

FROM HOPE TO STRATEGY

The Anatomy of Negotiation



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Introduction

*If you're gonna play the game, boy, ya gotta learn how to
play it right.
You got to know when to hold 'em, know when to fold 'em,
Know when to walk away and know when to run.
You never count your money when you're sittin' at the table.
There'll be time enough for countin' when the dealin's done.²*

Don Schlitz

The definition of negotiation:

A communication process to jointly problem solve and create a new paradigm to satisfy a future need.

The purpose of negotiation:

To determine whether an unsatisfied need can be satisfied.

Today negotiation is recognised as a core competency that can be learned and developed to strengthen relationships and make decisions when divergent views involve multiple stakeholders, complex issues, different cultures and scarce resources. The great advantage of negotiation is that involvement is voluntary, with open communication providing the opportunity to design and control a process that can resolve differences and create value. At the same time, those involved are empowered by knowing they have the flexibility to walk away.

Unfortunately many people are unaware that negotiation is a communication process to jointly problem solve. As a result they execute the process poorly, unnecessarily damage relationships and overlook value-creating outcomes.



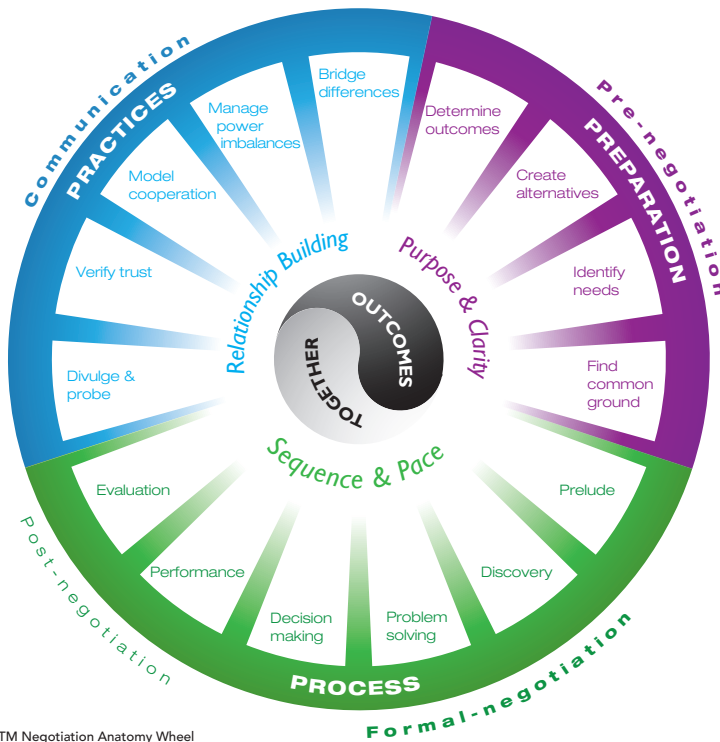
FROM HOPE TO STRATEGY

This book gives you the latest tools to do the right thing the right way. It is a resource that gives you the information needed to enable you to make better process choices and decisions. It does this by providing you with the communication strategies and negotiation frameworks needed to form new skills, improve processes, be a better leader, and make your relationships and outcomes more predictable. You gain a comprehensive, intelligent and highly practical methodology that focuses on three governing elements to improve your negotiation effectiveness and ability to resolve conflict.

PREPARATION to systematically move from hope to a strategy

PROCESS to control the negotiation’s conceptual framework

PRACTICES to build cooperation and protect your interests



TM Negotiation Anatomy Wheel

After reading this book and applying the learning you will be better able to:

