### THE IMPACT OF BUDGETING AND BUDGETARY CONTROL IN CONSTRUCTION PROJECT DELIVERY IN NIGERIA

**Abstract**

The study intends to investigate the impact of budgeting and budgetary control in construction project delivery in Nigeria. The purpose is to specifically identify the major causes of budgeting and budget control practices in by quantity surveyors in the construction companies in owerri using megastar technical and Construction Company Ltd, Aleed Construction Company, Anasami Construction Nig Ltd, Sametech Construction and C &C Construction Co. Ltd as case study. It is to determine the impact of poor budgetary implementation in construction companies and offer useful and meaningful suggestions for improving on the identified problems based on the findings. The study was carried out for the five companies. The researcher made use of primary and secondary sources of data. The primary sources with respect to this study include the various management staff of the companies and the account staff of the companies selected. Information obtained from these people were by asking face to face questions and recording their responses, then questionnaires were also administered to them for more response. A statistical approach (taro Yemen) was used in determining both the sample size and the proportion of the sample. Then the researcher used simple percentage and chi-square analysis to analyze the data collected. The study revealed the types of cost control techniques are frequently used by contractors in construction projects, the problems faced in the construction companies and how budget control and budgeting help during construction project. Recommendations were made based on the findings. The researcher recommended that there should be timely release of budget so as not to disrupt smooth operations of the companies. There should be an efficient monitoring of how the budget is implemented in the companies. It was also recommended that all quantity surveyors of the companies should understand how a budget is implemented in the companies. The management of the companies were also advised to motivate quantity surveyors by encouraging them through incentives and benefits in order to achieve the objectives of the organization.

**Abstract**

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**Chapter One**

**Introduction**

**1.1 Background of the study**

It is a known fact that the Nigerian construction industry continues to occupy an important position in the nation’s economy even though it contributes less than the manufacturing or other service industries, (Aibinu and Jagboro, 2002). The contribution of the construction industry to national economic growth necessitates improved efficiency in the industry by means of cost effectiveness and timeliness, and would certainly contribute to cost savings for the country as a whole. It is also common knowledge that the implementation of the construction project in the industry is usually accompanied with time delay and cost increase as well as owner dissatisfaction (Hafez, 2001).

In general most (if not all), construction projects experience time delays and cost overruns during their implementation phase (Koushki and Kartam,2004). Numerous researchers, both in the developed and developing nations have also examined and identified the causes of time and cost overrun in the construction industry. Mansfield, Ugwu and Doran (1994), for example performed a comprehensive analysis of most important factors responsible for project delays and cost overrun in Nigerian construction projects. This analysis indicated poor contract management, financing and payment of completed works, change in site conditions, shortages of materials, design changes, subcontractors and nominated suppliers, other factors were price fluctuation inaccurate estimates, delays and additional works as factors responsible for project delays and cost overrun.

A comprehensive classification of causes of construction delays has also been determined by Henesy (1993). The classification system included materials, labour, equipment and financial constraints, as the main contributory variable to causes of construction time overrun. The list of major factors causing construction delay in Thailand by Ogunlana and Proumkunting (1996) included the inadequacy of resources supplies, client and consultant shortcomings and incompetence. Koushki and Kartan (2004) studied the impact of construction materials on project time and cost in Kuwait and identified the project related variable affecting the on time delivery of materials as material selection, time, type of materials and their availability in the local market.

Time impacts are inevitable on construction projects, primarily because of the uniqueness of each project and the limited resources of time and money that can be spent on planning, executing and delivering the project.

Time factors are inherent in all of project construction’s undertakings. Construction projects have long been recognized as particularly cost, time and risk-laden. Some of the time and cost factors associated with the construction process are fairly predictable or identifiable; others may be totally unforeseen. The constructed project may not perform as anticipated because the owner may have unrealistic expectations regarding the delivery time of construction forcing contractors into unrealistic gambles, corner-cutting or commitments that may not be realistic (Frimpong 2003).

Project success can be defined as meeting goals and objectives as prescribed in the project plan. A successful project means that the project has accomplished its technical performance, maintained its schedule, and remained within budgetary costs. Project management tools and techniques play an important role in the effective management of a project. Therefore, a good project management lies in the management tools and techniques used to manage the project. Project management involves managing the resources—workers, machines, money, materials and methods used. Some projects are effectively and efficiently managed while others are mismanaged, incurring much delay and cost overruns and negatively affecting the economy (Frimpong 2003).

Assessing construction projects’ delivery time is critical in today’s market-driven economy.

**1.2 Statement of the problem**

Construction can be considered as a dynamic industry which is constantly facing uncertainties. These uncertainties and the many stakeholders in these kinds of projects, make the management of costs difficult which consequently causes cost overruns. Therefore, cost overruns are considered one of the most critical issues during the execution of construction projects (Chan, et al., 2004; Doloi, 2011).

As mentioned by Van Der Westhuizen and Fitzgerald (2005), the presence of cost overruns can be a reason for project delays or possible project failures. However this idea has been refuted by many authors who considered that project success depends on many other factors that should be assessed to conclude the success or failure of a project (Chan, et al., 2004). Moreover, there have been many studies that suggest that the success of a project depends on the presence of certain critical factors which can also change depending on the objective to be met (Iyer and Jha, 2005). In other words, some authors ascertained that there are some critical success factors that help to improve cost performance and prevent cost overruns.

**1.3 Objectives of the study**

The main aim of the study is to examine various cost control techniques used in construction projects and the impact they have on project delivery. Specific objectives of the study are:

· To identify cost control technique frequently used by contractors in construction projects.

· To examine problems encountered by contractors in managing construction project cost.

· To determine the impact of cost control techniques on the duration of construction projects.

