Data Envelopment Analysis

Second Edition
To

Ruth, Bev and Michiko
Contents

List of Tables xvii
List of Figures xxi
Preface xxv

1. GENERAL DISCUSSION 1
   1.1 Introduction 1
   1.2 Single Input and Single Output 2
   1.3 Two Inputs and One Output Case 6
   1.4 One Input and Two Outputs Case 8
   1.5 Fixed and Variable Weights 12
   1.6 Summary and Conclusion 13
   1.7 Problem Supplement for Chapter 1 15

2. BASIC CCR MODEL 21
   2.1 Introduction 21
   2.2 Data 22
   2.3 The CCR Model 23
   2.4 From a Fractional to a Linear Program 23
   2.5 Meaning of Optimal Weights 25
   2.6 Explanatory Examples 25
      2.6.1 Example 2.1 (1 Input and 1 Output Case) 26
      2.6.2 Example 2.2 (2 Inputs and 1 Output Case) 27
   2.7 Illustration of Example 2.2 30
   2.8 Summary of Chapter 2 32
   2.9 Selected Bibliography 33
   2.10 Problem Supplement for Chapter 2 34

3. CCR MODEL AND PRODUCTION CORRESPONDENCE 41
   3.1 Introduction 41
   3.2 Production Possibility Set 42
   3.3 The CCR Model and Dual Problem 43
   3.4 The Reference Set and Improvement in Efficiency 47
3.5 Theorems on CCR-Efficiency 48
3.6 Computational Aspects of the CCR Model 50
3.6.1 Computational Procedure for the CCR Model 50
3.6.2 Data Envelopment Analysis and the Data 52
3.6.3 Determination of Weights (=Multipliers) 52
3.6.4 Reasons for Solving the CCR Model Using the Dual \( DLP_o \) 52
3.7 Example 53
3.8 The Output-Oriented Model 58
3.9 An Extension of the Two Phase Process in the CCR Model 60
3.10 Discretionary and Non-Discretionary Inputs 63
3.11 Summary of Chapter 3 68
3.12 Notes and Selected Bibliography 68
3.13 Related DEA-Solver Models for Chapter 3 70
3.14 Problem Supplement for Chapter 3 71

4. ALTERNATIVE DEA MODELS 87
4.1 Introduction 87
4.2 The BCC Models 89
4.2.1 The BCC Model 91
4.2.2 The Output-oriented BCC Model 93
4.3 The Additive Model 94
4.3.1 The Basic Additive Model 94
4.3.2 Translation Invariance of the Additive Model 97
4.4 A Slacks-Based Measure of Efficiency (SBM) 99
4.4.1 Definition of SBM 100
4.4.2 Interpretation of SBM as a Product of Input and Output Inefficiencies 101
4.4.3 Solving SBM 101
4.4.4 SBM and the CCR Measure 103
4.4.5 The Dual Program of the SBM Model 104
4.4.6 Oriented SBM Models 105
4.4.7 A Weighted SBM Model 105
4.4.8 Decomposition of Inefficiency 106
4.4.9 Numerical Example (SBM) 106
4.5 A Hybrid Measure of Efficiency (Hybrid) 106
4.5.1 A Hybrid Measure 107
4.5.2 Decomposition of Inefficiency 109
4.5.3 Comparisons with the CCR and SBM Models 110
4.5.4 An Illustrative Example 111
4.6 Russell Measure Models 112
4.7 Summary of the Basic DEA Models 114
4.8 Summary of Chapter 4 116
4.9 Notes and Selected Bibliography 117
4.10 Appendix: Free Disposal Hull (FDH) Models 117
4.11 Related DEA-Solver Models for Chapter 4 119
4.12 Problem Supplement for Chapter 4 120
5. RETURNS TO SCALE

