

# Impact of Project Cost Control on the Financial Performance of the Nigerian Construction Industry: A Qualitative Approach

Abani Joseph Alu , Taiwo Adewale Muritala , Frank Alaba Ogedengbe , Nasamu Gambo ,  
May Ifeoma Nwoye 

Department of Business Administration, Faculty of Management Sciences, Nile University of Nigeria, Abuja, Nigeria

Email: alujoseph1@yahoo.com, muritala.adewale@nileuniversity.edu.ng, frank.ogedengbe@nileuniversity.edu.ng,  
nasamu.gambo@nileuniversity.edu.ng, ifeoma.nwoye@nileuniversity.edu.ng

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## Abstract

The success of any construction project largely depends on the ability to manage project costs effectively. However, cost control in the Nigerian construction industry is characterized by numerous issues such as inadequate planning, poor communication, lack of accountability, and corruption. This conceptual review aims to examine the current state of project cost control in the Nigerian construction industry, identify the key factors affecting cost control, and provide insights into possible solutions to these challenges. The Nigerian construction industry has been plagued with cost overruns, delays, and poor project performance, which have led to a significant waste of resources and financial loss. The findings of this review will be useful to stakeholders in the construction industry, including project managers, policymakers, and researchers, and will help to improve the cost management practices in the Nigerian construction industry. The study reveals that ineffective cost control strategies, poor project planning, and inadequate monitoring and control systems are major issues affecting project cost control in Nigeria. The review also highlights the need for a shift towards more proactive and integrated cost control approaches, as well as the adoption of emerging technologies in project cost control. Ultimately, this study provides valuable insights into the challenges faced by project managers in controlling project costs in the Nigerian construction industry and offers recommendations for improving project cost control practices.

## Keywords

Project, Cost Control, Financial Performance, Nigeria, Construction Industry

## 1. Introduction

In order to finish projects on schedule and within budget, cost control is an essential component of project management in the construction sector. Cost management methods are still being developed in the building business in Nigeria, as they are in many other developing nations. This has caused project delays, cost overruns, and low-quality results. Therefore, effective project cost control is essential for the sustained expansion of Nigeria's construction industry. This essay examines project cost control in the Nigerian construction industry, highlighting challenges and possible solutions. The subject of project cost controls in the Nigerian construction industry has never received enough attention. Controlling project costs would aid in keeping them from becoming overly capital heavy, which could result in the project being abandoned, during the course of project execution. Every project must have its cost examined and the whole cost from beginning to end indicated in order to avoid unforeseen contingency expenditures that could impede the project's effective completion. Cost control includes all aspects of cost, work accomplishment, and time monitoring. If the entire cost of a project at a given point exceeds the cost baseline, cost management strategies could be needed. Examples of these project management practices include alerting stakeholders to potential cost overruns or making ensuring that only tasks that are allowed under the project's scope are carried out. A project manager must identify and report these issues straight away for the sake of professionalism and ethics.

To meet financial goals and save costs, organizations, whether they are privately or publicly owned, must finish projects on time and under budget (Ogunmakinde, Sher, & Maund, 2019). Project managers can ensure that projects stay within their anticipated budgets or are permitted to exceed budgets for specific reasons in a controlled way by effectively implementing cost management measures. When a company adopts sufficient project cost controls, risk is reduced and the full benefits of project completion are realized (Ebekozien, 2020). Egwunatum, Anumudu, Eze, & Awodele (2021) assert that controlling expenses entails sticking to a budget that is based on cost projections. The work scope and the cost of each accomplished task make up these estimates' two main parts. The project's needs are outlined in the project plan, which you must then translate into actions. A normal activity needs people, supplies, and tools. Using information from prior projects, bids, industry norms, and historical costs as a starting point, you can estimate cost after defining the project scope in terms of activities and dissecting each activity into its cost components.

According to Odeyinka and Yusif (2019), the Nigerian construction industry has been experiencing a significant increase in construction activities, which has led to a rise in project costs. This increase in project costs has been attributed to various factors, such as the lack of adequate planning, poor cost control practices, and corruption.

