An Integrative Multi-Criteria Decision Making Techniques for Supplier Evaluation Problem with its Application

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Abstract. Coordinating business operation with suppliers becomes increasingly important to survive and prosper under the dynamic business environment. A good partnership with suppliers not only increase efficiency, but also strengthen corporate competitiveness. Associated with such concern, this study aims to develop a practical approach of multi-criteria supplier evaluation using combined methods of Taguchi loss function (TLF), best-worst method (BWM) and VIse Kriterijumska Optimizacija kompromisno Resenje (VIKOR). A new framework of integrative approach adopting these methods is our main contribution for supplier evaluation in literature. In this integrated approach, a compromised supplier ranking list based on the loss score of suppliers is obtained using efficient steps of a pairwise comparison based decision making process. Implemetation to the case problem with real data from crumb rubber industry shows the usefulness of the proposed approach. Finally, a suitable managerial implication is presented.

1. Introduction

Among all strategic decision involved along enterprises' supply chain system, purchasing decision has a great impact on the overall system due to the fact that the cost of raw materials and component parts represents the largest percentage of the total product cost [1]. Establishing strong relationship with selected suppliers not only substantially reduces purchasing cost, but also significantly improves corporate competitiveness [2]. In today's business, however, many enterprises are still dealing with unreliable suppliers. Working with such suppliers may interrupt production, lower product availability and quality, and at the end, decrease enterprise competitiveness. Therefore, enterprises may initiate to develop their suppliers and try to actively improve the performance of their supplier base [3].

Supplier evaluation and selection are a crucial phase before supplier development. With an increasing occurrence of risk events, supplier evaluation and selection process become more and more important for the business. However, in practical decision making it is often found difficult to make a proper decision due to a complex and unstructured problem of supplier evaluation in nature involving quantitative and qualitative criteria simultaneously. To cope with such problem, enterprises can find utility in multi-attribute decision making (MADM) technique that can assist with evaluating and selecting suppliers. In this regard, several studies adopting MADM techniques have been proposed in literature. Jain et al. [4] proposed fuzzy multi-criteria decision-making model of supplier evaluation and selection where Analytical Hierarchy Process (AHP) is used to assign criteria weight and Technique for Order of Preference by Similarity to Ideal Solution (TOPSIS) is used to rank suppliers. Pitchipoo et al. [5] developed a decision support model for supplier evaluation and selection in the process industry by integrating AHP and Grey Relational Analysis (GRA). Yadav & Sharma [6] integrated Data Envelopment Analysis (DEA) into AHP procedures. Liu & Zang [7] proposed a novel integrated method

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of entropy weight and an improved ELECTRE-III to deal with supplier selection. Hsu et al. [8] developed a model to evaluate suppliers based on their carbon performance utilizing Analytical Network Process (ANP) to determine relative weights of each criterion and VIKOR to derive a compromised supplier ranking list. Chang et al. [9] proposed a novel approach of decision-making of supplier selection by applying fuzzy DEcision-MAking Trial and Evaluation Laboratory (DEMATEL) method to find influential factors in selecting suppliers. Parkouhi & Ghadikolaei [10] developed resilient approach to evaluate supplier using fuzzy ANP and grey-VIKOR. Chen et al. [11] investigated the use of The Preference Ranking Organization METHod for Enrichment of Evaluations (PROMETHEE) to evaluate suppliers in group decision making and fuzzy environment. Adali et al. [12] proposed an alternative version of fuzzy-PROMETHEE to solve supplier eavaluation problem in which preference functions are handled in terms of fuzzy distances between alternatives with respect to each criterion. Kuo et al. [13] developed integrated methods composed of DEMATEL and ANP to determine the relative importance of criteria and applied VIKOR to assess green suppliers. Gupta & Barua [14] proposed evaluate suppliers among SMEs (Small and Medium Enterprises) on the basis of their green innovation ability in which best-worst method is utilized to obtain criteria weights and fuzzy TOPSIS is used to rank the suppliers. Zeydan et al. [15] combined fuzzy-AHP, fuzzy TOPSIS and DEA to evaluate suppliers for automotive industry. Büyüközkan & Çifçi [16] proposed evaluation framework using hybrid approach of fuzzy DEMATEL, fuzzy ANP and fuzzy TOPSIS to evaluate green suppliers.

