

THE ROLE OF FEASIBILITY STUDIES ON PROJECT AND ORGANIZATIONAL PERFORMANCE

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ABSTRACT

Every business organization wants to succeed in her business and improves in her performance. Feasibility study has been identified as one of the key factors to reach such cardinal objective. Many projects and many business organisations have failed to achieve this goal because they do not begin or understand the implications of conducting a feasibility study. This paper therefore examined the effect of feasibility studies on project and organizational performance. It equally sought to determine the reasons and causes of project failures irrespective of conducting feasibility studies on such projects. Data utilized for the study were from both primary and secondary sources. The population of the study was 428 staff of Project Development Institute (PRODA) Enugu. A sample size of 207 was determined from the population using Taro Yamane's formular with stratified random sampling technique used in selecting respondents for the study. Statistical techniques such as frequencies, Percentages and Relative Importance Index were used to analyze the data. Our findings revealed that the conduct of feasibility studies to a very positive extent improves organizational performance, because it enables the organization to identify the flaws, challenges and unforeseen circumstances that might affect the progress of the organization with a view to taking appropriate preventive measures. The findings also revealed that though, the conduct of feasibility study is important both to existing and new business, but there are other critical factors which if not considered will negatively affect the organization no

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matter passing the feasibility test like sheer incompetence, downright dishonesty and employment of unsuitable staff. In view of our findings, it was recommended that for a feasibility study to stand the test of time, correct assumptions must be based on correct facts. Management should not only see the conduct of feasibility studies as prerequisite to organizational performance, also employment of competent, honest and suitable personnel are also critical to organizational growth.

Keywords: Feasibility study, project and organizational performance

Although {an unsuccessful feasibility study} may appear to be a failure, it's not. The real failure would have been if you had invested your own and others money and then lost it due to barriers you failed to research in advance.

(David .E. Gumpert)

1.1 INTRODUCTION

In Nigeria today, many business organizations and project have failed, not only because assumptions were based on incorrect facts, but the inability of the promoters of such business to critically deal with the problem of uncertainties and equally the inability of the an existing organization to carry out a comprehensive analysis of the organizational performance in comparism to goals and objectives which have immensely contributed to such failures. Uncertainty is a constant phenomenon which every business organization faces every day no matter the size of the organization. Getting customers in the door, encouraging them to spend and ultimately generating a profit are basic objectives that can at times seem difficult to achieve. Changing, adapting and incorporating new products and ideas into your business mix are ways to remove some of the uncertainties you face, but without proper forethought and planning, those steps themselves can be highly uncertain (Lohrey,2013). Feasibility studies provide answers to questions that help the organization to asses potential, and to predict the likelihood of success and failure. As the name implies, a feasibilty study is an analysis of the viability of an idea. The feasibilty study focuses on helping answer the essential question of “should we proceed with the proposed idea”. All activites are directed toward helping answer such question (Hofstrand, 2009).

Every business organization wants to succeed in her business and improves in her performance. Feasibility study is key to reach such cardinal and critical objectives. Many of the projects or any kind of business fails to achieve this goal because they do not even begin with a feasibility study. Therefore, feasibility study is sine-qua-non to organizational performance because it will help in identification of the flaws, business challenges, strengths, weaknesses, opportunities, threats and unforeseen circumstances that might affect the success and sustainability of the business values. A feasible business venture is one where the business will generate adequate cash-flow and profits, withstand the risks it will encounter, remain viable in the long-term and meet the goals and aspirations of the founders. The venture can be either a start-up business, the purchase of an existing business, an expansion of current business operations or a new enterprise for an existing business (Hofstrand,2009). Therefore, a feasibility study is only one step in the business idea assessment and business development process. And when this business idea assessment and business development is in tandem with the goals and objectives of the organization, that leads to positive organizational performance.

Organizational performance comprises the actual output or results of an organization as measured against its intended output (or goals and objectives). According to Richard et al (2009), organizational performance encompasses three specific areas of firm outcomes: (a) Financial performance (profits, return on assets, return on investment, etc). (b) Product market performance (sales market share etc); (c) Shareholders return (total shareholders return, economic value added) etc. The term organizational effectiveness is broader. Specialists in many fields are concerned with organizational performance, including strategic planners, operations finance, legal, and organizational development. In recent years, many organizations have attempted to manage organizational performance using the balance scorecard methodology where performance is tracked and measured in multiple dimensions such as: Financial performance (e.g. shareholder return), Customer service, Social responsibility(e.g corporate citizenship, community outreach), employee stewardship. It is important to state, that performance is a contextual concept associated with the phenomenon being studied (Hofer,1983). In the context of organizational financial performance, performance is a measure of the change of the financial state of an organization, or the financial outcomes that results from management decisions and the executions of those decisions by members of the organization. Therefore, one cannot talk about

organizational performance without reference to feasibility study, because generally, feasibility studies precede technical development and project implementation. It is on this premise that the study, the role of feasibility on project and organizational performance is looked into.

