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From: "Downing, Nenad" <nsgdowning@tva.gov>

To: "'ambar@usa.net'" <ambar@usa.net>

Subject: what will happen if the venture fails - resource costs and
decision making

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May 22, 1997 Thursday

I talked with Dr. Iyengar and we in agreement as to the nature of the problem and also the solution. The problem was not unlike that which once existed at TVA. The problem and the solutions are not unique to a culture. But my reply is framed with the DVC in mind. It is not an "Indian" problem, as such, but rather it is a question of how do we go about taking risks.

In making business decisions we have to put affairs in such a way that we can only challenge the process taken in making the decision - and not the man or persons who made the decision. And we do this through use of industry accepted management tools, such as the use of decision trees, monti-carlo methods, weis-bays methods, weibull tools, etc. where we look at the probabilities of the various outcomes, we quantify the basis of our decisions and use the various mathematical tools for doing so. We collect data, data, data, and we use that data to make an economic evaluation, a cost-benefit analysis. We use established, tried, tested and found to be true, step-by-step processes to make the technical and economic evaluations. We let the data make the decisions. The resource costs are incorporated into the cost-benefit analysis. The outcome probabilities are also determined by the same set of tools - so that we calculate that there is a 51 percent chance of success, with a predicted and calculated payback - we go with the decision. We also work with a documented yearly business plan and strategy plan. That is the way we do it at TVA and it is the way most successful large businesses operate over here.

If there was one thing that stood out at the DVC - was a lack of scientific management methods, the use of the tools mentioned above. When I want to implement a repairs or purchases involving the turbine or generator, and they are very costly, I first put together a proposal package, called the 6-step process, which incorporates most of the above. The proposal usually does not even have my name on it because

that is not revelant to the decision. The decision to implement the recommendation is based on the facts, supported by data, and on economic evaluations, pay back times, etc.

What will happen if the venture fails? As Dr. Lyengar said, if 51 percent of the time the outcomes succeed - then we have good management. If the current practice is leading to failure, or is itself a process in failure, then to continue with that process is a failed decision.

If DVC is to succeed then it will have to firmly embrace the Deming method and the tools of statistical quality control. It will have to adopt the Deming philosophy as its own child, putting a distinctive Indian flavor to it (just as the Japaneese adapted Deming to meet the needs of their culture - and become the economic power of the East - and as China is now doing). It will have to embrace the methods of strategic management. It will have to work from business plans.

It is my firm conviction and belief that the road which will lead the DVC out of its crisis is the methods and philosophy of Dr. Edwards Deming. Indeed, it is the single most powerful tool which India could use to lead it to prosperity and industrial advancement.

If resources are at stake - how does one become more adventurous? By adoption of modern strategic management methods; by objective evaluation of the risks; by the scientific methods of risk management. This is what we are doing at TVA. This is the standard practice at the most successful companies. This is the process that the DVC should take.

I hope the above can be of some help to you in answering your key question. I will confess - that I could not at first answer the question. But after my talks with the professor, I realized that here at the TVA we have addressed that very same question. And I would suspect that your own company makes its major decisions in much the same way (let us hope).

I will be gone until next Thursday - to Chattanooga for some meetings - but will return to my keyboard friday, next week.

Good health to you with namaskar

and a prosperous future for India!

nenad