**1.4 Research questions**

In-order to guide the study and achieve the above stated research objectives; the following research questions were formulated:

· What cost control techniques are frequently used by contractors in construction projects?

· What are the problems faced by contractors in controlling cost in the construction project process?

· What impact does cost controlling techniques have on the duration of construction projects?

**1.5** **Significance of the study**

This study will be of importance to building professionals and the general public because it would not only clarify but also create awareness of the extent to which inadequacies in cost control techniques can adversely affect project performance. The study will also help contractors, clients, consultants and all parties involved in construction projects about ways of improving their current method of cost management and control.

The study will also be of great benefit for other student researchers’ who may want to venture into the same subject matter. Having gotten results-both empirically and theoretically, the study will serve as a foundation for future research studies.

**1.6 Scope of the study**

The study will cover some selected quantity surveyors from Owerri. All findings and recommendations from the study may not reflect the true view of the traditional roles and changing roles of quantity surveyors as the researcher could not cover a wider area due to financial and time constraints.

**1.7 Definition of terms**

**Construction:** In the fields of architecture and civil engineering, construction is a process that consists of the building or assembling of infrastructure. Far from being a single activity, large scale construction is a feat of human multitasking. Normally, the job is managed by a project manager and supervised by a construction manager, design engineer, construction engineer or project architect

**Deliverable:** Deliverable is a term used in project management to describe a tangible or intangible object produced as a result of the project that is intended to be delivered to a customer (either internal or external). A deliverable could be a report, a document, a server upgrade or any other building block of an overall project.

**Project management:** this is the discipline of planning, organizing, motivating, and controlling resources to achieve specific goals. A project is a temporary endeavour with a defined beginning and end (usually time-constrained, and often constrained by funding or deliverables), undertaken to meet unique goals and objectives, typically to bring about beneficial change or added value.

**Time:** This is a dimension in which events can be ordered from the past through the present into the future, and also the measure of durations of events and the intervals between them.

**Cost:** A cost is the value of money that has been used up to produce something, and hence is not available for use anymore. In business, the cost may be one of acquisition, in which case the amount of money expended to acquire it is counted as cost.

**Cost overrun:** occurs when the final cost of the project exceeds the original contract value at the time of completion.

Good cost performance project: Project in which the cost overrun of the project does not exceed 10 percent of the initial budget.

**Poor cost performance project:** Project in which the cost overrun of the project exceeds 10 percent of the initial budget.

**Chapter two**

**Literature review**

**2.1 Conceptual framework**

**2.1.1 Concept of Budgeting and Budgetary Control**

There is a consensus among authors that, in order to avert business failure, an enterprise must have a vision of where it wants to be in near feature and accordingly draws up a strategic business plan.

In order to attain the set business objectives of the enterprise, these long term plan are further broken down into detailed step by step procedures. The end result of this planning is to minimize cost and maximize profit, which is also a benchmark for judging management performance profit planning in the short term, which is generally carved out of an agreed or signed-off budget. A.W will more is of the view that budgeting is a service function and that budgets do not replace management and also observes that planning goes from top down where budget formulation flows from bottom to up.

Isaac Reynolds agree with wills more but noted that "budget planning is the key to survival in today highly technical and competitive environment and that failure to plan results, for many firms in a business failure that might have been avoided by profit planning. Reynolds also listed the outcome of the reliability to establish and use a formal budget structure as follows;

i. Lost sales due to under production. ii. Excessive inventory costs due to over productions. iii. Excessive personnel turnover. iv. General lack of control over the outcome of business operations in terms of profit.

J.F Weston (1978) and E.F Brigham are in agreement with Reynolds (1984). But are guides to submit that the budget is not a means of limiting expenditure. Rather, it is a method to improve operations, a tool for obtaining the most productive and profitable uses of the companies resources through careful planning and controlling.

Hingren and Foster (1988) agreed that the budget is not a penny-pinching device. They also agreed with the views expressed by other authors that budget is an aid to co-ordination and implantation. They went further to say that well managed organizations usually have the following budget cycle:

i. Planning the performance of the organization as well as its units. The entire management term agrees as to what is expected.

ii. Providing a frame of reference, a set of specific expectation against which actual result can be measured.

iii. Investigating variance form plans, corrective action follows investigation. iv. Planning again, considering feedback and charged conditions.

According to Chika Agu (2006) in the case study of 'budgeting and budgetary Control in Business organization,' "Budgetary control, is the use of the budget as an instrument for the guidance of business operations. In that case, budgets serve as a yardstick for executive control of operation, to determine the extent to which planned goals and objectives are being attained and to arrest off-line drifts on "time". While agreeing that budgetary control follows budget preparation, lucky opined that budgets require not only top managerial support but that control is assisted as well by "participation of budgets holders into the investigation of solution to the problems which arise".

In reference to Chika Agu in the case study of 'budgeting and budgetary Control in Business Organization, B.C Osisioma, agrees with the above views but stated that budgets fulfil two basic requirements in the overall control process.

 Feed forward: To provide a basis for control at the point of action, that is at the decision point.

 Feedback: To provide a basis for measurement of the effectiveness of central after the point of action.

Control, they say promotes efficiency and reduces waste. It can do according to S. Modetola Odeleye, (1991) "ensuring that corrective actions taken where necessary and possibly, to bridge the gap between the budget and the actual performance" and to review unrealistic budgets.

There is no opposing view to the assertion made by Brown and Howard (1975) that is budgetary control enables management by exception because management attention is concentrated only on those areas of the operations that do not work according to plan.

**2.1**.**2** **THE ROLES OF BUDGETING**

 Budgeting serve multiple functions and offer variety of information to the over all operations of business enterprise.