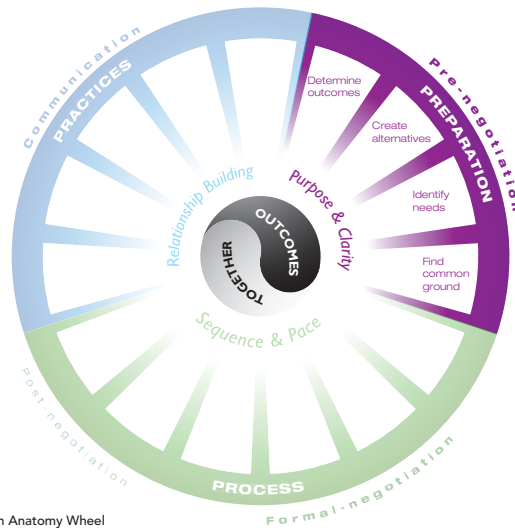
- Obtain a proven problem-solving methodology to negotiate, resolve conflicts, create value, measure your effectiveness and align key stakeholders
- Understand the underlying causes of conflict, and frameworks that enable individuals and organisations to collaborate more effectively
- Correct damaged relationships and build future relationships by using new diagnostic and planning tools
- Quickly acquire new skills to identify hidden sources of value and manage difficult personalities
- Build more innovative agreements and strategies to protect yourself from those who are less scrupulous
- Improve your leadership effectiveness and performance when issues involve divergent views over scarce resources, strategy, cultures and future risks
- Increase your situational awareness, confidence and control by knowing where you and the other party are in the negotiation process.

The information in this book is based on extensive research and experienced practitioners, who have participated in and advised on high-stakes negotiations and conflicts that have resulted in practical value-creating outcomes.



ELEMENT ONE

PREPARATION



TM Negotiation Anatomy Wheel

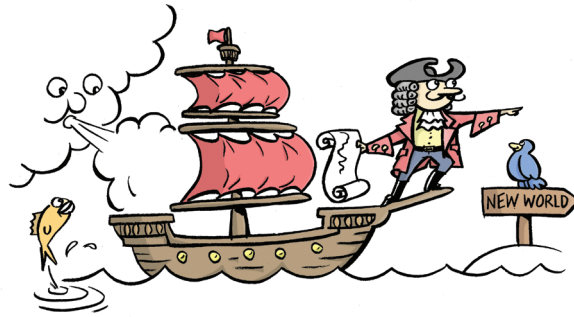
The first governing element is Preparation, which occurs during the pre-negotiation time frame. It validates the negotiation's **purpose** and provides the **clarity** needed to increase the predictability of two or more parties' interactions, and by doing so, also provides the ability to respond rather than react to changing circumstances. To be able to systematically prepare, Element One involves four supporting segments:

- 1.1 Determine outcomes
- 1.2 Create alternatives
- 1.3 Identify needs
- 1.4 Find common ground

1.1 Determine outcomes

The greater danger for most of us lies not in setting our aim too high and falling short but in setting our aim too low, and achieving our mark.

MICHELANGELO



To quote Lucius Annaeus Seneca, ‘If one does not know which port one is sailing, no wind is favourable’. This is a useful metaphor to highlight the importance of having outcome clarity and knowing your purpose for negotiating. Are you and the other party coming together to create value for the first time, to improve an existing arrangement, or to resolve a disputed claim?

Before building your influencing strategy it is critical to clearly define the outcome that you and the other party want to achieve regarding both the substantive issues and the relationship. Only when your outcome is clear and you have tested your assumptions about what will happen if the goal is not achieved can you determine the issues to be discussed and the most effective influencing strategy to achieve your outcome.

For example, consider an account manager who is under pressure to raise prices with the firm’s biggest customer when a competitor is preparing to release a new and improved product. An outcome could be for the account manager to negotiate a short-term

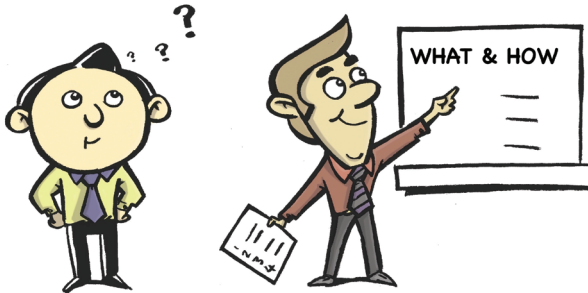
PREPARATION

transactional price increase with the largest customer. However, from a negotiation perspective this would risk motivating each party to ignore the relationship and focus on a single issue, and on who can claim the most value. Alternatively the account manager might want time to develop a new product and, therefore, value long-term contract security over short-term profits. By pursuing an outcome that involves contract security, both parties would be required to take a longer-term view of the relationship, and move past a fixed-sum negotiation by discussing multiple issues and ways to create mutual gains.

