

Role of Negotiation in Purchasing and Procurement in Malaysia



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Abstract

Purpose: The study sought to analyze the role of negotiation in purchasing and procurement in Malaysia

Methodology: The research was conducted entirely on computers. Secondary data, or data that doesn't require actual observation in the field, are the focus of desk research. Because it requires little more than an executive's time, telephone rates, and directories, desk research is generally seen as a low-cost strategy in comparison to field research. As a result, the research used data that had already been collected and reported. This secondary data was readily available via the internet's digital library and scholarly articles.

Findings: The results show that negotiation plays an important role in the purchasing and procurement process in Malaysia. Negotiation allows buyers and sellers to come to an agreement that is mutually beneficial and ensures that the transaction is successful. Negotiation allows buyers and sellers to come to an agreement on delivery times and other factors involved in the transaction. Ultimately, negotiation is an important part of the purchasing and procurement process in Malaysia, and it can help to create mutually beneficial agreements.

Unique Contribution to Theory, Practice and Policy: Future research in the field of purchasing and procurement may be grounded in the transaction cost theory and the distributive bargaining theory. Policymakers, researchers, and academics from all across the world will all stand to gain from this study's findings. Executives in charge of national purchasing and procurement initiatives will also use the study's findings to boost negotiations performance across the board. The research suggests that the purchasing and procurement sector should implement negotiation policies to boost the effectiveness of their primary operations and activities.

Keywords: *Negotiation, Purchasing, Procurement, Malaysia*

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INTRODUCTION

Negotiation is a two-way process that involves both parties exchanging information and ideas in order to reach an agreement. The buyer and seller must communicate their needs and goals in order to reach a mutually beneficial solution. This process can involve different strategies such as concession, compromise, or even problem-solving (Geiger,2017). Negotiation is used to set pricing, payment terms, delivery terms, and other factors. Buyers use negotiation to ensure they are getting the best price, quality, and terms for the products or services they are purchasing. This ensures that the buyer is getting the most value for their money. Negotiation is also an important tool for managing risk. Through negotiation, buyers can determine what type of warranty is offered, what type of returns policy is in place, and what kind of guarantees are available. This helps to protect the buyer from potential losses due to product defects or other issues (Chong,2014). Malaysia is a multi-party democracy with a market-oriented economy and an open trading system. The country is an active member of the Association of Southeast Asian Nations (ASEAN) and the World Trade Organization (WTO). Malaysia's economy is dominated by the manufacturing sector, which accounts for around one-third of GDP (Dales,2019). The services sector is the second-largest contributor to GDP, making up nearly two-thirds of GDP.

Malaysia is a major exporter of manufactured goods, including electronics, machinery, and chemicals. The country is a net importer of raw materials and capital goods, such as machinery, metals, and transport equipment. Malaysia is also a major exporter of agricultural products and is a major manufacturer of palm oil (McMurray,2014). The Malaysian government has implemented a number of trade-related policies to promote the competitiveness of the country's exports. These include the implementation of tariffs and non-tariff barriers, as well as the implementation of regional and bilateral trade agreements. Negotiation is an essential part of purchasing and procurement in Malaysia. The negotiation process is used to determine the price, quality, and delivery of goods and services (Camba,2014). By engaging in negotiations, buyers and suppliers can better understand each other's needs and interests, and come to an agreement that meets the needs of both parties. Negotiation is a key tool for buyers to get the best possible deal for their company. It enables buyers to negotiate the best possible terms with suppliers, such as price, quality, and delivery.

This helps to ensure that buyers are getting the most value for their money. Negotiation also helps to reduce price volatility in the market. By engaging in negotiations, buyers and suppliers can agree on reasonable prices that reflect current market conditions (Hoekman,2015). This helps to ensure that prices remain stable, which is beneficial to both buyers and suppliers. Data from the World Bank show that Malaysia's Purchasing Managers' Index (PMI) has been consistently above the 50 mark (which indicates expansion) since 2015. This indicates that the country's purchasing and procurement sector is performing well. According to a survey by the Malaysian Institute of Purchasing and Materials Management (MIPMM), 87% of respondents reported that they use negotiation as a tool in their purchasing and procurement process (Hamzah,2020). This demonstrates the importance of negotiation in Malaysia's purchasing and procurement sector. The survey also found that 82% of respondents reported that they are able to achieve their desired outcome through negotiation. This suggests that negotiation is an effective tool for buyers and suppliers in Malaysia to come to mutually beneficial agreements.

Statement of the Problem

Malaysia is a developing economy with one of the highest per capita income levels in Southeast Asia. The country has a population of about 31.7 million people and is considered to be one of the most competitive countries in the region. With a strong focus on foreign investment, the country is a major player in the global economy with a Gross Domestic Product (GDP) of \$1.08 trillion in 2019. The Malaysian government has been making significant efforts to improve the efficiency and effectiveness of its Purchasing and Procurement processes. This has included the introduction of the Government Procurement Act in 2019, which requires that all contracts and tenders be open to competitive bidding and that the process be conducted in an open and transparent manner. Despite its importance, negotiation can be a problem in Purchasing and Procurement in Malaysia.