5.1 Introduction 131
5.2 Geometric Portrayals in DEA 134
5.3 BCC Returns to Scale 136
5.4 CCR Returns to Scale 138
5.5 Most Productive Scale Size 143
5.6 Further Considerations 147
5.7 Relaxation of the Convexity Condition 150
5.8 Decomposition of Technical Efficiency 152
  5.8.1 Scale Efficiency 152
  5.8.2 Mix Efficiency 154
  5.8.3 An Example of Decomposition of Technical Efficiency 155
5.9 An Example of Returns to Scale Using a Bank Merger Simulation 156
  5.9.1 Background 156
  5.9.2 Efficiencies and Returns to Scale 156
  5.9.3 The Effects of a Merger 159
5.10 Summary 162
5.11 Additive Models 162
5.12 Multiplicative Models and “Exact” Elasticity 165
5.13 Summary of Chapter 5 170
5.14 Appendix: FGL Treatment and Extensions 171
5.15 Related DEA-Solver Models for Chapter 5 172
5.16 Problem Supplement for Chapter 5 173

6. MODELS WITH RESTRICTED MULTIPLIERS 177

6.1 Introduction 177
6.2 Assurance Region Method 178
  6.2.1 Formula for the Assurance Region Method 178
  6.2.2 General Hospital Example 181
  6.2.3 Change of Efficient Frontier by Assurance Region Method 183
  6.2.4 On Determining the Lower and Upper Bounds 184
6.3 Another Assurance Region Model 185
6.4 Cone-Ratio Method 186
  6.4.1 Polyhedral Convex Cone as an Admissible Region of Weights 186
  6.4.2 Formula for Cone-Ratio Method 187
  6.4.3 A Cone-Ratio Example 188
  6.4.4 How to Choose Admissible Directions 189
6.5 An Application of the Cone-Ratio Model 189
6.6 Negative Slack Values and Their Uses 194
6.7 A Site Evaluation Study for Relocating Japanese Government Agencies out of Tokyo 196
  6.7.1 Background 196
  6.7.2 The Main Criteria and their Hierarchy Structure 197
  6.7.3 Scores of the 10 Sites with respect to the 18 Criteria 198
  6.7.4 Weights of the 18 Criteria by the 18 Council Members (Evaluators) 199
  6.7.5 Decision Analyses using Averages and Medians 201
6.7.6 Decision Analyses using the Assurance Region Model 201
6.7.7 Evaluation of "Positive" of Each Site 202
6.7.8 Evaluation of "Negative" of Each Site 202
6.7.9 Uses of "Positive" and "Negative" Scores 203
6.7.10 Decision by the Council 203
6.7.11 Concluding Remarks 204

6.8 Summary of Chapter 6 205
6.9 Notes and Selected Bibliography 206
6.10 Related DEA-Solver Models for Chapter 6 206
6.11 Problem Supplement for Chapter 6 207

7. NON-DISCRETIONARY AND CATEGORICAL VARIABLES 215
7.1 Introduction 215
7.2 Examples 217
7.3 Non-controllable, Non-discretionary and Bounded Variable Models 219
  7.3.1 Non-controllable Variable (NCN) Model 219
  7.3.2 An Example of a Non-Controllable Variable 220
  7.3.3 Non-discretionary Variable (NDSC) Model 222
  7.3.4 Bounded Variable (BND) Model 224
  7.3.5 An Example of the Bounded Variable Model 224
7.4 DEA with Categorical DMUs 227
  7.4.1 An Example of a Hierarchical Category 227
  7.4.2 Solution to the Categorical Model 228
  7.4.3 Extension of the Categorical Model 229
7.5 Comparisons of Efficiency between Different Systems 231
  7.5.1 Formulation 231
  7.5.2 Computation of Efficiency 232
  7.5.3 Illustration of a One Input and Two Output Scenario 232
7.6 Rank-Sum Statistics and DEA 233
  7.6.1 Rank-Sum-Test (Wilcoxon-Mann-Whitney) 234
  7.6.2 Use of the Test for Comparing the DEA Scores of Two Groups 235
  7.6.3 Use of the Test for Comparing the Efficient Frontiers of Two Groups 236
  7.6.4 Bilateral Comparisons Using DEA 236
  7.6.5 An Example of Bilateral Comparisons in DEA 237
  7.6.6 Evaluating Efficiencies of Different Organization Forms 238
7.7 Summary of Chapter 7 240
7.8 Notes and Selected Bibliography 240
7.9 Related DEA-Solver Models for Chapter 7 240
7.10 Problem Supplement for Chapter 7 242

