

Project cost management

[Business](#), [Management](#)



Heerkens (2006, pp 75) states that " Cost is probably the single most important (and concept) in the entire field of business". This illustrates the importance of cost management in projects. PMI (2004) states that project cost management include the processes involved in planning, estimating, budgeting and controlling cost. This is to ensure that the project can be completed within the approved budget. It is therefore involved in the various phases of the project life cycle. From the early stages of project planning, cost management involves cost estimating.

A detail cost estimate will give an organization a more accurate portrayal of the actual and expected project cost, which forms the baseline budget from which all actual expenditure will be measured (Cleland / Ireland, 2007).

Accurate estimates are preferred, but it is inbuilt with uncertainty. Accuracy is improved with greater effort and it will cost money (Gray / Larson, 2002).

When time phased, cost estimates will become a budget, it is then possible to control the project (Gray / Larson, 2002). It forms the base against which the project will be controlled (Frigenti & Comminos, 2002).

This would enable the project to be measured and monitored for any variance from the planned value and actual cost. These measurements will result in two variance values: cost variance and schedule variance (Wysocki & McGary, 2003). These two values can be converted to efficiency indicators to relate cost and schedule performance of the project (PMI, 2004). To ensure the delivery of a quality project, it is required to address the stakeholder expectation with regards to the different views from different stakeholder. However, quality is often mixed with grade. PMI (2004) note that quality and grade are not the same.

While low quality is always a problem, low grade may not be. The PM and project team are responsible for determining and delivering the required levels of both quality and grade. The use of recognized international standards for some stakeholders which view quality from the process perspective would be required. It allows the stakeholder greater confidence in the transaction. One such example would be the emission standard of the car that conforms to international standards. The benefit of attainment of the required quality through the implementation of a quality approach, the organization can gain from various benefits.

It includes reduced cost, increased sales, increased customer loyalty, increased competitiveness, increase profitability and improved employee morale (Munroe-Faure, 1992). From these benefits, reduced cost and employee morale can be regarded as the core benefits (Reid, 1999). These core benefits highlight the importance of internal factors with regards to quality. In summary, in order to meet the project (customer) requirement, the project manager must incorporate sound quality management practices (Wysoki & McGary, 2003). Communications management involves managing the process of information flow to and from stakeholders.

As discussed previously, there are many different stakeholders, each with differing roles, interests, priorities, and agendas. In addition there are many types of information some of which needs to go between different stakeholders at different times and frequencies, possibly using different mechanisms. The project manager's role is not to try to control all these differing flows, but to influence project communications to the benefit of the

project. A project is unique, introducing change, complex and finite (PMBOK 2004), being so it there will be uncertainties and therefore being subjected to risk.

Risks may threaten the success of the project and must be dealt with proper risk management forming an integral part of Project Management. After forming the Project Team, the team will need to conduct risk management planning, identify risk - causes, events and effects, evaluate and analyze, make the necessary responses to mitigate or control the known risk. Even by doing so, there will always be residual risk and these must be continually monitored. Under risk management, it is necessary to apply corrective actions after analyzing the risk. These actions are:

Risk avoidance: where a deemed risk is a high probability and high consequence
Risk reduction: for a high probability situation and reducing the damages should it happen; such as placing flammables in a storage away from the main work site, should there be a fire at least it is contained and damage can be reduced
Risk transfer: to transfer risk by contracting out a certain part of the work or buying insurance
Risk Retention: apply when low cost and low probability of it happening, or when the risk have been reduced.
Sometimes risk is retained due to alternative methods may be too costly