1.2 OBJECTIVES OF THE STUDY

1. To determine the effect of feasibility studies on organizational performance.
2. To determine the reasons and causes of project failures irrespective of conducting feasibility studies on projects.

2.0 REVEIW OF THE RELATED LITERATURE

2.1 conceptual framework

The concept of feasibility studies

The term “feasible” describes an action or event that is likely, probably or possible to happen or achieved. A feasibility study is the total of the actions you take and the questions you ask to determine whether an idea, thought or plan is likely to succeed. An effective study can guide you on whether you should move forward with your idea, refine it, or scrap it altogether and go back to the drawing board (Lohrey,2013).

The feasibility study is an evaluation and analysis of the potential of a proposed project which is based on extensive investigation and research to support the process of decision making. Feasibility studies aim to objectively and rationally uncover the strengths and weaknesses of an existing business or proposed venture, opportunities and threats present in the enviroment, the resources required to carry through, and ultimately the prospects for success (Kreigsmann, 1979).

According to University of Wisconsin Center for Cooperatives, a feasibility study is designed to provide an overview of the primary issues related to a business idea. The purpose is to identify any “make or break” issues that would prevent your business from being succesful in the marketplace. In other words, a feasibility study determines whether the business idea make sense. A thorough feasibility analysis provides a lot of information necessary for the business plan. For example, a good market analysis is necessary in order to determine the project’s

feasibility. This information provides the basis for the market section of the business plan. Because putting a business plan is a significant investment of time and money, you want to make sure that there are no major roadblocks facing your business idea before you make that investment. Identifying such roadblocks is the purpose of a feasibility study.

Feasibility studies are focussed and specific. They start with a single question--asking whether the idea, event or action is a viable solution—and force you to focus solely on that question to the exclusion of everything else, drilling down to explore possible outcomes. A feasibility study is not the same as business plan. A feasibility study is an investigative tool that might cause you to discount an idea, whereas a business plan is call to action. You can, in fact, use a feasibility study as a predecessor to creating a business plan. Feasibility studies are important because they force you consider the big picture first and then think in a top-down fashion. In this way, one or two general starter questions lead to a host of additional, more detailed questions that become increasingly narrow in focus as you get closer to reaching an ultimate answer. Not only that, feasibility studies offer you the chance to “get it right” before committing time, money and business resources to an idea that may not work in the way you originally planned, causing you to invest even more to correct flaws, remove limitations, and then simply try again. Feasibility studies may also open your eyes to new possibilities, opportunities and solutions you might never have otherwise considered. There are no right or wrong answers to the questions you ask, but an answer you don’t necessarily want or expect can create new profit potential.

Five Areas of Feasibility

The acronym TELOS refers to the five areas of feasibility-Technical, Economical, Legal, Operational, and Scheduling.

Technical feasibility

The technical feasibility is focused on gaining an understanding of the present technical resources of the organization and their applicability to the expected needs of the proposed system. It is an evaluation of the hardware and software and how it meets the need of the proposed system (Marakas,2011). In a nutshell, technical feasibility assessment is based on an

outline design of systems requirements, to determine whether the company has the technical expertise to handle completion of the project.

Legal Feasibility

Determines whether the proposed system conflicts with legal requirements, e.g a data processing system must comply with the local production act.

Operational Feasibility

Operational feasibility is a measure of how well a proposed system solves the problems, and takes advantage of the opportunities identified during scope definition and how it satisfies the requirements identified in the requirements analysis phase of system development (Whitten,2007). The operational feasibility assessment focuses on the degree to which the proposed development projects fits in with the existing business environment and objectives with regard to development shedule, delivery date, corporate culture, and existing business processess, To ensure success, desired operational outcomes must be imparted during design and development. These include such design-dependent parameters such as reliability, maintainability, supportability, usability, producibility, disposability, sustainability, affordability and others. These parameters are required to be considered at the early stages of design if desired operational behaviors are to be realized.

Economic Feasibility

The purpose of the economic feasibility assessment is to determine the positive benefits to the organization that the proposed system will provide. It includes quantification and identification of all the benefits expected. This assessment typically involves a cost/benefits analysis.

