

FACTORS THAT DETERMINE THE VIABILITY OF VENTURES ECONOMIC ANALYSIS AND ITS FINANCIAL IMPACT

¹VICTOR GABRIEL AVALOS PEÑAFIEL,²CARLA SOFÍA ARGUELLO GUADALUPE,³VIVIANA CATALINA SOLÍS MOREJÓN,⁴MARÍA FERNANDA BAQUERO TAPIA

¹Escuela Superior Politécnica de Chimborazo

Email: victor.avalos@epoch.edu.ec

<https://orcid.org/0000-0001-8278-7991>

²Escuela Superior Politécnica de Chimborazo.

Email: c_arguello@epoch.edu.ec

<https://orcid.org/0000-0003-2102-4290>

³Universidad Estatal Amazónica

ORCID: <https://orcid.org/0000-0003-1560-9444>

Email: vsolis@uea.edu.ec

⁴Escuela Superior Politécnica de Chimborazo

Email: mbaquero@epoch.edu.ec

<https://orcid.org/0000-0003-3331-528X>

Abstract: *The proposal allows to determine that the enterprises contribute to economic development, the present study will allow building a concerted process with the contribution of the capacities and citizen rights in territorial and political-administrative spheres, it will cover the construction of planning units, strategy design and development projects based on local resources, needs and initiatives. This process incorporates the dynamics of sectoral, functional and territorial development, which are undertaken by the State, social organizations and private companies in the territory.*

The ventures are of integral form; that is, it incorporates in the design of its plans the set of dimensions present in the territory: social, economic, environmental. For this reason, initiating local development projects must allow economic growth, political democracy and social progress to be fostered, so that sustainable human development can be achieved. It is a process that will promote the local government in alliance with other agents, with the purpose of expanding the local economic base, accumulating and capitalizing its surpluses, strengthening the economic fabric and generating the development of a competitive environment, which enables the development of companies, the generation of local employment and fight effectively against poverty.

Keywords: *Economic and Administrative Sciences, Feasibility Project, Economic Development, Entrepreneurship.*

INTRODUCTION

To know about possible proposals for entrepreneurship it is essential to know the concept of LOCAL ECONOMIC DEVELOPMENT according to Francisco Albuquerque who states "It is a process reactivating the economy and energizing local society, which through the efficient use of endogenous resources (internal) existing in a certain area, is able to stimulate its economic growth, create jobs and improve the quality of life of the local community."

With the execution of the proposal it is intended to improve the quality of life of the population of the territory through the implementation of joint actions that help generate employment, strengthen micro and small productive units, associations, technological innovation, cooperation networks, marketing networks, training of human resources and that leads to the economic growth of the population.



The Local Economic Development approach promotes a management in which enterprises must develop economic alternatives that allow them to transcend the traditional competences that associate them with entities merely providing services (cleaning, slaughterhouses, market administration, construction of infrastructure or road and social equipment).) to assume a role of promoters of the integral development and revitalization of their economies.

Project concept

A project is the search for an intelligent solution to the approach of a problem, which tends to solve a human need. In this sense there may be different ideas, investments of different amounts, technology and methodologies with different approaches, but all of them aimed at satisfying the needs of the human being in all its facets, such as: education, food, health, environment, culture, etc. (Baca U, 2010, p. 2)

Importance of project development

The execution of productive projects is the engine of the development of a region or country, which is why the objectives of regional, national and international financial institutions are to allocate resources to finance investments that contribute to their economic growth and social benefits. (Padilla, 2011, p. 5)

Types of projects

There are different types of projects, each aimed at solving certain barriers to development, and has specific costs and benefits associated with it, as follows:

- Dependent
- Independent
- Mutually exclusive
- Productive
- Economic infrastructure
- Social infrastructure
- Private investment projects
- Public investment projects.
- Social investment projects
- Creation of new business units or companies
- Changes to existing business units
- Infrastructure projects
- Social or governmental capacity building projects (Padilla C, 2011, pp. 5-15)

Investment project

An investment project is a technical and economic proposal to solve a problem of society using the human, material and technological resources available, through a written document that includes a series of studies that allow the investor to know if it is viable to carry it out. (Padilla C, 2011, p. 2)

