Industrial Strength COMPASS: A Comprehensive Algorithm and Software for Optimization via Simulation

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Industrial Strength COMPASS (ISC) is a particular implementation of a general framework for optimizing the expected value of a performance measure of a stochastic simulation with respect to integer-ordered decision variables in a finite (but typically large) feasible region defined by linear-integer constraints. The framework consists of a global-search phase, followed by a local-search phase, and ending with a "clean-up" (selection of the best) phase. Each phase provides a probability 1 convergence guarantee as the simulation effort increases without bound: Convergence to a globally optimal solution in the global-search phase; convergence to a locally optimal solution in the local-search phase; and convergence to the best of a small number of good solutions in the clean-up phase. In practice, ISC stops short of such convergence by applying an improvement-based transition rule from the global phase to the local phase; a statistical test of convergence from the local phase to the clean-up phase; and a ranking-and-selection procedure to terminate the clean-up phase. Small-sample validity of the statistical test and ranking-and-selection procedure is proven for normally distributed data. ISC is compared to the commercial optimization via simulation package OptQuest on five test problems that range from 2 to 20 decision variables and on the order of 10^4 to 10^{20} feasible solutions. These test cases represent response-surface models with known properties and realistic system simulation problems.

Categories and Subject Descriptors: G.3 [**Mathematics of Computing**]: Probability and Statistics—*Experimental design*; I.6.6 [**Simulation and Modeling**]: Simulation Output Analysis

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1. INTRODUCTION

The popularity of stochastic simulation for system design and analysis has been driven by a sequence of key advances: Implementation of intuitive process-interaction (network) modeling paradigms; the development of graphical user interfaces for model development; convenient animation of simulation results; interapplication communication between simulation and other software; and integrated toolkits for optimization of simulated system performance (see Nance and Sargent [2002] for a more comprehensive overview of the evolution of discrete-event, stochastic simulation). Only this last advance, which we call *Optimization via Simulation (OvS)*, is an analysis capability (analysis methods have certainly been incorporated into simulation software, but are probably not responsible for its popularity). Although not every simulation problem requires optimization, it is rare to find an application where the analyst is uninterested in "the best" settings for the simulated system, and in many cases finding a good system design is the reason the simulation was constructed.

As noted by a number of authors (e.g., Fu [2002]), there has been a disconnect between *research* on OvS and the *practice* of OvS, as represented by the commercial OvS products. Simply stated, the impact of published research on commercial software has been limited. Nevertheless, commercial OvS software has been successful because (a) there was and is a substantial market for actually doing OvS in practice, (b) the products are able to handle realistic problems with complex objectives and constraints, while delivering results in a timely manner, and (c) they are integrated into simulation modeling software. The research community, on the other hand, has focused on OvS *correctness*, as quantified by convergence or "correct selection" guarantees. These properties are easiest to prove (which is not to say easy to prove) for simple, elegant algorithms that leave a host of implementation issues unresolved (e.g., complex constraints and stopping rules). Correctness, in this formal sense, is not a feature of commercial products. Correctness matters, however, because when stochastic noise is present an inferior solution may be selected, and its actual performance may be poorly estimated, in the absence of correctness guarantees.

In the last decade there has been significant research activity aimed at bridging this divide, and we believe it has reached a level of maturity that supports a first step toward developing OvS software that offers correctness guarantees while also being competitive with the features provided by commercial products. This article reports one such step, which we call *Industrial Strength COMPASS (ISC)*. The name is derived from the *C*onvergent *O*ptimization via *M*ost *P*romising *A*rea *S*tochastic *S*earch algorithm of Hong and Nelson [2006],

which is the core of ISC. ISC is a specific instance of a high-level framework for OvS algorithms that consists of three phases: global, local, and clean-up. Section 3 defines the properties that we desire for each phase. While we are guilty of drawing heavily on our own research in turning this framework into a specific algorithm, our approach is also strongly influenced by the foundational work of Andradóttir [1995, 1999].

How can we establish that we are "competitive with the features provided by commercial products?" We will do so by comparing ISC to OptQuest (OptTek Systems, Inc.). If OptQuest is not the best of the commercial products, it is certainly a good representative of them and it is very widely used (it is integrated into 13 simulation products according to `www.opttek.com/simulation.html`). OptQuest implements robust metaheuristics; refer to the product Web site for more details. Because OptTek Systems, Inc., provided a stand-alone version of the OptQuest engine, our comparisons are not tied to a particular simulation modeling product.

We use OptQuest to establish a competitive benchmark for optimization performance as a function of simulation effort, and we count on OptQuest to deliver good solutions quickly (which in our experience it does). We do not expect to beat OptQuest in any comprehensive sense. OptQuest has had years of development, and its algorithms are smart and efficient. We consider ISC to be a success if it can deliver as good or better solution quality as OptQuest without expending substantially more simulation effort. This constitutes "success" because ISC provides convergence guarantees and inference that OptQuest does not. Our only potential advantage comes from how we deal with the stochastic aspect of the problem, which is fundamentally different from any of the commercial products.

Since ISC is a first step, it has limitations, described shortly.

Objective. Our objective is to maximize or minimize the expected value of a simulation output random variable whose distribution depends on a finite-dimensional vector of controllable decision variables. This is also the implicit objective in OptQuest. ISC does not support multiple objectives.

Decision Variables. We only consider integer-ordered decision variables. Continuous-valued decision variables can be handled by discretizing them, but ISC does not exploit the fact that they are continuous valued nor is discretizing likely to be very efficient. Categorical decision variables are not considered at all, but if there are only a small number of categories then ISC can be run separately for each category. This is more limited than OptQuest.

Constraints. We only consider deterministic constraints, specifically linear-integer inequality constraints. The methodology employed in ISC works for any convex feasible region, but we have only implemented the methods for linear-integer inequality constraints. OptQuest can also include a useful form of stochastic constraint.

Problem Size. While there is no conceptual limit to the problem size that ISC can tackle, its performance will be affected more by the number of decision

variables than by the number of feasible solutions that they imply. This is due to the way we define a locally optimal solution as being better than all of its $2d$ immediate neighboring solutions, where d is the number of decision variables (see Section 3). Therefore, to declare a solution "optimal" at least $2d+1$ solutions must be simulated extensively. OptQuest is less restrictive on problem size but can provide no guarantee of optimality without simulating *all* feasible solutions.

We will show that ISC achieves our goals: In some cases (noisy problem, multimodal response surface) demonstrating superior performance to OptQuest; in others (low noise, more regular response surface) being beaten by OptQuest in terms of relative effort expended; and in yet others having performance almost indistinguishable from OptQuest. Comparison of COMPASS-based approaches with other convergent algorithms can be found in Hong and Nelson [2006]. The ISC software and all supporting papers may be found at `www.ISCompass.net`.

In the next section we give a more precise statement of the OvS problem, review relevant literature, precisely state our objectives, and set up the remainder of the article.

2. BACKGROUND

We are interested in solving the following problem.

$$\text{Minimize } g(\mathbf{x}) = \mathrm{E}[G(\mathbf{x})] \quad \text{subject to} \quad \mathbf{x} \in \Theta = \Phi \cap \mathcal{Z}^d, \tag{1}$$

where $\mathbf{x}$ is a vector of d integer-ordered decision variables in a feasible region $\Phi \subset \Re^d$, possibly defined by a set of constraints and $\mathcal{Z}^d$ denotes all d-dimensional vectors with integer components. We assume that Φ is compact and convex so that $|\Theta| < \infty$ (but probably quite large). The random variable $G(\mathbf{x})$ typically has no closed form, but can be observed through simulation experiments at $\mathbf{x}$. We assume that $\mathrm{Var}[G(\mathbf{x})] < \infty$ for all $\mathbf{x} \in \Theta$, and that we can simulate independent and identically distributed replications, $G_1(\mathbf{x})$, $G_2(\mathbf{x})$, ... at any $\mathbf{x}$. Problem (1) is called a Discrete Optimization-via-Simulation (DOvS) problem, and we refer to any $\mathbf{x}$ as a potential "feasible solution."

DOvS problems arise in many areas of operations research and management science. For instance, the following problems can all be modeled as DOvS problems: capacity planning, where the capacities of all workstations need to be determined; call center staffing, where the agents are allocated to different departments and different time periods; and supply-chain management, where inventory order-up-to levels are critical decisions. For reviews of the theory and practice of optimization via simulation, see Fu [2002] and Fu et al. [2005].

A number of methods have been proposed in the research literature to solve DOvS problems, including Globally Convergent Random Search (GCRS) algorithms, Locally Convergent Random Search (LCRS) algorithms, Ranking and Selection (R-and-S), and Ordinal Optimization (OO). GCRS algorithms converge to the set of global optimal solutions as the simulation effort goes to infinity. They typically achieve global convergence by making sure that all feasible solutions are simulated infinitely often. GCRS algorithms include the stochastic ruler algorithm of Yan and Mukai [1992], the simulated annealing algorithm of Alrefaei and Andradóttir [1999], the stochastic comparison algorithm of Gong

et al. [1999], and the nested partitions algorithm of Shi and Ólafsson [2000] and Pichitlamken and Nelson [2003].

LCRS algorithms include the COMPASS algorithm [Hong and Nelson 2006] and the revised COMPASS algorithm [Hong and Nelson 2007a] that converge to a locally optimal solution as the simulation effort goes to infinity. Hong and Nelson [2007a] show that local convergence can be achieved by simulating only a locally optimal solution and its neighbors infinitely often. Compared with GCRS, LCRS algorithms generally converge much faster in practice, but they can be trapped in inferior solutions if there exist multiple locally optimal solutions.

R-and-S procedures select the best solution by simulating all of them and making statistical inference in the form of a Probability of Correct Selection (PCS). They include the indifference-zone procedures (e.g., Nelson et al. [2001]), the Bayesian procedures (e.g., Chick and Inoue [2001]), and the Optimal Computing Budget Allocation procedures (OCBA, e.g., Chen et al. [2000]). When the set of feasible solutions of problem (1) is small, R-and-S procedures can be directly applied to find the best solution. When the set is large, special R-and-S procedures have been developed to facilitate the optimization process (e.g., Hong and Nelson [2007b]) and to "clean up" after the optimization process [Boesel et al. 2003b].

