

**Subject: Management**

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**Paper: 09, Entrepreneurship Development & Project Management**

**Module: 28, Project Identification**



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Items	Description of Module
<b>Subject Name</b>	Management
<b>Paper Name</b>	Entrepreneurship Development & Project Management
<b>Module Title</b>	Project Identification
<b>Module Id</b>	Module no-28
<b>Pre- Requisites</b>	Basic knowledge about project identification
<b>Objectives</b>	<ul style="list-style-type: none"> <li>▪ To study the meaning and related concepts of project identification.</li> </ul>
<b>Keywords</b>	Project Identification, Project Control, Project ideas

### QUADRANT-I

Module : Project Implementation
1. Learning Outcome
2. Introduction and Concept of Project Identification
3. Sources of Project Ideas
4. Stages/Steps of project identification
5. Dimensions of a project
6. Need of project identification
7. Process of project identification
8. Problems faced by entrepreneur in Project Identification
9. Summary

#### 1. Learning Outcome

After completing this module students will be able to:

- i. Understand the concept of Project Identification
- ii. Understand the sources of project ideas
- iii. Know about the stages of Project Identification
- iv. Understand the dimensions of a project
- v. Know the need and process of project identification

## PROJECT IDENTIFICATION

**2. Introduction and Concept of Project Identification:** Project identification is the first step in setting up an enterprise. Identification of a suitable project is very crucial decision as the ultimate success of an entrepreneur depends upon the right selection of the right project. Project identification is concerned with the collection of data, compilation and analysis of economic data for the eventual purpose of locating possible opportunities for investment and development. So project identification is finding out business opportunities which are feasible and promising.

**In the words of Albert Einstein** “Everything that can be counted does not necessarily count, everything that counts cannot necessarily be counted”

**According to Thomas J. Watson** “Opportunity never knocks on the door. You have to knock on opportunity’s door and they are all around”

A lot of opportunities exist in the environment; the only thing we have to do is to grab them. First of all, environment is to be analyzed for perceiving the opportunities available and after that proper identification of opportunities, it has to be done in the given environment. The next step is to select the best from the available. Now the question arises ‘Why it is necessary to identify and select an opportunity?’ The simplest way to answer this question is to appreciate the need for project identification.

**According to Peter F. Drucker** “opportunities are of three types: additive, complementary and break-through”. These are explained below:

- (A) **Additive opportunities** are those opportunities which make it able to the decision maker to better utilize the existing resources without involving a change in any character of business.
- (B) **Complementary opportunities** involve the introduction of new ideas and as such lead to changes in the existing structure up to some extent.
- (C) **Break through opportunities** involve a fundamental change both in the nature and character of business. So in the case of additive opportunities least amount of risk is involved as it involves least amount of changes in the existing state of affairs. But the element of risk is more in the other two types i.e. complementary and breaks through opportunities, as they involve changes in existing structure as well as nature and character of business.

**3. Sources of Project Ideas:** As Prasanna Chandra stated in his book “Projects- Planning, Analysis, Selection, Financing, Implementation, and Review” are the keys to success. So a wide variety of sources should be tapped to identify them. Identifying a new project is not an easy job because the success of a project depends upon the idea of a project. There are different sources and methods which help to develop a wide range of ideas such as performance of existing industries, price trends, availability of raw material and skilled labour , government policies and guidelines, new technological developments, trade fairs, unfilled psychological needs etc.

- **Study the performance of existing industries:** A study of existing industries provides information about the opportunities available in that field. An analysis of the profitability and break-even point of different industries will offer sufficient information about the financial position of different industrial sector. So

entrepreneur can easily find out the capacity utilization and profitability and future demand of those industries.

