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Letter to the Editor—Comments on a Paper by Shakun

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COMMENTS ON A PAPER BY SHAKUN

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THE FOLLOWING are comments on "Application of Operations Research to Complex Financial Agreements—A Profit-Sharing Illustration," by MELVIN E SHAKUN, which appeared in OPERATIONS RESEARCH, volume 8, pages 65–81 (January–February, 1960)

Faced with a complex profit-sharing agreement, the author has applied the techniques of operations research to arrive at a solution A disturbing question raised in this reader's mind by the article is whether or not operations research was applied to the right problem The author accepts the profit-sharing agreements as they are written when, in reality, they may have been subject to considerable alteration The company had certain objectives in mind when the agreements were formulated, but it is doubtful that the profit-sharing plan, as now constituted, accomplishes what the company intended The agreements are complex and somewhat contradictory Removing the ambiguity of the agreements by a mathematical representation allows profit-sharing payments to be calculated, but it overlooks completely the basic question of the efficacy of the profit-sharing plan

Typically, the purpose of a profit-sharing agreement is to provide individual incentive for improving performance To accomplish this, a plan should be simple, so that all participants can understand it and can themselves compute their compensation Direct incentive is normally highest when a participant can compute the effect of his actions on *his* bonus When weighed against the usual criteria of a good profit-sharing agreement, the plan described in the article is found wanting When a plan is so complex that it requires a solution using simultaneous equations, then it is too complex to provide any direct incentive for an individual participant to improve his performance The use of operations research to compute payments under a poorly conceived plan does not improve the results of the incentive program

On the surface, it would appear that the objectives of the company's profit-sharing agreements should have been analyzed and a suitable plan to accomplish these purposes proposed Techniques of logical analysis and operations research could have been valuable in such a project The problem of a suitable incentive agreement was the 'right' problem in this case

If the company were firmly resolved to retain the present agreements, then perhaps the operations-research solution was the best course of action However, without further knowledge of the company's attitude, one senses that this very interesting application of operations research was really a misdirected effort