OO softens the goal of finding an optimal solution to finding a top-n solution [Ho et al. 1992]; it becomes a DOvS algorithm by first picking (often by blind picking) a set of k solutions and then finding the best among the k solutions, often by using OCBA. The critical issue is to determine k, which OO does by achieving a certain level of the "alignment probability," which is the probability that at least one of the k solutions is a top-n solution.

The algorithms proposed in the research community typically have good convergence or statistical properties. However, they are often too simple or inefficient to solve practical problems. Therefore, they are seldom used in practice. On the other hand, all of the major commercial simulation modeling products have simulation optimization toolkits that use sophisticated metaheuristics designed for challenging deterministic optimization problems, but that often take a simplistic approach to handling the noise of stochastic problems. Therefore, the algorithms work well when the level of noise in the simulation output is low, but they can be significantly misled when it is not.

In this article, we modify several existing algorithms in the research literature and combine them together under a carefully designed algorithm framework. We show that the resulting new algorithm, called ISC, has nice convergence and statistical properties and also has competitive performance compared to the commercial package OptQuest. The algorithm framework includes three phases: global, local, and clean-up. The global phase explores the whole feasible region and identifies several good solution seeds; the local phase takes one seed at a time and finds a locally optimal solution; and the clean-up phase selects the best from the set of solutions identified in the local phase and also estimates its expected performance.

ISC is obtained by making specific choices for each phase. For the global phase, we adapt a Niching Genetic Algorithm (NGA) [Miller and Shaw 1995;

Sareni and Krahenbuhl 1998] that can quickly identify several clusters of good solutions. We show that our version of the NGA can be made to converge to a globally optimal solution as the simulation effort goes to infinity. For the local phase, we use a modified version of the COMPASS algorithm that converges to a locally optimal solution. A stopping test is used to terminate the COMPASS algorithm when a locally optimal solution is identified with probability at least $1 - \alpha_L$. Therefore, as $1 - \alpha_L \to 1$, the COMPASS algorithm can be shown to converge with probability 1 to a locally optimal solution. For the clean-up phase, we apply a R-and-S procedure to select the best of the solutions identified in the local phase with probability greater than or equal to $1 - \alpha_C$, and also provide a fixed-width $\pm\delta_C$ confidence interval for the expected value of the performance of the selected solution. As $1-\alpha_C \to 1$ the best of these solutions will be identified with probability 1. Throughout the article we use the subscripts G, L, and C to denote parameters associated with the global, local, and clean-up phases, respectively.

An alterative framework that has been proposed is the Balanced Explorative and Exploitative Search with Estimation scheme (BEESE) [Prudius and Andradóttir 2004, 2006]. BEESE integrates the global search, local search, and estimation together, and it converges to a globally optimal solution as the simulation effort goes to infinity. A framework with similar objectives is also proposed by Lin and Lee [2006]. Compared to these frameworks, our framework is designed to find good locally optimal solutions, and stop with a statistical guarantee that we have done so, without the need to simulate all feasible solutions. However, our approach requires transitions between phases which these frameworks avoid.

The remainder of the article is organized as follows: In Section 3 we introduce the three-phase framework and discuss how to transition between phases. A high-level description of the ISC algorithm is presented in Section 4 along with its convergence and statistical properties. In Section 5 we evaluate the performance of ISC through a number of examples and compare it to OptQuest. The article is concluded in Section 6. Proofs and the details of the ISC algorithm are provided in the appendices, some of which are electronic (online-only, accessible in the ACM Digital Library).

3. DOVS FRAMEWORK

Our DOvS framework has three phases: global, local, and clean-up. In this section, we discuss the desired properties of each phase.

In the global phase we want to quickly identify a number of solution seeds that may lead to competitive locally optimal solutions in the second phase, and also facilitate a quick start for the local search of the second phase. To ensure that the algorithm used in this phase has good large-sample properties, we require it to be globally convergent if the simulation effort of this phase goes to infinity.

Although the algorithm of the first phase should be globally convergent, it will transition to the second phase in practice. The transition rules can be effort based or quality based. An effort-based rule transitions from the first phase to

the second phase after the simulation budget for the first phase is consumed; a quality-based rule transitions if it is clear that the seeds can lead to high-quality solutions in the second phase. Effort-based rules are often arbitrary and therefore to be avoided; but they are sometimes necessary because it is difficult to predict in advance how long it might take a particularly difficult problem to transition based on quality rules. The detailed transition rules used in ISC are introduced in the next section.

The local phase starts with the best solution seed identified in the first phase and uses efficient local search to find a locally optimal solution; it then goes on to the second-best solution seed and so on, until exhausting all solution seeds. To ensure good performance of the algorithm used in this phase, we require it to be locally convergent as the simulation effort goes to infinity, regardless of the quality of the seeds that are provided. We define a *local minimum* as follows (this definition is also used in Hong and Nelson [2006, 2007a]).

Definition. Let $\mathcal{N}(\mathbf{x}) = \{\mathbf{y} : \mathbf{y} \in \Theta \text{ and } \|\mathbf{x} - \mathbf{y}\| = 1\}$ be the local neighborhood of $\mathbf{x} \in \Theta$, where $\|\mathbf{x}-\mathbf{y}\|$ denotes the Euclidean distance between $\mathbf{x}$ and $\mathbf{y}$. Then $\mathbf{x}$ is a *local minimum* if $\mathbf{x} \in \Theta$ and either $\mathcal{N}(\mathbf{x}) = \emptyset$ or $g(\mathbf{x}) \leq g(\mathbf{y})$ for all $\mathbf{y} \in \mathcal{N}(\mathbf{x})$. Let $\mathcal{M}$ denote the set of local minimizers of the function g in Θ.

Since the quality of the solutions found in the local phase is critical to the performance of the algorithm, in practice we require each solution obtained in this phase to be a local minimum with probability at least $1 - \alpha_L$. Therefore, as the PCS $1 - \alpha_L \to 1$, the effort goes to infinity and the algorithm is guaranteed to be locally convergent.

The transition between the second and third phases can be either effort based or quality based. For the effort-based rule, transition happens when the simulation budget for the second phase is exhausted. If there is no effort limit, the algorithm transitions once all solutions seeds are searched, which is what we prefer. The local phase returns a set of solutions $\mathcal{L}$, and is designed to give high confidence that $\mathcal{L} \subset \mathcal{M}$.

In the clean-up phase we want to select the best solution from among the locally optimal solutions $\mathcal{L}$ found in the second phase, and the actual value of the selected solution also needs to be estimated to within $\pm\delta_C$, all with confidence level $\geq 1 - \alpha_C$, where $\delta_C > 0$ and $0 < \alpha_C < 1$ are set by the user. As $1 - \alpha_C \to 1$ the best solution is therefore selected with probability 1.

4. METHODOLOGY

Our goal is to produce a DOvS algorithm that satisfies the requirements set by Andradóttir and Nelson [2004]: Provable asymptotic performance, competitive finite-time performance, and valid statistical inference at termination. We achieve this by using the framework in Section 3. To a certain extent, we exploit existing technologies to fill in each phase. However, the requirement that we achieve "competitive finite-time performance" requires us to invent a number of enhancements that improve performance without affecting convergence guarantees. These enhancements range from essential speedups to minor

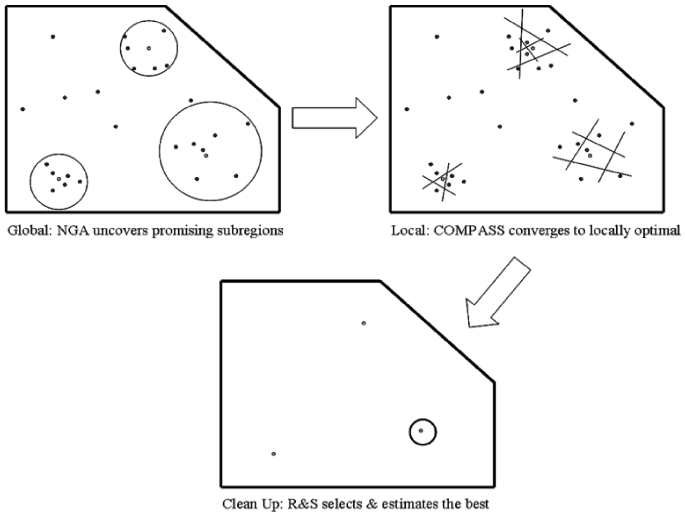

Fig. 1. Industrial strength COMPASS implementation of the optimization framework.

tweaks, and from rigorously justified to "makes sense and seems to work well in experiments." In this section we provide a high-level review of the existing technologies we incorporate and the details of only the most critical enhancements. In the electronic appendix we fully document the entire algorithm; Figure 1 is an overview of the approach.

A few basic terms and concepts are critical to an understanding of ISC:

—To "sample a solution" means to select a solution randomly, either from Θ or a designated subregion of it. The methods we use to sample solutions guarantee that all solutions in the region of interest have a (nearly) uniform probability of being selected.

—To "evaluate a solution" means to obtain one or more independent replications of its performance and to average these results. The set of "visited solutions" are those that have been evaluated at least once. We always accumulate performance data on visited solutions, so that if a solution is evaluated more than once its performance is estimated by the cumulative sample mean of all replications.

—Convergence guarantees are always as the simulation effort goes to infinity. To keep the effort from going to infinity in ISC, we use transition rules in the global phase, and statistical tests in the local and clean-up phases. The small-sample validity of these tests depends on the simulation output data being normally distributed, or on the sample size being large enough that central limit theorem considerations make normality a good approximation for the cumulative average. The nature of the COMPASS algorithm, which concentrates effort on apparently locally optimal solutions and their neighbors, tends to generate enough replications of the tested solutions that approximate normality can be anticipated. The convergence guarantees of the local and clean-up phases do not depend on the small-sample validity of these tests, however.