In determining your outcome, remember it is important to retain the flexibility to change your objective if you have information that cannot be verified, is new or is subject to fluctuations.

Take a double perspective

A common trait that can be identified in people who enjoy negotiating, are influential, and achieve their outcomes is their ability to take a double perspective. They are able to separate the substantive issues, namely 'what' they want, from the strategy or process they use to achieve their outcome, namely 'how' they influence. They understand that the process determines the decision choices and content outcomes.





FROM HOPE TO STRATEGY

EXAMPLES OF TAKING A DOUBLE PERSPECTIVE	
ISSUES: 'What'	STRATEGY: 'How'
Pricing	Use pre-planned questions
Scope of work	Use solo versus team negotiation
Contract terms	Issue a discussion paper
Resources	Issue an agenda
Policies	Use a committee
Standards	Use a third party
Legislation	Organise pre-meetings and role-play
Budgets	Change locations
Intellectual property	Change the time frame

By taking a double perspective you create the situational awareness to assess and observe the effectiveness of your own and the other party's influencing strategy. This means you are more likely to respond than react, and make informed choices about the management of critical process variables that include time, location, who is involved, and the issue's framing and sequencing.

The advantage of having a raised situational awareness and improved process management is that you quickly become mindful of where there are sources of value, and gain commitment to the procedural ground rules that lead to predictable interactions and face-saving options. Next time you are falling short of your outcome, stop to ask yourself if how you are managing the negotiation or conflict is the underlying cause. Remember, the negotiation's content is what creates its purpose, and the negotiation process determines how you achieve your goal.

IN FOCUS – Negotiation process out-boxes IBF officials

By consciously separating the outcome from the means of achieving it, skilled negotiators are better able to minimise reputational risks and avoid sub-optimal outcomes. They are meticulous in the thought they give to the negotiation process.

A practical example comes from the Australian Boxing World Champion Kostya Tszyu. In his book *Kostya: My Story*,³ he describes his preparations for the light welterweight title fight with Puerto Rican opponent Jake ‘The Snake’ Rodriguez, which was to be held at the MGM Grand Casino in Las Vegas on 28 January 1995. It was during these preparations that he shared the story of how his manager Bill Mordey overcame his concerns about an apparent breach of the International Boxing Federation (IBF) rules regarding the appointment of judges.

In the lead-up to the fight, an Australian judge had been appointed, but not a Puerto Rican judge as was required by the IBF rules. This led Jake Rodriguez’s Manager Dave Burke to hold talks with the IBF officials, which resulted in the Australian judge, Don Marks, being sacked. The discussions that followed resulted in the appointments of a Canadian judge, two American judges and an American referee.

As a result of the rules being manipulated before the fight, Kostya Tszyu’s Manager Bill Mordey focused on designing a process that would show his dissatisfaction, and as it turned out also increase pressure on the judges to act independently.

Mr Mordey decided not to engage the judges, or the IBF, directly. Instead, as Kostya Tszyu went on to describe, ‘Bill came up with a novel plan. He asked three respected American boxing writers to judge the judges. Ed Maloney of *The Ring Magazine*, Ed Schuyler of *Associated Press* and Michael Katz of the *New York Daily News* would score the bout independently and their cards would be available for comparison with those of the official judges. If I lost and there were obvious differences, Bill would demand an official inquiry by the Nevada Athletic Commission.’⁴



By intentionally designing and managing the negotiation strategy, the Kostya Tszyu team was able to both demonstrate their displeasure with the manipulation of the IBF rules and increase the probability that the judges would act independently without directly engaging or questioning their independence. By using respected sports journalists to publicly compare scores, they could create adverse publicity if there was a large discrepancy in the scores and justify instigating an inquiry with the Nevada Athletic Commission. The implications of these actions had the potential to inflict significant reputational damage on the three judges.