Feasibility study

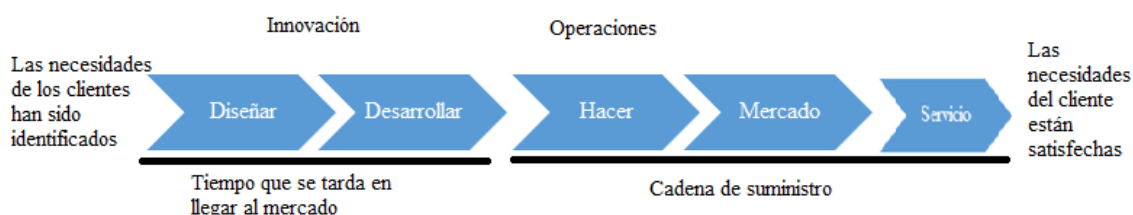
According to Sapag (2011) states that "The feasibility study is an instrument that serves to guide decision-making in the evaluation of a project". (page 20)

Project life cycle

The life cycle of an investment project begins with a problem originated in a need, to which a coherent solution must be sought, generally, investment projects go through four major phases: pre-investment, investment operation, and evaluation of results. (Padilla C, 2011, p. 2)



Graph No. 1: Internal Process Value Chain Perspective



Fuente: Kaplan & Norton , (2000)

Prepared by: The Authors

Studies that make up an investment project

- Market research
- Technician study
- Administrative - legal study
- Financial study
- Economic evaluation.
- Environmental assessment(Lara, 2011, pp. 19-20)

Market research

The name of market research refers to the first part of the formal research of the study. It consists of the determination and quantification of demand and supply, the analysis of prices and the study of marketing. (Baca U, 2010, p. 7)

Market definition

According (2011) to Lara, "the market is the physical or virtual place where buyers called demanders and sellers called bidders meet, to carry out transactions of purchase and sale of goods and services that satisfy needs" (p.29).

Demand

According to Lara " (2011) es the sum of the acquisitions of a good or service by natural and / or legal persons, to meet their needs" (pag.31)

Market segmentation

It is to determine the characteristics (age, sex, race, location, income) of the markets and divide them into several variables. It is one of the marketing tools that allows us to perform an analysis of the market, where, a heterogeneous universe, is divided into groups with at least one homogeneous characteristic. Example: Ecuadorian women living in cities of more than 1 million people, aged between 15 and 49. (Lara, 2011, p.48)

Offer

According to Baca " (2010) Supply is the quantity of goods or services that a certain number of suppliers (producers) are willing to make available to the market at a given price" (p.41).

Determination of unmet potential demand

It is the quantity of goods or services that the market is likely to consume in future years, on which it has been determined that no current producer will be able to satisfy if the conditions under which the calculation was made prevail. (Baca U, 2010, p. 43)

Financial study

The economic and financial study specifies the resource needs to be invested, with details of the amounts and dates for the various items indicated, their form of financing (own contribution and credits) and estimates of income and expenses for the useful life period of the project. The economic and financial study allows to establish the resources demanded by the project, the income and expenses that it will generate and the way it will be financed. (Padilla C, 2011, p. 186)

Investments of a project

Investments are all expenses that are made per unit of time to acquire the productive factors (labor, raw materials and productive capital and others), necessary to implement the production



process of the good or service, the same that will generate benefits, in the period established as the useful life of the project. (Lara, 2011, p. 163)

Fixed or tangible investment

according to Lara (2011) states that "they are all kinds of investments made in tangible and durable goods for the operation and during the useful life of the project" (pag.164)., so we have purchase of land, construction of physical works, purchase of machinery, equipment, apparatus, instruments, tools, furniture, appliances and vehicles.

Deferred or intangible investments

According to Padilla (2011) states that "Intangible assets refer to the set of assets owned by the company, necessary for operation, and include preliminary research, study expenses, acquisition of rights, invention patents, etc." (p. 192).

Initial working capital

Accounting is defined as the difference between current assets and current liabilities, is represented by the additional capital necessary for the operation of a company, that is, the financial means necessary for the first production while income is received: raw materials, wages and salaries, accounts receivable, warehouse of finished products and a minimum cash necessary to cover the daily expenses of the company. (Padilla C, 2011, p. 192)

Total investment

Here an adequate presentation of the financial information must be made, taking into account the realization of a calculation of the costs corresponding to the fixed investment, the deferred investment and the working capital necessary for the installation and operation of the project. (Padilla C, 2011, p. 192)

Project costs

According to Lara (2011) states that "costs are all those expenditures of money that must be made in a project in the production process of a good or service" (pag.177).