Katz (1975:453) opined that “budgeting reports serve a reliable means of communication, where the top management can inform the manager of the goals of the firm that it expects him to fulfill.

Moreover, Lucy (1989:321) was of the view that “the whole process of budget preparation and subsequent performance evaluation by budgetary control needs to be carried out so as to motivate managers rather than create resentment and adverse reactions”.

Smith, et al (1983) stressed on the role of budget in motivating employees, when he said that the careful use if budgeting reports directly contribute towards effective motivation by expressing goals and by supplying knowledge of performance. This implies budget report of performance has a direct effect on motivation, since it gives the departmental managers as well as other employees the knowledge of their performance. However, study has shown that decentralization of responsibilities in an organization facilitates the budgeting system, whereby the lower and the middle management are involved in the preparation of budgets provides conducive atmosphere for effective motivation. Therefore budgets are used to raise the employees level of aspiration thereby increase their levels of performance, rather than informing them of goals and decisions.

 As to the contribution of budgets to the growth of an organization, a question may be asked; in what specific way do budgets make management actions more efficient and effective in maximizing the present values of the owners net worth? To this question, Anthou H.R et al (1957:49) has the following suggestions,” a budget system enables management more effectively to plan, coordinate, control and evaluate the activities of the business”. By using budgets to coordinate activities, the organization is more likely to operate at an optimal level given the constraints on its resources.

The control and decision making consequences are among the more important aspect of budgeting. Budget implicitly incorporates control at the point of decision since budget provides relevant information to a decision maker at the time he has to choose between alternatives.

 More often, the comparison between budgets and the actual, reveals discrepancies. The investigation of such variances and the resulting control procedures tends to device methods to reduce costs, improvement in the firms efficiency, and better future planning.

Summarily, the roles of budgeting in construction companies can be outlined as follows;

a. It helps to regulate all the activities and functions of all the departments of the organization thereby making its economic goal attainment visible.

b. Budgetary information provide management with bases for formation of economic polices

c. To raise money. This has been described as the classical role of budget Nwankwo, G.D (1982). In this sense, the budget is simply a way of finding or raising enough money to meet the projected expenditures of the organization.

d. It enables the management to take an overall view of the company knowing which department that needs special attention.

e. It is a means of setting control in expenditure for each department of the company.

**2.1.3 PROBLEMS OF BUDGETARY IMPLEMENTATION**

 Numerous problems militate against an efficient budget implementation. Benneth (1975:23) was of the view that “statute differences, or more accurately role conflict between budget staff and line personnel, are an important source of unfunctional consequences of a budgetary system.”

This implies that the basic problem of budgetary implementation arises from differences in the way budget staff and line personnel understand the budgeting system. Line employees see budgets as merely emphasizing history, being too rigid, unrealities, unattainable and ambiguous. The budget staff are seen as over-concerned with figures, unconcerned with line problems and cut-off by a language of their own (i.e presenting complicated format). These problems would affect the effectiveness of budget system directly and indirectly through their effects on communication, motivation and participation.

 In another development, under the volatiles conditions in which they work, managers often lack up-to-date information on which to base their decisions. There is always a time lag involved in the process of preparing and approving estimates of proposed expenditures in most companies. This time lag matters less in a stable economy where factors affecting budgetary decisions change more slowly.

Another important problem of budgetary implementation is the unrestricted transfer of found from once category of expenditure to another. Lewis (1967:28) opined that “the characteristics of the African financial environment and the many changes that takes places after the budget has been approved.”

Also another problem that budget implementation encounters is that of instability. It might be political, social or economical. Political or economic instability pose a serious threat to budgetary implementation. Ibru (1998), opined that “where instability and uncertainty prevails, budgets are often in a flux”.

In summary, lateness in finalization of the budget, budget crowding, uncertainly in revenue flow, high costs leading to job delays, opacity in the tendering process, lack of implementation programme and the absence of any definite and measurable objectives or targets set out for budget implementation are among the problems of budgetary implementation in construction companies.

 **2.1.4 THE MAJOR USES OF BUDGETARY CONTROL**

 The management of any company employs budgetary control for many purposes. Some of the purposes include:

1. To give management a timely signal as to the extent that actual achievements have deviated from the expected.

2. To give management a clue as to why these deviations have occurred.

3. To provide a basis for taking corrective action, including a justification for revising the budget if necessary.

4. To define organizational objectives in a manner that in both flexible and adaptive to both unexpected and anticipated changes, especially with respect to the volume of operations. In other words, it re-enforces wisdom that planning is the basis of control.

5. To serve as a model for the most efficient and effective utilization of organizational resources.

6. To make centralized authority more effective through a better process of

decentralization of responsibilities and activities of subordinates.

7. To provide the means through which the various activities of the organization are most effectively co-co-coordinated.

8. To provide a basis for evaluating the performance of subordinates, measuring their efficiency and ensuring that the internal pricing system (rewards and punishment) is working well.

9. Where units (products or cost Centre as the case may be) are concerned, it also enables standard costs to be used most effectively.

It is important to always bear in mind that standard setting is indispensable to the budgetary process as a whole, including the implementation and control aspects.

**2.1.5 Budget Education**

Budget holders at all times should know what is expected of them in the budgetary process and be prepared to defend it at any given time. The budget holders own the budget and they should revive a copy of the statement of budgeting premises, participate fully in budgeting and are informed of any revision made in the budget submitted to them. They are also entitled to receive a copy of the final approved budget. The employees on the other hand can be educated on the budget through seminars, conferences, lectures among others. Budget education motivates employee‟s commitment to a successful budgets implementation more especially where bonuses are tied to achieving a set budget target.