4.1 Global Phase

The role of the NGA is to serve as our global search engine, and we have extended the basic NGA technology to make it globally convergent (if desired) for the class of DOvS problems considered here (see the Appendix). As noted in Section 2, there are already globally convergent DOvS algorithms, so why do we need another? In practice, we will transition from global to local phases long before achieving anything like global convergence, and the local phase will then pursue promising subregions more intensely. Therefore, we need an algorithm that can achieve global convergence, in a limiting sense, but does so by simultaneously identifying and investigating one or more promising subregions of Θ that will be seeds for the locally convergent second phase. COMPASS, which we use for the local phase, converges particularly quickly given a good starting solution and a cluster of solutions around it. The NGA, which is designed for multimodal functions, accomplishes this.

We chose genetic-algorithm technology because it is a population-based, as opposed to a point-to-point, search that considers many good solutions in parallel and therefore tends to be somewhat robust to stochastic noise [Jin and Branke 2005]. That GAs converge slowly is not an issue since we depend on the rapid convergence of COMPASS to close in on locally optimal solutions. What is far more important is that we explore the feasible region broadly and identify collections of solutions in promising subregions.

4.1.1 *Niching GA.* GAs, by their nature, are complicated algorithms to describe. Here we present a high-level overview of our version of a NGA; complete details for each step described shortly may be found in the electronic appendix. When we stop the NGA, based on a transition rule, it delivers one or more "niche centers" (good solutions or seeds) and a cluster of other near-by solutions, as defined by a "niche radius;" see Figure 1. The local phase attacks each niche in turn looking for a locally optimal solution.

Niching GA.

Initialization. Randomly sample m_G solutions $\mathbf{x}_1, \mathbf{x}_2, \ldots, \mathbf{x}_{m_G}$ from Θ and evaluate them.

Evolution. Execute a generation of the NGA to evolve the current population of m_G solutions into a new population of m_G solutions, maintaining a niche structure around apparently good solutions:

(1) Form niches: Form up to q niches by clustering solutions within radius r of good solutions.

(2) Selection: Select $m_G/2$ solutions randomly, but with replacement, from the population using a linear ranking scheme that gives preference to solutions with better estimated performance (we use the approach described in Boesel [1999] and Boesel et al. [2003a]).

(3) Mating: For each solution selected in Step 2, use a mating restriction scheme to select its partner.

(4) Crossover: Randomly create a new pair of solutions that are geometrically between each pair of solutions.

(5) Mutation: Randomly perturb the coordinates $x_{i1}, x_{i2}, \ldots, x_{id}$ of each new solution $\mathbf{x}_i$.

Evaluate Solutions. Evaluate all solutions in the current population.

Next Generation. Replace solutions in the population with newly generated solutions.

Go to Evolution.

Key input parameters for the NGA are the number of niches to form, q, and the niche radius, r, which defines how close a solution must be to a niche center (good solution) to be clustered in the same niche. Because our algorithm is intended to be general purpose, we have no way to know these values in advance, nor should we expect the user to be able to provide them. To solve this problem, we enhance the *Initialization* and *Evolution* steps so that on each iteration of the NGA we form a rough response surface model over Θ from which we extract estimates of q and r; therefore, q and r will change from iteration to iteration of the NGA. The modified steps are as follows.

Enhanced initialization. Estimate the number of regions containing local minimums, q, and half the shortest distance between any of these two local minimums, r, which will then serve as the number of niches and the niche radius, respectively, for the NGA.

(1) Randomly sample m_G solutions $\mathbf{x}_1, \mathbf{x}_2, \ldots, \mathbf{x}_{m_G}$ from Θ. The value of m_G is set as at least 50, since this guarantees that, with a probability greater than 90%, at least one of the m_G solutions are among the best 5% of all solutions in Θ based on calculation of the alignment probability in ordinal optimization (see, for instance, Ho et al. [1992]).

(2) Evaluate each solution by obtaining n_0 replications and averaging.

(3) For each $\mathbf{x} \in \Theta$, let its value be the sample average of the closest visited solution to it; this defines a piecewise constant response surface over Θ. On this response surface, let q be the number of local minimums (niche centers) and let r be half the distance between the closest pair of local minimums.

Enhanced evolution. Execute a generation of the NGA to evolve the current population of m_G solutions into a new population of m_G solutions, maintaining a niche structure:

(1) For each $\mathbf{x} \in \Theta$, let its value be the sample average of the closest visited solution to it; this defines a piecewise constant response surface over Θ. On this response surface, let q be the number of local minimums (niche centers) and let r be half the distance between the closest pair of local minimums.

(2) Continue with the *Evolution* step as before....

Like most GAs, NGAs were designed for deterministic optimization problems. In our stochastic context, to "evaluate" a solution means to simulate it and estimate its value. The second key enhancement relates to how we do this so that we obtain a global convergence guarantee (this step, along with our implementation of mutation, guarantee that all solutions will be simulated infinitely often if the NGA is never terminated, so that the sample averages will converge to their true expectations with probability 1; see Appendix A).

Evaluation of solutions. For all solutions in the current population that have been evaluated previously, generate Δn additional replications and average. For all solutions in the population that have not yet been evaluated, generate n_0 replications and average.

4.1.2 *Transition Rules.* In practice, we terminate the global phase when conditions indicate that we have uncovered fertile regions for seeking locally optimal solutions. We believe that there are at least four categories of transition rules, described next.

Budget rule. The user may specify a budget (in terms of number of replications) for the global phase so that a transition occurs when the budget is exhausted if it has not already occurred.

Niche rule. If at any time there is only one niche, then transition to the local phase.

Improvement rule. If there is no apparent improvement in solution quality in T_G generations, then transition to the local phase. The value of T_G may be user specified.

Dominance rule. If the solutions in one niche statistically dominate the solutions in all other niches, then transition to the local phase.

Our implementation of ISC incorporates all of these rules, but in the empirical evaluation we did not set a budget limit.

4.2 Local Phase

The role of the COMPASS algorithm is to start with a niche of solutions as input and rapidly converge to a locally optimal solution. COMPASS is guaranteed to do this as the number of iterations goes to infinity, even if the niche does not surround a locally optimal solution [Hong and Nelson 2006]. However, the hope is that the NGA has identified small subregions containing local optima so that COMPASS can converge very quickly.

4.2.1 *COMPASS.* In the COMPASS algorithm, we use $\mathcal{V}_k$ to denote the set of all solutions visited through iteration k of a COMPASS run, and use $\widehat{\mathbf{x}}_k^*$ to denote the solution with the smallest aggregated sample mean among all $\mathbf{x} \in \mathcal{V}_k$; that is, $\widehat{\mathbf{x}}_k^*$ is the sample best solution through iteration k. When COMPASS is run after the transition from the global phase, the set $\mathcal{V}_0$ contains the solutions from the niche being explored.

At the end of iteration k, we construct

$$\mathcal{C}_k = \{\mathbf{x} : \mathbf{x} \in \Theta \text{ and } \|\mathbf{x} - \widehat{\mathbf{x}}_k^*\| \leq \|\mathbf{x} - \mathbf{y}\|,\ \forall \mathbf{y} \in \mathcal{V}_k \text{ and } \mathbf{y} \neq \widehat{\mathbf{x}}_k^*\}$$

the *most promising area* at iteration k. The set $\mathcal{C}_k$ includes all feasible solutions that are at least as close to $\widehat{\mathbf{x}}_k^*$ as to other solutions in $\mathcal{V}_k$. At iteration $k+1$, COMPASS samples m_L solutions (nearly) uniformly from $\mathcal{C}_k$. Notice that $\mathcal{C}_k$ is never empty since $\widehat{\mathbf{x}}_k^*$ is always in $\mathcal{C}_k$, and we do not require the m_L solutions to be unique. As we show shortly, the most promising area is defined by a collection

of linear constraints (including the original constraints that defined the feasible region).

The COMPASS algorithm uses a Simulation-Allocation Rule (SAR) to evaluate solutions in $\mathcal{V}_k$ at each iteration. The rules we employ, which are described in the electronic appendix, allocate replications either based on a fixed schedule or using OCBA ideas. Let $a_k(\mathbf{x})$ be the additional observations allocated to $\mathbf{x}$ at iteration k as determined by the SAR; $a_k(\mathbf{x})$ may depend on all past information such as $\mathcal{V}_k$ and $G_i(\mathbf{x})$, $i = 1, 2, \ldots$, for all $\mathbf{x} \in \mathcal{V}_k$. Then $N_k(\mathbf{x}) = \sum_{i=0}^{k} a_i(\mathbf{x})$ denotes the total number of observations on solution $\mathbf{x}$ at iteration k for every $\mathbf{x} \in \mathcal{V}_k$. We use $\bar{G}_k(\mathbf{x})$ to denote the sample mean of all $N_k(\mathbf{x})$ observations of $G(\mathbf{x})$ at iteration k. The basic COMPASS algorithm is as follows [Hong and Nelson 2006].

Algorithm. COMPASS

Step 0. Set iteration counter $k = 0$ and form $\mathcal{C}_0$ based on the solutions in $\mathcal{V}_0$.

Step 1. Let $k = k + 1$. Sample $\mathbf{x}_{k1}, \mathbf{x}_{k2}, \ldots, \mathbf{x}_{km_L}$ uniformly and independently from $\mathcal{C}_{k-1}$. Let $\mathcal{V}_k = \mathcal{V}_{k-1} \cup \{\mathbf{x}_{k1}, \mathbf{x}_{k2}, \ldots, \mathbf{x}_{km_L}\}$. Determine $a_k(\mathbf{x})$ according to the SAR for every $\mathbf{x}$ in $\mathcal{V}_k$. For all $\mathbf{x} \in \mathcal{V}_k$, evaluate $\mathbf{x}$ by taking $a_k(\mathbf{x})$ observations and updating $N_k(\mathbf{x})$ and $\bar{G}_k(\mathbf{x})$.