8. ALLOCATION MODELS 257
8.1 Introduction 257
8.2 Overall Efficiency with Common Prices and Costs 258
  8.2.1 Cost Efficiency 258
  8.2.2 Revenue Efficiency 260
  8.2.3 Profit Efficiency 260
  8.2.4 An Example 261
11. EFFICIENCY CHANGE OVER TIME 323
   11.1 Introduction 323
   11.2 Window Analysis 324
      11.2.1 An Example 324
      11.2.2 Application 324
      11.2.3 Analysis 326
   11.3 Malmquist Index 328
      11.3.1 Dealing with Panel Data 328
      11.3.2 Catch-up Effect 329
      11.3.3 Frontier-shift Effect 329
      11.3.4 Malmquist Index 330
      11.3.5 The Radial MI 331
      11.3.6 The Non-radial and Slacks-based MI 333
      11.3.7 The Non-radial and Non-oriented MI 336
      11.3.8 Scale Efficiency Change 337
      11.3.9 Illustrative Examples for Model Comparisons 338
      11.3.10 Concluding Remarks 344
   11.4 Summary of Chapter 11 345
   11.5 Notes and Selected Bibliography 345
   11.6 Related DEA-Solver Models for Chapter 11 345

12. SCALE ELASTICITY AND CONGESTION 349
   12.1 Introduction 349
   12.2 Scale Elasticity in Production 350
   12.3 Congestion 353
      12.3.1 Strong Congestion 354
      12.3.2 Weak Congestion 357
      12.3.3 Summary of Degree of Scale Economies and Congestion 360
   12.4 Illustrative Examples 360
      12.4.1 Degree of Scale Economies and Strong Congestion 360
      12.4.2 Weak vs. Strong Congestion 361
   12.5 Summary of Chapter 12 362
   12.6 Notes and Selected Bibliography 363
   12.7 Related DEA-Solver Models for Chapter 12 364
   12.8 Problem Supplement for Chapter 12 364

13. UNDESIRABLE OUTPUTS MODELS 367
   13.1 Introduction 367
   13.2 An SBM with Undesirable Outputs 368
      13.2.1 An Undesirable Output Model 368
      13.2.2 Dual Interpretations 369
      13.2.3 Returns-to-scale (RTS) Issues 370
      13.2.4 Imposing Weights to Inputs and/or Outputs 370
   13.3 Non-separable ‘Good’ and ‘Bad’ Output Model 371
   13.4 Illustrative Examples 374
      13.4.1 Separable Bad Outputs Models 374
      13.4.2 An Example with Both Separable and Non-separable Inputs/Outputs 375
16.6.4 Discussion 438
16.6.5 Summary of This Case Study 439
16.7 Summary of Chapter 16 439
16.8 Notes and Selected Bibliography 439

Appendices 443
A-Linear Programming and Duality 443
A.1 Linear Programming and Optimal Solutions 443
A.2 Basis and Basic Solutions 443
A.3 Optimal Basic Solutions 444
A.4 Dual Problem 445
A.5 Symmetric Dual Problems 446
A.6 Complementarity Theorem 447
A.7 Farkas' Lemma and Theorem of the Alternative 448
A.8 Strong Theorem of Complementarity 449
A.9 Linear Programming and Duality in General Form 451