Project expenses

According to Lara (2011) states that "They are all the expenditures that are made in a project and that do not belong to the production processes, but as an element of support to it, and also for the distribution and commercialization of the same" (pag.183).

Administrative expenditure

They are all the expenditures that are made in the normal operation of the project and refer to all those that are identified with the project management processes. This means taking into account the expenses of planning, control, evaluation, other. Among these types of expenses we have: personnel contracted services, fiscal and municipal taxes, fines and interest, maintenance and repairs, insurance, amortizations, rent, general expenses, commissions, fees, others. (Lara, 2011, p. 184)

Selling expenses

They are all the expenses that are destined to the process of selling the goods and services produced by the activities of the project that is carried out in the normal operation of the same. It comprises the following sub-accounts: sales planning and scheduling costs, promotion, sales administration, advertising, advertising, marketing, shipping and shipping, claims, customer service, commissions to sellers. (Lara, 2011, p. 188)

Financial expenses

According to Córdova (2011) states that "it contemplates those interests that originate in the financing of the company's investments and the deficit results during the useful life of the project" (pag.203).

Depreciation

According to Lara (2011) states that "it is the loss of the added value of fixed assets that suffer from their useful life, due to their normal wear and tear, due to their use in the production process of a project" (p.193).



Revenue

According to Lara (2011) states that "They are the inflows of money that the project has, mainly for the normal activities of its operations and sometimes for other activities" (p197).

Operating income: income produced by normal project activities

Non-operating income: are those produced by non-operational activities of the project and generally are; Interest earned on investments of a financial nature, sales of fixed assets through the value of the rescue. (Lara, 2011, p. 198)

Break-even point

According to Baca (2010) states that "The break-even point is the level of production at which sales revenues are exactly equal to the sum of fixed and variable costs" (p. 148).

Projected cash flow

According to Padilla (2011) states that "It is a financial statement that measures cash movements, excluding those operations that, such as depreciation and amortization, constitute an outflow of money." (page 210)

Initial balance sheet

According to Lara (2011) states that "It is important to establish an initial balance sheet projected to the first year of life of the project, as well as the income statement, although not indispensable" (pag.213).

Income statement

The purpose of the profit and loss analysis is to calculate the net profit and net cash flows of the project, which are, in general, the actual profit of the operation of the plant, and which are obtained by subtracting from the income all costs incurred by the plant and the taxes it must pay. This definition is not very complete, since it will have to be clarified that income can be prevented from external and internal sources and not only from the sale of products. (Baca U, 2010, p. 150)

Financial evaluation

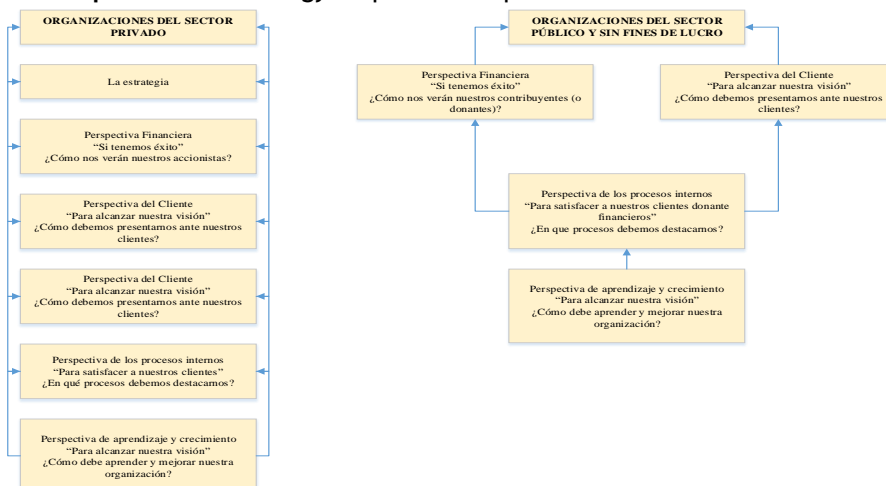
This type of evaluation measures the degree of return on investment at market prices. It is the most common in all projects and is often confused with economic evaluation. Financial evaluation is carried out specifically in private investment projects. (Lara, 2011, p. 240)

Opportunity cost

The opportunity cost is the cost of the alternative that we give up when we make a certain decision, including the benefits we could have obtained if we had chosen the alternative option. Therefore, the opportunity cost are those resources that we stop perceiving or that represent a cost for the fact of not having chosen the best possible alternative, when you have limited resources (usually money and time). The term opportunity cost is also referred to as "the value of the best option not selected. (Pedrosa, 2017)