Step 2. Let $\widehat{\mathbf{x}}_k^* = \text{argmin}_{\mathbf{x} \in \mathcal{V}_k} \bar{G}_k(\mathbf{x})$. Construct $\mathcal{C}_k$ and go to step 1.

The COMPASS algorithm converges to a locally optimal solution as $k \to \infty$ under very mild conditions, essentially that each sample mean $\bar{G}_k(\mathbf{x})$ satisfies a strong law of large numbers, the SAR guarantees that the number of replications allocated to all visited solutions goes to infinity, and Θ is finite [Hong and Nelson 2006]. Stronger conditions allow COMPASS to converge when Θ is countably infinite; see Hong and Nelson [2006] and also Andradóttir [2006]. Since ISC assumes that observations of a solution are obtained from independent and identically distributed replications with finite variance, the first condition is easily satisfied. However, as noted in Hong and Nelson [2007a], the latter condition, that is, that the number of replications that *all* visited solutions receive goes to infinity, is inefficient and much stronger than necessary. In fact, only those solutions in $\mathcal{V}_k$ that are necessary to define $\mathcal{C}_k$ need to receive additional replications on iteration k, and only solutions in the neighborhood of the locally optimal solution identified by COMPASS need to receive an infinite number of replications in the limit.

Our primary enhancement to COMPASS is solution pruning, which means that at the end of iteration k we determine which solutions in $\mathcal{V}_k$ generate active constraints for the most promising area; stated differently, we find the smallest set of solutions that define $\mathcal{C}_k$. Then only the solutions that define $\mathcal{C}_k$, the current sample best solution, and the newly sampled solutions $\mathbf{x}_{k1}, \mathbf{x}_{k2}, \ldots, \mathbf{x}_{km_L}$ are evaluated according to the SAR. The trick is figuring out if $\mathbf{x} \in \mathcal{V}_k$ is an active solution, which is the enhancement we present here.

In COMPASS, each visited solution $\mathbf{x}_i \in \mathcal{V}_k$ that is not the current sample best solution $\widehat{\mathbf{x}}_k^*$ defines a constraint plane that is halfway between $\mathbf{x}_i$ and $\widehat{\mathbf{x}}_k^*$. The most promising area consists of the solutions closer to $\widehat{\mathbf{x}}_k^*$ than to $\mathbf{x}_i$; that

is, on the $\widehat{\mathbf{x}}_k^*$ side of the planes. These constraints take the form

$$\left(\widehat{\mathbf{x}}_k^* - \mathbf{x}_i\right)' \left(\mathbf{x} - \frac{\widehat{\mathbf{x}}_k^* + \mathbf{x}_i}{2}\right) \geq 0.$$

Removing redundant solutions is equivalent to finding all solutions that do not define active constraints. We can decide if a solution $\mathbf{x}_i \in \mathcal{V}_k$ is redundant by solving a Linear Program (LP) where we maximize the constraint of interest subject to the other constraints (see, for instance, Telgen [1983]). Therefore, to decide if solution $\mathbf{x}_i$ is redundant we solve

$$\begin{aligned} &\min_{\mathbf{x}} \ \left(\widehat{\mathbf{x}}_k^* - \mathbf{x}_i\right)' \left(\mathbf{x} - \frac{\widehat{\mathbf{x}}_k^* + \mathbf{x}_i}{2}\right) \\ &\text{s.t.} \qquad \left(\widehat{\mathbf{x}}_k^* - \mathbf{x}_j\right)' \left(\mathbf{x} - \frac{\widehat{\mathbf{x}}_k^* + \mathbf{x}_j}{2}\right) \geq 0 \qquad \forall \mathbf{x}_j \in \mathcal{V}_k, j \neq i. \end{aligned}$$

If the objective function is nonnegative, then the constraint is redundant and the solution is not active. After doing it the first time we only need to apply pruning to the currently active solutions and the newly sampled solutions, not all visited solutions. Therefore, the number of active solutions in COMPASS can be kept small by occasionally doing this pruning, and since solving small LPs is fast, the overhead is more than offset by avoiding the need to apply the SAR to an ever-increasing number of solutions. Further, it turns out that having a small number of COMPASS constraints also speeds the random sampling of new solutions from the most promising area.

A second, less-critical enhancement to COMPASS is to locate the constraint plane based on how much improvement we predict in moving from $\mathbf{x}_i$ to $\widehat{\mathbf{x}}_k^*$ rather than always using half the distance. This modification keeps COMPASS from closing in too quickly when the current sample best is not conclusively better than the other active solutions, and is described in the electronic appendix.

4.2.2 *Transition Rule.* The evolution of the COMPASS algorithm guarantees that eventually the most promising area is a single solution $\widehat{\mathbf{x}}^*$, and that only the solutions in its neighborhood $\mathcal{N}(\widehat{\mathbf{x}}^*)$ will be active. At this point it is reasonable to stop COMPASS and test if the single solution is superior to all of its neighbors. We propose the following hypothesis test.

$$H_0 : \ g(\widehat{\mathbf{x}}^*) \leq \min_{\mathbf{y} \in \mathcal{N}(\widehat{\mathbf{x}}^*)} g(\mathbf{y}) \quad \text{vs.} \quad H_1 : \ g(\widehat{\mathbf{x}}^*) > \min_{\mathbf{y} \in \mathcal{N}(\widehat{\mathbf{x}}^*)} g(\mathbf{y})$$

We set the Type-I error to α_L and we want the power to be at least $1 - \alpha_L$ if $g(\widehat{\mathbf{x}}^*) \geq \min_{\mathbf{y} \in \mathcal{N}(\widehat{\mathbf{x}}^*)} g(\mathbf{y}) + \delta_L$, where δ_L is a tolerance that the user chooses (that defaults to δ_C defined in the next section). If $\widehat{\mathbf{x}}^*$ passes the test, then we stop COMPASS and declare $\widehat{\mathbf{x}}^*$ to be locally optimal; otherwise, the test gives a solution in $\mathcal{N}(\widehat{\mathbf{x}}^*)$ that is better than $\widehat{\mathbf{x}}^*$, which enables COMPASS to continue. Notice that, if we drive $1 - \alpha_L$ to 1, then this drives the sample size to infinity and we are guaranteed to find a locally optimal solution.

We can rewrite this test in the following form.

$$\Pr\{\text{declare } \widehat{\mathbf{x}}^* \text{ locally optimal}\} \geq 1-\alpha_L \quad \text{if } g(\widehat{\mathbf{x}}^*) \leq \min_{\mathbf{y}\in\mathcal{N}(\widehat{\mathbf{x}}^*)} g(\mathbf{y})$$

$$\Pr\{\text{declare } \widehat{\mathbf{x}}^* \text{ not locally optimal}\} \geq 1-\alpha_L \quad \text{if } g(\widehat{\mathbf{x}}^*) \geq \min_{\mathbf{y}\in\mathcal{N}(\widehat{\mathbf{x}}^*)} g(\mathbf{y}) + \delta_L$$

This test can be viewed as a special case of comparisons with a standard (see, for instance, Nelson and Goldsman [2001] and Kim [2005]), with $\widehat{\mathbf{x}}^*$ being the standard. Therefore, we can use a highly efficient comparison-with-a-standard procedure to carry out the test. In the ISC algorithm we use the sequential procedure of Kim [2005]. This procedure takes one simulation observation at a time from all solutions still in contention and determines if any of them can be eliminated. It stops when only one solution remains and selects that solution. The procedure typically needs fewer simulation observations to make the selection decision than a two-stage procedure, for instance, the procedures in Nelson and Goldsman [2001]. Moreover, it can be shown to guarantee the Type-I error and power requirement if the simulation observations are normally distributed.

If there is no budget limit in the local phase (and we did not impose one in our empirical evaluation), then ISC transitions to the clean-up phase when all niches identified in the global phase have been explored by COMPASS. Therefore, the first two phases of the ISC algorithm attempt to ensure that the search space is both fully explored and thoroughly searched.

4.3 Clean-Up Phase

When we transition to the clean-up phase, we have a set $\mathcal{L}$ of solutions that have been declared, with high statistical confidence, to be locally optimal ($\mathcal{L} \subset \mathcal{M}$). If $|\mathcal{L}| = 1$, then we simply need to make sure we have estimated the value of this solution with sufficiently high precision; if $|\mathcal{L}| > 1$ then we want to select the best of these local optima, and estimate its value with sufficiently high precision.

We measure "precision" by a user-specified parameter $\delta_C > 0$, which indicates that we want confidence $\geq 1-\alpha_C$ that we have identified the best in $\mathcal{L}$ when its true mean is at least δ_C better than all of the others. The user should set δ_C to the smallest difference that it is worth detecting relative to the decision that the simulation model is required to support. The smaller δ_C is, the more simulation effort (replications) that will be required to deliver the correct-selection guarantee. We also want to estimate the value of the selected solution to within $\pm\delta_C$ with high confidence. If we drive $1-\alpha_C \to 1$ then this drives the sample size to infinity and we guarantee to both select the best and estimate its value perfectly. To accomplish this we invoke the "clean up" technology of Boesel et al. [2003b] to select the best, and enhance their procedure with a $\pm\delta_C$ confidence interval on the value of the selected solution. Here we present a high-level overview of the clean-up phase.

Clean Up.

Screening. Using whatever data are already available on the solutions in $\mathcal{L}$, discard any solutions that can be shown to be statistically inferior to one or more of the others. Let $\mathcal{L}_C$ be the surviving solutions.

Selection. Acquire enough additional replications on the solutions in $\mathcal{L}_C$ to select the best with the desired guarantees. Let $\mathbf{x}_B$ be the selected solution.

Estimation. With confidence level $\geq 1 - \alpha_C$, $\mathbf{x}_B$ is the best, or within δ_C of the best, of the solutions in $\mathcal{L}$ and $g(\mathbf{x}_B) \in \bar{G}(\mathbf{x}_B) \pm \delta_C$.

A proof of the validity of the confidence interval for normally distributed data is in Appendix B.