B-Introduction to DEA-Solver 454
B.1 Platform 454
B.2 Installation of DEA-Solver 454
B.3 Notation of DEA Models 454
B.4 Included DEA Models 456
B.5 Preparation of the Data File 456
B.5.1 The CCR, BCC, IRS, DRS, GRS, SBM, Super-Efficiency, Scale Elasticity, Congestion and FDH Models 456
B.5.2 The AR Model 457
B.5.3 The ARG Model 458
B.5.4 The NCN and NDSC Models 459
B.5.5 The BND Model 460
B.5.6 The CAT, SYS and Bilateral Models 460
B.5.7 The Cost and New-Cost Models 461
B.5.8 The Revenue and New-Revenue Models 462
B.5.9 The Profit, New-Profit and Ratio Models 462
B.5.10 The Window and Malmquist Models 462
B.5.11 The Hybrid Model 463
B.5.12 Weighted SBM Model 464
B.5.13 The Bad Outputs Model 465
B.5.14 The Non-separable Outputs Model 465

B.6 Starting DEA-Solver 466
B.7 Results 466
B.8 Data Limitations 473
B.8.1 Problem Size 473
B.8.2 Inappropriate Data for Each Model 474

B.9 Sample Problems and Results 475
B.10 Summary 475
B.10.1 Models that Require Numbers to be Supplied through Keyboard 475
B.10.2 Summary of Headings to Inputs/Outputs 475
C- Bibliography 477