Significant cost overruns and delays in the Nigerian construction sector have

resulted in subpar results and impeded the sector's sustainable growth (Odeyinka & Yusif, 2019). One of the main causes of these problems has been recognized as the absence of efficient project cost control procedures (Adeleke & Owolabi, 2019). Poor performance, increased waste, and dissatisfied stakeholders are the results of the limited implementation of best practices for project cost control in Nigeria (Odeyinka & Yusif, 2019). Corruption, poor planning, and a lack of qualified staff are a few reasons that make the issue worse (Adeleke & Owolabi, 2019). Therefore, it is crucial to look at the difficulties project managers experience while adopting efficient cost control procedures in the Nigerian construction sector and provide strategies to overcome these difficulties. There is major worry over the rise in the number of projects that are being started, abandoned, or only partially completed by people, businesses, and even the government. This high rate of abandonment has inflicted our infrastructural development negatively and may have dissuaded prospective investors from investing in our economy (Omopariola, Windapo, Edwards, & Thwala, 2019).

The expansion and development of the Nigerian economy are significantly influenced by the building sector. However, the business has struggled with cost overruns, delays, and subpar results, which have hurt its viability. It is well known that effective project cost management is essential for enhancing industrial performance and guaranteeing long-term prosperity. Therefore, the goal of this study is to examine the challenges project managers face while implementing effective project cost management methods and to make recommendations for how to deal with those challenges. This study's importance stems from its potential to support the long-term growth of the construction sector in Nigeria. This study can help shape the policies and strategies that support the development and growth of the sector by highlighting the difficulties and potential for improving project cost management techniques. The results of this study may be useful to other developing countries with comparable problems with project cost control in the construction sector (Ogunmakinde, Sher, & Maund, 2019).

## 2. Literature Review

In recent years, the Nigerian construction sector has experienced substantial expansion and development, with a rise in building activity driving up project costs. However, the business now frequently deals with problems like cost overruns, delays, and subpar results, which shows a lack of efficient project cost control procedures. This has prompted the need to examine the challenges faced by project managers in implementing effective cost control practices and propose solutions to mitigate these challenges (Yap & Skitmore, 2020). The study's significance is underscored by the fact that the Nigerian construction industry is critical to the country's development, accounting for a significant share of the gross domestic product (GDP) and providing employment opportunities for many Nigerians (Aje & Fadamiro, 2020). The cost overruns and delays in the industry have not only impacted the industry's performance but also the country's eco-

conomic growth and development (**Table 1**).

**Table 1.** Selection of articles (Source: Author, 2023).

Articles Selected from Databases	Assessing Suitability of Article
Elsevier	✓ Using keywords on the journal webpage to check for availability.
Springer	✓ Assessing suitability by going through literature reviews and introduction sections of articles to determine suitability for crude oil prices and production.
Wiley	
Emerald	

**Keywords:** Project, Cost Control, Financial Performance, Nigeria, Construction Industry.

The link between time and cost, according to [Chavare & Saharkar \(2019\)](#), is a crucial factor in the management of costs on-site because every difference in time has an inherent impact on cost. All site-related work including supplies, equipment, and personnel needs to be reported and documented. By comparing them to the initial cost budget, the contractor can determine the costs and expenses of the resources employed on the job site. The use of numerous report-writing procedures, such as daily, weekly, and monthly recording, schedule control, daily job-site diaries, and project budgets, is standard procedure (**Table 2**).

**Table 2.** Number of articles selected from databases, 2017-2023 (Source: Author, 2023).

Dimensions of Project Cost Control	Number of Articles Selected	% Increase in Publication
Cost Value Reconciliation	32	20.3
The Cost of the Project	18	11.29
Cost Forecasting	16	13.52
Schedule Management	32	20.3
Earned Value Analysis	26	18.36
Variance Analysis	21	16.2

### 3. Methodology

The method used in the study is qualitative review. It is critical to emphasize that in order to put decisions made for planning, regulating, and establishing competitive strategies into practice, it is vital to balance this component with other competition-related elements like quality and time. In order to do the most work feasible at a specific level of quality when there are unknowns and uncertainty, it is required to control spending through a structured process of budget development, monitoring, and modification ([Mohd Sofberi, 2021](#)). The Project Management Institute states that the cost of the resources needed to carry out project activities is the main goal of cost management, which includes estimating, budgeting, and cost control techniques. Cost management, however, requires more

than just monitoring expenses and generating cost reports; it also necessitates understanding the reasons behind prices and acting quickly in response to any relevant information. Cost management and control are essential for the building sector to maintain its competitiveness.