5. EVALUATION

The "no free lunch theorems" of Wolpert and Macready [1997] imply that we cannot expect any optimization algorithm to dominate all others, and they support the intuitive notion that, with essentially no restriction on the function $g(\mathbf{x})$ and the noisiness of $G(\mathbf{x})$, we can always invent a problem to make any approach look bad. This fact is a strong argument in favor of correctness guarantees, because even in a problem designed to make, say, ISC perform poorly, we nevertheless have a guarantee to get a locally optimal solution eventually. In any event, no statements about either ISC or OptQuest that apply to all possible problems can be made based on the five test cases we present here.

To evaluate the performance of ISC we have selected both known response-surface functions to which we add noise, and realistic DOvS problems that have a physical interpretation. The response-surface functions were chosen to facilitate control of the surface, noise properties, and problem dimension to see how they affect ISC. The realistic problems were selected to provide some sense of how ISC can be expected to perform in practice. The problems were not selected to be particularly difficult for OptQuest, and in fact for one of the response-surface functions OptQuest is significantly better than ISC, using our performance metrics.

We made three important decisions about how ISC would be evaluated with respect to OptQuest.

(1) For each DOvS problem considered, we make multiple, independent trials of each optimization algorithm. For ISC, this means that both the random sampling that is internal to ISC, and the simulation outputs themselves, are independent from trial to trial. For OptQuest, only the simulation outputs are independent from trial to trial since we have no control over what, if any, randomness is internal to OptQuest.

(2) We focus on average performance over the trials as a function of the simulation effort (although we also look at the quality of the final solution from individual runs). This raises two issues:

(a) We measure "effort" only in terms of the simulation effort, and specifically the number of replications consumed. In doing so, we are assuming that (i) the effort per replication is roughly the same at all solutions $\mathbf{x} \in \Theta$, which is reasonable for our test problems, and (ii) that the optimization overhead for both ISC and OptQuest is small relative to the cost of running simulations. Assumption (ii) is not strictly true. For our response-surface functions the simulations are essentially instantaneous, so algorithm overhead is probably relatively

significant. And even though OptQuest is a finely tuned algorithm that typically seemed to impose little overhead, on our flowline design and inventory management test problems it did execute substantially slower than ISC while on the high-dimensional response-surface problem it was significantly faster. Solving the LPs to do solution pruning and randomly sampling the most promising area in the local phase comprise the primary overhead in ISC, and both can be slow but could be made faster with continued development.

(b) We judged performance, when possible, using the *true* expected value of the solution that each algorithm currently thinks is the best, rather than by its *estimated* value. Of course, this is impossible to do in real problems for which $g(\mathbf{x})$ is not known, but it is the appropriate metric for an evaluation since $g(\widehat{\mathbf{x}}^*)$ will be the long-run performance we get from the selected solution, not $\bar{G}(\widehat{\mathbf{x}}^*)$.

(3) We first ran trials of ISC, because ISC has the advantage of knowing when to stop. OptQuest can stop in two ways: either the computation budget is exhausted or no improvement in the estimated objective value is obtained within a certain number of iterations. To make sure that we did not stop OptQuest prematurely, we gave it a budget substantially larger than the maximum number of replications any ISC trial used for the first three and the fifth test problems, and the average number of replications ISC used for the fourth test problem. We did not have OptQuest stop based on lack of improvement.

5.1 Test Problems

The first test problem is a modification of the multimodal function F_2 used in Miller and Shaw [1995]. We rescale F_2, change its sign (since it represents a maximization problem), and then add up two copies of it and call the resulting function $g_1(x_1, x_2)$.

$$F_2(x) = \frac{\sin^6(0.05\pi x)}{2^{2(\frac{x-10}{80})^2}}, 0 \le x \le 100$$

$$g_1(x_1, x_2) = -[F_2(x_1) + F_2(x_2)],\ 0 \le x_1, x_2 \le 100 \tag{2}$$

The function F_2 has 5 local optima with a global optimum at $x = 10$. The magnitudes of the local optima decrease exponentially: $F_2(10) = 1, F_2(30) = 0.917, F_2(50) = 0.7071, F_2(70) = 0.4585$ and $F_2(90) = 0.25$. Since there is no interaction between the two variables, g_1 has 25 local optima and a global optimum at (10, 10) with objective value -2 (see Figure 2). This function represents a response surface with many, widely spaced local optima.

Normally distributed noise with zero mean and standard deviation of 0.3 was added to g_1 to make it a DOvS problem. Considering the difference between the global minimum (-2) and the second best solution (-1.917), the noise is quite significant. The feasible solution space is $0 \le x_1 \le 100, 0 \le x_2 \le 100$ and $x_1, x_2 \in \mathcal{Z}^+$.

The second test problem is the singular function of Hong [2004]. To facilitate the use of a log scale in our performance plots, we add one to the original

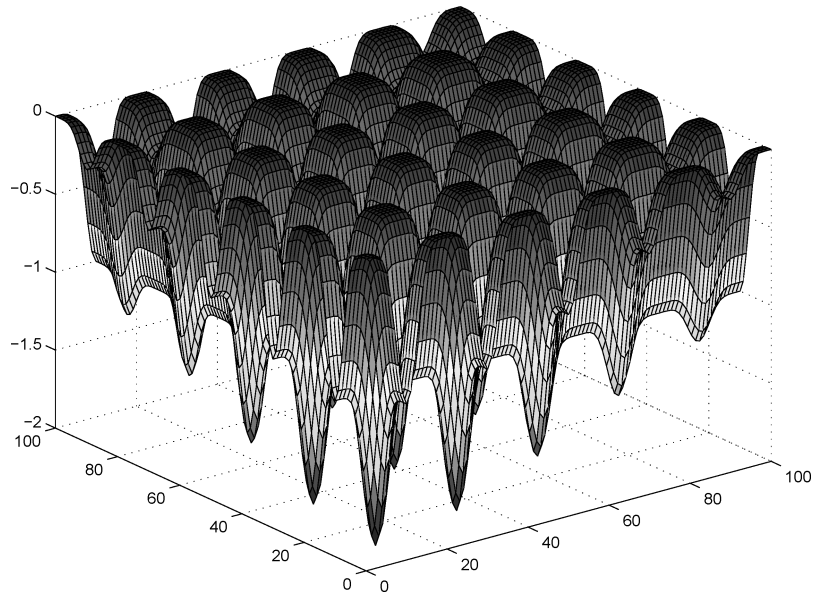

Fig. 2. Test function g_1 ($0 \le x_1, x_2 \le 100$).

singular function so now it is

$$g_2(x_1, x_2, x_3, x_4) = (x_1 + 10x_2)^2 + 5(x_3 - x_4)^2 + (x_2 - 2x_3)^4 + 10(x_1 - x_4)^4 + 1. \tag{3}$$

When only integer solutions are considered, this function has three local minima: $(0, 0, 0, 0)$ with $g_2(0, 0, 0, 0) = 1$; $(1, 0, 0, 1)$ with $g_2(1, 0, 0, 1) = 7$; and $(-1, 0, 0, -1)$ with $g_2(-1, 0, 0, -1) = 7$. This test problem represents a response surface with a small number of tightly clustered local optima.

We consider two versions of the stochastic noise for this surface: (a) normally distributed noise with zero mean and standard deviation $\sqrt{g_2(x_1, x_2, x_3, x_4)}$ (noise decreases as we approach the global optimum and (b) normally distributed noise with zero mean and standard deviation 30 (substantial noise near the global optimum). The feasible solution space is $-100 \le x_i \le 100, x_i \in \mathcal{Z}^+,\ i = 1, 2, \ldots, 4$.

The third test problem is a three-stage flowline with finite buffer storage space in front of stations 2 and 3 (denoted by x_4 and x_5) and an infinite number of jobs in front of station 1 (see Buzacott and Shantikumar [1993] and Pichitlamken and Nelson [2003]). There is a single server at each station, and the service time at station i is exponentially distributed with service rate $x_i, i = 1, 2, 3$. If the buffer of station i is full, then station $i - 1$ is blocked and a finished job cannot be released from station $i - 1$. The total buffer space and the service rates are limited. The objective is to find a buffer allocation and service rates such that the steady-state throughput is maximized. The constraints are $x_1 + x_2 + x_3 \le 20, x_4 + x_5 = 20, 1 \le x_i \le 20$ and $x_i \in \mathcal{Z}^+$ for $i = 1, 2, \ldots, 5$. This gives 21,660 feasible solutions. The local optima happen to also be global optima: $(6, 7, 7, 12, 8)$ and $(7, 7, 6, 8, 12)$ with steady-state throughput 5.776. The

average throughput from time 50 to time 1000 constitutes a replication. This test problem represents a realistic DOvS problem where we actually know the answer.

The fourth test problem is an inventory management problem with dynamic consumer substitution. The model that we optimize is adapted from Mahajan and Van Ryzin [2001] and it represents a difficult research problem for which the optimal solutions are not known.

The model considers a one-shot inventory stocking decision faced by a retailer for v product variants at the beginning of a season; no inventory replenishment happens in the model, and there is no salvage value for the products. It is assumed that each individual consumer chooses an available product with the highest utility, which may be a no-purchase option. Pricing is assumed to be an exogenous decision. Variant j's unit price is given as p_j and the unit cost is c_j.

The number of customers is Poisson with mean 1000, and the customer's choice behavior is modeled by the widely used MultiNomial Logit model (MNL). Briefly, variant j's utility to customer t is $U_{tj} = a_j - p_j + \xi_{tj}$, $j = 1, 2, \ldots, v$, where a_j is variant j's quality factor, and ξ_{tj} is a random variable having an extreme value (Type I) distribution. See Mahajan and Van Ryzin [2001] for complete details.

In Mahajan and Van Ryzin [2001], a continuous relaxation of the problem was numerically solved via a sample path algorithm, which is essentially a continuous-variable OvS method. Although the continuous version of this problem is of some practical interest for commodities like gasoline, it is not appropriate for some situations. We apply ISC and OptQuest to the original integer-ordered problem. There are six products and one no-purchase option.