Schedule Feasibility

A project will fail if it takes too long to be completed before it is useful. Typically this means estimating how long the system will take to develop, and if it can be completed in a given time period using some methods like payback period. Schedule feasibility is a measure of how reasonable the project timetable is. Given our technical expertise, are the project deadlines

reasonable? Some projects are initiated with specific deadlines. You need to determine whether the deadlines are mandatory or desirable.

Business Plan

If the feasibility study indicates that your business idea is sound, the next step is a business plan. The business plan continues the analysis at deeper and more complex level, building on the foundation created by the feasibility study. A business plan gives you an opportunity to find any weaknesses and reveal any hidden problems ahead of time. It serves two purposes: first, it is an analysis of how well the business will work, and second, it is a written document necessary to obtain a loan. Although business plans are often submitted to a bank as part of a loan request, that's not the most important thing about them. The really important thing about this process is that it forces you to think.

A business plan is sometimes described as a document of your thought processes as you analyze your competition, the market, your operating expenses, management and staffing needs, manufacturing process, etc. It forces you to clarify your goals and objectives. Therefore, the feasibility study and business plan are more important for the company's owners than for anyone else, including loan officers. Planning, however, won't guarantee success in business. The plan must be realistic and based on valid assumptions. Most people have to work at retaining their objectivity if they are doing the feasibility study and/or business plan themselves. After all, if you are closely involved in organizing this business, you probably have some emotional investment in it. It is easy for people in this position to overlook or minimize potential problems or hazards. Remember that planning, no matter how good it is, will never make a bad business idea feasible

The concept of organizational performance

Organizational performance is all about the recurring activities carried out by organizations to establish organizational goals, monitor progress in the achievement of those goals, as well as make necessary adjustments that would lead to the effective and efficient ways of achieving those goals (McNaram, 2012). The International Development Research Centre (1999 in MacPherson, Paari, 2004) developed a framework on organizational Performance away from

how organizations did their programming to how the various systems and resources of organizations provide them with “organizational capacity”. In a schematic presentation by the International Development Research Centre (IDRC), performance is defined in terms of four variables: **effectiveness** (mission fulfillment), **efficiency**, on-going **relevance** (the extent to which the organization adapts to changing conditions in its environment), and **financial viability**. These four aspects of performance provide the key dimensions to organizational performance. The framework also shows that performance in organizations is driven by contextual factors, namely, the internal capacities of the organization, forces in its external environment, and the motivation of the organization.

2.2 Theoretical Review

Theories are constructed in order to explain or predict relationships between phenomena or events. They make generalization about certain observations, and consist of interrelated coherent sets of ideas and models. The theoretical framework is therefore the structure that supports a research work; it provides the theory which tries to locate the research problem in its perspective. In short, the framework provides a theory that serves as the basis for conducting a research. It enables the researcher to clearly see the variables of the study, and it provides a general framework for data analysis. The following four theories will constitute the theoretical framework of the study.

Cost-based study theory

The cost-based study is a theory and a process of economic feasibility research. It accommodates calculations of both developmental costs and operational costs. The former refers to the cost that the realization of a business or economic project would incur in materials, resources and labor. The latter refers to the cost that the processes of production would incur in resources necessary for the business or economic project to function and succeed. Thus, by making calculations about the costs of a business or economic project, specialists can evaluate whether the project would be beneficial.

Time-based study theory

The time-based study is a theory that explores the time required for a new business or economic system to start benefitting from its activity. It also focuses on the value of this system in the future, taking account of stocks and commodities values. Thus, this particular economic feasibility research seeks to determine whether an economic or business system is reliable and would generate profit. For example, the European Commission conducted a time-based study to prove a statement on the consideration of European Union leaders to simplify the collection of a value-added tax, or VAT. The commission concluded that implementing specific technology to collect the VAT would be profitable in the long term and would benefit both EU and the citizens of EU member countries (Daner, 2002).

Organizational Performance (structural contingency theory)

Performance provides a key connection between organization behaviour and international management. In organizational behaviour, performance had marginal position in the structural contingency theories, but they occupy a leading edge in developing a better understanding of performance. The structural contingency theory has two major areas that require revision. First, it requires revision to take care of hidden impacts of the national context of the firm on performance. The hidden aspects include the roles of factor endowment. These hidden aspects impact on the performance of firms by creating a zone of manoeuver which the firms must be aware of to be able to enrol elements in the context to reshape it. Second, the differences in approach between the practices of auditing performance within firms, and the concepts and theories used in organization behaviour must be clearly observed. Within firms, there are extensive types of performance data in diverse aspects. The financial dimensions of these types are used in charting strategic directions (Clark, 2001).