As a footnote, Kostya Tszyu went on to win the fight by a TKO.

Mapping backwards

For complex, multi-party, multi-issue negotiations, it can be useful to map backwards from your desired outcomes to develop the negotiation process. By preparing in this way it becomes clearer who needs to be involved, when they need to be involved and the reasons for their involvement. In addition, you gain insights regarding critical decisions that relate to the negotiation time frame, issues and sequencing, and the concession exchanges required to reach agreement. In short, a cost-benefit analysis becomes visible that lets you more deeply understand the ease or difficulty in reaching agreement.⁵

Systematic negotiation preparation

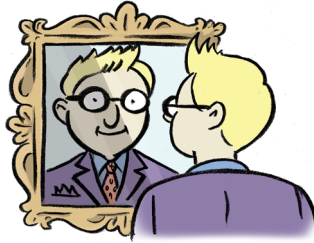
‘Be the change you want the world to be.’

MAHATMA GANDHI

After saving to build your dream home, your architect presents plans for a house that delights you, except that it is more extravagant than what you had budgeted for. What emotion is this likely to create for you?

1.3 Identify needs

Effective influencing strategies identify what motivates each party to behave the way they do and the benefits they gain.



In the book *How to Win Friends & Influence People*, Dale Carnegie describes how he would give thought to catching a fish.

‘I often went fishing up in Maine during the summer. Personally I am very fond of strawberries and cream, but I have found for some strange reason, fish prefer worms. So when I went fishing I didn’t think about what I wanted. I thought about what they wanted. I didn’t bait the hook with strawberries and cream. Rather, I dangled a worm or grasshopper in front of the fish and said: “Wouldn’t you like to have that?”’⁹

Individuals and organisations set goals, make decisions and behave in ways that satisfy their needs. If the other party’s needs are overlooked, it inhibits the development of an effective influencing strategy and reduces the probability of reaching agreement. Remember that if what you are asking for did not negatively affect the other party’s interests they would have said yes to your request. The challenge is to understand the needs that are preventing them from changing their minds.¹⁰

At an organisational level, needs are often stated and easy to understand. For example an organisation might state: 'Our three-year goal is to capture a 43% market share by investing in technology to become the market leader.'

Identify intrinsic needs

Less overt are the intrinsic needs of individuals. For example, imagine you own an overseas resort and that the travel agent you use to refer business to you constantly raises customer complaints about the resort's poor service levels. It could be that the agent's intrinsic need and real motivations are to check out the resort and have a holiday with their partner at your expense.

To influence effectively, you need to identify and fully understand the intrinsic needs that you and the other party want satisfied, the reason for which they need to be satisfied, and who will be referenced to assess success or failure.

In his book *Long Walk to Freedom*,¹¹ Nelson Mandela provides a useful insight into the importance of understanding someone's reference group. He infers how his need for acceptance prevented him from collaborating with the Robben Island prison's commanding officer, who requested his assistance in trying to improve the behaviour of new radical young men from the African Students' Organisation and Black People's Convention.

'Shortly after their arrival on the island, the commanding officer came to me and asked me a favour to address the young men. He wanted me to tell them to restrain themselves, to recognise prison life. I told him that I was not prepared to do that. Under the circumstances, they would have regarded me as a collaborator of the oppressor'.¹²



PREPARATION

1.4 Find common ground

No skilled negotiator ever found too much common ground or over-prepared.



When we look past our own needs, the shared interests that enable new opportunities become visible and both parties lessen their resistance and have responses that build rapport. These positive responses motivate discretionary negotiation effort and cooperation in ways that encourage future-focused information sharing, assumption testing, the joint framing of issues and improved management of conflict. As shown in the table below, our shared interests can be found in the negotiation's substantive issues and from a relationship perspective.