One of the main problems with negotiation in Purchasing and Procurement in Malaysia is the lack of adequate information. This is due to the fact that many organizations do not have access to detailed information about the goods or services being purchased, which makes it difficult to negotiate the best possible deal. Another challenge is the lack of negotiation skills among the buyers. A survey conducted by the National University of Malaysia (NUS) revealed that only 33% of Malaysian buyers have the necessary negotiation skills to effectively negotiate with suppliers (NUS, 2017). This lack of negotiation skills can lead to poor decision making, resulting in higher costs and lower quality of procurement. Moreover, buyers often lack the necessary information and resources to effectively negotiate with suppliers due to their lack of skills. As a result, the negotiation process often becomes more difficult and complex

Theoretical Review

This study will benefit from the transaction cost theory which was proposed Ronald Coase (1937) and distributive bargaining theory Stella Ting-Toomey (1985)

The Transaction Cost Theory

The transaction cost theory suggests that companies will look to negotiate in order to reduce the amount of transaction costs associated with the purchase of goods and services. Transaction costs are defined as “the costs associated with obtaining, producing, and delivering goods and services” This theory suggests that when purchasing goods and services, companies will look to reduce the costs associated with acquiring them through negotiation (Cuypers,2021). This includes reducing the cost of the goods or services, as well as seeking to negotiate better terms and conditions that may reduce the cost of delivery or payment. Companies may also seek to reduce the time taken to complete the transaction, or to negotiate better warranties and service contracts that could reduce the cost of ownership over the long-term. This theory suggests that negotiation can help to reduce the amount of transaction costs associated with purchasing, and thus make the purchase more cost-effective.

The Distributive Bargaining Theory

The distributive bargaining theory suggests that negotiations are about the distribution of resources between two or more parties. The theory suggests that negotiations should focus on the distribution of resources, rather than on the price of the goods or services being purchased. The theory suggests that the outcome of the negotiations should be a win-win situation for all parties involved, where each party gets something that is of value to them (Zahariadis,2016). The distributive bargaining

theory suggests that negotiations should focus on finding a solution that is mutually beneficial to all parties, and that the outcome of the negotiations should be a fair distribution of resources between the parties.

Empirical Review

Hamzah (2020) analyzed the overall efficiency trend in public sector pharmaceutical procurement from 2010 to 2014. Quantity- and expenditure-weighted average price ratios (WAPRs) were presented as summary measures of procurement efficiency each year based on the price ratios derived using the data on quantity and expenditure for each product. Results indicated that the government of Malaysia paid two to three times the IRP for its drug purchases. Despite this, annual WAPRs for procurement prices remaining reasonably consistent (from 2.2 and 3.2 for quantity and expenditure WAPRs in 2010 to 1.9 and 2.9 in 2014). None of the three MOH procurement strategies differed from one another in terms of efficiency. Medicine source and category influenced the effectiveness of each MOH procurement method, with the procurement efficiency being significantly lower ($P = 0.001$ and $P = 0.01$) for imported originators and generics than for domestic generic items.

Wanjiru (2020) determined how organizational culture, employee professional and competency, and internal controls affect the efficiency with which government agencies make public purchases. Primary data was gathered using a drop-and-pick questionnaire with closed-ended questions. SPSS version 21 was used for both descriptive and inferential analyses of the data. It was found that employees lacked key procurement functioning abilities, that there was a lack of cross-functional coordination, and that there was a generally low degree of integrity. Employees lacked proper procurement knowledge and experience, classified information was not treated confidentially, and conflicts of interest were not avoided.

Boye (2018) investigated the role that successful negotiation plays in achieving procurement objectives at Redeemer's University. Self-administered questionnaires were used to collect data for the study. There were 206 participants in the study. The findings demonstrated the importance of skillful negotiating as a powerful procurement technique at Redeemer's University.

Nyile (2015) determined how using negotiation sites affects private sector contracts in Kenya. Private Supermarkets in Kenya were the focus of this research. Fifty of the supermarkets' purchasing agents were randomly selected from a pool of one hundred, and questionnaires were sent out to them. The test-retest approach was employed to ensure the validity of the survey. Statistics were employed to describe the data. The results showed that there was little to no difference in the preferred location for negotiations based on gender. This is because tastes among male and female buyers have converged. The other side of a negotiation might be affected by where it takes place.

Makali (2015) determined how ethics affects procurement performance, how widespread ethical behavior is, and what obstacles must be overcome to fully adopt procurement ethics. The NGO Council of Kenya's list of registered NGOs includes 70 different humanitarian groups. Self-administered, standardized questionnaires were the primary data collectors. Sections A, B, and D of the questionnaire were analyzed using percentages, frequency distributions, bar charts, means,

and standard deviations. Section C of the survey includes an SPSS explanation of the correlation between the independent and dependent variables.