**2.1.6 Budgeting: Financial and Human resources**

According to McBain (1999), budgeting is not a substitute for effective decision making. Most budgets provide only for finances and specify where and how it should be spent, they do not provide for people (McBain, 1999). People think, perform, have competence, need finances to be sure; however without the people, finance alone is insufficient in arriving at an improved performance of any organization. In essence, managers should also look into human resource budgeting and see how improvement in this results would better performance.

In addition to being the managers‟ planning tool, budgeting is also one of the most effective tools of communication and integration. It shows how each part of the organization relates to the end needs of the whole. Budgeting therefore requires that the managers in charge of the whole and each person in charge of parts discuss the budget jointly in order to arrive at better result (Addedji A.O. 2004).

**2.1.7 Problems associated with budgeting and control**

Having reviewed the concepts „Budget‟ Budgeting‟ and „Control, which are key to this study, stating their purpose and importance, there is need to consider some of the problems that are associated with these concepts, so that organizations who seek to survive in complex economic environment will be familiar with these likely problems and apply necessary tools in by-passing them so as to experience improvement in the organizations performance.

To remain competitive, companies need to align their budgetary planning and control systems with the overall strategy. The following questions confront all top managers, as they formulate budgetary plans and allocate capital; which is better for a firm than investing outrageous amount of capital or scale back on capital investment. To reduce employment so as to raise the amount of assets at work per employee or elevate employment to meet the demands created by new investments? These questions become compelling as investors demand that operations consistently deliver shareholders value regardless of their long-term strategy for deploying human and financial capital. An important factor that distinguishes the winners from the losers in creating shareholders value is the equality in investment decisions, which in turn depends on the soundness of such budgetary planning and control system (Thaker, 1998) Unfortunately, many organizations make poor investment decisions from investing too little in positive Net Present Value (NPV) projects and much in negative NPV projects, resulting in investment myopia. Thaker (1998), noted that such distortions can distract companies from what they ought to do, causing them to sink millions of dollars in wrong products and ideas. For instance, coca-cola invested in pastes and wine, products for which its rate of return were not only below those of its soft drinks business, but also below its costs of capital. Such errors deplete shareholders value and lead to corporate control contests that result in chief executive officer replacements and hostile takeovers.

Boquist (1998) observe that companies continue to blunder and fail because they have flawed budgetary planning and control systems, which they apparently fail to recognized. Some firms sense weakness of their budgetary analysis but viewed them as individual problems rather than systematic deficiencies. They misdirect efforts and produce greater frustrations. As a result, corporate strategy and capital allocation become misaligned and remain so, despite disapproving financial performance. Boquist pointed out some of the drawbacks organizations encounter in the course of implementing budgetary planning and control systems. They are:

i. Lack of dynamic structure

Present day economic environment demands that organizations adapt new and instructor practices. Given the new competitive realities, there is need for management to embrace flexible and adaptable budgetary control system which has the ability to quickly respond to environmental changes and complexities. A good budgetary planning and control system must involve not only an analysis of capital allocation requests when the project is executed, but also an analysis of all capital needed to generate information such as market research, prior to investing in the project.

ii. Absence of connection between compensation and financial measures

Many companies adopt the NPV criterion in selecting a project but compensate managers based on product earning or rate of returns. This misaligns their interest with those of shareholders. The reason for misalignment between the compensation and budgetary allocation system is that the NPV cannot be used to determine compensation because it (NPV) is a stock/summary measure, based on projected cash flows and not on realized performance. Organizations are expected to adopt flow measure which is computed periodically, either quarterly or yearly as soon as they are realized.

iii. Lack of Integration

Most of capital, budgeting and expense budgeting are distinct processes, for instance, organizations that do practice capital budgeting make assumptions about the future cash flows that are dependent on certain advertising and sales promotion outlays. However, these are typically covered by the expense budget. Boquist noted that even in organizations in which the determination of the expense request is tied at the outset of capital request, the people approving the two requests do not necessarily try to ensure consistency between the two budgets. iv. Finance function not a strategic partner

Financial analyst doing budgetary planning is often seen as traffic caps than strategic partners. They often get into the budgetary process near the end, merely to rubber stamps a conclusion that a marketing or manufacturing executive realized earlier. Budgetary planning then becomes a mere exercise, rather than values that produced the desired result, consequently, the quality of information for budgetary planning and control are seriously compromised.

**2.1.8 SOLVING BEHAVIOURAL PROBLEMS IN BUDGETING**

(a) Motivation: Horngren (1996) defines motivation as the “need, some selected goal and the resulting drive that influence action towards the goal”, He suggested that motivation has two aspects:

i. Direction or goal congruence exists when managers working in their own best interest also are in harmony with the goals of top management (that is, the organization as a whole). It is very difficult to obtain the goal congruence in an organization. This is one of the essentially behavioural problems in budgeting. ii. (ii) Strength with getting subordinates to run rather than work towards the desired goal. Incentive improves the performance of employees and helps to reduce personal or departmental objective.

iii. Motivation helps to improve business results and eliminate misdirected or dysfunctional operation. Horngren argues that accounting system must be designed in such a way as to achieve a motivational response from its use, provided that the costs of providing such a system do not outweigh the expected results. He also acknowledges that human behaviour is inclined to damage the usefulness of formal accounting system.

(b) Participation: Participation by employees in budget setting and the encouragement of a human approach and man - management would remove the drawbacks to effective budgeting. All the operators of the budget should be fully involved in the preparation of the budget.

Participation leads to more positive attitude and higher performance.

Kenis (1979) reports a positive correlation of attitude and performance with participation, while scholars such as Bryan, Locke, Stedry and others, show a negative relationship between participation and performances.