The original problem was unconstrained. However, since demands are not infinite, there exist reasonable upper bounds that we may impose on decision variables without worrying about cutting out globally optimal solutions. In the numerical experiment we ran, which is based on Mahajan and Van Ryzin [2001, Example 1], there are 6 integer variables, each ranging from 0 to 500. Therefore, the size of the feasible solution space is $500^6 \approx 1.6 \times 10^{16}$ solutions.

The fifth test problem was designed to illustrate the impact of dimension. Let

$$g_5(x_1, x_2, \ldots, x_d) = -\beta \exp\left\{-\gamma \sum_{j=1}^{d} j(x_j - \xi^\star)^2\right\},$$

where we set $\gamma = 0.001$, $\beta = 10000$, and $\xi^\star = 0$. This gives a surface shaped like an inverted multivariate normal density function with a single globally optimal solution at $\mathbf{x} = (\xi^\star, \xi^\star, \ldots, \xi^\star)$ having value $-10{,}000$. The feasible region is the hyperbox defined by

$$x_j \in \left\{-\frac{m^{1/d}}{2}, \frac{m^{1/d}}{2}\right\}$$

for $j = 1, 2, \ldots, d$ with $m = 10^{20}$, where we round the bounds to the nearest integer if necessary. Defining the feasible region in this way keeps the number of feasible solutions (nearly) the same as dimension changes, allowing us to

isolate the impact of dimension from that of number of feasible solutions. To make the problem stochastic we added normally distributed noise with standard deviation $0.3 \times |g_5(\mathbf{x})|$ so that noise increases near the optimal solution.

5.2 Tuning the DOvS Algorithms

Both OptQuest and ISC have options or settings that can enhance or degrade their performance for any particular problem. While developing ISC we tried to identify good general-purpose choices. Those that seemed to have the most impact are as follows.

—In the global phase, the key settings are related to the transition rules. We found that a good choice for the number of NGA generations without an improvement to trigger a transition from global to local phases was $T_G = 3$ generations, and we used that in all experiments reported here. We also found that the dominant niche rule, which triggers a transition if there appears to be only a single niche, could have a substantial impact on performance. Therefore, we report results both with and without this rule.

—In the local phase, we found that an adaptive SAR (based on OCBA ideas; see the electronic appendix) typically worked better than a fixed incremental allocation rule for dimension $d \leq 10$, so for the first four test problems we use the adaptive rule. We also tested a modification of COMPASS that invokes a sequential statistical test whenever the data indicate that COMPASS should backtrack from the current most promising area to a surrounding area. This test attempts to prevent COMPASS from incorrectly terminating progress toward a locally optimal solution, but it does so at the cost of substantial additional sampling to control the power of the test. We report results without the backtracking test since it did not appear to be helpful.

Note that none of these settings affects the asymptotic convergence guarantees offered by ISC, and we did not tune the parameters for the test problems reported here.

For OptQuest, the most critical setting is how it allocates replications to solutions. In all experiments reported here we used both the default setting and the adaptive allocation option: The default setting allocates 3 replications per solution and no more. The adaptive setting allocates at least 3, but no more than 100 replications to each solution. OptQuest stops adding replications within this range to a solution $\mathbf{x}$ when the length of a 95% confidence interval for $g(\mathbf{x})$ is less than 5% of the sample mean, or if the confidence interval for $g(\mathbf{x})$ does not overlap the 95% confidence interval for the current sample best solution's mean. For the inventory management problem we raised OptQuest's minimum number of replications from 3 to 20 for both the default and adaptive settings because the problem was simply too noisy for OptQuest to make any progress with 3 replications per solution.

After terminating its search, OptQuest includes an option to take the three solutions with the sample best performance and apply a R-and-S procedure to discover which of them is the true best, with high confidence. This R-and-S procedure plays a different role than the clean-up phase of ISC, since it is

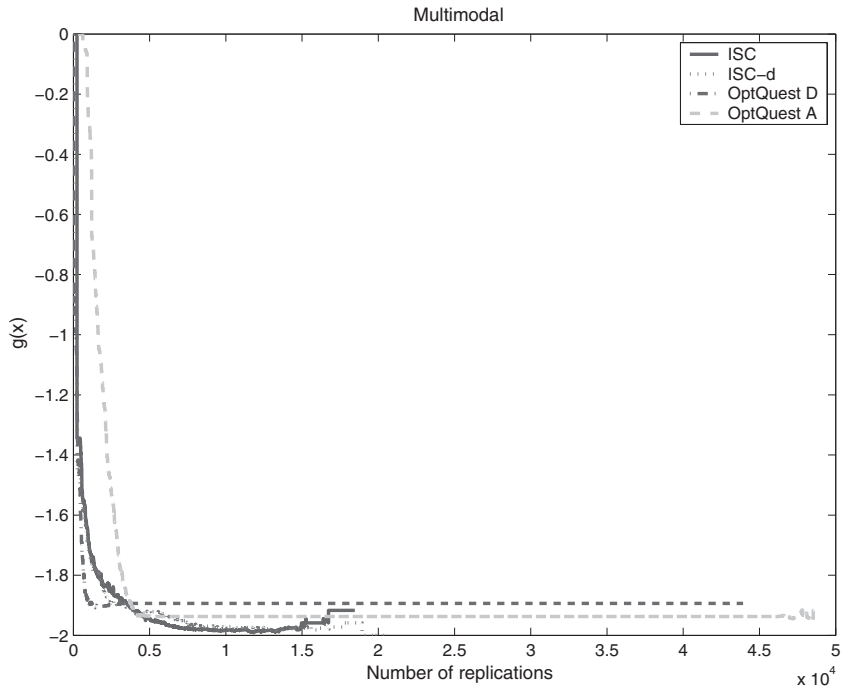

Fig. 3. Performance plot for the multimodal function.

not used to terminate OptQuest, and the three solutions chosen for evaluation are not necessarily expected to be locally optimal. For these reasons we do not report results from using the R-and-S option of OptQuest.

5.3 Empirical Results

For the first two test problems the performance plot is the average for fifty trials of the true expected value of the solution that each DOvS algorithm thinks is the best solution found so far as a function of the number of replications consumed. Recall that OptQuest is given a budget substantially larger than the maximum number of replications consumed by any trial of ISC. In the legends on the plots, "d" refers to ISC with the dominant niche transition rule turned on, while "D" and "A" are versions of OptQuest with the default and adaptive sample allocation rules, respectively.

A performance plot for the multimodal function is shown in Figure 3. Clearly OptQuest with the default rule makes more rapid initial progress than ISC, but then becomes trapped in inferior solutions. Notice also that since ISC is self-stopping, and stops after different numbers of replications on each of the fifty trials, fewer trial results are being averaged when moving from left to right on the replications axis. This is why the performance of ISC can appear to get worse or better near the end of the plot.

A performance plot for the singular function with large noise is shown in Figure 4. Here OptQuest with the adaptive allocation rule is clearly superior,

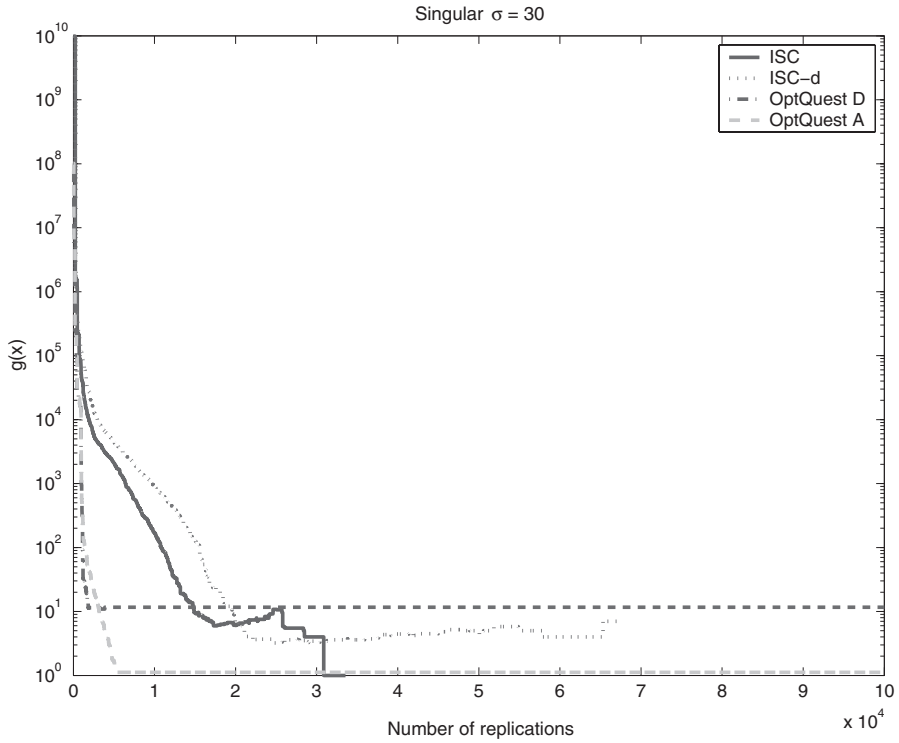

Fig. 4. Performance plot for the singular function.

while OptQuest with the default allocation rule is inferior, to ISC. In this problem ISC tends to terminate at or near one of the local optima, but not always the global optimum. Recall that this problem had three locally optimal solutions in close proximity that are likely not separated by the NGA. When noise that decreases near the optimal solution is added, OptQuest's performance is even better.

A performance plot for the flowline design problem is shown in Figure 5. Because this problem executed much more slowly, and the overhead for both ISC and OptQuest was more substantial, the performance curves are the average of 25 and 10 trials for ISC and OptQuest, respectively. For this realistic problem OptQuest makes faster initial progress, but both DOvS algorithms converge to a global optimal solution, with ISC knowing when to stop.