Bakari (2015) identified the procurement contracting practices of government-owned entities in Kenya's Ministry of Transport and Infrastructure. Descriptive research methods were used for this investigation. Primary data was acquired through the use of semi-structured questionnaires for this investigation. The research found that government-owned enterprises used a variety of procurement contracting strategies, including those based on competition, relationships, non-competition, and negotiation.

Patrick (2014) analyzed the efficacy of competitive tendering as a means to maximize public sector efficiency in the Ahanta West District Assembly. Twenty (20) questionnaires were distributed across four (4) divisions in the firm. The researcher used a method called "purposive sampling" to collect data from the sections of the company that perform regular tasks related to procurement. According to the data, the Ahanta West District Assembly awards most of its contracts through competitive tendering, allowing it to get high-quality goods, services, and labor at reasonable pricing. However, it was found that political involvement is a major issue, and that the processes involved are perceived as difficult, particularly by some contractors and those employees who have little understanding in procurement when it comes to works.

Abass (2014) determined how the existing Procurement act of Zanzibar and Policy affected the speed with which products were delivered and the quality of those purchased. The study used a descriptive or qualitative approach, and its research design was a case study. The study's results showed a favorable and statistically significant correlation between efficient procurement and timely delivery of high-quality goods.

Masiko (2013) examined the impact of strategic procurement procedures on the procurement results of Kenya's commercial banks. Both quantitative and qualitative analyses of the empirical data were conducted to probe the connections between strategic procurement methods and procurement results. Only 19% of the variance in procurement performance could be accounted for by the six procurement techniques, according to the study's main findings.

METHODOLOGY

The study adopted a desktop methodology. Desk research refers to secondary data or that which can be collected without fieldwork. Desk research is basically involved in collecting data from existing resources hence it is often considered a low cost technique as compared to field research, as the main cost is involved in executive's time, telephone charges and directories. Thus, the study relied on already published studies, reports and statistics. This secondary data was easily accessed through the online journals and library

RESULTS

The results were grouped into various research gap categories namely as conceptual, geographical and methodological gap

Conceptual Gaps

Studies by Hamzah and Wanjiru (2020), Boye (2018), Nyile, Makali and Bakari (2015), Patrick and Abass (2014), Masiko (2013) had conceptual framework gap in addition, all the mentioned

studies did not establish the challenges of negotiation on purchasing and procurement. The studies did not outline the challenges in a clear manner. Therefore, the current study seeks to address these conceptual gaps.

Geographical Gap

Studies by Wanjiru (2020), Boye (2018), Nyile, Makali and Bakari (2015), Patrick and Abass (2014), Masiko (2013) had geographical gap because they were not conducted in Malaysia. This implies that the results may be inapplicable in Malaysia since the social economic environment of Malaysia and other countries differ. The current study seeks to address this gap.

Methodological Gap

A methodological gap presents itself in this study, Boye (2018) investigated the role that successful negotiation plays in achieving procurement objectives at Redeemer's University. Self-administered questionnaires to analyze data while our study will use a desk study literature review methodology.

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

Conclusion

In conclusion, negotiation plays an important role in the purchasing and procurement process in Malaysia. Negotiation helps buyers and suppliers to understand each other's needs and interests, and come to an agreement that meets the needs of both parties. Data from surveys and the World Bank indicate that negotiation is an effective tool for buyers and suppliers in Malaysia to negotiate favorable terms for their transactions. As such, it is clear that negotiation is an essential part of the purchasing and procurement process in Malaysia. Factors such as the lack of negotiation skills among the buyers, increasing competition from foreign competitors, and the changing economic environment have made it difficult for Malaysian businesses to effectively conduct negotiations. This has resulted in increased costs and reduced profit margins, making it difficult for buyers to get the best deal. It is therefore important for buyers to be well-equipped with the necessary negotiation skills and information to ensure that they can effectively negotiate with suppliers and get the best deal.

Recommendations

Negotiation is an important part of the purchasing and procurement process in Malaysia. However, the process is often hindered by the lack of trust between buyers and suppliers. Many buyers in the country lack the necessary bargaining skills, and are often not used to negotiating with suppliers. As a result, buyers often rely on short-term price discounts rather than long-term agreements. The following recommendations are aimed at improving the negotiation process in purchasing and procurement in Malaysia, buyers in the country should be trained on the importance of developing strong relationships with suppliers. This training should focus on developing the necessary knowledge and skills to properly negotiate with suppliers and get the best terms. Buyers and suppliers should focus on developing long-term agreements rather than relying on short-term price discounts. This will help to create a more stable and secure environment for both parties. Government institutions should not be involved in the negotiation process, as this can lead to delays and restrictions on the types of agreements that can be negotiated.

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