Argyris (1952) on the other hand cautioned against the level of participation, as different organizations use the word participation to describe quite different activities. He suggested that the involvement of managers should be total, otherwise pseudo- participation could lead to counter-productive results.

(c) Goal Congruence: Goal congruence means alignment of individual interest of managers to the overall objective of an organization. This overall objective should not conflict with the individual or group objectives entirely but recognition must be given to the fact that organizational objectives cannot be set and implemented through budgeting without consideration of the interaction of individual group and departmental objectives.

Hopwood‟s (1976) emphasized that there are many problems in achieving goal

congruence because:

(I) There may be numerous objectives in one organization, some of which may

conflict.

(II) Different managers may perceive their objectives differently.

(III) Departmental rivalries.

(IV) Different and conflicting reward structures.

Other practical realities make perfect goal congruence extremely unlikely.

Efforts should be made to educate both top management and middle management on the importance of goal congruence.

(d) Management Support: Top management should be interested in the budgetary system in order to ensure that operating managers give the necessary cooperation. (e) Reporting System: Efforts should be made to isolate uncontrollable cost from controllable ones in order to have meaningful variances reporting system.

(1) Communicating: Communication should be adequate with the operating managers at all stages of the budgetary system.

**2.1.9 THE PURPOSE OF** **BUDGETING**

i. Communicate ideas and plans to everyone affected by them. A formal system is necessary to ensure that each person is aware of what he or she is supposed to be doing. Communication might be one-way, that is, with managers giving order to subordinates or there might be a two-way dialogue and exchange of ideas, between managers and subordinates.

ii. Coordinate the activities of different departments or sub-units of the organization. This concept of coordination implies, for example, that the purchasing department should base its budget on production requirements, and that the production budget [that is, direct labour budget and machinery utilization budgets, etc i should in turn be based on sales expectations. Although, straight forward in concept, co-ordination, in practice, is remarkably difficult to achieve, and this often leads to „sub-optimality‟ and conflict among departmental managers.

iii. Establish a system of control by having a plan against which actual results can be progressively compared and variances analysed for prompt attention and action. iv. Motivate employees to improve their performances. The level of attainment usually incorporated in the budget is a realistic figure for the budget period. Thornton:

(1978).

Thornton, (1978) suggests that two levels of attainment could be fixed:

(I) a “minimum expectations” budget, and (ii) a “desired standards” budget.

A budget is a means to an end, and not an end in itself. It is a short term plan that depicts the focus of a long term objective of the organization. It covers area of responsibility of one specified person, so that his performance can be measured at the end of a budget period. It follows that the budget should be prepared in conjunction with those who are to be responsible for achieving the budgeted performance. in this way, a head of department translates his goal in the budgets. This approach offers motivation to the managers. This technique, with its stress on personality, differs from standard costing, for the latter is concerned with standards for products or services.

**2.2.0 Theoretical Framework**

There are three theories that support budgetary control of firms namely the theory of budgeting, budgetary control model and accounting theory in budgetary control as discussed below:

**2.2.1 The Theory of Budgeting**

Hirst (1987) explains that an effective budgetary control solves an organization’s need to plan and consider how to confront future potential risks and opportunities by establishing an efficient system of control, a detector of variances between organizational objectives and performance (Shields and Young, 1993).Budgets are considered to be the core element of an efficient control process and consequently vital part to the umbrella concept of an effective budgetary control.

Budgets project future financial performance which enables evaluating the financial viability of a chosen strategy. In most organizations this process is formalized by preparing annual budgets and monitoring performance against budgets. Budgets are therefore merely a collection of plans and forecasts (Silva and Jayamaha, 2012).

They reflect the financial implication of business plans, identifying the amount, quantity and timing of resource needed (Shields and Young, 1993).The implementation of budgetary procedures. The establishment of short to medium-term objectives serves the purpose of providing estimates of future sales revenues and expenses, to provide short and long-term objectives for a coordinated management policy. Benchmarks for management and task controls are provided by comparing actual results with budgeted plans and to take corrective actions if necessary (Sharma, 2012).Budgets can further influence the behavior and decisions of employees by translating business objectives, and providing a benchmark against which to assess performance. Hancock (2009) even considered such operational planning as the backbone of management. During budget preparation procedures, consideration of alternative courses of action becomes an integral part and leads to increased rationality. A budget allows a goal, a standard of performance to be established with subsequent comparison of actual results with the created standard. It requires those involved to be forward looking rather than looking back (Scott, 2005). Budgets have therefore been identified as playing a number of roles which include making goals explicit, coding learning, facilitating control, and contracting with external parties (Selznick, 2008). Fisher exemplified this by “linking compensation to performance measures against the budget”, thereby making goals explicit, communicating goals and thereby coding learning and clarifying performance measures for individual employees of an organization (Goldstein, 2005).

**2.2.2 Budgetary Control Model**

In reference to Robinson and Last (2009), budgeting system is a tool used by the firm as a framework for their spending and revenue allocation. To ensure the firm’s resources are not wasted, the organization must be able to come out with an effective budgeting system. This is important as it ensure that the outputs produced and services delivered achieve the objectives. According to this theory, a good budgeting system must be able to addresses the efficiency and effectiveness of the organization’s expenditure. A good budget is determined by the level of income of the organization

(Robinson, 2009).

