

# Feasibility Reports and Legal Formalities

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## **ABSTRACT:**

Technically soundness, financial viability, economic benefit, commercial dependability, and organisational suitability should all be criteria for any project. It should be obvious at this point that complex techniques and criteria must be used to assess and gauge the projects' technical, financial, economic, commercial, and organisational viability. These tests should be used as a reference and the tools as needed for creating the feasibility report. Furthermore, it is possible to assert that feasibility is linked to a deeper level of inquiry and the discovery of a workable option from a variety of perspectives.

## **KEYWORDS:**

Business Ventures, Entrepreneurs, Feasibility, Legal Formalities.

## **I. INTRODUCTION**

Any company effort must include feasibility studies and legal requirements since they provide critical information and guarantee adherence to all applicable rules and regulations. The importance of feasibility studies and regulatory requirements is discussed in this introduction with regard to beginning or growing a company. Evaluations of a project's viability and likelihood of success rely heavily on feasibility studies. These studies evaluate a number of variables, such as market demand, rivalry, economic viability, technological needs, and operational issues. Entrepreneurs may decide whether to go on with a new initiative in an educated manner, identify possible risks, and create methods to reduce them by performing a thorough feasibility study.

Legal formalities, on the other hand, cover the duties and demands placed on companies by the law in order for them to conduct themselves lawfully and responsibly. Depending on the sort of company and the country it operates in, certain requirements must be followed. Legal requirements may include registering a firm, acquiring licences and permissions, paying taxes, protecting intellectual property, following employment rules, and adhering to health and safety regulations. Assuring legal protection, avoiding fines or penalties, and preserving a good reputation all depend on complying with these legal obligations [1]–[3].

Legal formalities and feasibility studies are closely related. Reports on feasibility often point up important legal and regulatory issues. They provide entrepreneurs insights into the legal environment, assisting them in identifying the particular legal needs and formalities pertinent to their industry. Entrepreneurs may assure compliance and foresee any potential legal risks or obstacles by include legal concerns in the feasibility study. Establishing a solid foundation for a firm requires addressing legal formalities and compliance obligations early on. Along with providing legal protection, it also increases credibility and confidence among stakeholders like as suppliers, consumers, and others. Businesses may operate with confidence, reduce legal risks, and concentrate on their core competencies by adhering to their legal duties.

Finally, feasibility studies and legal requirements are essential parts of every company operation. Entrepreneurs may make wise choices thanks to feasibility assessments, which provide useful insights into a company idea's viability and possible hazards. On the other hand, legal formalities guarantee adherence to pertinent rules and regulations, safeguarding the company and its stakeholders. Entrepreneurs may better handle legal needs and prepare for any legal difficulties by including legal factors into the feasibility study. This creates the foundation for

a successful and legally sound business initiative. Entrepreneurs may create a viable and legally compliant firm by completing exhaustive feasibility studies and meeting their legal duties.

## II. DISCUSSION

Therefore, "a formal investigation of the blue-chip opportunity leading to rational decision making to commit investment" may be used to characterise a feasibility study. Such an examination would include commercial, technological, financial, and social profitability analyses. Since the reigns of Walter Galenson, Harvey Leibenstein, Alexander Gerschenkron, Bert Hoselitz, and many of their contemporaneous donnish contributions, there has been a considerable deal of conflict regarding the criteria for project selection. They provided two pieces of vital knowledge for establishing the "criteria for a project selection":

1. Particular standards
2. General requirements

The economic growth of a nation is prioritised under particular criteria, but under generic criteria the firm's or promoter's interests and other nonspecific considerations take centre stage. Let's focus on these two viewpoints independently for a moment.

### Specific criteria

**Factor intensity criterion:** The majority of third-world nations are overwhelmed with sizable labour force populations that suffer from various unemployment issues. Consider India, South Africa, and other emerging or poor nations, where it is well known that between 35 and 45 percent of the population is reportedly suffering from unemployment. Therefore, it should not come as a surprise that the citizens of these nations emphasise labor-intensive technologies in order to push the projects to be developed. According to a United Nations study on development, labor-intensive techniques of production are the backbone of impoverished nations' industries despite the fact that their total productivity rate is lower. As a result, they may have the natural advantage of using their plentiful component effectively rather than focusing on a limited input (capital). "...labour saving technology is not very useful in an overpopulated economy. There, the focus should be on technologies that boost the yield per acre of land or that allow a big number of people to work in secondary industries for a relatively low capital investment.

