The Second International Conference "Problems of Cybernetics and Informatics"
September 10-12, 2008, Baku, Azerbaijan. Section #5 "Control and Optimization"
www.pci2008.science.az/5/16.pdf

NEW EFFICIENCY USING UNDESIRABLE INPUTS OF DEA

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When there are no undesirable input and output in the performance of DMUs, models of Data Envelopment Analysis (DEA) to increase efficiency are based on the output increase or input decrease. But many applied problems may consist of inputs whose increase and decrease results in efficiency increase and decrease, respectively, As Koopman (1951) represented. Such reclamation operation needs to increase undesirable inputs in order to increase efficiency or increase and decrease of undesirable outputs decrease and increase efficiency, respectively[7].

Suppose undesirable outputs be factory wastes that should decrease in order to increase efficiency (e.g. Allen, (1999), Smith, (1991)) [1,11].

There are direct and indirect methods for consideration and using undesirable outputs in DEA. In indirect methods, undesirable inputs and outputs in every single DMU change into desirable inputs and outputs with a decreasing monotonous function. And then DMUs efficiency is evaluated using standard models of DEA. Koopmans (1951), Golany and Roll (1989) introduced [ADD] and [MLT] methods, respectively, for measuring efficiency with undesirable inputs and outputs[5-6]. In'direct methods, there are some suppositions to Production Possibility Set (PPS), so in evaluation will obtain suitable input and output[2-5].

This paper is structured as f'allows: section 2 gives definitions of proportionate PPS to undesirable inputs and outputs. The method for measuring efficiency with undesirable inputs and outputs is shown in section 3. Finally, an example with undesirable inputs and outputs, and then the conclusion will be given.

1. Production Possibility Set

Suppose we have n observations on n DMUs with input and output vectors (x_j, y_j) for j = 1, 2,..., n. Let $x_j = (x_1,..., x_{mj})^T$ and $y_j = (y_{1j},..., y_{sj})$. All $x_j \in R^m$ and $y_j \in R^s$ and $x_j > 0$, $y_j > 0$ *for j = 1, 2,... n.* The input matrix *X* and output matrix *Y* can be represented as

$$X = [x_1,..., x_j,..., x_n] \ , \ Y = [y_1,..., y_j,..., y_n]$$

Where *X* is an $(m \times n)$ matrix and *Y* an $(s \times n)$ matrix.

The production possibility set *T* is generally defined as

$$T = \{(x,y)1 \text{ x can produce y}\}. \qquad (1)$$

In DEA, the production possibility set under a Variable Return to Scale (VRS) technology is constructed form the observed data (x_j, y_j) *for j = 1, 2, ..., n* as follows:

$$T = \left\{ (x, y) \middle| x \geq \sum_{j=1}^{n} \lambda_j x_j \ , \ y \leq \sum_{j=1}^{n} \lambda_j y_j \ , \lambda_j \geq 0 \ , \ \sum_{j=1}^{n} \lambda_j = 1, \ j = 1,..., n \right\}. \qquad (2)$$

In the absence of undesirable factors when a DMU_O , $o \in \{1,2,..., n\}$, is under evaluation, we can use the following BCC model:

$$\begin{aligned} \min \quad & \theta \\ s.t \quad & \theta x_o - X\lambda \geq 0 \\ & Y\lambda \geq y_o \ , \\ & 1^T \lambda = 1, \\ & \lambda \geq 0. \end{aligned} \tag{3}$$

Corresponding to each output *y*, *L(y)* is defined as the following:

$$L(y_j) = \{x | (x, y_j) \in T\}. \tag{4}$$

In fact, $L(y_j)$ is a function that y_j portrays to a subset of inputs so that inputs can produce y_j.
Now suppose that some inputs are undesirable so input matrix *X* can be represented as $X = (X^d, X^u)^T$, where $X^d = (x^d_{1j},..., x^d_{m_1 j})$, $j = 1,..., n$ and $X^u = (x^u_{1j},..., x^u_{m_2 j})$, $j = 1,..., n$ *are* $(m_1 \times n)$ *and* $(m_2 \times n)$ matrixes that represent desirable (good) and undesirable (bad) inputs, respectively. And similarly, suppose that some outputs are undesirable so outputs. Matrix *Y* can be represented as $Y = (Y^g, Y^b)^T$, where $Y^g = (y^g_{1j},..., y^g_{s_1 j})$, $j = 1,..., n$ and $Y^b = (y^b_{1j},..., y^b_{s_2 j})$, $j = 1,..., n$ are $(s_1 \times n)$ and $(s_2 \times n)$ matrixes that represent. Desirable (good) and undesirable (bad) inputs, respectively.