This study relies on the theory of MADM from which integrated methods of TLF, BWM, and VIKOR technique are proposed to evaluate a set of suppliers. The TLF allows the DM to set performance target and its tolerance limit of suppliers for which the loss score of suppliers is calculated. The weight of criteria is computed using the most recent and efficient pairwise comparison – based method named BWM. Finally, a VIKOR's procedures are executed to rank the supplier. To examine its usefulness, the proposed research is implemented to solve the case from crumb rubber industry.

2. The proposed integrated approach
To structure appropriate steps of the proposed approach, each of the method used in this research is briefly discussed.

2.1. Taguchi loss function (TLF)
The original concept of TLF is based on quantifying the loss (in term of cost) incurs at customers if the quality characteristic of product deviates from the target value. Particularly, Taguchi proposes an acceptable quality definition that any deviation from quality's target value results in losses. The loss is zero when quality measurement is the same as the target value. Otherwise, such loss incurs whenever quality measurement fall within specification limit.

When $L(x)$ denotes the loss for quality characteristic x, and k is a loss constant factor, then the formulation for "larger is better" loss function is given in Eq. (1).

$$L(x) = \begin{cases} k \times (\frac{1}{x^2})^2 & \text{for single data} \\ k \times \left(\text{MSD} = \frac{1}{n}\sum_{i=1}^{n}(\frac{1}{x_i^2})^2 \right) & \text{for } n - \text{data} \end{cases} \quad ; \quad k = 100\% \times (T)^2 \quad (1)$$

2.2. Best-worst method (BWM)
Best-worst method (BWM) is a novel pairwise comparison based method proposed by Rezaei [17]. The steps of BWM start by first identifying a set of decision n criteria $\{c_1, c_2, ..., c_n\}$. Then the best (e.g. most desirable, most important) and the worst (e.g. least desirable, least important) criteria are determined. Two vector named as best-to-others (BO) and others-to-worst (OW) vector are determined where BO and OW vector are formulated as $A_B = \{a_{B1}, a_{B1}, ..., a_{Bn}\}$ and $A_W = \{a_{1W}, a_{1W}, ..., a_{nW}\}^T$, respectively. Finally, the optimal weights $(w_1^*, w_2^*, ..., w_n^*)$ are obtained using Eq. (2).

$$\text{Min} \quad \varphi \tag{2}$$

s.t.:

$$\left|\omega_B - a_{Bj}\omega_j\right| \le \varphi \quad \text{for all } j$$

$$\left|\omega_j - a_{jW}\omega_W\right| \le \varphi \quad \text{for all } j$$

$$\sum_j \omega_j = 1, \quad \omega_j \ge 0 \quad \text{for all } j$$

2.3. VIKOR technique

VIKOR was first proposed by Opricovic [18, 19] which is utilized to handles the situation of conflicting criteria in decision-making and there might be no solution satisfying all criteria simultaneously. The core feature of VIKOR is to evaluate a set of alternatives and propose a ranking that resolves disagreements by providing compromised solutions based on its closeness to the ideal solution.