HIGH-LEVEL COMMON GROUND	
SUBSTANTIVE ISSUES	RELATIONSHIP
The value of our collaborations	The confidence our interactions will be predictable and that stakeholder expectations will be met
Contractual terms, including risk and gains sharing	Alignment of our values, philosophical views, visions, cultures and teams
The sustainable use of scarce resources	Leveraging of our learning and experiences to problem solve and unlock new value
Agreed objectives and compliance with policies and laws	

While it is inevitable that a social group will influence our beliefs, behaviours and values, it is also worth noting that in the modern world a single culture rarely shapes us. The benefit of our wider experiences and conditioning is that our cultural identities are often broad enough to find common ground with those we might initially misunderstand. Examples include belonging to the same nationality, religion, race, generation, gender, socioeconomic class or political affiliation.

Techniques to build common ground

To better surface areas of common ground and build rapport, be proactive in the following:

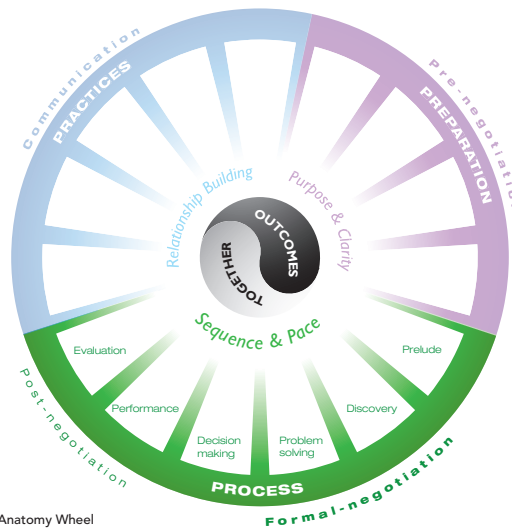
- Walk in the other party's shoes, show curiosity and actively listen.
- Use a greater ratio of questions to statements.
- Share thoughts and feelings on multiple issues to identify non-competing preferences and help move beyond a distributive zero-sum negotiation.
- Confirm early how trust will be verified and information will be shared.
- Issue an agenda that is mutual and neutral to engage stakeholders, and get process agreement on the time frame, topics, roles and responsibilities, cultural protocols, confidentiality and record keeping.
- Avoid revealing early positions that could cause premature bargaining.
- Avoid assessing information that is based on assumptions, through your own prejudices, or when you think there has been a deliberate distortion or suppression of information by the other party.

When the parties involved create more reasons to take a mutually beneficial action than an individual action, the motivations to support an agreement increase. These reasons go beyond being



ELEMENT TWO

PROCESS



TM Negotiation Anatomy Wheel

The second governing element involves designing and managing a process that can be **sequenced** and **paced**. This governing element has six supporting segments, which can be sequentially paced to cover all issues simultaneously, or to cover a single issue.

The intentional management of these segments lets those involved discover if their needs can be satisfied and maximises control of the conceptual framework of the negotiation or conflict. In addition, it allows for monitoring and assessment of what is working well and why, what needs changing, and how it should be changed.

These segments can easily be adapted to sequence and pace negotiations and mediate conflicts. Element Two covers both the formal negotiation and post-negotiation time frames.

The supporting segments of the formal negotiation time frame are:

- 2.1 Prelude
- 2.2 Discovery
- 2.3 Problem solving
- 2.4 Decision making

The supporting segments of the post-negotiation time frame are:

- 2.5 Performance
- 2.6 Evaluation



2.1 Prelude

The fight is won or lost far away from witnesses –
behind the lines, in the gym, and out there on the road,
long before I dance under those lights.

MUHAMMAD ALI



The ‘prelude’ is the first segment to occur in the formal negotiation time frame and focuses on the shared interests that bring both parties together. It signals that there is an opportunity for mutual gain, and puts into place a process that enables each party to discover if its needs can be satisfied. When this segment is well designed, it is characterised by collaborative behaviours and converging views about what might be possible. In addition, it can mean that even if someone falls short of satisfying all their interests they will still feel satisfaction from participating in a voluntary process that can let them be heard and contribute towards the outcomes. By jointly designing and agreeing to a process the anxiety associated with a negotiation’s complexity and uncertainty will diminish, and the motivation to collaborate for mutual gains will increase.

Apply objective criteria

To maximise the chances of a successful negotiation or conflict resolution, careful attention should be given to the principles, standards, precedents and policies that will apply.