A similar point of view was expressed by Buchanan, who said that since the abundance of labour in developing nations outweighs their lack of capital, there is a strong presumption that capital should be used sparingly in comparison to labour whenever there is a choice in the methods of production. Many times, individuals who support choosing a project based on its potential to create jobs fail to take into account the project's other economic aspects, which might have a negative or even harmful effect on the economy as a whole. Contrary to the claim made above, capital-intensive projects have several benefits, including high production and efficiency. Lack of manpower or labour loss may definitely be compensated for. In relation to the proposed criteria, Galenson and Leibenstein additionally provide the following explanations of their views on the selection norms:

"Choosing an investment option for each unit of investment that will provide each worker higher productive capacity than any other alternative is the proper criteria for investment allocation. The quantity of capital per worker must be maximised in order to get this outcome. It has long been argued that there is a clear link between economic growth and "technological stress for the large scale projects." Gerschenkron stated: " Backward nations could only expect to succeed at the height of industrialization by using the most cutting-edge and effective methods, especially if their industrialisation continued in the face of competition from the advanced country. When examining the economic history of Europe in the 19th century, it is clear that only when industrial development could start on a large scale did the conflict between the benefits that might be expected from industrialization and the pre-industrial conditions become strong enough to overcome the constraints and free the forces that made for industrial progress. The foregoing discussion between the two groups of theorists is, to some degree, merely metaphysical since their pertinent arguments are predicated on either irrational or evident assumptions. Of course, the debate has a fictional feel to it since technology determines the kind of equilibrium needed between capital and labour intensity. The factor intensity discussion, although highlighting major elements, is too basic and one-sided to support the intricate web of economic costs and benefits that result from the initiatives [4]–[6].

The following issues are at the heart of the arguments:

1. Projects that assist in using the plentiful rather than relying on scarce resources should be approved and carried out in the first instance. Since labour is one such factor input that is widely accessible in developing nations, projects should be planned with the goal of using this resource as fully as possible.
2. Second, even if certain variables are barely accessible, it is not feasible to eliminate them since they come at a price; rather, they should be employed in conjunction with the abundant component. In other words, all of the inputs from the factors should be combined properly to maximise their usefulness and provide advantages from economies of scale rather than returns to a single element.
3. Even in developed nations, output cannot be achieved via capitalization alone; instead, a workable combination is sought for, and then projects are carried out with the right product and factor combinations to maximise profits.

### **Size and complexity criterion**

The size and level of complexity involved is a crucial concept that suggests that it serves as the primary measure of an industrial project's suitability. This might be referred to as the "stepping stone theory" since it emphasises how non-industrial places should go from a basic to a sophisticated set of activities as they gain knowledge, resources, and experience through time. According to Brozen, who holds similar views, "generally, the initial phases of development should call for a growth and concentrate solely on a certain sort of project to motivate and adequately assist entrepreneurs. The initiatives that are modest, use simple manufacturing methods, and provide quick returns are more likely to achieve this at the earliest possible time. A later stage, when basic entrepreneurial skills and attitudes have been taught, must be used for large scale firms employing more complex processes and delivering distant returns. You may see the development as going from basic to sophisticated. Simplesness may be gauged in terms of money, output, and return. A simple enterprise is a tiny business that just requires the cash that its owner is able to provide. Larger businesses that need partnerships and borrowed money are at the next level of financial complexity. The most difficult are still the bigger ones that need to utilise corporate strategies to raise cash or the riskier ones that need to employ fewer tools.

According to the Hoover Commission on US Congress's overseas economic operations, "the most valuable contribution to world economic stability can be made by improving small manufacturing industries in non-industrialized countries... in the "Asian-African Arc," with the possible exception of Japan, no manufacturing or large-scale industrial development projects should be undertaken and industrial aid should be confined in the private sector." Projects involving industry shouldn't be started in nations without a history of industry. These nations lack a strong base in transportation, marketing, technology, and managerial competence, and there is limited local money available for involvement. In light of this, large industrial projects are impossible to complete and, in any case, cannot have an impact on the level of life for many years to come.

The benefits of tiny projects are many since they are clear and often held to be true that "small is beautiful and big braggadocio." minimal initiatives just need a minimal amount of the resources that a developing nation may afford: money, management, and technical know-how. They employ workers more often than money for big projects. They may be raised and deployed fast to generate returns. They make decentralisation possible, allowing individuals in many locations to interact with business. If the size of the local market in developing nations is also taken into account, this assumption that modest ventures draw labour attention is multiplied. It makes no difference to any nation whether the project is big or little since they are complimentary rather than competing, thus there is no need to choose between them.

Most often, it is seen that there is space around a huge industrial project for hundreds of minor facilities offering services and replacement parts. In all comparable situations, even if it is determined that feasibility rests in supporting small projects and plants of a specific sector, this suggests a good exposure and future prospects of a huge industry, and vice versa. Small plants need encouragement if it can be shown that they can produce as effectively as bigger ones. Of course, it stands out as an innately sound undertaking, perhaps much sounder than a network of tiny paper mills would have been, thanks to wider markets, the availability of raw materials, and trained or skilled workforce. A assessment of the costs and advantages of the many economic options should be used instead of political, emotional, or theoretical prejudgments about the acceptability of plants of a specific size or complexity in a certain environment.