Theories of Autonomous work group and theory of Equifinality.

These theories are notable contenting theories that attempted to explain the difference between the successful businesses and unsuccessful businesses as assessed from survival and profitability (Clark, 2001). The theory of autonomous work group emphasized universal solutions to be applied everywhere. It was widely promoted for every kind of organization and social movement. On the other hand, the theory of Equifinality states that high performance could be

achieved through different routes. While some firms may decide to decentralize decision-making processes and at the same increase the degree of formality of procedures, others could transfer control to professional specialists (Clark, 2001).

2.3 Empirical Review

Empirical research on the role of feasibility studies on organizational performance has developed into an area of research within the business environment. Conducting feasibility studies both on new and existing business has been seen as a critical measure for business development.

Hostrand (2009), in his study the importance of feasibility and business plan, pointed out that feasibility studies can be used in many ways but primarily focuses on propose business ventures. Farmers and others with/ a business idea should conduct a feasibility study to determine the viability of the idea before proceeding with the development of a business. Determining early that a business idea will not only work, but saves time, money and headache later. According to him, a feasible business venture is one where the business will generate adequate cash flow and profits, withstand the risk it will encounter, remain viable in the long term and meet the goals of the founders. He concluded that a feasibility study is one step in the business idea assessment and business development process.

Rodney (2007), in his own, asserted that establishing the feasibility of project is a critical factor in business success, but many factors may be involved and invariably luck can and probably will play a hand. According to him, many projects which have passed countless feasibility studies have been sunk by unexpected events such as flood, fire, changes in legislation, demographic shifts, an inability to recruit and/or keep suitable staff etc. He emphasised that many projects of course can pass feasibility tests and studies and be brought undone by sheer incompetence or downright dishonesty. He concluded that a key factor in any feasibility study must be ensuring that you are dealing with correct facts, correct assumptions and up to date financial data. This is because many projects fail because assumptions were based on incorrect facts.

A research by Danish economist Bent Flyvbjerg (2002), revealed that the costs of public work in Denmark in 2002 exceeded the predicted values by almost 20.7 percent. He says the cost-based

analysis remains partly inaccurate because of the inability of the researchers to take into account future economic disturbances and influential factors such as international trade and labor costs. In other research, the same economist criticizes the time based analysis, pointing out that rail ridership was 51 percent lower than was estimated by authorities before completion of a rail transport project in Denmark.

3.0 METHODOLOGY

The study is an exploratory and survey research that was carried at Project Development Institute (PRODA) Enugu. The sample size of 207 respondents from the population of 428 of both senior and junior staff was determined using Taro Yamane's formular. Stratified random sampling technique was the method used in the process of selecting the respondents for the study. However, as a result of the problems usually associated with questionnaire method of data collection, a total of 176 properly completed questionnaire (out of 207 distributed) were returned and used for the analysis. This represent 85% of the administered questionnaire. Statistical techniques such as frequencies, percentages and relative importance index (R.I.I) based on the works of Lim and Alua (1995) were used to analyze the data.

Table One : The critical reasons why you must conduct feasibility study before starting up a business

S/N	Responses	SA	A	UD	D	SD	R.I.I
1	To determine the viability and profitability of the business venture	90	70	5	10	1	0.838
2	To establish and prove to the lenders and investors the existence of the market for the business.	75	90	3	6	2	0.827
3	To identify the flaws, business challanges, strengths, weaknesses, opportunities, threats and unforeseen circumstances that might affect the success and sustainability of the business venture.	55	98	5	10	8	0.759
4	To estimate the financial, human and technological resources that will be needed to ensure the successful launching of the business.	88	79	5	4	0	0.857

5	To determine the amount of capital required to start the business	95	75	3	3	0	0.872
6	To estimate the amount of competition expected in the market place with a view of weighing the chances of success.	68	75	10	20	3	0.763
7	It helps in the preparation of business plan.	72	81	15	7	1	0.807
8	It helps in the development of new products, processes, models, experiences or services.	68	89	10	7	1	0.804

From table 1 above, determination of the amount of capital required to start the business, the estimation of the financial, human and technological requirements to launch the business and the determination of the viability and profitability of the business venture are the major critical reasons of conducting feasibility studies with 0.872, 0.857 and 0.838 rankings respectively. According to respondents, some businesses collapsed today in Nigeria because promoters of such business did not take pains to conduct financial and market feasibility studies to know the actual amount involved in the business and the availability of market for the business before embarking on such business venture.