While the flowline design problem is a relatively easy DOvS problem, the inventory management problem is a particularly difficult one: The response is quite noisy, and $g(\mathbf{x})$ appears to be relatively flat near the good solutions (recall that the true response surface is not known). To compare ISC and OptQuest, we ran each for 10 trials, and at the end of each trial did further extensive simulation of its chosen best solution to estimate $g(\widehat{\mathbf{x}}^*)$ very precisely. For this problem, we only ran ISC without the dominant niche test, and OptQuest was given a budget equal to the average number of replications that ISC used (approximately 100,000).

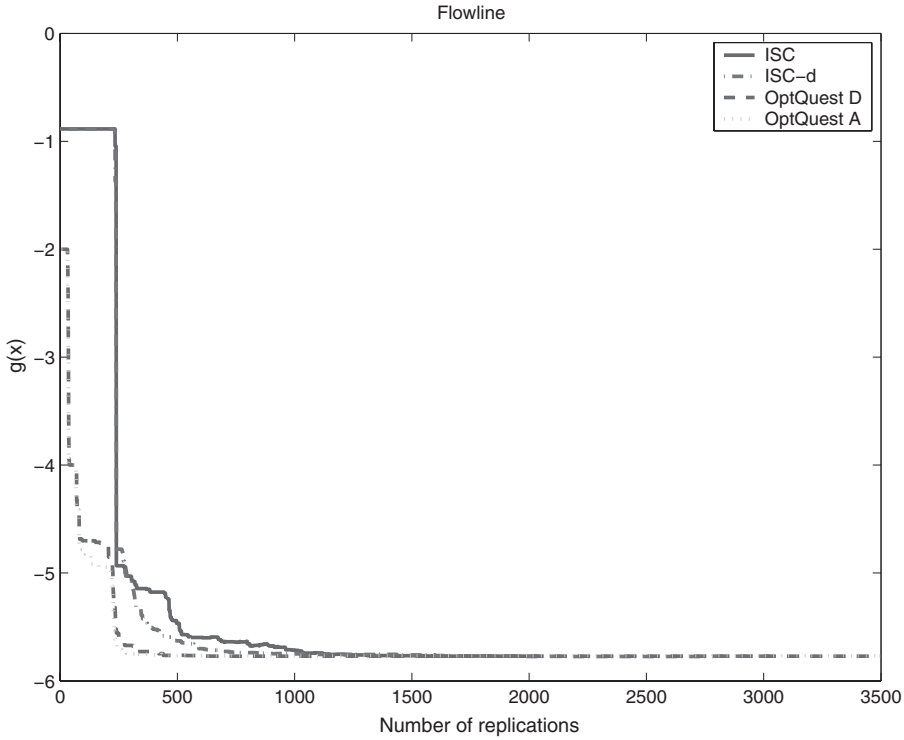

Fig. 5. Performance plot for the flowline problem.

Table I. Ten Trials of ISC and OptQuest on the Inventory Management Problem and the Average Deviation of the Estimated Solution Value from "True"

	ISC			**OptQuest: Default**			**OptQuest: Adaptive**		
Trial	$\bar{G}(\widehat{\mathbf{x}}^*)$	"True"	SE	$\bar{G}(\widehat{\mathbf{x}}^*)$	"True"	SE	$\bar{G}(\widehat{\mathbf{x}}^*)$	"True"	SE
1	1891	1874	1.6	1921	1858	1.5	1948	1874	1.5
2	1892	1873	1.6	1950	1875	1.6	1942	1868	1.6
3	1894	1870	1.4	1934	1870	1.6	1962	1877	1.7
4	1877	1871	1.7	1950	1873	1.6	1935	1871	1.4
5	1882	1869	1.4	1933	1859	1.3	1938	1859	1.6
6	1878	1860	1.7	1964	1852	1.8	1964	1869	1.5
7	1896	1876	1.6	1926	1861	1.4	1956	1872	1.5
8	1895	1876	1.5	1958	1872	1.6	1950	1863	1.7
9	1892	1878	1.5	1929	1855	1.7	1945	1867	1.6
10	1890	1876	1.4	1940	1867	1.6	1956	1866	1.6
Ave Dev	16			76			81		

Table I shows the results. For each algorithm, the $\bar{G}(\widehat{\mathbf{x}}^*)$ column shows the estimated value of the sample best solution when the algorithm terminated, while the column labeled "True" is an estimate of this solution's true expected value based on 10,000 replications (the standard error of this estimate is shown in the SE column). While ISC found slightly better solutions (bigger is better in this problem, and the average solution values for ISC, OptQuest (default

allocation), and OptQuest (adaptive allocation) were 1872, 1864, and 1869, respectively) of equal importance is that ISC's estimate of the performance of the chosen solution is much closer to its "True" value: Both ISC and OptQuest tend to overestimate the true objective function value, as expected in a maximization problem, but ISC's estimate is on average only $16 < \delta_C = 20$ greater, as guaranteed by ISC (only one deviation was greater than 20, and that was 24). This demonstrates the benefit of controlling the precision of the final estimate in the clean-up phase.

Statistically guaranteed convergence becomes more and more difficult to obtain as problems dimensionality d increases, and therefore the efficiency of ISC is affected more by dimension than by the number of feasible solutions. The fifth test problem illustrates this issue. Although we report results for a specific test problem, some general lessons learned from looking at a number of high-dimensional test problems are the following.

—The overhead for constraint pruning in the local (COMPASS) phase becomes significant as dimension increases, although constraint pruning is still very important. For dimension $d \geq 10$ we recommend pruning less frequently than the ISC default value of 5.
—As dimension increases it improves efficiency if the local (COMPASS) phase defers adaptively allocating replications until an apparently locally optimal solution is discovered, at which point the stopping test takes over sample allocation. Therefore, we recommend turning off OCBA so that the sample allocation scheme increases sampling just fast enough to guarantee convergence when $d \geq 10$.
—ISC is guaranteed to stop eventually. However, including a maximum budget is important in high dimension since it is impossible to know in advance how long it might take to stop and at present it is not possible to gracefully interrupt ISC.

For ISC, we set $\delta_C = 10 \approx \beta(1 - e^{-\gamma})$, the performance gap between the optimal solution and its neighbors, did constraint pruning only every 50 iterations, turned off the OCBA adaptive sample allocation, and otherwise used default ISC settings. OptQuest was run using its adaptive sample allocation setting. We discovered that OptQuest always starts by evaluating the feasible solution at the center of the feasible region, which means in our problem it starts with the optimal solution. Therefore, for OptQuest we shifted the position of the optimal solution a bit so that at least one iteration would be required to find it by chance alone. We ran 5 macroreplications of each algorithm for dimensions $d = 5, 10, 15$, and 20. We again ran ISC first, then gave OptQuest a budget larger than the largest number of replications used by ISC. Here is what we observed dimension by dimension.

$d = 5$. Both ISC and OptQuest quickly found the optimal solution.

$d = 10$. ISC found the optimal solution on all 5 trials, taking approximately 1 minute to do so and a maximum of 27,966 replications. OptQuest used a budget of 30,000 replications in approximately 0.2 minutes (showing lower

algorithm overhead than ISC). In 3 of 5 trials it found the optimal solution, and in the other two trials it selected another good solution (within 1% of optimal).

$d = 15$. ISC's algorithm overhead becomes substantial, taking approximately 20 times longer to exhaust a maximum of 172,348 replications than the 180,000 budget given to OptQuest. ISC found the optimal in all 5 trials; OptQuest found it in 2 trials and otherwise chose solutions within about 1% of optimal.

$d = 20$. ISC spent about 30 times as long as OptQuest to exhaust a maximum of 359,054 replications; OptQuest was given a budget of 360,000. ISC again found the optimal solution on each trial while OptQuest discovered it on 2 of them and otherwise chose solutions within 1% of optimal.

Some general statements about the results at all dimensions are that (a) ISC's terminal confidence interval on the value of the selected solution (which was always the optimal solution) always contained its true expected value; (b) OptQuest was distracted from the optimal solution when it visited an inferior solution that got a particularly favorable sample, and as a result OptQuest's estimate of the value of its selected solution was better than its true value, often by several times δ_C; and (c) OptQuest appeared to make good use of insight it gained about the shape of the response surface (which is particularly nice in this example), a feature that would help ISC.

Across these five cases, ISC demonstrated that it could be competitive with OptQuest, despite enforcing finite-sample and limiting guarantees. *This performance encourages us to believe that provable guarantees and practical usefulness can be compatible.* Of course, there will be problems on which a severe price is paid to attain provable convergence, and robust metaheuristics that "break the rules" will provide much better solutions. We believe that this will most often be the case when the available time for optimization is tight or dimension is high so that rapid solution improvement is essential. Convergence tends to slow progress.

6. CONCLUSIONS

We have presented Industrial Strength COMPASS, an algorithm and software for DOvS that has provable asymptotic performance, competitive finite-time performance, and valid statistical inference at termination. Our focus in this article has been on using ISC in the same way that the commercial products are typically used: with no information about the problem at hand other than the definition of the objective function, decision variables, and constraints, and a link to the simulation model. Only a single parameter, the error tolerance on the estimate of the optimal solution δ_C, *must* be set by the user; all of the other parameters have default values that we obtained during development of ISC (the electronic appendix contains tables of all of the parameters and their default values).

Like OptQuest, ISC has parameters that can be adjusted in ways that may make it more effective on a particular problem. Of these tunable parameters,

the most critical determine the aggressiveness of the global phase in allocating replications to distinguish good solutions from bad, and how demanding the local phase is before declaring a solution to be locally optimal. Our defaults lean toward a relatively passive global phase that explores broadly and applies little effort to each solution visited, and a relatively stringent test for local optimality in the local phase. These choices could waste time exploring the entire surface too broadly when a little additional effort might uncover a friendly (e.g., unimodal) response surface quickly, or by repeatedly applying time-consuming local optimality tests in an area with many close solutions. What we would like to have are not better ways for the user to set these parameters, but rather adaptive methods for tuning them during the optimization run as more and more is learned about the particular DOvS problem at hand. This is a fruitful area for future research.