### **The Foreign Exchange Benefits Criterion**

Most importantly, industrial projects are approved based on the credibility and support they get from the international community, i.e., a project that may benefit from foreign exchange reserves and a depreciated currency that raises import costs. Crop failures on the agricultural front and significant fluctuations in imports of capital goods might be the causes. The currency is overvalued at official rates relative to many other currencies wherever there is such a focus on the advantages of foreign exchange. This might make it easier for private entrepreneurs to profit from their ventures even if they are not receiving government funding. The focus on foreign currency benefit scheme's expenses and advantages are calculated using certain recognised criteria, and the feasibility of such initiatives is then assessed.

### **The commercial Profitability Criterion**

This criteria, which is distinct from the others, is calculated economically by concentrating on the anticipated net profit after taxes, which is calculated after subtracting all expenses, including depreciation and other hidden expenditures. An ROI, or return on investment, expressed as a percentage, represents the profitability rate. This criterion is the ultimate indicator of a project's appeal, at least to a private industrialist. Additionally, governments and development banks sometimes propose using this as a yardstick for determining a project's viability, and they may add changes to it to account for variations in costs or benefits to the economy compared to private owners. Commercial profitability may easily be estimated when given correct data on markets, prices, products, and expenses, and the techniques of computation are well-established in financial management practises. Three significant things affect this measure:

1. The project's estimated capital costs;
2. Projected manufacturing costs;
3. Projected revenue from sales or other realisations of project production.

To protect the interests of the promoters and choose the most promising project, these estimations are made with the utmost caution and wisdom. The commercial profitability has drawn criticism for its neoconservative explanation and lack of concern for other national factors. It is a way to gauge a project's worth as a business endeavour when just return on investment or profitability is desired, not the general welfare of the economy. As a result, it makes sense to use commercial rather than generous measurements. Many of the white-elephant projects might simply be rejected if this inclination is shown even by state-owned enterprises [7]–[9].

### **The National Economic Profitability Criterion**

Despite their widespread acceptability, none of the aforementioned investment criteria really measures the whole net worth of a project to the economy or even claims to. The number of quantifiable economic costs and benefits may be overstated or undercounted. The whole net quantifiable economic worth of a project has to be measured in a broad, all-encompassing manner. A measure of the approximate rate of return to the national economy on an investment in a project, taking into account all significant observable economic costs and benefits, is known as a "national economic profitability" criteria. Chenery explained the underlying idea of this idea as follows: "Economic theory informs us that an effective allocation of investment resources is accomplished by equal the social marginal productivity of capital in its many applications. Under industrialised nations, perfect competition offers a criterion for evaluating this resource allocation without the need to measure marginal production, unless under extraordinary circumstances. It is well acknowledged that both private value and private cost may diverge significantly from social value and social cost in less developed countries. In these circumstances, perfect competition cannot even be utilised as a benchmark for economic sectors; instead, social productivity must be measured and some kind of government intervention must be made possible in order to create a more or less efficient allocation of investment resources.

The overall measured rate of return on an investment to the economy is what we refer to as national economic profitability. Due to their inherent impossibility of measurement, economic costs and benefits as well as non-economic costs and advantages that call for value judgements are excluded from this definition. Although our calculations will still be flawed to the degree that non-measurable or non-economic elements are significant, we will be closer than ever to understanding the economic worth of initiatives [10].

It is often unneeded to have more than an approximation for the practical objectives of comparing one project with another or screening to avoid really weak initiatives. Regardless of the calculating technique, the costs and benefits

are not a guaranteed thing for both the entrepreneurs and the economy at the same time. The project may be very successful in terms of foreign currency revenues, but it may also be a total loss for the promoters. Likewise, a project that may be producing actual profits for the owners may not be as beneficial for the economy as a whole. This criterion's drawback is that, although it may be made more comprehensive than other metrics in the sense that it considers more project costs and benefits, it cannot be made completely comprehensive. Additionally, much like commercial profitability and in part because it is determined using our technique from commercial predictions, it is susceptible to a margin of error. National economic profitability is unique as a criterion for industrial investments because it combines all the significant observable economic expenses and advantages that an investment project gives to a developing country into a single comparative number.

### **III. CONCLUSION**

A project is a well-developed work plan created to accomplish certain goals within a predetermined time frame. A businessperson develops product ideas in his own setting. An entrepreneur chooses a specific product from the range of product ideas at his disposal for further research and manufacture. The optimisation process is described in the feasibility report, together with the justification of the underlying assumptions and hypotheses that led to the selection of the superior alternative solution and the precise parameters of project viability. A thorough feasibility analysis is undertaken by looking at a variety of project-related aspects. In order to assess how successfully the technological criteria of the sector can be satisfied, technical feasibility is used.

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