- **Export/Import agencies:** Export /Import agencies' statistical data also provide information about the trends of export/Import of various goods. Five to seven years study of data is helpful in drawing a conclusion. If study shows higher proportion of import of a particular product and shows increasing trend of that product then it means import substitution can be produced. If study shows increasing trend in an export of product then it indicates high export potential for that product.
- **Availability of Raw material and skilled labour:** Availability of raw material and skilled labour at competitive prices required for various industries may throw up project ideas.
- **Government policies and rules regulations:** In any country government plays a very important role. Government plans of expenditure in different sectors provide useful information about possible investment opportunities. The department of industrial development and government of India, publishes guidelines on industries which is an important source of information to identify the scope for new investments.
- **Study of economic, social and price trends:** A study of the price, economic and social trends of the economy is also very helpful in projecting the demand for various goods and services. Greater the demand of the product, greater is the scope of its expansion.
- **Trade fairs:** for the purpose of knowing about new products and developments, National and International trade fairs are the important source for the entrepreneurs to identify latest projects.
- **New Technological developments:** The main cause of commercial exploitation is setting up research laboratories that are engaged in identifying new products or processes which in turn provide avenues for doing so.
- **Possibility of revival of sick units:** There are number of industrial units in India which has been recognized as sick industrial units. If internal factors involved behind the sickness/ weakness of industrial units and that unit still have the capacity to become a financially sound then a capable entrepreneur can take over that sick unit, survive it and convert into financially sound unit with their entrepreneurial skills.
- **Draw clues from consumption abroad:** entrepreneur may identify the project which are new to domestic market but extensively used abroad, if he is ready to take higher risk. Entertainment parks, fast food restaurants, big malls are few examples coming under this category.
- **Identified unfilled psychological needs:** For some of well established branded products, there may be unsatisfied psychological needs. New products of a branded group being introduced and accepted by consumers show that unfilled psychological needs to the customers.
- **Various government and non-government sources:** Various publications of Government, research organization, consultancy organizations, banks, export import promotion councils, and international agencies contain data which may indicate prospective ventures. An analysis of balance sheet and working results of existed companies will be useful in knowing the industrial sectors that are performing well.

4. **Stages/Steps of project identification:** Project identification involve following stages/steps, such as:

1. Environmental scanning
2. Generation of ideas
3. SWOT Analysis
4. Preliminary evaluation
5. Corporate appraisal
6. Profit potential of different projects
7. Project selection
8. Project objectives

1. **Environmental scanning:** The environmental scanning covers both scanning of external environment as well as internal environment. The scanning of external environment includes identification of the opportunities and threats to the organizations whereas internal environment include the study of strengths and weaknesses of the organizations. So environment is an aggregate of all conditions whether external or internal that surrounds and affects business. While scanning of business environment, an entrepreneur should take into consideration the different types of environment such as Economic environment, Technological environment, Competitive environment, Socio-demographic environment and Governmental environment.
2. **Generation of ideas:** It is primarily concerned with the germination of project idea. Entrepreneur may develop few ideas which he/she may think, suit to the existing environment. The project idea may be discovered from both internal and external resources.
3. **SWOT Analysis:** SWOT Analysis means Strengths, Weaknesses, Opportunities, and Threats. It is a method which enables the organization to identify opportunities that can be profitably exploited by it. SWOT analysis helps the entrepreneur in stimulating the flow of ideas.
4. **Preliminary evaluation:** An entrepreneur may have many project ideas. So some sort of preliminary evaluation is required to eliminate those project ideas which are not feasible:
  - The project idea should confirm to the government regulatory framework. It should be compatible with the national goals, priorities and policies of the government.
  - There must be a sizeable market available to consume the product made from the new project.
  - The idea must be compatible with the interest, personality and resources of the entrepreneur. In simple words it should be compatible with men, money, material and market at the disposal of entrepreneur. In the words of Murphy “A real opportunity has three characteristics: (a) It fits the personality of the entrepreneur-it squares with his abilities, training, and proclivities, (b) It is accessible to him and (c) It offers him the prospect of rapid growth and high return on invested capital”.
  - The material needed for the project must be easily and economically available. Because success of the project depends upon availability of resources.