The VIKOR procedures is composed of several steps. First, the value of f_{ij}, which represents the value of criterion i ($i = 1, 2, 3,\ldots, n$) for each of alternative j ($j = 1, 2, 3, \ldots, m$) are determined. For cost typed criteria, the value of $f_i^+ = \min_j f_{ij}$ and $f_i^- = \max_j f_{ij}$ are then selected. After that, ranking measures are calculated using two formulations, i.e.,

$$S_j = \sum_{i=1}^n \frac{\omega_i(|f_i^+ - f_{ij}|)}{f_i^+ - f_i^-} \tag{3}$$

$$R_j = \max_i \left(\frac{(|f_i^+ - f_{ij}|)}{f_i^+ - f_i^-}\right) \tag{4}$$

where S_j and R_j represents the distance of j-th alternative from positive ideal solution and from negative ideal solution, respectively, and ω_i denotes criteria weight calculated from measuring criteria relative importance. Next, the value of Q_j are computed where:

$$Q_j = \frac{(S_j - S^+)}{S^- - S^+} + \frac{(1-v)(R_j - R^+)}{R^- - R^+} \tag{5}$$

where $S^+ = \min_j S_j$, $S^- = \max_j S_j$, $R^+ = \min_j R_j$, $R^- = \max_j R_j$, and v indicates the weight where the value is assumed to be 0.5 [20]. Finally, ranking of alternatives is obtained by sorting S, R, and Q in increasing order. Assuming $a^{(1)}$ and $a^{(2)}$ are the first and second ranked alternative in Q list, respectively, then alternative $a^{(1)}$ is the best compromise solution if the two conditions are satisfied: "Acceptable advantage" and "Acceptable stability in decision-making". First condition satisfies $Q(a^{(2)}) - Q(a^{(1)}) \ge DQ$ where $DQ = 1 / (m-1)$, and second condition requires that $a^{(1)}$ should also be ranked first according to S and/or R. If one of the above conditions is not satisfied then a set of compromised solutions are obtained where the following rules are applied: 1) If only the condition 2 is not satisfied, $a^{(1)}$ and $a^{(2)}$ are both the compromised solutions; 2) If the condition 1 is not satisfied, $a^{(1)}, a^{(2)},\ldots, a^{(n)}$ becomes compromised solutions where $a^{(n)}$ is determined by the relation $Q(a^{(n)}) - Q(a^{(1)}) < DQ$ for maximum n (the positions of these alternatives are "in closeness").

3. Industrial case problem

3.1. Result

To illustrate the usefulness of our proposed methodology, a case study was carried out in a crumb rubber industry named as XYZ Co. here (due to confidentiality), located in Padang city, Indonesia. The raw material (raw rubber) is mostly supplied by rubber farmers, classified as smallholders localized in West Sumatera and other surrounding regions. In particular, the supply system of XYZ Co. involves suppliers characterized by limited capacity, uncertain delivery lead time and low raw rubber quality. To anticipate
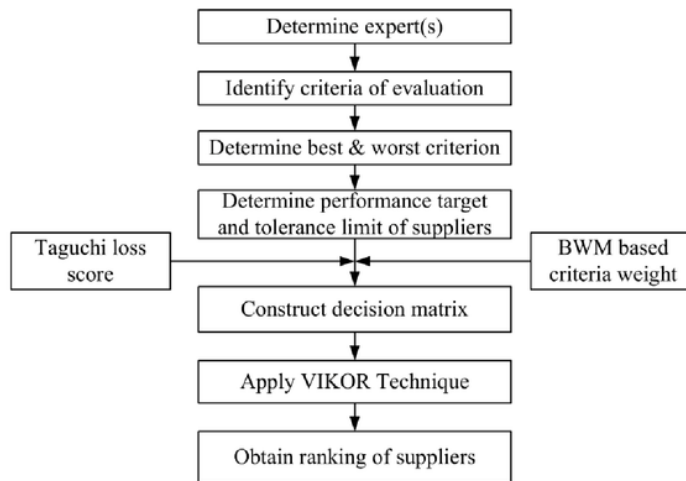
Figure 1. The proposed approach

material shortages, the XYZ Co. adopts a daily-basis supply from suppliers with fixed predetermined price. From current 18 suppliers only five of them constantly provides regular supply to which the proposed approach is applied. The proposed methodology is depicted in Figure 1.

Step 1: Determine the candidate of expert for decision making. To conduct evaluation process, individual opinion by the Chief, as a senior DM, and group opinion by a panel consisting of supporting experts within the company, including the Chief himself, was adopted depending on data requirement. These experts include purchasing, production, quality control, and warehousing supervisor.