Index 479

Index 483
List of Tables

<table>
<thead>
<tr>
<th>Table Number</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Single Input and Single Output Case</td>
<td>3</td>
</tr>
<tr>
<td>1.2</td>
<td>Efficiency</td>
<td>5</td>
</tr>
<tr>
<td>1.3</td>
<td>Two Inputs and One Output Case</td>
<td>6</td>
</tr>
<tr>
<td>1.4</td>
<td>One Input and Two Outputs Case</td>
<td>8</td>
</tr>
<tr>
<td>1.5</td>
<td>Hospital Case</td>
<td>12</td>
</tr>
<tr>
<td>1.6</td>
<td>Comparisons of Fixed vs. Variable Weights</td>
<td>13</td>
</tr>
<tr>
<td>1.7</td>
<td>Optimal Weights for Hospitals A and B</td>
<td>18</td>
</tr>
<tr>
<td>2.1</td>
<td>Example 2.1</td>
<td>26</td>
</tr>
<tr>
<td>2.2</td>
<td>Results of Example 2.1</td>
<td>27</td>
</tr>
<tr>
<td>2.3</td>
<td>Example 2.2</td>
<td>28</td>
</tr>
<tr>
<td>2.4</td>
<td>Results of Example 2.2</td>
<td>29</td>
</tr>
<tr>
<td>3.1</td>
<td>Primal and Dual Correspondences</td>
<td>44</td>
</tr>
<tr>
<td>3.2</td>
<td>Example 3.1</td>
<td>53</td>
</tr>
<tr>
<td>3.3</td>
<td>Results of Example 3.1</td>
<td>58</td>
</tr>
<tr>
<td>3.4</td>
<td>Problem for Phase III Process</td>
<td>61</td>
</tr>
<tr>
<td>3.5</td>
<td>CCR-Score, Reference Set, Slacks and % Change</td>
<td>62</td>
</tr>
<tr>
<td>3.6</td>
<td>State-mandated Excellence Standards on Student Outcomes</td>
<td>67</td>
</tr>
<tr>
<td>3.7</td>
<td>Non-Discretionary Inputs</td>
<td>67</td>
</tr>
<tr>
<td>3.8</td>
<td>Worksheets Containing Main Results</td>
<td>71</td>
</tr>
<tr>
<td>3.9</td>
<td>Data and Scores of 5 Stores</td>
<td>78</td>
</tr>
<tr>
<td>3.10</td>
<td>Optimal Weights and Slacks</td>
<td>79</td>
</tr>
<tr>
<td>3.11</td>
<td>CCR-projection in Input and Output Orientations</td>
<td>81</td>
</tr>
<tr>
<td>4.1</td>
<td>Primal and Dual Correspondences in BCC Model</td>
<td>92</td>
</tr>
<tr>
<td>4.2</td>
<td>Data and Results of Example 4.1</td>
<td>96</td>
</tr>
<tr>
<td>4.3</td>
<td>Data and Results of CCR and SBM</td>
<td>107</td>
</tr>
<tr>
<td>4.4</td>
<td>A Comparison: Hybrid, CCR and SBM</td>
<td>111</td>
</tr>
<tr>
<td>4.5</td>
<td>Measures of Inefficiency: <em>(Hybrid)</em></td>
<td>112</td>
</tr>
<tr>
<td>4.6</td>
<td>Summary of Model Characteristics</td>
<td>115</td>
</tr>
<tr>
<td>4.7</td>
<td>Decomposition of Efficiency Score</td>
<td>129</td>
</tr>
<tr>
<td>5.1</td>
<td>Decomposition of Technical Efficiency</td>
<td>155</td>
</tr>
<tr>
<td>5.2</td>
<td>Data of 11 Regional and 9 City Banks*</td>
<td>157</td>
</tr>
</tbody>
</table>
5.3 Efficiencies and Returns to Scale 158
5.4 Weights, Slacks and Projections 160
5.5 Efficiency of Projected and Merged Banks 160
5.6 Results of Input-oriented/Output-oriented BCC Cases 174
6.1 Data for 14 Hospitals 181
6.2 Efficiency and Weight of 14 Hospitals by CCR Model 182
6.3 Efficiency and Weight of 14 Hospitals with Assurance Region Method 182
6.4 Efficiency of 14 Hospitals by CR (Cone-Ratio) and CCR Models 188
6.5 Number of Bank Failures (through 10-31-88) 191
6.6 Inputs and Outputs 192
6.7 CCR and Cone-Ratio Efficiency Scores (1984, 1985)* 193
6.8 Printout for Cone-Ratio CCR Model - Interstate Bank of Fort Worth, 1985: 195
6.9 Scores ($S_{ij}$) of 10 Sites (A-J) with respect to 18 Criteria (C1-C18) 198
6.10 Statistics of Weights assigned the 18 Criteria (C1-C18) by 18 Council Members 200
6.11 Averages and Medians of Scores of the 10 Sites 201
7.1 Data for Public Libraries in Tokyo 220
7.2 Efficiency of Libraries by CCR and NCN 221
7.3 Data of 12 Japanese Baseball Teams in 1993 225
7.4 Projection of Attendance by CCR and Bounded Models 226
7.5 Categorization of Libraries 228
7.6 Nine DMUs with Three Category Levels 230
7.7 Comparisons of Stores in Two Systems 234
7.8 Comparisons of Two Systems 234
7.9 Example of Bilateral Comparisons 238