Table 2: How feasibility studies aid management in decision making

RESPONSES	FREQUENCY	PERCENTAGE
Strongly Agree	114	65
Agreed	44	25
Undecided	4	2
Disagreed	14	8
Strongly Disagreed	0	0
	176	100

on the question whether feasibility studies aid management in decision making, 65% and 25% representing Ninety percent of the total respondents were in total affirmation that feasibility studies aid management in decision making. According to them, conducting feasibility studies is not only for new businesses. Old and existing business also conduct feasibility studies to know if the activities of the business are in line with the objectives of the organization. Equally, feasibility

studies aid the research and development department of an organization through market research to improve and develop new products. It equally aid new promoters of business to take decision on what to invest and how resources will be utilized in the new business, and most importantly aid in sourcing of funds.

Table 3: The reasons why many projects have passed feasibility test but was brought down and was not successful

S/N	RESPONSES	SA	A	UD	D	SD	R.I.I
1	Sheer Incompetence	95	74	5	2	0	0.872
2	Down right dishonesty	97	77	0	2	0	0.882
3	Changes in legislation	45	92	15	14	10	0.710
4	Demographic shifts	55	75	13	18	15	0.695
5	Inability to recruit and/ or keep suitable staff	96	77	1	2	0	0.879
6	Unexpected events such as flood, fire and burglary.	57	79	17	16	7	0.732

From table 3 above, inability to recruit and/keep suitable staff, down right dishonesty and sheer incompetence were adduced as the major reasons why many projects have passed feasibility test, but was brought down and was not successful with 0.879,0.882 and 0.872 rankings respectively. According to them, though conducting feasibility study is important, but recruiting non suitable staff who are not honest and competent can affect the success of the business, nevertheless that the business has passed feasibility test. This means that for a business to be successful, not only that one has to conduct feasibility studies, recruiting suitable staff who are competent and honest are equally critical to the success of the business.

Table 4 : To what extent does the conduct of feasibility studies improve organizational performance

RESPONSES	FREQUENCY	PERCENTAGE
To a great extent	97	55
To an extent	63	36

Undecided	9	5
Not an extent	5	3
Not a great extent	2	1
	176	100

On the question to what extent does the conduct of feasibility studies improve organizational performance, 55% and 36% representing Ninety one percent of the total respondent agreed to a great extent and to an extent respectively. According to them, feasibility study is one step to in the business idea development and business development process.

4.0 FINDINGS

1. Determination of the amount of capital to start a business, estimation of the financial, human and technological resources that will be needed to ensure successful launching of a business and determination of the viability and profitability of a business venture were adduced as critical factors for conducting feasibility studies.
2. It was also found out that conducting feasibility studies aid management in decision making.
3. It was equally discovered that the conduct of feasibility studies to a very positive extent improves organizational performance. This is because, it enables the organization identify the flaws, challenges, strengths, weaknesses, opportunities, threats and unforeseen circumstances that might affect the organization with a view to avoiding such problems.
4. It was equally discovered that the conduct of feasibility studies and passing feasibility test should not be seen as a guarantee to business success. Inability to recruit/keep suitable staff, down right dishonesty and sheer incompetence equally contributes to business failure. Therefore, business promoters are advised that in as much as conducting feasibility studies are prerequisite to business success, but employing suitable and qualified staff with high level of competence and honesty are equally critical to business success.

5.0 CONCLUSION

A thorough feasibility analysis provides a lot of information necessary for the business plan. This implies that feasibility studies offer you the chance to “get it right” before committing time,

money and business resources to an idea that may not work in the way you originally planned, causing you to invest even more to correct flaws, remove limitation, and then simply try again.

6.0 RECOMMENDATIONS

In view of the above, feasibility studies is hereby recommended for every business organization both existing and new businesses, including management and business promoters. Not only that it will enable you to objectively and rationally uncover the strength and weaknesses of an existing business or proposed venture opportunities and threats present in the environment, the resources required to carry through, and ultimately the prospects for success. It will equally open your eyes to new possibilities, opportunities and solutions you might never otherwise considered.

Again, since starting a business is like jumping out of an airplane without a parachute. In mid air the entrepreneur begins building a parachute and hope it opens before hitting the ground, the conduct of feasibility study before starting a new business is hereby recommended to every business promoter, because feasibility study is a vital prerequisite to building a successful business from scratch. Finally, though, the conduct of feasibility study is important to both existing and new organization, but is not only enough to achieve good organizational performance, equally employment of competent, honest, dedicated and suitable personnel are very critical in achieving good organizational performance.

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