The organization has to put proper controls that ensure that the budget is properly maintained and allocated. A firm that is able to run its operations efficiently is able to allocate more revenues for the organization. This is achieved through cutting costs in order to increase the quality and quality of goods and service offered by the firm. However, if an organization has lesser income they might have to find a way to fund their estimated budget by borrowing and tax restructuring (Robinson and Last, 2009). That is why the budget is mostly regarded as the control of expenditure .As the total amount of the annual expenditure; the organization must not exceed the allocation of budget. In some countries for example Malaysia the budgeting process is done through a political process which is mainly done in the parliament. Budget is important not only as political tools but also as a pledge between the ruling organization and the public as their commitment to satisfy the need and demand of the people. Budget also can be used an indicator of the performance of the ruling government. It is a statement of whether they are competent in administering the organization and the national resources (Sawhill and Williamson, 2001). One of the models of budgeting system is Performance Based Budgeting System. According to Robinson and Last (2009), performance-based budgeting system (PBBS) aims to improve the efficiency and effectiveness of public expenditure. Unlike other budgeting system, PBBS use the resources to ensure that it can help in achieving the expected results and outcome based on the targeted area or planning. In simple words, the PBBS is seen as managing for results (Marc Robinson and Duncan Last, 2009).

Compared to the traditional budgeting system which focuses on the amount of inputs, performance based budgeting system focused more towards the outcome. As the organization spending stretches annually, it is important to understand the nature of spending of the organizations which is always being stated in the budget. It is therefore essential for the organization to understand it s budgeting system and give priority to urgent matters that require attention. In order to find out the relationship between the budgeting system and the organizational performance, it is important for the firm to determine the patterns of the expenditure of the organization and its performance (Phyrr, 1970).

**2.2.3 Accounting Theory in Budgetary Control**

Kaplan and Norton (1996) ,accounting theory is aimed towards provision of a coherent set of logical principles that form the general frame of reference for the evaluation and development of sound accounting practices and policy development. Otley and Pollanen (2000), the purpose in developing a theory of accounting is to establish standard for judging the acceptability of accounting methods. Procedures that meet the standard should be employed in practice of accounting. Horvath (2009) argues that the accounting methods that fail to meet the standard should be rejected. Accounting theory helps in explaining and guiding management actions in identifying and locating information necessary to be used in budget preparation. The money measurement concept in accounting has contributed to a greater extent in providing yardstick for quantifying, conversion and translating various inputs in relation to materials, and machines required in the preparation of budget (Horvath and Seiter, 2009).

Theory in accounting guide in the selection of principles and roles to be applied in particular circumstance. The accounting theory in budget control has come up with different models of analysis for example cost volume profit analysis and standard costing which serve as a standard setting in budgeting. Theory has an important normative role in the evaluation of budget and control procedures to be adopted. Theory has assisted in making predictions of the likely outcome of budget action in a given set of circumstance and effect of any change in circumstances. Horngren (2002) argues that accounting theory view a firm as a separate entity in which its activities are distinct from its owners. These principles serve as an impetus to the general philosophy of budget itself as a tool for effective management (Horngren, Forster and Dater, 1997).

Budget as a tool for standard setting and performance measurement utilize several accounting concept to a greater extent. Accounting theory has developed models in which standard can be set. Management accounting theory also provides several yardsticks to be used for control. That is variance analysis. Since budget is an instrument of plan. It provides a framework of given feed back to the management on the implementation of budget. When implementing the accounting theory historical data is instrumental since this data serve as an input for making forecast. The cost accounting theory developed by Wedgwood in early 20th century which stress on cost identification, allocation and revenue maximization has provide a basic insight and blue print in budget and control in organization. The matching concept in accounting also plays a role as reference issue in budget analysis (Hopwood, 1976).

**2.3 Empirical Review**

Sawabe (2015) studied Value-driven responsibility accounting - dynamic tensions generated by competing values embedded in the management control system in the context a Japanese manufacturing company and a consulting arm offshoot of the company’s planning office. Using Simons’ levers of control (LOC) framework, the researcher adopted a case study method to investigate the way in which core values affect the design and use of a responsibility accounting system, which in turn shape the challenges which operational managers face, and how such managers fulfill their responsibilities by delivering financial results while at the same time being faithful to the organization’s core values. The findings of the study suggested avenues for further research regarding the sources and nature of dynamic tensions generated and managed by the MCS.

Fowzia (2008) examined the use of responsibility accounting to measure the satisfaction levels of Service organizations in Bangladesh. The objectives of the study were to conceptualize the types of responsibility accounting system and responsibility accounting model, to assess the application level of different types of responsibility accounting system in various types of service organizations in Bangladesh, to examine whether the satisfaction level of the elements of responsibility accounting model regarding different types of service organizations in Bangladesh were same or not and to find out the influential elements on the overall satisfaction of responsibility accounting system in service organizations in Bangladesh. The findings indicate that satisfaction of overall responsibility accounting system is influenced by satisfaction of assignment of responsibility, performance measurement techniques and reward system.

Nawaiseh et al. (2014) carried out an empirical assessment of measuring the extent of implementing responsibility accounting rudiments in Jordanian Industrial Companies listed at Amman Stock Exchange. The objectives of the study were to identify the extent the Jordanian Industrial Companies fully implement responsibility accounting, to disclose the obstacles that may abstain of full implementation of responsibility accounting rudiments. The study recommended the necessity for public shareholding companies to give generally more interest to managerial accounting, specifically for responsibility accounting by recruiting professionals in accounting departments, particularly, CMAs.

Nyakuwanika et al. (2012) analyzed the effective responsibility accounting system strategies in the Zimbabwean Health Sector 2003-2011. The study set out to come up with strategies to ensure effective responsibility accounting system in the Ministry of Health and Child Welfare MOHCW in Mashonal and West Province of Zimbabwe. It was observed that departments were operating with mandated budgets and that planning and control were not integrated. In addition it was also observed that performance reports were being used to fix blame on management and that performance reports were not being distributed to sectional managers on a regular basis

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 Research Design**

This study adopted a Descriptive/simple survey research design. A survey research design according to Osuala (2001) centers on individual and their opinion, belief, motivation and behavior. The design was considered suitable since the study will solicit information from respondents of quantity surveyors in owerri, Imo state.