8.1 Sample Data for Allocative Efficiency 261
8.2 Efficiencies 261
8.3 Comparison of Traditional and New Scheme 265
8.4 Data for 12 Hospitals 266
8.5 New Data Set and Efficiencies 266
8.6 Decomposition of Actual Cost 272
9.1 Data for a Sensitivity Analysis 289
9.2 Initial Solutions 290
9.3 Results of 5% Data Variations 290
9.4 OLS Regression Estimates without Dummy Variables 294
9.5 Stochastic Frontier Regression Estimates without Dummy Variables 295
9.6 OLS Regression Estimates without Dummy Variables on DEA-efficient DMUs 296
9.7 Stochastic Frontier Regression Estimates without Dummy Variables on DEA-efficient DMUs 297
10.1 Test Data 311
10.2 Andersen-Petersen Ranking* 312
10.3 Non-radial Super-efficiency 317
10.4 Data for Super-efficiency 320
10.5 Super-efficiency Scores under Variable RTS 321
10.6 Super-efficiency Scores under Constant RTS 321
11.1 Window Analysis: 56 DMUs in U.S. Army Recruitment Battalions 3 Outputs - 10 Inputs 325
11.2 Example 1 339
11.3 Input-oriented Scores 339
11.4 Catch-up, Frontier-shift and Malmquist Index 339
11.5 Example 2 340
11.6 Example 3 342
11.7 Comparisons 343
11.8 Example 4 343
11.9 Results by the Non-oriented Non-radial Model 344
12.1 Example 1 361
12.2 Example 2 362
12.3 BCC-O Results 362
12.4 Congestion Results 363
13.1 Separable Bad Outputs Case: Data set 374
13.2 Separable Bad Outputs Case: Results 375
13.3 Non-Separable Inputs/Outputs Case: Data Set 376
13.4 Non-Separable Inputs/Outputs Case: Decomposition of Inefficiency 377
14.1 Data for Groups 1 and 2 as Specialized and Group 3 as Diversified Firms 389
14.2 Twenty Virtual Diversified Firms 390
14.3 Efficiency Score and Degree of Economies of Scope 390
14.4 Data for 12 Hospitals 397
14.5 Technical Capacity Utilization 398
14.6 Price-Based Data Set 398
14.7 Profits and Losses 399
14.8 Comparisons of Current and Maximum Profits 399
15.1 Score Matrix 405
15.2 Division of Reward based on Fixed Weights 406
15.3 Optimal Rewards with Optimal Weights 407
15.4 Normalized Score Matrix 409
15.5 Coalition and Characteristic Function (1) 410
15.6 Coalition and Characteristic Function (2) 411
15.7 Each Member's Marginal Contribution to Coalitions 412
15.8 The Shapley Value 413
15.9 Division of Reward based on Shapley Value 413
15.10 Single Players' Values for the Min Game Case 416
15.11 Coalitions' Values for the Min Game Case (1) 416
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.12</td>
<td>Coalitions’ Values for the Min Game Case (2)</td>
<td>417</td>
</tr>
<tr>
<td>15.13</td>
<td>The Shapley Value for the Min Game Case</td>
<td>418</td>
</tr>
<tr>
<td>15.14</td>
<td>Data of 3 Shops</td>
<td>418</td>
</tr>
<tr>
<td>15.15</td>
<td>Single Players’ Values of the Market Arcade Game</td>
<td>419</td>
</tr>
<tr>
<td>15.16</td>
<td>Coalitions’ Values of the Market Arcade Game</td>
<td>419</td>
</tr>
<tr>
<td>15.17</td>
<td>The Shapley Value of the Market Arcade Game</td>
<td>419</td>
</tr>
<tr>
<td>15.18</td>
<td>Characteristic Function Values subject to the AR Constraints</td>
<td>420</td>
</tr>
<tr>
<td>15.19</td>
<td>The Shapley Value for the AR Case</td>
<td>420</td>
</tr>
<tr>
<td>16.1</td>
<td>Stochastic Frontier Estimation Results</td>
<td>436</td>
</tr>
<tr>
<td>16.2</td>
<td>Comparison of the Initial and Final Efficiency Scores</td>
<td>437</td>
</tr>
<tr>
<td>A.1</td>
<td>Symmetric Primal-Dual Problem</td>
<td>447</td>
</tr>
<tr>
<td>A.2</td>
<td>General Form of Duality Relation</td>
<td>452</td>
</tr>
<tr>
<td>B.1</td>
<td>Window Analysis by Three Adjacent Years</td>
<td>469</td>
</tr>
<tr>
<td>B.2</td>
<td>Sample Data of Scale Elasticity</td>
<td>471</td>
</tr>
<tr>
<td>B.3</td>
<td>Models Requiring Numbers Through Keyboard</td>
<td>475</td>
</tr>
<tr>
<td>B.4</td>
<td>Headings to Inputs/Outputs</td>
<td>476</td>
</tr>
</tbody>
</table>