Step 2: Identify criteria of evaluation. After presenting some criteria gathered from literature review to the panel, 5 (five) criteria were finally chosen as the most relevant criteria, i.e., quality (C1), quantity (C2), continuity (C3), responsiveness (C4), and reputation (C5).

Step 3: Compute the loss score of supplier using TLF. Due to criteria nature, a larger-is-better type loss function was chosen to specify the performance characteristic of all suppliers. Performance target values and tolerances limit (T) of suppliers are then determined through panel discussion (Table 1).

Eight-month performance data of suppliers are gathered for the first three criteria. A qualitative assessment for the last two criteria is performed based on aggregate measures for the entire periods as period-by-period performance does not fluctuate significantly. Due to restricted number of pages, the

Table 1. Target Quality characteristics of criteria

Criteria	Target value	(T, %)	Loss at T (%)	k	Loss Function
C1	100%	46	100	0.212	$L(x) = 0.212$ MSD
C2	The greatest	30% lower	100	0.090	$L(x) = 0.090$ MSD
C3	The most frequent	20% lower	100	0.040	$L(x) = 0.040$ MSD
C4	Score of 100	70	100	4900	$L(x) = 4900 \ (1/x^2)$
C5	Score of 100	75	100	5625	$L(x) = 5625 \ (1/x^2)$

Table 2. Decision matrix of loss scores

Supplier n	C1	C2	C3	C4	C5
S1	66.59	292.43	10.07	60.49	114.80
S2	61.33	17.02	5.30	100.00	87.89
S3	66.02	2052.68	89.57	87.11	100.00
S4	58.54	1414.49	54.16	76.56	69.44
S5	55.06	91285.71	907.80	87.11	100.00

Table 3. Pairwise comparison of criteria

Best criterion:	The DMs	C1	C2	C3	C4	C5
C1	The chief	1	2	7	4	5
	Pc. M	1	2	5	4	4
	Pd. M	1	2	5	4	2
	Qc. M	1	4	7	5	2
	Wh. M	1	2	5	4	2

Worst criterion: C3	The DMs				
	The chief	Pc. M	Pd. M	Qc. M	Wh. M
C1	7	5	5	7	5
C2	5	4	4	4	4
C3	1	1	1	1	1
C4	3	2	2	2	2
C5	2	2	4	5	4

Pc. M = Purchasing Manager; Pd. M = Production Manager; Qc. M = QC Manager; Wh. M = Warehousing Manager

performance data are not presented in this paper. The value of k and loss functions $L(x)$ are formulated using the data on Table 1. For example, k for quantity criterion is calculated as $k = 100\% \times (30\%)^2 = 0.090$. Since eight performance data are collected, mean squared deviation (MSD) of data is used to formulate the loss function which is $L(x) = 0.090 \times$ MSD.

Step 4: Obtain the weight of criteria using fuzzy-BWM. Best and worst criterion were selected by the panel through mutual consensus, and after that all preference rating used for BO and OW vectors are determined individually by each panel member (Table 3). By the above process, C1 and C3 are chosen as the best and the worst criterion, respectively. Using Eq. (2), the criteria weights along with the values of φ are calculated for five panel members, and by averaging these value the mean weights are obtained (Table 4). Finally, consistency check was carried out for all φ. For example, from comparison performed by the Chief, φ is 0.6834 whose value of $a_{BW} = a_{13} = 7$ with the consistency index of 3.73 (see [18] for details). So, consistency ratio is become 0.6834 / 3.73 = 0.1832, which indicates a good consistency because this value is close to zero.