- Cost factor should be taken into consideration. The entrepreneur must be in a position to realize an acceptable profit level.
  - Indian economy from the view point of entrepreneur is still underdeveloped. It can absorb a lot more entrepreneurs. So entering an already stagnant market will not be a very good idea. So entrepreneur must analyze the risk factor before entering into a market.
  - Inherent risk in the project such as changes in demand, technological changes, variation in business cycle, entry of substitutes, and competition from imports should be properly examined before starting a project.
5. **Corporate appraisal:** After preliminary evaluation, corporate appraisal of project should be conducted in order to make sure the availability of raw material, equipment, selling and distribution costs and customer behavior in relation to that project. The important aspect to be considered in this respect are as follows:
- (a) **Raw material availability:** The entrepreneur should ensure the availability of raw material. For this he should investigate the sources of raw material, various suppliers of raw material, inviting price quotation from suppliers, credit period allowed by suppliers and terms and conditions of supply of raw materials.
  - (b) **Production, operations and equipment availability:** Before implementing the project, the entrepreneur should investigate the availability of plant and equipment which is required for the production of that product. To achieve this he must study the comparative features of various manufacturers in terms of price, Guarantees and Warranties after sale service, Technical and skilled staff requirement, operative capacity, location and layout, cost structure, repair and maintenance of equipment and condition of plant and machinery.
  - (c) **Marketing and Research and Development:** In this segment the entrepreneur has to study the market share, product line, distribution network, marketing and distribution cost, advertising and publicity programme for the product, market practices such as credit policy, product positioning, laboratories and testing facilities available, co-ordination between research and operations.
  - (d) **Financial and Human resources:** They include financial leverage, cost of capital, cash flows and liquidity, tax situation, corporate stage, competence and loyalty of employees, state of industrial relations and relation with shareholders and creditors.
  - (e) **Consumer and Consumer behavior:** The entrepreneur should analyze the categories of consumers such as industrial, foreign and retailer, comparative qualities of own product with competitive products, purchasing power of consumer, consumption pattern, consumer priorities and identification of customers' needs.
6. **Profit potential and prioritize project list:** Before entering a new venture a person must look into the profit potential of that project and compare it with the other identified projects. So in this step he needs to prioritize the list of projects, taking some things kept into mind such as:
- Competition among existing firms
  - Bargaining power of buyers and suppliers
  - Existence of substitute products
  - Threat of new entrants