Agreed and objective criteria protect the interests of both parties and help convince those who granted the mandate that the outcome is fair. Examples of standards that can be used include legal, industry indices, religious and cultural. If you can't agree on a standard then seek out a respected third party for further guidance.²²

A checklist to effectively manage the 'prelude' stage includes:

- Determine the optimum time to enter the negotiation or conflict and confirm the purpose, high-level outcomes, subject matter and who is being represented.
- Determine the negotiation principles that will give guidance, demonstrate intent and provide the negotiators with the widest scope to be creative and settle differences. Definitions for ambiguous language such as 'negotiating in good faith' and 'value for money' should also be included.
- Locate and build on shared interests to create value, including previous history, visions and cultures.
- Agree on how you will work together to design a process that enables each party to determine if its needs can be satisfied, and that is transparent and consistent with the criteria applied to others. This should include, but is not isolated to, confirming roles, levels of authority, third party involvements, locations, timing, information sharing, use of technology, confidentiality guidelines, and how trust will be verified and differences that might arise during the negotiation process will be managed.
- Commence the move to the 'discovery' stage by discussing the landscape each party confronts, including stakeholder relationships that need forming and managing.

Deciding to negotiate as a team

In circumstance where the negotiation is likely to involve great complexity, multiple stakeholders and require varying degrees of subject matter expertise, there are advantages in negotiating as a team.

This includes the interdependence that comes from the need to share information, better stakeholder representation and more informed and inclusive decision making. In addition, team signalling can provide tactical process advantages and the team's numbers, level of authority, status and subject matter expertise all have the ability to change the perceived balance of power. When giving thought to the team's composition it is critical that the roles of subject matter lead, process lead and observer are agreed. Everyone involved should understand the task and have the motivation and competency to achieve the outcome. In circumstances where you have a strong alternative and rapport building and decision making need to occur quickly, consider using a solo negotiator.

Negotiation mandates

The permission to be the voice of others

A mandate is required to negotiate on behalf of others. Having a clear mandate lets the other party know that you are a credible representative of your organisation and it gives you the confidence to negotiate with unambiguous guidelines.

Throughout any negotiation, new information or unforeseen tactics can be expected from the other party. For these reasons you should constantly strengthen and protect your mandate. This means keeping those who granted the mandate informed about the substantive issues and keeping them involved in the process. The ongoing ability to preserve your mandate will evolve less from

IN FOCUS – Nelson Mandela prepares to negotiate

In his book *Long Walk to Freedom*, Nelson Mandela provides a useful example of the 'Prelude' stage when he describes how he wrote to former South African President P. W. Botha outlining the conditions for negotiations and how they would be sequenced and paced.

At the end of the letter, I offered a very rough framework for negotiations.

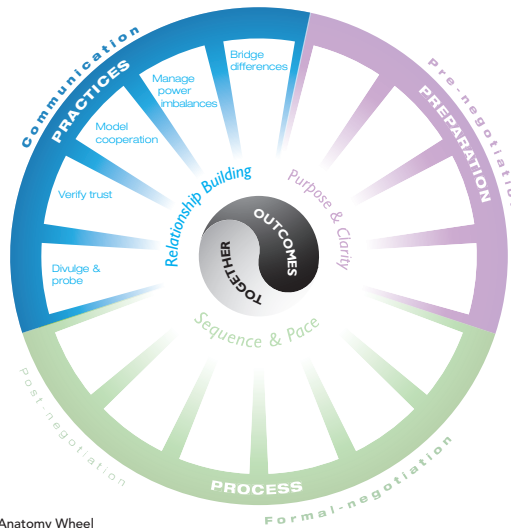
Two political issues will have to be addressed; firstly, the demand for majority rule in a unitary state; secondly, the concern of white South Africa over this demand, as well as the insistence of whites on structural guarantees that majority rule will not mean domination of the white minority by blacks. The most crucial tasks which will face the government and ANC will be to reconcile these two positions.