Definition 1: Let DMU of $(x^d_1, x^u_1, y^g_1, y^b_1)$ is dominant to DMU of $(x^d_2, x^u_2, y^g_2, y^b_2)$ if $x^d_1 \leq x^d_2, x^u_1 \geq x^u_2, y^g_1 \geq y^g_2$ and $y^b_1 \leq y^b_2$ the unequal be strict at least in a component. So that,

$$\begin{pmatrix} -x^d_1 \\ x^u_1 \\ y^g_1 \\ -y^b_1 \end{pmatrix} \geq \begin{pmatrix} -x^d_2 \\ x^u_2 \\ y^g_2 \\ -y^b_2 \end{pmatrix}$$

Definition 2: DMU_O is efficient if in T there is no DMU to be dominant over it.

We consider the properties of the Production Possibility Set as the following:
(1) T is convex.
(2) T is closed.
(3) The monotony property of desirable inputs and outputs. So that,

$$\forall u \in R^{m_1}_+, v \in R^{s_1}_+, (x^d, x^u, y^g, y^b) \in T \Rightarrow (x^d + u, x^u, y^g - v, y^b) \in T$$

This is not necessarily established for undesirable factors, because in this case, T has no efficient DMU.
We can define the Production Possibility Set T satisfying (1) through (3) by

$$T = \left\{ (x^d, x^u, y^b, y^g) \middle| x^d \geq \sum_{j=1}^{n} \lambda_j x^d_j, x^u = \sum_{j=1}^{n} \lambda_j x^u_j, y^g \leq \sum_{j=}^{n} \lambda_j y^g_j \ , \right. \\ \left. y^b = \sum_{j=1}^{n} \lambda_j y^b_j, \quad \sum_{j=1}^{n} \lambda_j = 1 \ , \lambda_j \geq 0 \ , \ j = 1,..., n \right\}. \tag{5}$$

2. Measures of Efficiency Using Undesirable Factors

In input oriented data, the efficiency of the DMU under evaluation is obtained by decreasing and increasing the desirable and undesirable input, respectively. And similarly, in output

oriented data, we increase desirable output and decrease the undesirable output. Farell (1989) introduced a model to increase and decrease desirable and undesirable output, respectively.
But there is a problem with his model and it is its nonlinear form. $[TR\beta]$ Method introduced by Ali and Seiford (1990) simultaneously increase desirable outputs and decrease undesirable outputs, but measures of efficiency are dependent on the β value [2].

There are some other methods such as [WD] and [MLT] that were introduced by Far (1989) and Galony and Roll (1989) respectively that decrease undesirable outputs only with decreasing desirable outputs[4-5].We, however, believe that in order to improve efficiency, desirable and undesirable outputs need to be increased and decreased respectively. Suppose DMUo= $(x_o^d, x_o^u, y_o^g, y_o^b)$ be unit under evaluation, corresponding to the output $y_o = (y_o^g, y_o^b)$ and using (2) $L(y_o^g, y_o^b)$ in defined as follows:

$$L(y_o^g, y_o^b) = \left\{(x^d, x^u) \middle| (x^d, x^u, y_o^g, y_o^b) \in T\right\} \tag{6}$$

and we consider the subset of $L(y_o^g, y_o^b)$ as :

$$\partial^s L(y_o^g, y_o^b) = \left\{(x^d, x^u) \middle| \forall (u,v) \geq 0, (u,v) \neq 0 \quad \Rightarrow \quad (x^d - u, x^u + v) \notin L(y_o^g, y_o^b)\right\} \tag{7}$$