### 3.1. Dimensions of Project Cost Control

Project cost control is a critical aspect of project management that ensures that a project is completed within the allocated budget. It involves monitoring and managing project expenses throughout the project lifecycle to prevent cost overruns and ensure that the project's financial objectives are met (Onubi et al., 2022). Effective cost control requires the use of various techniques, including budget monitoring, cost-benefit analysis, risk management, and change management. In recent years, the dimensions of project cost control have become increasingly important as organizations seek to improve project performance and optimize resources. According to a recent study by PMI (Project Management Institute), 43% of organizations report that they experience cost overruns on more than half of their projects, and these overruns have a significant impact on project outcomes. Furthermore, the study found that effective cost control can result in a 28% improvement in project performance, including an increase in profitability, customer satisfaction, and on-time delivery.

To achieve effective cost control, project managers must have a comprehensive understanding of the dimensions of project cost control and the tools and techniques available to manage costs. This includes understanding how to develop accurate project budgets, identify and manage risks that could impact costs, track and analyze project costs, and implement cost-saving measures when necessary. Additionally, project managers must be able to communicate project cost performance effectively to stakeholders, including clients, sponsors, and team members, to ensure that everyone is aligned with project financial objectives (Ifeanyi & Adindu, 2023).

The relationship between project cost control and financial performance of the construction industry in Nigeria is significant, as effective cost control practices can have a positive impact on financial performance. The implementation of cost control measures can lead to improved project performance and profitability (Kaming et al., 2022). When project cost control is effectively implemented, it can prevent cost overruns, which can negatively affect a project's financial performance. Cost overruns are a significant issue in the construction industry, and they can result in lower profitability, decreased stakeholder satisfaction, and reputational damage (Gao & Goodrum, 2022).

On the other hand, effective project cost control can lead to improved financial performance by increasing project profitability. The implementation of cost control measures can lead to increased profitability, particularly when combined with effective project management practices (Al-Tmeemy et al., 2022). Additionally, effective project cost control can improve cash flow, which is essential for the finan-

cial performance of construction firms. According to Kumar and Varghese (2022), effective cost control practices can help to ensure that project cash flows are managed effectively, thereby improving a firm's overall financial performance.

Figure 1 represents The independent variables—cost valuation reconciliation, project cost, cost forecasting, schedule management, earned value analysis, and variance analysis—significantly impact financial performance indicators like return on assets (ROA), return on equity (ROE), profitability ratios, and liquidity ratios. Accurate cost valuation and forecasting, effective schedule management, and robust earned value and variance analysis help in managing costs, ensuring timely project completion, and enhancing financial reporting. This leads to improved profitability, better asset utilization, and stronger liquidity, ultimately enhancing ROA, ROE, and overall financial health of the organization (see Figure 1).