I proposed that this be done in two stages, the first being a discussion to create proper conditions for negotiations, the second being the actual negotiations themselves.²⁵



ELEMENT THREE

PRACTICES



TM Negotiation Anatomy Wheel

The third governing element is Practices, which when well applied enable cooperation and motivate the discretionary effort and movement needed for **relationship building**. By demonstrating empathy and verifying trust, relationship building relies less on each party's perceived power and status and more on the ability to creatively problem solve and collaborate for mutual gain. Element Three includes five supporting segments:

- 3.1 **Divulge and probe**
- 3.2 **Verify trust**
- 3.3 **Model cooperation**
- 3.4 **Manage power imbalances**
- 3.5 **Bridge differences**

3.2 Verify trust

Deception's impact is on the future, not the past.



Collaborating today and into the future involves managing rapid technology advances, scarce resources and a greater reliance on networked business communities, which all place pressures on relationships and raise the question, 'How would you negotiate with someone you don't trust, and under what circumstances would they seek to harm you?'

For example, imagine you are responsible for global sourcing and you arrange a meeting with your CEO to discuss collaborating on the development of a new consumer product with a long-term and strategic supplier. The supplier is recognised as having the best research and development in the industry and is a major supplier of raw materials.

To have a successful collaboration, you explain to the CEO that the supplier will only expose their formulations and develop new products if information sharing by both parties is completely open and honest.

To your surprise, the CEO refuses, stating, 'It's just too difficult to know if we can trust them.'

This example highlights how trust is associated with decision making and its ability to significantly impact on a relationship's success or failure.

Negotiations that involve a lack of trust are more difficult to manage. When a positive expectation is questioned by one or both parties, the sense of risk and mistrust rises, which may result in competitive behaviours that lead to one or both parties viewing the other as an adversary who wants to claim value at their expense.

Build predictability

After meeting in 2010 with his top advisers to discuss the growing oil spill in the Gulf of Mexico, which BP had tried and failed for three weeks to stem or even slow, US President Barack Obama said, 'I will not tolerate more finger pointing or irresponsibility.' A visibly angered Mr Obama said his government also had responsibility to bear, to strengthen the oversight of the oil industry and went on to say, 'We will trust, but we will verify.'⁴¹

The preparedness to trust and take risks correlates to the confidence that comes from the information that lets you verify the other party's honesty and competency to commit to actions that are likely to bring you a benefit. By being able to verify trust you also increase the likelihood that the other party will be truthful. However, the truth can only improve decision making when the right actions and information are being verified. This includes asking the right questions. For example, a hostage negotiator might use a phone call to verify the hostage's proof of life but it does not provide the hostage negotiator with proof of possession.⁴²

Asking the other party questions you know the answers to and if they are holding information that could negatively impact you can also be useful.

In circumstances where there are multiple people involved and mistrust is high, it would be wise to minimise or avoid caucusing. To caucus frequently risks creating a perception that there is concealment and a desire to only protect your interests.



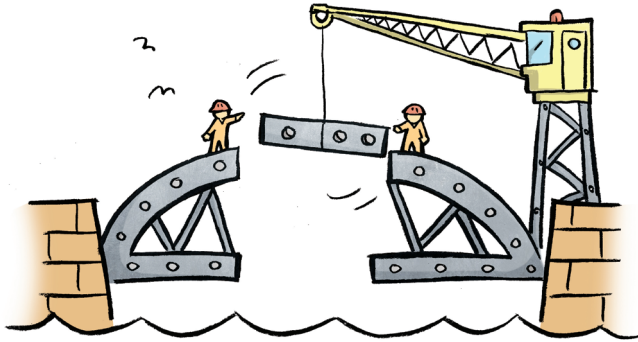
PRACTICES

As shown in the table below, there are many motivations to deceive, and many ways of preventing deception. By building rapport with the other party early, you can build the predictability that reduces feelings of suspicion, and encourages trust and cooperation.