That $\partial^s L(y_o^g, y_o^b)$ includes all inputs of the efficient DMUs which can produce (y_o^g, y_o^b).
The model to evaluate the efficiency of DMUo with the most decrease of x_o^d and the most increase of x_o^u is as follows:

$$\begin{aligned}
&\gamma_o = Max\ \beta - \alpha \\
&st. \\
&\quad \sum_{j=1}^{n} \lambda_j x_j^d + s^- = \alpha_o x_o^d \\
&\quad \sum_{j=1}^{n} \lambda_J x_j^u = \beta x_o^u, \\
&\quad \sum_{j=1}^{n} \lambda_j y_j^g - s^+ = y_o^g \\
&\quad \sum_{j=1}^{n} \lambda_j y_j^b = y_o^b \\
&\quad \sum_{j=1}^{n} \lambda_j = 1, \\
&\quad \beta_o \geq 1, \\
&\quad \lambda_j \geq 0 \qquad for \quad all \quad j = 1, \ldots, n
\end{aligned} \tag{8}$$

The constraint $\beta \geq 1$ restricts the decrease of both a and β .
Theorem 1: The DMUo in model (8) is efficient if and only if
1) $\alpha^* = \beta^* = 1$
2) All slacks be zero for all optimal solutions.
Theorem 2: If an optimal solution of model (8) be $(\alpha^*, \beta^*, \lambda^*, s^-, s^+)$, then

$$(\alpha^* x^d - s^{-^*}, \beta^* x^u) \in \partial^s L(y_o^g, y_o^b).$$

considering theorem 1 it is clear that $\beta^* = 1$ is the efficiency value and $\beta^* > 1$ is the inefficiency value of undesirable inputs. So $0 < \dfrac{1}{\beta^*} \le 1$ shows the efficiency value of undesirable

inputs. And $\alpha^* \le 1$ shows the efficiency value of desirable inputs. Therefore, the efficiency value for the DMUo is weight (geometrical) average α^* and β^*. So that,

$$\gamma_o = m_1 + m_2 \sqrt{\frac{(\alpha^*)^{m_1}}{(\beta^*)^{m_2}}} \qquad \text{Where } 0 < \gamma_o \le 1$$

Remark 1: The DMUo in model (8) is efficient if and only if $\gamma_o = 1$.

Theorem 3: If DMUk be dominant over DMUj and γ_k, γ_j be the efficiency value in model (8) then, $\gamma_k \le \gamma_j$

3. Numerical example

As an example, consider seven DMUs with one desirable input, one undesirable input and one desirable output.

Regarding table 1 and figure 1, it can be seen that DMUs D, E, and F are efficient and they are on the $\partial^s L(y_G^g)$. On the other hand, efficiency of other DMUs have been examined through their image on $\partial^s L(y_G^g)$. (Efficient Frontiers)

Table 1. The inputs and outputs data for 7 DMUs.

$DMU's$	x^d	x^u	y^g	β^*	α^*	γ_j
A	3	1	1	7	1	0.37
B	2	2	1	2.5	0.5	0.45
C	1	3	1	1.66	1	0.75
D	1	5	1	1	1	1
E	2	6	1	1	1	1
F	3	7	1	1	1	1
G	4	4	1	1.75	0.75	0.65

Similar discussion can be presented for the output oriented.

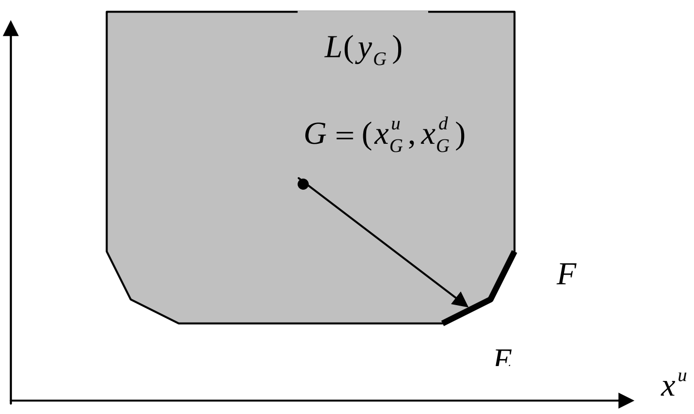

Figure 1: The graph of the L(y_G)

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