**3.2 POPULATION**

 The population of this study consisted of all the departments in the company. The following departments were used for the study. Accounts department, Operation department, department of Quantity Survey, Logistics department, Admin. Department, Business Development and Internal Audit department.

A total of ninety five staff spread across the departments of the company were used for the company were used for the study. This selection was randomly made.

**3.3 SOURCES OF DATA**

 In the course of the study, the researcher made use of two major sources of statistical data the primary and the secondary sources of data. The major primary sources with respects to this study include the company employees of all the departments including the management staff.

 The information from these people were obtained by asking oral face to face questions and recording their responses. The personal interview was carried out by the use of interview schedule-that is administering already prepared questions on respondents. The researcher also prepared a questionnaire containing well organized questions which was personally administered.

 In both, the researcher used structured and unstructured questions.

 The secondary sources of information used were the relevant textbooks,

Magazines, journals circulars, news-papers, statistical year books and annual report of the company.

**3.4 SAMPLING TECHNIQUES/ SIZE**

 This is concerned with the procedure used by the researcher in selecting population elements which were used to estimate population characteristics or parameters. The seven departments of the company under study were selected using random sampling. However, not every persons in the departments concerned were interviewed, rather some people considered more vital for the study were selected for interview, using proportional sampling technique.

 A statistical approach was used in determining both the sampling size and the proportion of the sample. The statistical used was the formula for determining a sample size from a heterogeneous population.

 n = N

Where: 1+N (e)2

n = sample size

N = populations size

I = the constant

e = level of significant

**TABLE 1**

**THE POPULATION PARAMETERS OF THE COMPANIES UNDER STUDY**

Name of Companies number of under study respondents

1. Megastar technical & Construction Co. Ltd 25
2. Aleed Construction Company 22
3. Anasami Construction Nig Ltd 30
4. Sametech Construction 23

 TOTAL 130

Applying the above formula for sample size determination.

Steps:

1. For the purpose of this study, the level of significance “e” will be 0.05 that is 95% confidence limit.

2. Substituting values into alphabetical variable.

N = 130 e = 0.05 n = ?

3. Substituting the above into the formula:

 n = N

 1+N(e)2

 n= 130

 1+130(0.05)2

 = 130 = 98

 1.325

 n = 98

 In determining the minimum number of respondents from each of the companies under study, BOWLEY‟S proportional allocation formula is applied thus:

Nh = n x Nh

 N

Where: nh = number of questionnaire allocated to each company

n = total sample size

Nh = number of staff in each department in the population

 N = the population size

Applying this formula, we obtain the following:

 1. FOR Megastar tech & Construction Co. Ltd

Nh = 98 x 25 = 19

 130

2. FOR ALEED CONSTRUCTION COMPANY

 Nh = 98 x 22 = 19

 130

3. FOR ANASAMI CONSTRUCTION NIG LTD

 Nh = 98 x 30 = 23 130

4. FOR SAMETCH CONSTRUCTION

 Nh = 98 x 23 = 17 130

5. FOR C & C CONSTRUCTION CO. LTD

 Nh = 98 x 30 = 23

 130

it is important to note here that

N = ∑ nh = nh1+nh2 +---+nh7

 = 19+16+23+17+23 = 98

 **3.5 METHOD OF INVESTIGATION**

 As for the data collection tools or instruments, the researcher prepared well organized questions that were administered to the respondents both orally and in the form of questionnaire

 An interview schedule was prepared and the questions were asked to some key respondents on a face to face basis.

 However, others were given the prepared questionnaire to fill, all aimed at obtaining the required information.

 The respondents interviewed include the executives and senior staff of the various departments of the company under study.

**3.6 METHOD OF DATA ANALYSIS**

To effectively analyze and interprete the findings of the study, the researcher considered the use of simple percentage and the chi-square analysis as appropriate statistical instruments.

The hypotheses formulated were tested one after the other and the results reported and discussed in details. However the interpretation of the data analysis depended upon the result obtained in each case.

**CHAPTER FOUR**

**DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

**4.1 PRESENTATION AND ANALYSIS OF DATA**

In this chapter, the data collected from the different respondents are analysed. In studying the impacts of poor budgetary implementation in Megastar Technical and Construction Company Limited, the researcher administered Ninety Five questionnaires, each of which was made up of ten questions, meant to collect information regarding the budgetary implementation strategies existing in the company concern.

Out of the Ninety-Five questionnaires administered, eighty were returned duly filled. The percentage of the numbers completed and returned was 84% (80/95 x 100), which for the purpose of this study is an acceptable percentage and enough for meaningful decision.

The analysis of this collected data was done in sections, thus; Section one deals with the analysis of the retrieved questionnaires. While in section two, the formulated hypothesis were tested and the major conclusions of the findings reported and explained in section three.

 However, the analysis of the data collected will be based on eighty questionnaires retrieved from respondents comprising the company executives, their budgeting and accounting employees/officers.

**4.1.1 ANALYSIS OF QUESTIONNAIRES**

**RESEARCH QUESTION ONE**

What cost control techniques are frequently used by contractors in construction projects?

***NOTE: For the purpose of this study and the tables given:***

1. = Details of responses.
2. = Percentage of respondents

**TABLE 4.1**

**Various cost control techniques frequently used by contractors in construction projects.**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **OPTIONS**  | **A**  | **B(%)**  |
| a.  | Budgetary control | 15  | 15.3  |
| b.  | Standard costing | 10  | 10.2  |
| c.  | Inventory control  | 25  | 25.5  |
| d.  | Ratio analysis  | 30  | 30.6  |
| e.  | Variance analysis | 18  | 18.4  |
|  | **TOTAL**  | **98**  | **100%**  |

 **Source: Survey Data, August, 2012**

From the response gathered regarding the positions held by the respondents and the various cost control techniques used by constructors in the construction company, the researcher believed that the information collected could be relied upon for necessary facts and decision making.

