

## THE IMPORTANCE OF THE FEASIBILITY STUDY FOR THE BUSINESS PLAN

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### **Rezumat**

*The micro and macro-economical development of the world states is strongly influenced by the volume, structure and dynamic of finalized investment or being in various stages of progress*

*The whole individual and social-human existence has its continuity and support in the area of investments. Looked at from the point of view of theory, as a complex and controversial financial category, appears to us in the investment plan as a practical reality that marks the past and future scans.*

*In community life, occupying a central place investment, a factor which influences the application simultaneously, as well as the offer of goods or services. The argument in favor of this is given by the processes of training and multiplier effects generated by any investment project, whatever the sector of activity in which it applies. Implementation of a project in the sphere of production of goods and/or services has the effect increasing the diversification of supply and thus if it is validated by the market, rising incomes of economic agents.*

*Investment project does not represent anything other than a set of tasks with a start and an end established, limited time, resources and budget, made in order to achieve a defined objective, the projects have become practically the main operational tool at the level of organizations, in the investment plan.*

*Thus, in this study we propose to emphasize the importance of documentation that underpins the implementation of an investment project.*

**Keywords:** investment projects, pre-feasibility study, feasibility study, business plan

**JEL Clasification:** G11, G12, G31

## 1. INTRODUCTION

Any investment project materializes in an objective which, in the end, participating in realization of production or provision of services in the form of fixed capital.

Rigorous substantiation of investment projects, as well as the assessment of the current status and potential of any organizations, to carry out a project in terms of economic efficiency, at a given moment, involves the study of feasibility.

The development of an idea, and until we have the outcome as a result of its implementation, was submitted through three distinct phases, listed in the previous section. Studies related to investment projects belong, more often than not, the pre-investitional phase.

Thus, in the literature, the most widely referenced study, pre-feasibility study, feasibility study, study of the eligibility and the business plan.

## 2. ASPECTS OF THE RESEARCH OPPORTUNITY

The development of a project at various stages and various related documentation, facilitates the promotion of investment, provides a better basis for decision-making concerning design and implementation, ensuring transparency at all levels.

While the purpose of a study opportunity is easy to set, it's not easy to differentiate between the terms "feasibility study" and "pre-feasibility study", considering the inaccuracy with which they are often used.

The literature indicates that the study of the main opportunity aims to identify investment opportunities and promotion of investment projects in a particular area of activity or area. [1]

To highlight the nature of the relationships between the main document-specific investment project, but also to specify the place of opportunity and feasibility study, we have developed the following figure (figure nr. 1):

