Chapter 1
Project Initiation: Investment Analysis for Sustainable Development

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ABSTRACT

The consideration of Sustainable Development (SD) becomes more and more important for investments and the projects which implement those investments. In the project initiation process, the decision regarding the realization of an investment is made. Analyzing the investment is one of the main tasks of the project initiation process. Thus, this process is identified as most important for the integration of SD principles. The authors define SD with the following principles: economic, ecologic, and social-orientation; short, mid, and long term orientation as well as local, regional, and global-orientation. Furthermore, SD is value-based and considers values such as transparency, fairness, trust, etc. In this chapter, the authors describe the concept of responsible and ethical investment, which may also provide the basis for an investment decision within a project’s initiation. While global project and program management standards show very limited consideration of comprehensive investment analysis, the authors draw on the Logical Framework Approach used by the World Bank to see how SD principles are considered in investment analysis methods. They then propose the integration of SD principles into the discipline of project initiation. This more holistic approach considers the investment life cycle, the consideration of different stakeholders, and investment method, which explicitly integrates SD principles.

INTRODUCTION

The Brundtland Report defines Sustainable Development (SD) as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development 1987: 41). The challenge lays in operationalizing the meaning of SD for projects which are per definition temporary and only of short to mid-term duration, while SD is long term oriented.
The long term perspective can be brought into projects, when considering the investment initiated by the project. Gareis et al. (2013) propose that the highest potential of influence to consider SD in a project is taken in the project initiation process, when the investment decision is taken. Thus it is essential that SD principles are considered in the investment analysis to take an adequate decision and to contribute to the SD of the investor’s organization and other relevant stakeholders.

In the context of project management, process related rather than content related definitions of SD are of relevance, therefore we consider the SD principles (Gareis et al. 2013) economic, ecologic and social-orientation; short, mid and long term-orientation; local, regional and global-orientation as well as values-based as those principles relevant for SD in the initiation of a project.1

We analyzed project and program management standards such as PMBOK® Guide, the Standard for Program Management (both Project Management Institute 2008a), PRINCE 2, Managing Successful Programmes (both Office of Government Commerce 2009) as well as ICB (International Project Management Association 2006) for their explicit and implicit consideration of SD principles in the investment analysis. We found little evidence of considering SD principles, therefore we turned to the Logical Framework Approach (LFA) (Norad 1999; The World Bank 1997), used by the World Bank, to see what we can learn from the initiation of development projects regarding investment analysis.

Typical investment analysis methods only focus on economic aspects, and are therefore rather limited. We discuss different investment analysis methods such as business case analysis, cost benefit analysis, social cost benefit analysis as well as the environmental impact analysis and see how SD principles are considered.

Based on the concept of responsible investment and what we could learn from the initiation of development projects, we propose a more holistic project investment analysis which considers SD principles. We argue that it is not enough to consider SD principles only in the investment analysis itself, but also the consideration of different stakeholder perspectives in the investment decision is essential.

This chapter is structured as following. First, we clarify the term investment as well as responsible and ethical investment. Then we discuss the difference between project and investment and introduce the project initiation process and important investment analysis methods. After briefly presenting our analyses results of project and program management standards, we more describe the LFA and analyze how SD principles are considered in the initiation of development projects. Then we indicate potentials to implement SD principles in the investment life cycle and propose a more holistic approach of project initiation, which considers the investment method as well as the design of the initiation process of a project.

INVESTMENT AND PROJECT

Investment

Different definitions of the term investment exist. Traditionally, the finance sectors defines investments very narrowly as “the purchase of a financial product or other item of value with an expectation of favorable future returns. In general terms, investment means the use of money in the hope of making more money (Webfinance 2010). The business sector describes it as the purchase or development of a product or service with the hope of improving future business (Investorwords 2011). Investments are characterized by a number of payments and can be perceived as long-term investigation in real assets e.g. investments in buildings, machines and also in customer relationships or products (Gareis 2005). Organizations invest in objects because they expect the financial returns from the investment to be greater than the money they invested initially (Mills/Turner 1995: 3).
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