City University – T.E.I of Piraeus

"The role of Financial Management in large Organizations in today's Organizations and its effects on Project Management"

By

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Signature Page

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THE ROLE OF FINANCIAL MANAGEMENT IN LARGE ORGANIZATIONS IN TODAY'S ORGANIZATIONS AND ITS EFFECT ON PROJECT MANAGEMENT

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VITA

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Athanasios P. Kounouklas has a Bachelor degree in Financial Applications from Technological Educational Institute of West Macedonia. Athanasios proven work experience is not involving many years experience. Only one year as practice-teaching employee in Agricultural Bank of Greece in Human Resource Department, as an assistant accountant for three months in counting house of cotton-elaboration manufacture and as head of a "village" for six months (periodically) in child encampments. Moreover, he has upgraded skills concerning Personal Computers and has a certificate of English language.

ABSTRACT

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Main goal for every organization is to secure and maximize its profits and provide the wealth of the organization's present owners. The achievement of that wealth it is not something easy mostly when companies undertake large and complex projects. Many companies face development problems because of ineffective financial management and when financial obstacles become an "impervious wall", then organizations meet stagnancy and are not able to achieve successful projects.

It is essential for every company to have the abilities and the appropriate financial fastening in order to manipulate project execution successfully and methodically. Financial management is important in all type of business and must constitute a basic priority for every organization for the improvement in all financial management procedures. Effective financial management allows organizations to maximize its profits and with this way companies become more competitive in global level.

This study analyzes all these crucial and necessary steps that organizations should follow and implement for succeeding in nowadays global business. Moreover, are analyzed the basic principles of project cost management and these strategies that organizations must apply for improving project's financial goals. After all, financial management is a way of life in all organizations and financially successful organizations depend on strict financial control. In other words, cost is seen as a major metric of successful project management.

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CHAPTER 1 - INTRODUCTION

There is a growing body of information showing that behind successful organizations exist an effective and a well organized management in all crucial sections. One of them that makes every enterprise competitive and powerful, are all these elements and procedures that constitute the financial management.

Nature of the Study

Financial management is the process of acquiring and using funds to accomplish a financial objective, (Steve Hanson 2003). The improvement of financial management procedures is necessary and should be a basic priority for every organization. Enterprises that face problems in planning process, concerning cost estimation and other budget elements, are not in a position to achieve what they plan. Financial management processes are an essential part for every project that an organization plans to execute, and this is because there should be the appropriate infrastructure and all the necessary tools and techniques need to be followed.

It is clear that nowadays, most organizations have problems concerning lack of effective cost control and applications of specific strategies, tools and techniques are imperative. This research examines the financial obstacles and problems that organizations face in projects, and provides ways to fix them by improving the main financial project management procedures.

Needs Assessment

Projects meet success when completed on time, with-in scope and on budget. This paper includes all the necessary steps that organizations should implement in order to achieve mostly the third goal, "on budget". Success in this area requires support from the executives and effective leadership from an experienced project manager. The key stakeholders here are the financial consultants, top-level management and the project manager. Additionally, stakeholders can be the customer or the individuals and organizations that are actively involved in the financial aspects of a project.

Financial Consultants are essential in providing individual solutions. As experienced professionals, the Financial Consultants help on building effective investment portfolios based on each investor's financial objective. Additionally, they share knowledge with investors, acting as a third party to help monitor the performance of investments and investment managers. This role is very important to the success of managed accounts.

Top-level management is the people that make the final decision. There should be effective communication between financial consultants, top-level management and the project manager in order to have the best possible decision-making. Top-level management plays an essential role because they are the final judges concerning most of the financial issues.

The Project manager is the most accountable person for having the final project success. He or she should act like a true leader and must understand the stakeholders' positions in the project. In addition, the project manager must give correct guidelines and should cooperate with financial consultants in order to apply effectively the project's selection decision-making tools.

Purpose of the Study

The purpose of this study is to elucidate all the necessary steps that an organization should follow in order to achieve effective financial project management. This paper serves as a guide for understanding the tools and techniques that cost and financial management provides. Additionally, this research demonstrates the usefulness and the helpfulness of the planning process concerning budget elements and cost estimation in the appropriate project phases.

Relation to the Program of Study

Financial management and project cost management includes the processes involved in planning, estimating, budgeting, and controlling costs so that the project can be completed within the approved budget. The processes of resource planning, cost estimating, cost budgeting and cost controlling interact with each other and with processes in the other project management knowledge areas as well (PMBOK Guide 2004).

Project managers are often called upon to be active participants during the benefit-to-cost analysis of project selection. Benefits can be measured in either financial or non-financial terms. The process of identifying the financial benefits is called capital budgeting, which may be defined as the decision-making process by which organizations evaluate projects (Harold Kerzner 2003).