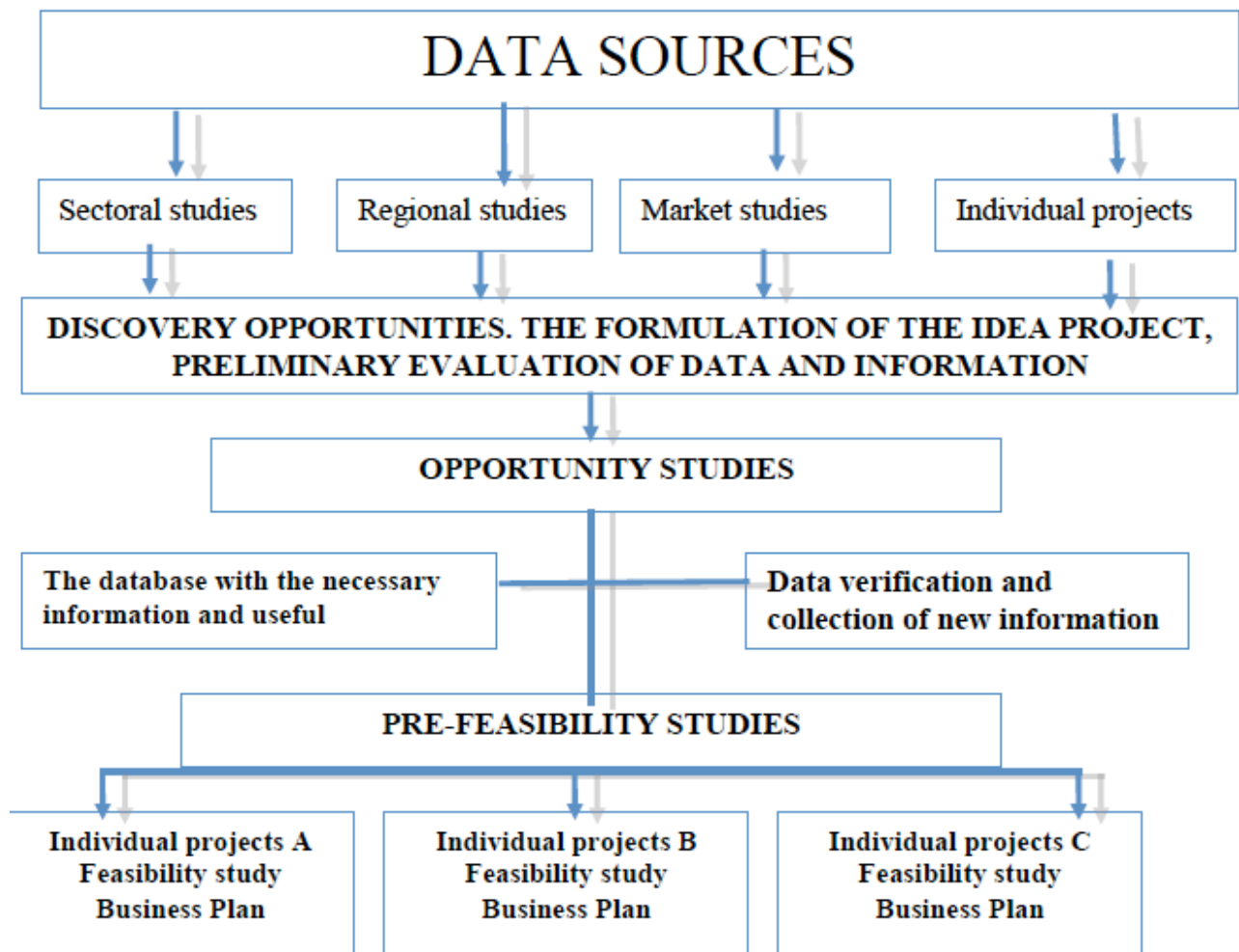


Figure no.1 The place of opportunity throughout the project-specific documentation

The main tool which is used to quantify the parameters, data and information necessary to develop the idea of a project in a business proposal is an opportunity study that examines the following issues :

The main tool which is used to quantify the parameters, data and information necessary to develop the idea of a project in a business proposal is an opportunity study that examines the following issues :

- the availability and cost of factors of production
- the natural resources available in a given region and possibly to be processed;
- the actual demand and the potential for some consumer goods or services, whose potential has evolved from population growth or purchasing power;
- general investment climate and industrial policies
- trade imports and exports at the level of a sector of activity or region;
- production sectors in other regions with the economic base, level of development, capital, labor and natural resources;
- the possibilities and alternatives for expansion of existing production lines or diversification;

Trying a first brief conclusion, usefulness of opportunity in the realization of a project of investment is evidenced also by the relatively high percentage of projects that stop at this stage, as a result of a finding of non-conformity, major development projects or insufficient resources. In the absence of the study, these projects can move forward, but, especially, can consume considerable resources, because in the end, the result revealed a pre-feasibility or feasibility studio, to be in conformity with the objectives laid down.

### 3. ASPECTS OF PRE-FEASIBILITY STUDY

The idea presented in the initial project has to be analysed in a more detailed study, in carrying out a feasibility study, which would make it possible to take a final decision in respect of the project concerned, requires a great deal of time and financial resources. Therefore, before to allocate funds for such a study, to be made a superior rating of the project via a feasibility study, whose primary objective is the selection for preliminary to determine whether:

- all possible alternatives of the project have been examined;
- project design justifies a detailed analysis by means of a feasibility study;
- there are certain negative aspects of the project that can seriously affect its viability and feasibility;
- originally, based on available information, the project can be considered for a particular investor, group of investors or financial institution;

Pre-feasibility study execution can be carried out by the promoter of the project idea or an external specialist, the centerpiece being the general conception of the project from a technical standpoint and a summary evaluation of the means of implementation. Based on to you could define how to enroll in a project schedule and can begin sectoral identification of possible funding sources.

Significant differences between a pre-feasibility study and a feasibility study related to the degree of detail of the information and the intensity with which are taken into consideration available alternatives. Pre-feasibility studies may result in the end, a decision on the continuation of the project and the fulfillment of the other documentation (feasibility studies, business plans) or a decision on the reconsideration of the opportunity the project in regional or sectoral context, i.e. the most undesirable decision, halting any major causes, actions involving the failure of the project.

### 4. IMPORTANCE OF FEASIBILITY STUDY IN PROJECT INVESTMENT

The feasibility study is defined as a tool that can provide a technical, economic and financial justification of a decision to finance an investment project.

The concept of feasibility study involves conducting analyses and evaluations of complex nature at the level of the future investment objective, carried out on a particular time horizon, taking into consideration the factors of risk and uncertainty.