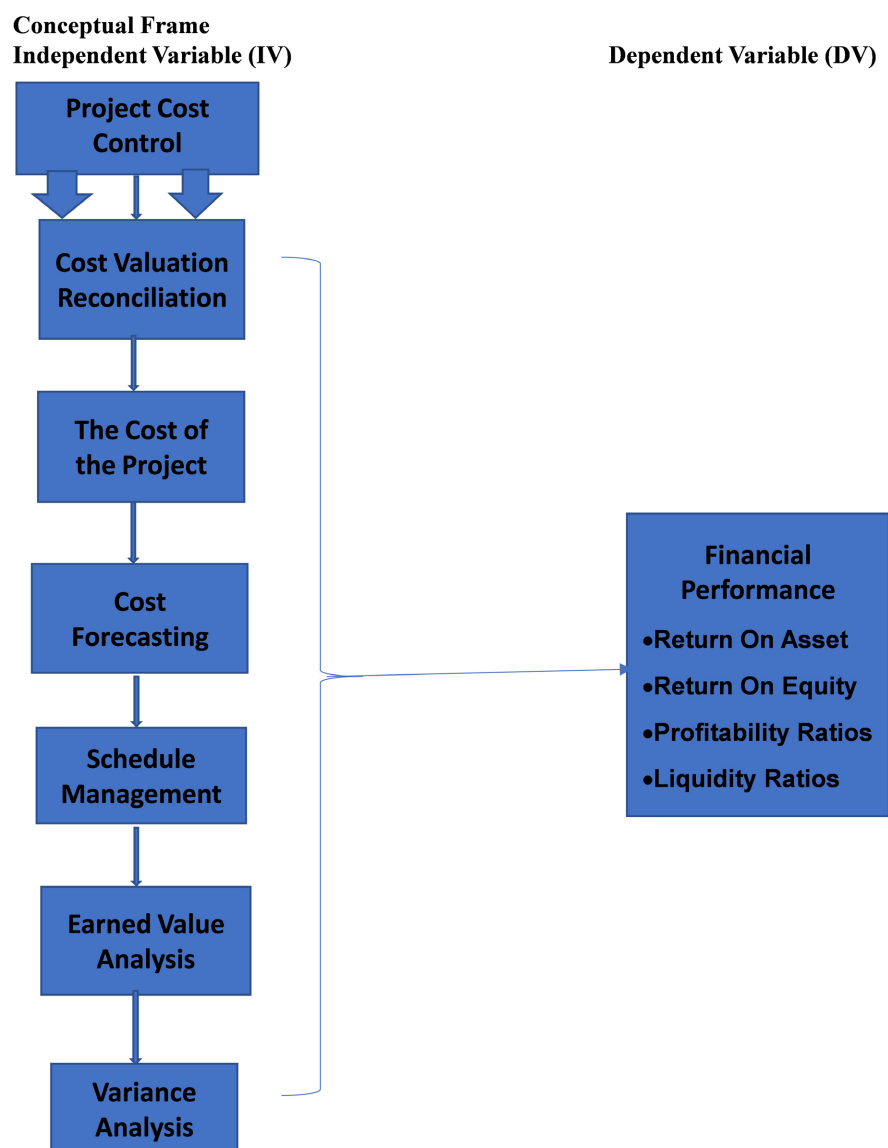


Figure 1. Impact of the independent variable on the dependent variable.

### 3.2. Cost Value Reconciliation

The practice of consistently determining and publicizing a construction project's profitability is called cost value reconciliation (CVR). By comparing the costs and the revenue at a particular date, it is possible to determine the difference between the cumulative profit or loss on the project. According to Okoroh & Ezeokoli (2017), the use of cost value reconciliation (CVR) in the subcontracting construction sector is regarded as a crucial component of cost management for the financial control of building projects. Nevertheless, despite its benefits, subcontracting companies frequently do not make extensive use of it. This is typically because small and medium company subcontractors are thought to lack the resources, money, and technical know-how to implement the technique (Igwe, Mohamed, Dzahir, Yusof, & Khiyon, 2020).

### 3.3. The Cost of the Project

The construction plan and the related cash flow predictions can be used as a foundation for later project monitoring and control to control costs. One can track the success of timetables by comparing the progress of individual tasks to the project timetable and the achievement of milestone completions. The standards for determining and ensuring the requisite degree of building quality are laid forth in the contract and task requirements. Starting from the final or detailed cost estimate, the project's financial performance will be assessed. As long as costs don't exceed the precise cost estimate, the project is regarded as being under financial control. The nature of and hints at possible problems are revealed by overruns in specific spending categories.

### 3.4. Cost Forecasting

It is insufficient to just take into account a project's historical record of costs and receipts for the objectives of project management and control. The future revenues, costs, and technology difficulties should be the focus of outstanding managers. Traditional financial accounting models fall short in this regard because they fail to capture the project's dynamic nature. Accounts usually place a heavy emphasis on documenting recent and ongoing activity-related expenses (Choi & Miller, 2021). Sunk expenditures are out-of-pocket expenses that cannot be changed and may or may not be relevant in the future. For instance, after completing an activity, it can be found that the effort was ineffective because of a quality problem.

### 3.5. Schedule Management

Along with expense control, project managers must pay particular attention to timetable monitoring. Because construction frequently involves a deadline for task completion, contractual agreements will require taking schedules into mind. In a broader sense, additional costs result from delayed development, facility uti-

lization, or other events. Similar to how real prices are contrasted with budgeted expenses, real activity durations may be compared to anticipated durations. Calculating the time necessary to complete specific tasks during this procedure could be essential.

