to settle disagreements or find solutions to problems. It can take place in a formal or informal setting, in person or remotely, and it can be a single event or a series of ongoing interactions.” (O’Brien, 2016).

According to Karass (1996), life does not always give you what you deserve; instead, you can only gain what you negotiate for.

More than a decade later, Hansen (2010) agrees with this, saying that in procurement negotiations, knowing how to convince others to offer you more than you might get on your own can improve your position. Negotiation is a common activity for human beings.

### **Negotiation is all about achieving a win.**

O’Brien (2016) describes the goal of a negotiation win as a win/win, where both parties involved are satisfied at the end of the process.

However, there are various situations where the outcome may be different. In some cases, one party might win more than the other, resulting in a win/win situation where one party's gain is greater. There are also scenarios where the outcome is a win/lose, which means that one party agrees reluctantly, possibly just to maintain the relationship. Finally, there is a lose/lose situation, where both parties end up losing and no agreement is reached.

### **Personality and Negotiation**

For successful negotiation, the personality of the individuals involved often plays a key role.

Freud (1999) notes that personality influences thoughts, emotions, and actions, making each person unique. O'Brien (2016) suggests that personality is deeply rooted in us and shapes our character throughout life. Many philosophers have tried to understand human personality, with Carl Jung, Gordon Allport, and Karen Horney all accepting some of Sigmund Freud's ideas but believing that human motivation is more complex than Freud viewed it. They also suggest that individuals can shape their own personalities without external influence. (Carl, 1921; Allport, 1936)

Carl (1921) groups people into four categories based on their psychological functions: sensation and intuition, thinking and feeling.

McCrae (1997) provided a more detailed classification of personality, dividing it into five traits known as the "OCEAN" model: Openness, Conscientiousness, Extraversion, Agreeableness, and Neuroticism. He further explains that personality significantly affects a person's ability to engage in effective negotiation, shaping their worldview and helping them make efficient and effective decisions.

### **Theoretical Review**

The introduction of "Game Theory" aims to help people understand situations where decision-makers interact (Osborne, 2000).

It involves players following specific rules to compete or contend with each other (Osborne, 2000). Cooperative Game Theory, as explained by Karlin et al (2016), is a type of game where groups or coalitions are formed to achieve greater benefits. For example, imagine three product sellers: two sell only left-handed products, and one sells only right-handed products. A wealthy buyer comes in and needs pairs of the product. Using a cooperative game theory approach, the buyer would prefer to work with all the sellers together. In this case, cooperation and full collaboration among the sellers could help sell pairs of the product. The seller of right-handed products has a sales advantage because their product is scarcer, so they usually get a larger share of the profit. The other two sellers share the profit equally. However, the price of the right-handed product must be reasonable. As a result, the other two sellers might form a coalition and ask the right-handed product seller to exchange it for a left-handed product.

Osborne (2000) also highlights various real-world applications of game theory, such as organizations competing for business, politicians trying to win votes, jury members deciding outcomes, animals fighting for food, bidders in auctions, and how siblings interact. All these examples show different ways to approach effective negotiation in everyday life and business.

### **Social Choices**

Karlin et al (2016) defined social choices as a type of negotiation mechanism that collects and combines the preferences of different individuals. A simple example is the creation of a voting system.

### **Different Types of Negotiation**

O'Brien (2016) identifies two main types of negotiation. One type is focused on creating value, often as part of a long-term relationship that benefits all parties. The other type is about claiming value, usually in a one-time or distributive interaction where the goal is to divide a fixed amount of value among the parties involved. Loecke,(2003) classified the two identified types of Negotiation by their functions as distributive

and integrative where distributive refers to instance where parties to the negotiation compete over the distribution of a finite amount of value and the second part is integrative where parties cooperation is established with an intents to achieve the highest value between the negotiating parties.

### **Planning Negotiation**

To conduct a successful negotiation, it is essential to follow certain procedures. O'Brien (2016) highlights that a structured methodology and approach are necessary for effective negotiation. While the exact process of negotiation planning may not be outlined in any single book, it is gained through experience. These methods are thoroughly tested and consistently applied in our daily negotiation planning.

### **Negotiation Winning Process Using the Red Sheet**

The Red Sheet is a tool used to plan and structure negotiations effectively (O'Brien, 2016). It is a large sheet of red paper that contains the full stages of negotiation planning and execution in a visually appealing poster format. This format encourages team collaboration. The Red Sheet is usually placed on a wall or table so that all team members can refer to it to ensure they are following the plan.

### **Negotiation across Cultures**

Culture defines how people behave and interact within a society. O'Brien (2016) explains that culture includes the ways of thinking and doing things that are passed down from one generation to the next. It encompasses language, norms, and values, and shapes human behavior. Culture is not genetically inherited but is largely shaped by the environment. Cultural norms vary from one country to another, and even within a country, different ethnic groups may hold differing beliefs and values. For instance, in Nigeria, various ethnic groups coexist. In a business context, it is typical for companies to close on Sundays,

making business negotiations on Sundays challenging. However, in other regions, business can be conducted on Sundays as usual.

### **Cultural Differences in Negotiation**

Various cultures have unique practices that influence negotiation styles. For example, Chinese people often prefer to have tea before starting a negotiation, while Americans tend to prioritize closing a deal over pleasantries. Germans may see building personal relationships before discussing business as a waste of time, whereas in the Middle East, establishing friendships is a prerequisite before any business discussions. (O'Brien, 2016)

Cohen (1997) warns that equating culture with national character is an outdated perspective. It is not always accurate to assume that all Arabs engage in haggling or that all Russians insist on hard bargaining. Nevertheless, cultural differences do exist, and misunderstanding these differences can lead to failed negotiations. Brett (2001) emphasizes that culture is often the root cause of failed international negotiations. He also notes that concepts such as power, interests, and priorities take on different meanings in different cultures, which in turn influence negotiation strategies and interaction patterns.

**Conclusion:** In conclusion poorly negotiated contracts in the manufacturing industry can have long-term negative impacts on the cost of finished products, making them less affordable for the average Nigerian consumer.

Dias (2025) highlights a well negotiated contract gives a drastic reduction in construction project cost especially when the four type negotiation matrix method is in use.

Procurement and contract Negotiation Successful outcome goes beyond analysing supplier's financial capability, integrity and mutual trust is another key factor that is crucial to achieving a better outcome in addition the risk management level with their corresponding mitigation approach on the impact should likewise be taken into

cognizance, as a final point the Procurement planning should be properly checked. (Dias et al, 2021)

**Recommendations:** Based on the above, the following recommendations are proposed to address the issues of poorly negotiated contracts:

### **1. Enhance Supplier Collaboration Skills**

Encourage more frequent collaboration with suppliers by adopting a vendor-to-partner approach in business engagements.

### **2. Utilize Digital Technology in Procurement**

Leverage digital tools such as e-procurement platforms like SAP to automate tasks such as creating Request for Quotations (RFQs), comparing supplier offers, and processing purchase orders.

### **3. Align Procurement with Production**

Ensure that procurement planning is aligned with the requirements of the user department, especially for spare parts needed in production machinery. Maintain an adequate stock of frequently used materials to prevent shortages and ensure smooth production.

### **4. Engage Procurement Professionals in Contract Negotiation**

Negotiating contracts requires specialized skills. Inadequate negotiation can negatively impact a company's profit margins. Employing professional procurement resources is crucial to effectively managing contract negotiations.

By implementing these recommendations, the issues related to poor contract negotiations that negatively affect manufacturing margins and profitability can be significantly reduced or even eliminated.

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