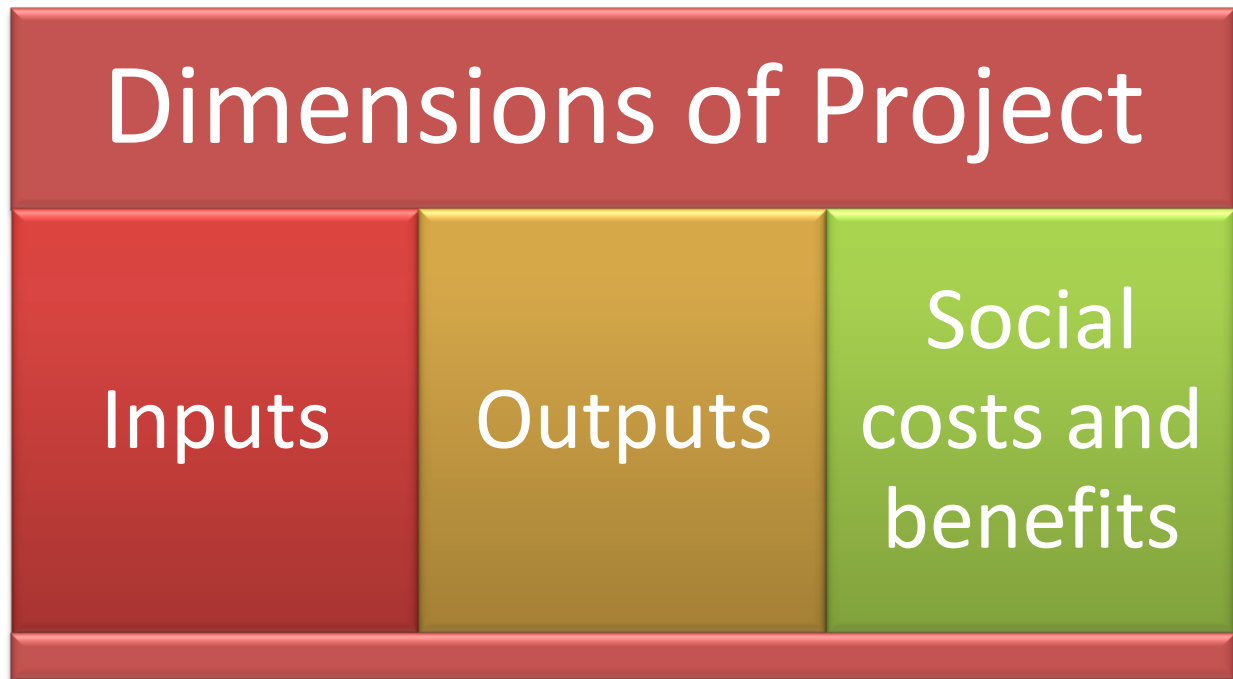
- Divisional key performance indicators
  - Time and ease to complete each projects
  - Resources required for each project and
  - Five year corporate plans and goals
7. **Project selection:** After studying profit potential of each project and preparing prioritization list, entrepreneur will come to know the overall rating of the different project ideas. The project with maximum rating will be the most feasible in comparison to other projects. The process involved in selecting a project out of some prospects is also described as “Zeroing in process”. While selecting a project, the entrepreneur should keep in mind about the Location, Technology, Size of investment, Equipment, and Marketing of project.
8. **Project objectives:** project objective starts where project identification ends. Objectives are the foundations on which the project design is built. Project objectives are concerned with defining in a precise manner what the project is expected to achieve and to provide a measure of performance for the project. The essential requirements of project objectives are:
- It should be simple.
  - It should be realistic and attainable.
  - It should be specific.
  - It should be consistent with available resources.
  - It should be consistent with organizational plan, policies and procedures.
  - It should be measurable, tangible and verifiable.

So above are the various stages/steps in project identification which can surely help an entrepreneur in identifying and selecting a right project suitable to his/her capabilities and skills, resources and market needs.

**5. Dimensions of project:** Project identification cannot be complete without identifying its characteristics. Every project has three basic dimensions: (a) inputs (b) outputs (c) social costs and benefits.

- (a) Inputs: This characteristic of a project define what the project will consume in terms of raw material, energy, manpower, finance and organizational set up.
- (b) Outputs: This characteristic of project define what the project will generate in the form of goods and services, employment, revenue etc.
- (c) Social costs and benefits: Every project has an impact on the society. So it is essential to evaluate carefully the sacrifice which the society will be required to make and the benefits that will accrue to the society from a given project.

The inputs to set up a project can come from different sources such as governmental agencies, credit and financial institutions and non-governmental organizations such as chambers of commerce and industry, inter-institutional groups, technical consultancy organizations and international collaborations.



**6. Need of project identification:** Project identification is very important .We needed project identification due to following reasons.

- (a) Identified projects become the accelerator agents of economic development.
- (b) These initiate the development of basic infrastructure and environment.
- (c) They have long term beneficial consequences.
- (d) Projects provide guidelines for future pattern of activities and services to be undertaken by an enterprise.
- (e) In the course of time, identified projects bring necessary changes in the society.
- (f) Project commitments are normally not revised.
- (g) Projects also lead to socio-cultural development of the people.

**7. Process of project Identification:** Project Identification involves the assessment and evaluation of a number of characteristics of project such as input, output, social cost and benefits, location and consultancy services etc. Now we will discuss these one by one:

- 1) **Inputs:** In the process of identification of suitable project, first of all SWOT analysis are to be done in respect of the resources available at the disposal of entrepreneur. The various input resources refer to raw materials, energy, manpower, finance and organizational structure.