Step 5: Obtain the rank of supplier using VIKOR. The decision matrix and criteria weights are used to rank suppliers based on VIKOR technique. Noted that the loss scores with respect to each criterion

Table 4. Weights of criteria

Criteria	Mean weights	Individual weights				
		The chief	Pc. M	Pd. M	Qc. M	Wh. M
C1	0,4129	0,4439	0,4362	0,3619	0,4610	0,3619
C2	0,2263	0,2686	0,2545	0,2348	0,1390	0,2348
C3	0,0654	0,0578	0,0767	0,0663	0,0600	0,0663
C4	0,1102	0,1338	0,1315	0,1022	0,0811	0,1022
C5	0,1851	0,0958	0,1010	0,2348	0,2590	0,2348
φ		0,6834	0,6834	0,4586	0,6834	0,4586

Pc. M = Purchasing Manager; Pd. M = Production Manager; Qc. M = QC Manager; Wh. M = Warehousing Manager

Table 5. The value of S, R and Q of suppliers

Supplier n	S	S-rank	R	R-rank	Q	Q- rank
S1	0,8423	4	0,4129	5	0,9255	4
S2	0,4522	1	0,2437	3	0,0531	2
S3	0,9106	5	0,3959	4	0,9550	5
S4	0,4833	2	0,2236	1	0,0338	1
S5	0,5201	3	0,2263	2	0,0811	3
	$S^* = 0.4522$		$R^* = 0.2236$		$j = 5$	
	$S^- = 0.9106$		$R^- = 0.4192$		DQ = 0.25	

uses different scale, making it less comparable with each other. Therefore, those values are first normalized by a linear scale transformation. The normalized value, r_{ij}, is computed as $r_{ij} = x_j^{\min} / x_{ij}$, where x_{ij} is the the loss score of supplier i for criteria j and $x_j^{\min} = \min\limits_{i} x_j$. After identifying a maximum and minimum values of r_{ij}, the value of S_i, R_i and Q_i are calculated using Eq. (3)-(5) where v is set to 0.5. Table 5 shows that the supplier with the lowest and the second lowest Q are identified as supplier 4 (S4) and supplier 2 (S2), respectively. Examining the condition of VIKOR, the first conditions of "Acceptable advantage" is not satisfied since the value $Q(S_2) - Q(S_4) = 0.0193$, which is less than $DQ = 1/(5\text{-}1) = 0.25$. However, for the second condition it is found that supplier 4 is obtain the minimum value of R, hence, it is a stable alternative which satisfies the second condition. Therefore, a set of compromised ranking is obtained as S4-S2-S5 >S1>S3 where S4, S2 and S5 are top suppliers, followed by S1 and S3 as the second and the third ranked suppliers, respectively.

3.2. Implications
The proposed approach provides some practical implications for decision makers. This research adopts the value of quality loss by Taguchi as a loss score of suppliers in performance evaluation. This common value provides understandable language in decision making, and utilizing this value to evaluate suppliers makes evaluation process will be much easier and meaningful. More specifically, Taguchi allows decision makers to set performance target values and tolerance limit that is very important in the context of supplier evaluation and selection problem since each enterprise with different organizational goals might use different performance criteria and measurement with different acceptable tolerance limits. Thus, this feature enables decision makers to perform the most precise and comprehensive supplier evaluation with respect to their specific goals.

Using BWM brings a significant benefit for decision making process because aside of improving computational load due to its compact yet efficient steps, this method is capable of producing good consistency rate in the presence of conflicting criteria. By incorporating the BWM's results into VIKOR technique, the DM are able to obtain a compromised supplier ranking lists, providing the closest solution to the ideal. Hence, utilizing it in the proposed approach increases the efficiency of the decision making process.

4. Conclusion
This research proposed a comprehensive approach of multi-criteria decision making that integrates Taguchi loss function (TLF), fuzzy BWM and VIKOR in performance evaluation of suppliers. The merit of using the proposed methodology is that it enables the DM to take the benefit from each method's individual advantage simultaneously in making an appropriate decision. The use of the proposed approach was applied in the industrial case to examine its feasibility in evaluation and selecting the best supplier of crumb rubber industry. Based on the case study, it is convincingly useful for solving an empirical case problem with actual data and feedback from experts both in either single or group opinion.

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