**QUESTION TWO**

What are the problems faced by contractors in controlling cost in the construction project process?

**TABLE 4.2**

**Respondent on the problems faced by contractors in controlling cost in the construction project process.**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **OPTIONS**  | **A**  | **B(%)**  |
| a.  | using obsolete methods and concepts | 30  | 30.6  |
| b.  | lack of knowledge on the use of available tools and technology | 40  | 40.8  |
| c.  | Overemphasizing on results while ignoring the cost control process. | 18  | 18.4  |
| d.  | Lack of project cost control processes and system suitable for the enterprise.  | 10  | 10.2  |
|  | **TOTAL**  | **98**  | **100%**  |

**Source: Survey Data, August, 2012**

From the above table, 30.6% of the respondents accepted that using obsolete methods and concepts are the problem of cost control in Construction Company, 40.8% accepted lack of knowledge on the use of available tools and technology, while 18.4% accepted Overemphasizing on results while ignoring the cost control process. Then 10.2% accepted Lack of project cost control processes and system suitable for the enterprise.

**QUESTION THREE**

What impact does cost controlling techniques have on the duration of construction projects?

**TABLE 4.3**

Response on impact of cost controlling techniques on the duration of construction projects**.**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **OPTIONS**  | **A**  | **B (%)**  |
| a.  | Cost reduction  | 30  | 30.6  |
| b.  | It ensures that a project's budget is on track and will be completed according to its planned scope. | 26  | 26.5  |
| c.  | It sets the baseline for project costs during construction project. | 22  | 22.5  |
| d.  | It maintain and grow profitability during the duration of construction. | 20  | 20.5  |
|  | **TOTAL**  | **80**  | **100%**  |

**Source: Survey Data, August, 2012**

From the above table it is clear that cost reduction, It ensures that a project's budget is on track and will be completed according to its planned scope, It sets the baseline for project costs during construction project and It maintain and grow profitability during the duration of construction are the impact of cost controlling techniques on the duration of construction projects for they have the higher percentages of 30.6%, 26.5% and 22.5% respectively.

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATIONS**

**5.1 SUMMARY**

Budgeting and budget control is very important in management decision making; its role in the contemporary business life of any organization cannot be over-emphasized. The budgetary procedure in megastar technical and Construction Company limited in Owerri has not been following the normal procedure to implement a budget. The study revealed that inadequacy or poor budgetary implementation practices are as a result of:

1. Deviation from the budgeting principles and standards.
2. Manipulation of budget by corrupt officials
3. Instability of the monetary unit of value.
4. Role conflict between budget staff and line personnel
5. Manipulation of budget priorities by unrestricted transfer of funds from one category of expenditure to another often resulting to shortage in critical areas of the budget
6. Over-exertion of the external control on the major policy decisions of the organization and late release of the stated budget (funds).

**5.2 CONCLUSION**

 On the basis of findings in this research work, the following far conclusions were reached. Efficient budget control and budgetary implementation practices are so important that its role in the efficiency of any business establishment cannot be over-looked. For any business establishment to thrive, it must adopt a procedural method of estimating for actions it intends to achieve in future (budgeting) and work persistently in line with it (budget implementation).

Based on the result of the findings, it has been identified that the budgetary implementation practices in construction companies (megastar technical and Construction Company limited) is not commendable. Laissez- faire attitude of budget official (personnel’s towards work), manipulation of budgets by corrupt officials, non-adoption of budget standards and principles, role conflict between budget staff and line personnel, budget abandonment as an ordinary paper work that should be carried out for formality, over exertion of external control on major policy decision were all evident in megastar technical and construction company limited. This proved that there are very poor budgetary implementation practices in the company, With the forgoing the researcher still believe that strict adherence to recommendations suggested will improve the state of affairs of the company and make it viable in future.

**5.3 RECOMMENDATIONS**

 Based on the findings, the following recommendations are made;

I. TIMELY RELEASE OF BUDGET: owing to the problems of late release of budget especially in a highly inflationary economy, the researcher recommend that budgets should be made available before the inception of the period which it serves. This will check over and or under spending which has always been occurring.

II. EFFICIENT MONITORING: It is recommended that a committee be set in each department to check how budget has been implemented as the month or year goes on. The report of this committee should be submitted to the company executives monthly or yearly as the case may be.

The executives after receiving the report from the committee should take proactive measures immediately based on the recommendations of the committee.

iii. GENERAL UNDERSTANDING: All employees of the company should be enlightened on how the budget of the company is been implemented.

iv. MOTIVATIONAL TECHNIQUE

 Motivational techniques should be employed to enhance the performance of the employees since budgeting is all about meeting a target financially. The motivational techniques may include incentives (both cash and kind), enrichment and satisfaction, maintenance of the job environment etc and all benefits and entitlements should be paid as when due

v. RESPONSIBILITIES OF EXECUTIVES: The executives of the company should be more proactive by checking budget proposal from budgeting department thoroughly so as not to approve a budget that is not all encompassing. The executive should also be proactive in major policy issues especially during budget planning, approval and implementation.

vi. PROVISION OF COMPUTERS: Budgeting for the company should be based on computer so as to accommodate all departments in the organization without much stretch. The computer will make the budgeting process easy to meet up stated time.

Accuracy will also be achieved through the use of computer.

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