- 2) **Outputs:** The study of output characteristics helps in determining as to what the project will generate in the form of goods and services, employment, revenues etc. The quantity and quality of all these outputs should be clearly analysed before the proposed project is undertaken.
- 3) **Social costs and benefits:** Every project has an impact on the society. So it is essential to evaluate carefully the sacrifice which the society will be required to make and the benefits that will accrue to the society if the proposed projects are undertaken.
- 4) **Location:** It is also essential to take into account the tentative choice of the location where the project proposed to be set up. In case of medium and large scale projects, the location is normally decided on the basis of project requirements. The selection of the project should be made in the basis of promoter's background and inclination.
- 5) **Counseling services:** For selecting a suitable project, different sources like government agencies i.e Entrepreneurship development centers, Small industries service institute, Technical consultancy organizations. Credit and financial institutions, Non government agencies i.e Chamber of Commerce and industry, Inter-institutional groups, Technical consultancy organizations and International collaborations are providing very useful counseling services to the entrepreneurs.

**8. Problems faced by entrepreneur in Project Identification:** While identifying the project, an entrepreneur has faced many problems. These can be classifying into two categories as internal and external problems.

1. **Internal problems:** Internal problems arise due to the restrictions or management system which will ultimately be responsible for the implementation of a project. These are as follows:
  - (a) **Trusting on outside consultants:** In order to prepare feasibility report in the formulation of their projects, an entrepreneur has to trust outside consultants. Inability in the form of preparing feasibility report is a major problem in the early implementation of project.
  - (b) **Project goals and objectives:** Generally objectives of the project are decided by top management personnel and management team is not much involved with the determination of project objectives. So this is another major problem for the project team to achieve the unrealistic objective which is formulated by the top management.
  - (c) **Cost constraints:** Every entrepreneur cannot develop project management systems, organization structure, network analysis and other elements within the budgeted cost and time schedule for early implementation of project.
  - (d) **Resources constraints:** Availability of resources that is both physical and non-physical resources is the major problems for the entrepreneurs when the project is in progress. Physical resources include finance, manpower, facilities and inventories and the non-physical resources include patents, secret processes, unique experience and skills.
2. **External problems:** External problems include project environment comprising things, people and situation outside a project. It also include the size, nature, location, extent of the project constitute the environment of the project, government policies and the state of capital market.

- (a) **Non-compliance to the socio-economic objectives:** Factors like size, nature, location and the extent of the project shall create a problem for the entrepreneurs when the project does not comply with the socio-economic objectives of the economy.
- (b) **Troublesome procedure of finance:** Financial institution and banks are the major important external source to the entrepreneurs for financing their projects. Complicated procedures and documentation system of financial institutions and banks make delay in getting financial sanctioning for their projects. Scarcity of funds is the main problem for the entrepreneurs while implementing the projects timely.
- (c) **Government policies and regulations:** While implementing the projects, government policies and rules-regulations are another major hurdle for the entrepreneurs. Delay is taking place in getting approval for licence, foreign collaboration, Control of Capital Issues clearance, environmental clearance, foreign exchange permit, capital goods approval and import goods clearance.

**9. Summary:** Project identification is concerned with the collection of data, compilation and analysis of economic data for the eventual purpose of locating possible opportunities for investment and development. So project identification is finding out business opportunities which are feasible and promising. In order to grab the opportunities, first of all, environment is to be analyzed for perceiving the opportunities available and after that proper identification of opportunities, it has to be done in the given environment. The next step is to select the best from the available. A wide variety of sources should be tapped to identify best opportunities. Identifying a new project is not an easy job because the success of a project depends upon the idea of a project. There are different sources and methods which help to develop a wide range of ideas such as performance of existing industries, price trends, availability of raw material and skilled labour, government policies and guidelines, new technological developments, trade fairs, unfulfilled psychological needs etc. While identifying the project, an entrepreneur faces many problems. These problems may be internal problems like trusting on outside consultants, project goals and objectives, cost constraints, resources constraints etc. and external problems like troublesome procedure of finance, government policies and regulations etc.