### 3.6. Earned Value Analysis

Performance can be evaluated by looking at earned value. Earned value is a program management technique that uses “work in progress” to indicate what will happen to work in the future. Earned Value surpasses the performance indicators used in traditional accounting. Traditional approaches place a strong emphasis on actual expenses and expected accomplishments (expenditure) (Adetunji et al., 2019). It goes one step further in Earned Value by focusing on actual accomplishment. As a result, managers are better able to identify potential risk areas. With a clearer view, managers may create risk mitigation strategies based on the task’s actual cost, timing, and technological advancement. The “early warning” feature of this program/project management tool enables managers to identify problems and take action before they become unmanageable (Unegbu et al., 2022).

### 3.7. Variance Analysis

As a technique for budgetary control, variance analysis evaluates performance by comparing planned, budgeted, or standard quantities to the actual quantity purchased or sold. A variance analysis could focus on both expenses and income (Samsudin et al., 2022). The gap (or variation) between actual costs and the allowed standard expenses for a desirable result is typically explained using variance analysis. The variation in material costs, for instance, can be divided into a variation in material price and a variation in material utilization.

## 4. Conclusion

Given the multiple difficulties that frequently develop during project implementation, project cost control is an essential component of the Nigerian construction sector. The Nigerian economy greatly benefits from the construction sector, which is also essential to the country’s infrastructure growth. Therefore, it is crucial to use efficient project cost control systems to guarantee that construction projects are finished on time, within budget, and with the desired level of quality (Alawag et al., 2023). Numerous cost-control strategies that can be used on building projects in Nigeria have been highlighted in this conceptual overview. These methods include, among others, cost planning, value engineering, cost monitoring, and control. In addition, the assessment has stressed how crucial good project management techniques, strong communication, and stakeholder involvement are to getting the job done and controlling cost (Osuizugbo, et al., 2022).

Okafor et al. (2021) argues that despite the fact that corruption, a lack of data,

and finance continue to make it difficult for the Nigerian construction sector to implement cost control measures, it is critical that industry stakeholders continue to explore for fresh ideas and innovative ways to advance cost control practices. Improved project performance, higher stakeholder satisfaction, and long-term economic growth in Nigeria are all possible outcomes of efficient project cost control.

The deficiency of the study is as discussed below:

- **Temporal Analysis and Long-Term Impact:** A temporal analysis that looks at the course of financial performance in the Nigerian construction industry over multiple years may be helpful for the current study. This shortcoming emphasizes the necessity to determine whether the long-term benefits of project cost management are sustained or if there are variations in financial performance after the project is finished.
- **External Economic Influences:** The failure to take into account external economic factors on the relationship between project cost control and financial performance is a significant weakness. This characteristic allows researchers to investigate how cost control initiatives interact with economic cycles, inflation rates, and other macroeconomic factors, affecting the financial outcomes of the sector.
- **Qualitative Insights from Non-Financial Stakeholders:** The current study's emphasis on financial measurements could be a drawback. Incorporating qualitative input from non-financial stakeholders, such as project workers, local communities, and environmental specialists, is one way to address this deficiency. This strategy might highlight complex effects that go beyond financial performance, such as social, environmental, and ethical aspects.

## Recommendations

The following suggestions are put up to enhance project cost control in the construction industry in Nigeria based on the conceptual assessment of project cost management:

1) **Create a thorough project cost control plan:** A thorough cost control plan should be created that details the project's financial goals, cost estimation methods, and cost management measures. To make sure that everyone is aware of their roles and responsibilities in project cost management, this strategy should be explained to all stakeholders, including the project team, contractors, and suppliers.

2) **Create a risk management strategy:** To identify and address project risks that could have an influence on project cost, a risk management plan should be created. In order to ensure that risks are successfully controlled, this plan should be incorporated into the project cost control plan.

3) **Make sure the project team has the required training and expertise:** It is crucial to guarantee that the project team has the knowledge and expertise needed to successfully apply cost control strategies. The project team should receive

training on cost control strategies, and they should be able to monitor project costs using cutting-edge project management tools.

4) Utilize cutting-edge project management software: To monitor project costs and spot potential cost overruns, cutting-edge project management software should be used. This program should be used to regularly check project costs to make sure they stay within the project budget.

5) Monitoring project costs on a regular basis will help to guarantee that they stay within the project's budget. This will make it easier to spot any cost overruns.

By putting these suggestions into practice, the Nigerian construction sector will be better able to control project costs, leading to successful project completion on time and under budget.

### Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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