The purpose of the feasibility study results from its tehnico-economic tool upon which the viability of the company. Within a broader framework, the aim of the study is to facilitate the functioning of it, on the basis of specific principles and mechanisms of competitive economy. [2]

The scope of the reference of the feasibility study will depend on its nature. It identifies the feasibility study of the project and the company. In the case of a feasibility study on the project, carried out investigations, static and dynamic analysis of financial, technical and economic forecasts are intended to promote, within the framework of identified risk margins, investment projects. Regarding the feasibility of its business, based on the same approach (through investigation, analysis, and forecasts), feasibility study, technical coordinates is argued there will score the reference unit as a result of the forward looking strategy (development, collapse, split, etc.). [3]

Between the objectives most frequently identified within the framework of the feasibility studies we can mention: the development of an organization on a specific sector of activity, attracting foreign funding, recovery and improvement of the quality of performance and competitiveness, defining a strategy over the medium term and long term.

There are several types of feasibility studies, among which we mention: studies for new lenses; studies for the development of existing companies, with a well-defined profile; studies for restructuring existing economic organizations without profit or a small profit, economic viability studies for the analysis of a privatization operations, winding, separation or even joining together of two or more separate entities;

As regards the content of the framework of a feasibility study, the legislative document presented refers to all chapters and necessary information relating to the identification of the Organization, its current status analysis and field of activity, presenting alternatives, establishing selection criteria, efficiency and risk analysis for the future project, as well as a consistent part of a technical nature in which are detailed in terms of technical and technological proposed solutions with consequences which will result from the adoption of one or the other.

Practice has shown that it is often necessary to have a feasibility study which analyzed summary issues listed above in order to provide a first glimpse of the future in alternative development and variants. It should be noted that the results of a feasibility study are limited in time, dynamic economic environment, changes in the sector of activity, the results of research and development. [4]

Elaboration of a feasibility study on a national, irrespective of whether it is done for a project of public or private investment, for a funding source or non-refundable, must be in accordance with Order No. 913/2005, in which

the document detailing the contents of the study framework, components and the assessment criteria. [5]

The feasibility study preceding the business plan, representing a way less complex and more rapid analysis of a business opportunities in terms of its viability, setting whether it is worth to continue his efforts to add value.

The usefulness of a feasibility study is related to the significant reduction of risks in using the developer of economic opportunities identified.

The feasibility study, when it comes to the conclusion that economic opportunity can turn into a deal feasible, it is recommended to continue with its business plan. Information and analyses from the feasibility study to be incorporated into the business plan, to a large extent, achieve it. [6]

## 5. THE RELATIONSHIP BETWEEN THE FEASIBILITY STUDY AND BUSINESS PLAN

The feasibility study is the document that are made before the business plan, representing an less complex and faster analysis of business opportunities in terms of its viability, setting whether to continue its recovery efforts.

The usefulness of the feasibility study is related to the significant reduction in the opportunities entrepreneur economic risks identified.

The main elements that differentiate a feasibility study of a business plan are related to:

- Pursuit of a single goal, feasibility of the business;
- Reduced complexity;
- Narrower issue investigated;
- Narrower timeframe;
- Details of technically complex

The chronological order of realization of the studies is represented in Fig. no. 2:



*Figure no.2 The relationship between the main instruments used in the preparation and to investment*

The feasibility study, when it concludes that economic opportunity can turn into a business feasible, it is recommended to continue with the business plan. Information and analyzes of the feasibility study are incorporated in the business plan, facilitating largely completion.

The business plan is an essential tool for entrepreneurs who create a company or looking for partners, managers who propose new projects to other people or institutions, companies want to launch new products / services or simply to manage their activities better, for institutions who managing funds for investment projects.[7] After starting a business, business plan managers keep attention focused on major objectives, not allowing daily operations to divert attention from them.

A business plan should include milestones and other props for guidance in the economic environment, while preparing for the economic changes more or less predictable "route". Nobody expects to derive business plans, but understanding and knowledge of the business planning process will prepare for business changes and will optimize reaction time.

Also, both the feasibility study and that of the business plan should be detailed administrative and institutional issues that could significantly affect future project implementation and operation. It considers how new activities will be managed and integrated in functional and hierarchical structure of the organization.

## CONCLUSIONS

In conclusion we can say that the impact of investments in an economic system is justified by the fact that action triggers investment organizations and implementing various projects increase their supply of goods and/or services, leading to additional income. At the same time, any investment project generates additional needs or applications in sectors related to upstream (supplier of raw materials, utilities, etc.) or downstream (distribution or consuming of goods/services offered), which causes an increase in revenue at the chain all economic entities engaged and involved.

In other news, the entire life cycle of the investment project is targeted on the basis of documentation (pre-feasibility studies, feasibility studies, etc.), whose realization must be carried out in a coherent manner and perfectly suited to the general and specific conditions of the project and the organization.

Based on the conclusions derived from the feasibility study, the makers decide on the draft: abandonment, continuation or re-evaluation of, by considering other alternatives assumptions or project.

Regarding the business plan, it should be noted is that the role of a business plan is not only to prove that the deal worth funding, but primarily to guide the entrepreneur in all operational phases of the business.

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