DECEPTION	
CAUSES	PREVENTORS
Information sharing has no agreed guidelines and is not reciprocal	Information sharing guidelines are agreed and sharing is reciprocal
The uncertainty of unstable information that cannot be verified	The certainty of stable information that can be verified
Disclosure is limited, weakens a position and are unable to commit	Disclosure is full, strengthens a position and are able to commit
You do not control the time frame	You control the time frame
Gains are high	Gains are low
Low risk of being caught and penalties are negligible	High risk of being caught and penalties are severe
Inconsistent behaviour	Consistent behaviour
Limited opportunities	Many opportunities
Few shared interests	Many shared interests
One-off agreement	Ongoing relationship
Dialogue is indirect	Dialogue is direct
A reputation for deception	A reputation for honesty
Claiming value for a personal profit or to avoid a loss	Collaborate to create value for mutual gain
Want to avoid hurting the other person's feelings	Have agreed to honest and open communication
Other party has been deceived and wants to get even	Acknowledge misconduct and agree on avoidance mechanisms
Loss of face	Preserve other party's self-esteem

3.5 Bridge differences

Concession exchanges fulfil unsatisfied needs that build the bridge towards settlement.



Conflict can have a positive as well as a negative impact. When conflict is avoided it is more likely to cause a win–lose mindset that breaks down communication, provokes competitive behaviours, hinders problem solving, entrenches positions and stifles creativity. Conversely, confronting the conflict increases communication and understanding of each party by the other. This in turn releases tensions and causes the necessary reflection to stimulate interest in problem definition, creative problem solving and the cooperation needed to get movement.⁵⁹

When confronted with an impasse, skilled negotiators recognise that an interest is not being met, and an opportunity for joint problem solving. Rather than avoid discussions around differences and confrontation, they are prepared to search for concession exchanges, and by doing so signal that a negotiated agreement remains better than what can be pursued without each other.

Deadlocks and concession exchanges are for most negotiators a very emotive stage of the negotiation. ‘Am I giving too much and

losing face?’ or ‘Am I claiming too much and motivating the other party to retaliate?’ As the parties involved move towards their point of resistance the sunk costs mount and the gap between the next best alternative narrows, which makes the option to walk away more attractive and the desire to resolve the remaining differences less attractive.

Getting the balance between claiming too little and too much value is always a tension. However, if you do decide to reach agreement it remains in your interest to let the other party also have a win. To quote from the billionaire industrialist and philanthropist J. Paul Getty: ‘My father said you must never try to make all the money that’s in a deal. Let the other fellow make some money, too, because if you have a reputation for always making all the money, you won’t have many deals.’

Understand how value is being assessed

When you are deadlocked over differences about valuations, sunk costs and fairness, you need agreed criteria to move forward. Three ways have been identified to help understand how negotiators commonly assess value:⁶⁰

- The endowment effect, which causes you to value what you own more highly than the other party does. An example is a father who built a house for his daughter, which at sale time she thinks needs to be priced to reflect his countless hours of work, and the intrinsic pleasure a well-built and loved house could bring someone else.
- The status quo bias, which causes you to value keeping what you have more than other options. An example is a business owner who believes he is better off to continue to grow organically than enter a joint venture that could offer instant market share and higher financial returns.

- The sacredness effect, where an emotional attachment to a sacred possession causes it to be priced beyond its market value. An example could be a painting of a sunset from a family holiday home that has no particular artistic merit, but is full of generational memories.

Ways to determine fairness

Unfortunately, knowing how someone values a belonging only provides a deeper understanding from their perspective. It does not resolve how the negotiation should distribute the value. To help overcome different interpretations about fairness, three methods of division have been identified, all with goal-dependent choices:⁶¹

- The equality rule, which applies equal gains or losses irrespective of contributions. This method is more likely to be used when a number of parties are involved, the issues are complex and ongoing harmony is valued. For example, most people would agree that the right to vote in a democracy should be equally available to all citizens irrespective of religion, gender or wealth.
- The equity rule, which distributes gains or losses proportionately to contributions. This method is more likely to be used when performance and accountability are involved. For example, shareholders in a business with the most shares would receive the greatest gains or incur the greatest losses.
- The needs-based rule, which allocates gains or losses proportionately to need. For example, a critically ill patient involved in a car accident would be treated in a hospital emergency ward before a patient with a sprained ankle. This method is more likely to be used when social conscience and a social dividend is involved.