Certain types of a priori information can be exploited by the user to make ISC more effective, however:

(1) If the function $g(\mathbf{x})$ is known or strongly suspected to be unimodal, then convergence is likely to be more rapid if the global (NGA) phase is skipped, going directly to the local (COMPASS) phase from an initial sample of solutions. COMPASS alone converges very quickly for unimodal functions.

(2) If the simulation budget is tight and the goal is to find a pretty good solution quickly, then the local (COMPASS) phase could be skipped, using an effort-based transition rule to terminate the NGA, which explores the feasible region broadly, then moving directly to the clean-up phase to obtain statistical confidence in the selected solution. This is similar to the algorithm in Boesel et al. [2003a].

(3) Known good starting solutions or a systematic experimental design can be used to seed the NGA or COMPASS.

(4) For problems with dimension greater than 10, pruning constraints less frequently and using the base (not OCBA) sample allocation rule is recommended.

An overriding objective in the development of ISC was to have an algorithm that could stop on its own with well-defined guarantees. This objective led us to search for locally optimal solutions and use R-and-S procedures to establish and compare them. ISC is not likely to work well under a very strict and tightly time-constrained budget, since the user would have to provide arbitrary effort-based transition rules for each phase, nor does it exploit an essentially unlimited budget; the NGA is probably not the choice of globally convergent algorithm we would make if that had been our goal. We contend that the time required to develop a detailed simulation model, and the impact of the decision that will be based on it, argue in favor of a liberal, but not infinite, computing budget in most situations.

In our effort to bridge the gap between research and practice, we attempted to resolve key implementation issues often overlooked in the research literature. Of these, we can claim some success in incorporating constraints, developing meaningful transition and stopping rules, and adaptively allocating simulation effort without giving up convergence or statistical guarantees. Open issues not addressed include incorporating stochastic constraints, multiple objectives, and

mixed (integer, continuous, and categorical) decision variables. All of these need solutions before we can claim a truly general-purpose OvS algorithm.

APPENDIX

In this Appendix we prove any new results not available in the literature (and therefore cited in the article).

1. GLOBAL CONVERGENCE OF THE NGA

We require that the NGA satisfies the following requirements, where the specific values may differ from problem to problem.

(1) In the selection and mating steps of iteration k, any solution sampled in iteration $k-1$ has a probability at least $p_1 > 0$ of being selected for crossover.
(2) In the crossover step, any parent solution has a probability at least $p_2 > 0$ of being generated as an offspring.
(3) In the mutation step, any offspring generated in the crossover has a probability at least $p_3 > 0$ of being selected for mutation.
(4) In the mutation step, each coordinate may be selected with a probability at least $p_4 > 0$, and each feasible solution along the coordinate may be selected with a probability at least $p_5 > 0$.

In this section, we show that the NGA converges to a global optimal solution as the number of iterations goes to infinity.

The NGA allocates at least $\Delta n \geq \log_{10}(\text{number of iterations})$ observations to any previously simulated solution and $n_0 \geq 1$ observations to any new solution in the evaluate solutions step. If we can show that all feasible solutions are visited infinitely often as the number of iterations goes to infinity, then the global convergence follows directly from the strong law of large numbers.

For any two solutions $\mathbf{x}_1, \mathbf{x}_2 \in \Theta$, there exists a path in Θ, denoted $\mathbf{x}_1, \mathbf{y}_1, \mathbf{y}_2, \ldots, \mathbf{y}_{|\Theta|-1}, \mathbf{x}_2$, such that any two consecutive solutions in the path differ at most by one coordinate. Let S_k denote the set of solutions sampled in iteration k. If $\mathbf{x}_1 \in S_k$, then it is selected for crossover in iteration $k+1$ with a probability at least p_1. If it is selected for crossover, it is generated as an offspring with a probability at least p_2; then it is selected for mutation with a probability at least p_3. If it is selected for mutation, then $\mathbf{y}_1$ will be sampled in iteration $k+1$ with a probability at least $p_4 p_5$. Therefore, $\Pr\{\mathbf{y}_1 \in S_{k+1} | \mathbf{x}_1 \in S_k\} \geq \prod_{i=1}^{5} p_i$. Then

$$\begin{aligned}
&\Pr\{\mathbf{x}_2 \in S_{k+|\Theta|} | \mathbf{x}_1 \in S_k\} \\
&= \Pr\{\mathbf{y}_1 \in S_{k+1} | \mathbf{x}_1 \in S_k\} \Pr\{\mathbf{y}_2 \in S_{k+2} | \mathbf{y}_1 \in S_{k+1}\} \\
&\quad \times \cdots \times \Pr\{\mathbf{x}_2 \in S_{k+|\Theta|} | \mathbf{y}_{|\Theta|-1} \in S_{k+|\Theta|-1}\} \\
&\geq \left(\prod_{i=1}^{5} p_i \right)^{|\Theta|}. \qquad (4)
\end{aligned}$$

Since Eq. (4) holds for any pair of solutions $\mathbf{x}_1, \mathbf{x}_2 \in \Theta$, then any solution may be visited in any $|\Theta|$ consecutive iterations with a positive probability that is bounded away from 0. Therefore, all solutions in Θ will be visited infinitely

often as the number of iterations goes to infinity. Therefore, the NGA is globally convergent.

B. CLEAN-UP INFERENCE

Let $\tilde{\mathbf{x}}^* = \text{argmin}_{\mathbf{x}\in\mathcal{L}} g(\mathbf{x})$. ISC applies the "clean-up" procedure of Boesel et al. [2003b] to the solutions in $\mathcal{L}$, starting with the data that have already been obtained prior to the clean-up phase. This procedure obtains additional replications as needed to guarantee to select $\tilde{\mathbf{x}}^*$ with probability $\geq 1-\alpha_C$ whenever the data are normally distributed, the solutions are simulated independently, and $g(\tilde{\mathbf{x}}^*) - \min_{\mathbf{x}\in\mathcal{L},\mathbf{x}\neq\tilde{\mathbf{x}}^*} g(\mathbf{x}) \leq -\delta_C$ where $1/2 < 1-\alpha_C < 1$ and $\delta_C > 0$ are user-specified parameters ($1-\alpha_C$ defaults to 0.95 in ISC). We prove our results under the independence assumption because the complex sequential sampling that occurs in the global and local phases makes it difficult to synchronize random numbers so as to effectively use common random numbers [Law and Kelton 2000], so we believe this is a reasonable approximation even if common random numbers are used.

Let $\mathbf{x}_B$ be the solution selected by this procedure. Then we will show that, whatever the values of the $g(\mathbf{x}), \mathbf{x} \in \mathcal{L}$, $\Pr\left\{g(\mathbf{x}_B) \in \bar{G}(\mathbf{x}_B) \pm \delta_C\right\} \geq 1-\alpha_C/2$. This is a new result, not proven in Boesel et al. [2003b].

Let $b = \delta_C t/h$ where h is the sampling constant used in the clean-up procedure (specifically $h = h(2, (1-\alpha_C/2)^{1/(|\mathcal{L}|-1)}, \underline{n})$ is Rinott's constant in the special case of 2 solutions, confidence level $(1-\alpha_C/2)^{1/(|\mathcal{L}|-1)}$ and $\underline{n}$ degrees of freedom; see Boesel et al. [2003b]), $t = t_{1-(1-\frac{1}{2}(1-\alpha_C)^{1/\mathcal{L}}),\underline{n}-1}$, and $\underline{n}$ is the minimum number of replications any solution in $\mathcal{L}$ received prior to transition to the clean-up phase. Notice that this t value is not the t-value used in the screening procedure in Boesel et al. [2003b], but rather is an artifact used to show that the final confidence interval is valid.

The clean-up procedure requires each solution $\mathbf{x} \in \mathcal{L}$ to receive

$$N_C(\mathbf{x}) = \min\left\{N_C^{(0)}(\mathbf{x}), \left\lceil \frac{h^2 S^2(\mathbf{x})}{\delta_C^2} \right\rceil\right\}$$

replications, where $N_C^{(0)}(\mathbf{x})$ is the number of replications solution $\mathbf{x}$ received prior to the clean-up phase and $S^2(\mathbf{x})$ is the sample variance of these replications. Notice that

$$\begin{aligned}\Pr\left\{g(\mathbf{x}_B) \in \bar{G}(\mathbf{x}_B) \pm b\right\} &\geq \Pr\left\{g(\mathbf{x}) \in \bar{G}(\mathbf{x}) \pm b, \forall \mathbf{x} \in \mathcal{L}\right\} \\ &\geq \prod_{\mathbf{x}\in\mathcal{L}} \Pr\left\{g(\mathbf{x}) \in \bar{G}(\mathbf{x}) \pm b\right\}, \qquad (5)\end{aligned}$$

where (5) follows because the solutions are simulated independently and the probability on the right-hand side is with respect to an experiment in which all solutions in $\mathbf{x} \in \mathcal{L}$ receive $N(\mathbf{x})$ samples. But notice that

$$\Pr\left\{g(\mathbf{x}) \in \bar{G}(\mathbf{x}) \pm b\right\} = \Pr\left\{\frac{\bar{G}(\mathbf{x}) - g(\mathbf{x})}{S(\mathbf{x})/\sqrt{N(\mathbf{x})}} \in \pm\frac{\sqrt{N(\mathbf{x})}}{S(\mathbf{x})} b\right\}$$

and

$$\frac{\sqrt{N(\mathbf{x})}}{S(\mathbf{x})}b \geq \frac{hS(\mathbf{x})}{\delta}\frac{b}{S(\mathbf{x})} = t.$$

Therefore, $\Pr\{g(\mathbf{x}) \in \bar{G}(\mathbf{x}) \pm b\} \geq (1 - \alpha_C/2)^{1/k}$ and $\Pr\{g(\mathbf{x}_B) \in \bar{G}(\mathbf{x}_B) \pm b\} \geq 1 - \alpha_C/2$. The result that we want then follows by noting that $t/h \leq 1$, so $b \leq \delta_C$.

ELECTRONIC APPENDIX

The electronic appendix for this article can be accessed in the ACM Digital Libray.

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