1.1.1. Strategy Map

Graphic N° 2: Strategy maps: the simple model of value creation





Fuente: Kaplan & Norton, (2004)

Prepared by: The Authors

Net present value (NPV)

According to Lara (2011) states that "It is the algebraic sum of the total investment with a negative sign, plus the flows of each year, but updated at a reference rate" (pag.143)

According to Lara (2011) in another definition it says that " the NPV is the monetary value that results from subtracting the sum of the discounted flows from the initial investment". (p.143)

Internal rate of return

It is the rate that turns the NPV to zero, this means that the totality of the updated positive flows are exactly equal to the totality of the updated negative flows, which means that it is the highest rate that investors can pay without losing their money. (Lara, 2011, p. 252)

Cost-benefit ratio

According to Lara (2011) states that "It is the ratio between all the updated cash income of the project divided for the updated cash expenditures including investment. This indicator is used to measure the success of the project" (p. 255).

According to Lara (2011) in another conceptualization states that "The benefit-cost ratio is the quotient between the discounted flows and the initial investment, unlike the NPV instead of subtracting or adding the investment flows makes a quotient, therefore, this indicator is a number" (p. 255).

Payback period

According to Padilla (2011) states that "the PRI It is an instrument that allows measuring the period of time required for the net cash flows of an investment to recover their initial cost or investment." (Padilla C, 2011, p. 234)

DISCUSSION

After the analysis of the results obtained and applying the methodology and the theoretical framework described in the research, it is possible to determine the variables, potentialities and axes that allow successful ventures and economic development.

Matrix of potentialities

The applied research technique allowed to determine several problems and potentialities that local actors, representatives of public and private institutions have for the economic component.

Table 1: Potential Matrix Economic Axis

Economic		
Variables	Potential	Problems
Labor and Employment	Availabilityof skilled labour	Little industrial development. Suppliers of services and raw materials, without added value. Professionals trained in the city migrate to find better job opportunities. Non-compliance of companies for the application of the law on labor inclusion
Production structure	Diagnosis of primary needs throughout the country.	Absence of public policy and economic development resolutions
Relationship between economic sectors	Leverage possibilities for the primary and secondary sectors.	Weak productive chain between sectors with excessive concentration of income in a single sector.



Main economic activities	Incorporation of added value to the primary sector, through agro-industry, technology development.	Estrechos profit margins.
Economic-productive establishments	There is a considerable base of commercial establishments, which should incorporate local products into their offer.	Little industrial development
Productive factors	Most agricultural production units facilitate development	Raise productivity.
Food security and sovereignty	The population is still fed with products from the area such as organic products.	Organic and agroecological production for certification.
National Strategic Projects	Business Center	National strategic projects.
Production support infrastructure	Being the capital of the province, Riobamba becomes the center of collection and commercialization of all kinds of products.	There is infrastructure for marketing (wholesale market, city markets, squares) however there is a lack of infrastructure.
Capital markets and finance	There is a wide variety of financing options for various strata and market segments, such as cooperatives, public banking and private banking.	There is a high concentration of credit in the commercial sector and very few options for entrepreneurs and businessmen.

Source: Field Research
 Prepared by: The Authors

SWOT FOR ENTERPRISE DEVELOPMENT

To know the strengths, weaknesses, threats and opportunities, it is necessary to know the relevant aspects in economic development.

Table 2: SWOT Matrix

	STRENGTHS	WEAKNESSES
1.-	Strategic alliances with the public and private sector	Technological Lag Compared to Other Cities
2.-	Implementation of local initiatives through the GAD's.	Lack of sources of employment



3.-	Abundant supply of human capital	Ecological and cultural awareness in citizenship.
4.-	Have economic vocations such as: agriculture, livestock, tourism, construction, logistics and transportation, manufacturing	Lack of public policies for the benefit of the community
	OPPORTUNITIES	THREATS
1.-	Political will to generate and implement new projects	Political interference in decision-making
2.-	Technological advances through academia	Insufficient injection of resources by the Central Government
3.-	International agreements for internships and training	Abandonment of Cultural Identity
4.-	Presence of various local and national industries	Existence of competitiveness with other cities in the country

Source: Field Research

Prepared by: The Authors

The strategies will be articulated as the main axis in Economic Development is constituted in the main tool and guide for the Public, Private, Financial and Academy sector, it is necessary to carry out the articulation with the actors of change that are responsible for promoting this process and these are both public and private, and are basically summarized in the local authorities, universities, business chambers, training centers, local development agencies, banks, cooperatives and others.

