



## Does a Tough Reputation Pay Off in Negotiations?

### How to build the type of reputation proven to lead to better deals.

Every major brand carefully builds and protects its reputation. The most recognised brands are worth billions of dollars and companies spare no effort creating and maintaining desirable brands and stellar reputations. While brand and reputation are often confused, Richard Ettenson and Jonathan Knowles **argue** that they're distinct concepts: "Brand is about relevancy and differentiation (with respect to the customer), and reputation is about legitimacy (of the organisation with respect to a wide range of stakeholder groups)." That being said, it is hard to dispute conventional wisdom that a great brand helps create a positive reputation and vice versa.

Tesla is steadily burning cash (over US\$7,430 **per minute** according to Bloomberg), yet founder Elon Musk does not seem concerned, considering he said he was **bored** by financial analysts' questions on a recent earnings call. He probably believes that branding Tesla as a sleek, sexy and environmentally conscious product will ensure its success in the long run.

However, brand success alone might not suffice, given Tesla's current financial situation. Before long-term success arrives, Tesla may need to negotiate another round of funding to continue operations. As such, an interesting question is whether appearing bored by analysts' legitimate inquiries – an attitude that suggests power – is the right strategy. Looking

at research regarding the subject of reputation in negotiations suggests some answers in this particular case.

#### **A cooperative reputation leads to better outcomes**

Psychologists define reputation as a coherent image, or schema, an individual has of another person's character. This schema emerges over time, but once established, it sticks, since people tend to seek out consistent behaviour and discard inconsistencies. An established reputation is easy to maintain, but a tarnished one is very difficult to surmount.

Recent studies have examined whether having a certain reputation helps in negotiations. In their recent **paper**, Andrea Kupfer Schneider (Marquette University), Catherine Tinsley (Georgetown University) and Jack Cambria analysed whether it pays off to be known as a cooperative or competitive negotiator.

A cooperative negotiator is known to be a trustworthy problem solver, generally concerned with creating value for all parties involved. Conversely, a competitive negotiator uses power to get a better deal personally.

Perhaps unsurprisingly, the researchers' lab

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studies, involving a multi-issue buyer/seller negotiation, showed that a cooperative reputation can lead to better outcomes. When negotiators were made aware of their counterparty's (randomly assigned) competitive reputation, they tended to withhold more information about their interests, needs and priorities, which led to worse deals when compared to the pairs with no advance reputational information. When researchers reassigned the pairs and now described the counterparties as cooperative negotiators, it led to mirror-opposite results. When negotiators believed their counterparty had a cooperative reputation, they shared meaningful, sensitive information that led to better deals when compared to pairs uninformed about their counterparty's reputation.

Notably, only one party needed to have a cooperative reputation for both sides to achieve a better economic outcome. Contrary to expectations, negotiators were not tempted to exploit the goodwill of a cooperative counterparty.

Notwithstanding these inspiring lab findings, the researchers wondered whether the results could be replicated in non-buyer/seller scenarios. They were also mindful of some well-deserved competitive reputations and turned to the real world to garner further proof that a cooperative reputation helps in negotiations.

### **Examples from the real world: Lawyers and hostage negotiators**

The researchers looked at the answers of over 700 Chicago- or Milwaukee-based lawyers to a questionnaire asking them to rate their peers, using a number of adjectives, negotiation techniques and goals. Based on these ratings, attorneys were divided into four clusters: "true problem-solving", "cautious problem-solving", "ethical adversarial" and "unethical adversarial".

Consistent with lab studies, 72 percent of attorneys with a "true problem-solving" reputation were considered effective by their counterparts, while 75 percent of "unethical adversarial" lawyers were considered ineffective. In line with researchers' expectations that it is easier to develop a reputation in smaller groups, a greater percentage of cooperative lawyers were perceived as effective in the smaller city (Milwaukee) than in the bigger city (Chicago).

As a final check, researchers examined hostage negotiations to see if, in highly emotionally charged, non-repetitive negotiation scenarios, a cooperative reputation would also be more effective than a competitive one. They expected that using force, or threatening to do so, might be more useful in such situations. It turned out to be the case but only

insofar as to motivate parties to initiate a dialogue. When it came to the negotiation itself, as per the first two studies, the cooperative reputation once again generated better deals than the competitive one.

The researchers analysed the particular situation of Peter, a 48-year-old with bipolar disorder, who called his ex-girlfriend, threatening suicide. Aware that Peter had a gun, she immediately contacted the police, who brought in 17 hostage negotiators. During the negotiation, they discovered that Peter was in his manic stage and would stay that way for the next 50 hours.

Given his state, Peter was not receptive to reason. The police first sent in Paul, a successful hostage negotiator who commonly pushed hostage-takers to surrender. Peter rejected Paul's confrontational approach and said if he had to talk to him again he would take his own life immediately. Another negotiator, Rachel, took over with a completely different approach. She expressed her concern for Peter's well-being and adopted a cooperative and compassionate stance. After many hours, Peter eventually surrendered. The cooperative, win-win approach happened to be the most effective in this particular negotiation, but further investigation revealed that, as a rule, cooperation is most effective in a hostage negotiation setting.

### **How to build the best reputation as a negotiator**

In light of these research findings, it is hard to argue that Musk's stunt on the earnings call is in his (or Tesla's) best interest. Appearing bored or uninterested may communicate confidence or project power, but could lead to a swift backlash, should power shift between the serial founder and the market.

In any event, his behaviour doesn't build a cooperative reputation, which has been proven to be an asset in negotiations. As we know, once tarnished, reputations are very difficult to rebuild. We need not look further than the recent example of Travis Kalanick, Uber's former CEO. So how could Musk, or anyone for that matter, build a desirable reputation?

Carl-Erik Torgersen (University of Innsbruck) and Cheryl Rivers (Queensland University of Technology) offer a direction in their paper "**The Construction of Reputation in a Negotiation**". Based on prior research, they support the effectiveness of a cooperative reputation and propose a reputation-building model founded on strategy, sociology and game theory principles.

Start by defining a clear and desirable reputational vision for yourself, and strive to build it with strategic consistency. Since reputations are built

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using signals and contexts that shape the image of a negotiator, the more signals that are sent, the clearer an image becomes. Once a certain image has formed, people will naturally give more attention to signals consistent with it.

During any negotiation, our behaviour confirms or refutes our reputation, which can then spread to the counterparty's network and beyond. A strong reputation usually sticks. A few positive moves or signals will not salvage a negative reputation as they may be dismissed as fake. As such, Torgersen and Rivers suggest avoiding tough negotiator moves, due their high potential for immediate and long-lasting negative impact.

After all, we are biased towards seeing **negative** signals since we all constantly try to **assess threats** around us. In sum, one strong, win-lose power move may be enough to erase years of efforts in building a win-win, collaborative reputation.

As for Musk, it is too early to tell if his recent behaviour was smart in the short term. What is more certain is that this visionary founder who is building great products for the future should probably also invest in building a collaborative reputation as an asset for his future negotiations.

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