These actors of change are important and that they go through these processes of generation of trust that would enhance their actions., among the actors of change of the Public, Private, Academy, NGOs, Financial Institutions, Institutes we have: Decentralized Autonomous Government, Ministry of Industries and Productivity, Ministry of Agriculture, Livestock, Aquaculture and Fisheries, National Institute of Popular and Solidarity Economy; Regulatory Agency for Sanitary Control, Agrocalidad, private actors: the Chambers of Small Industry, Commerce, Academia: Higher Education Institutions, the ONGs, Financial Institutions.

Below, the strategic axes for the development of enterprises that contribute to economic development are detailed.

Table 3: Strategic axes for the development of enterprises

STRATEGIC AXES	DRIVING PLANS, PROGRAMMES AND PROJECTS	OBJECTIVE
1.- Industry and Innovation Program	1.- Storage centers, and agri-food value aggregator, and dairy products.	Leverage the agri-food and derivative productive sectors trying to avoid the fall in prices and competitiveness of the area.
	2.- Industrialization Plan	Repotencialize the industry by encouraging the development and processing of new products.
	3.- Promotion of manufacturing	Develop and empower the primary and secondary



		sectors to generate a source of export products and domestic consumption with high added value.
2.- Local production and responsible consumption program	4.- Study of the main production chains	Determine production chains as a basis for the development of new ventures
	5.- Linkage of urban-rural tourism products.	Promote tourism projects in the canton by promoting urban-rural tourist transit.
	6.- Campaign of responsible consumption of products	Promote the consumption of products from the area through a promotional campaign aimed at raising awareness of its benefits.
3.- Program to promote human capital	7.- Training program for the different actors of the economy	Implement learning techniques and application of social and solidarity development in the actors of the economy
	8.- Productive innovation program for technical and technological strengthening	Insert and incorporate technological development in production chains
	9.- Employment opportunities	Generate new forms and modes of sustainable employment over time as a tool that allows visualizing the needs of human capital for different commercial - economic activities.
	10.- Economic Observatory	Determine a research center that allows obtaining inputs of statistical data from the local, regional and national sector.
	11.- Development bank and entrepreneurship promoter	Develop existing ideas and entrepreneurship so that economic actors can arrange a range of investment and development projects.
	12.- Promotion and marketing of products through fairs, electronic catalog.	Know the range of products, their benefits and potentialities through new marketing systems
4.- Public policies/ Environmental economic sustainability	13.- Tourism	Integrate all actors for the development of tourism by promoting tourist facilities, facilities and public policies



		of sustainability.
	14.- Tax and non-tax incentive policies for the productive sector	Encourage the economic development of enterprises and businesses
5.- Public-private partnerships	15.- Investment project for technological innovation in production chains.	Promote investment in technological innovation by promoting the systematization and automation of production processes to optimize yields.
	17.- Strengthening exhibition spaces	Strengthen the exhibition centers for the continuous promotion of new products by putting them in the showcase of the community and turning them into a convention center.
	18.- Business Center	Concentrating financial and public services in an industrial zone to interrelate the development of the productive sector

Source: Field Research

Prepared by: The Authors

CONCLUSIONS

Economic Development is one of the issues that requires a total change in the approach and strategies proposed, since despite the intervention of the local government and several NGOs present in the territory for several years, it has not yet been possible to consolidate a culture of entrepreneurship or business and industrial development. Although there are serious limitations mainly in relation to the capital needed to promote business ideas, there is also the absence of a permanent strategy that allows results in the medium and long term.

Currently there are initiatives of the productive sectors based on associativity and agreements between members of economic organizations, however, it is necessary to promote the training of entrepreneurs, the generation of conditions of legal security and promotion of new investments, mainly through policies that attract companies, without tax charges and with facilities in the provision of services to promote an adequate environment for economic development productive. Coordination and articulation with other levels of government is vital, as well as private actors and governments of municipalities and provinces with whom pacts must be established to favor regional growth, based on complementarity and not competition.

Economic development strategies are mainly linked to strategies for changing the productive matrix. Unfortunately in the canton, no potential areas are identified for prioritized chains and products such as metallurgy, mining, hydrocarbons, however, there are other sectors that can be potentiated, especially primary production developed by the actors of the popular and solidarity economy and tourism.

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