Moreover, in the scope of this study, extensive use has been made of the knowledge and ideas gained from the following City University Project Management curriculum:

PM504 Project Planning and Control: Project planning, estimating techniques, earned value, variance analysis.

PM507 Project Financial Management: Effective resource planning, estimating methods and their range of accuracy, cost breakdown structure, project cash flow, cost control & tracking, financial margins, profit and loss.

Definition of Terms

Audit: A yearly examination and verification of the financial statements and records of an organization by an auditor.

Budget: A financial tool to estimate the expenses predicted and the revenues required for a set period. A budget is also used to monitor operations during the period by comparing actual expenses and revenue to budget figures.

Business plan: A written document that details a proposed or existing venture. It seeks to capture the vision, current status, expected needs, defined markets, projected results and financial needs for a new business.

Cash flow: The amount of cash derived over a certain period of time from an income-producing property. The cash flow should be large enough to pay the expenses of the income producing property and is important to a project manager who is responsible for the management of the budget for the project.

Contingency: A line added to budgets to cover unforeseen items or cost overruns.

Effective: Adequate for accomplishing the intended purpose.

Effectiveness: Effectiveness is a measure of the ability of a program, project or task to produce a specific desired effect or result that can be qualitatively measured.

Evaluation: Judging, appraising, or determining the worth, value, or quality of program in terms of its relevance, effectiveness, efficiency, and impact.

Financial management: Concerned with all aspects of how the organization deals with its financial resources in order to efficiently and effectively utilize them

Method: A way of doing something, especially an ordered set of procedures or an orderly system.

Milestone: A significant event in the project, usually completion of a major deliverable. A milestone, by definition, has duration of zero and no effort. Milestones are essential to manage and control a project, but there is no task associated with it (although preparing a milestone can involve significant work). Usually a milestone is used as a project checkpoint to validate how a project is progressing and revalidate the work.

Monitoring: Observing or checking for program activities and their context, results, and impacts. Monitoring is carried out for three reasons: to ensure that activities are proceeding according to plan; to provide a record of input use, activities, and results; and to warn of deviations from initial goals and expected outcomes

Operating costs: These are the costs to cover general operating of an organization rather than costs specific to a project.

Operating Margins: They consist of revenue less the cost of sales and delivery. These are margins before the company allocates any of the expense of product development, information technology, marketing and partner programs, and corporate, general and administrative expenses incurred in support of the lines of business.

Performance measures: Performance measures provide a series of indicators, expressed in qualitative, quantitative or other tangible terms, which indicate whether current performance is reasonable and cost effective. Performance measures can include workload and output-to-cost ratios, transaction ratios, error rates, consumption rates, inventory fill rates, timeliness measures, completion and back order rates, etc.

Planning: A process for setting organizational goals and defining the resources needed to achieve the goals. Planning is also a way to build consensus around the mandate, direction, and priorities of a research program or organization.

Policies: Instruments, rules, regulations on various levels, especially by government. Policies typically define a course of action to reach a certain objective.

Procedure: The method and order followed in doing something; course of action; a step or measure taken.

Resource Planning: Determines resources that produce cost for the project.

Requirement: A description of a condition or capability to which a system must conform; either derived directly from user needs, or stated in a contract, standard, specification, or other formally imposed document.

Schedule: The project timeline, identifying the dates (absolute or relative to a start date) that project tasks will be started and completed, resources will be required and upon which milestones will be reached.

Specification: A document intended primarily for use in procurement, which clearly and accurately describes the essential and technical requirements for items, materials, or services, including the procedures by which it will be determined that the requirements have been met. Specifications for items and materials may also contain preservation, packaging, packing and marking requirements.

Stakeholders: Stakeholders are the specific people or groups who have a stake, or an interest, in the outcome of the project. Normally stakeholders are from within the organization, and could include internal clients, management, employees, administrators... etc

Variance: the amount by which something is different from something else.

Work Breakdown Structure: Work Breakdown Structure is a hierarchical tree structure decomposing a project into activities and sub-activities to help define and control the project and its elements of work.

CHAPTER 2-PROBLEM STATEMENT

Problem Statement

Nowadays, one of the most demanding aspects that organizations face up is to deploy effective, accurate and feasible planning procedures concerning cost estimation and other budget elements. Many enterprises meet difficulties mostly in processes of controlling and monitoring projects costs and in many cases they cannot administrate effectively these significant procedures with a result the project's failure. By improving financial management processes, they can manipulate project execution methodically and successfully. Organizations need to improve their financial project management in order to overcome financial obstacles easily and efficiently. Ineffective cost control and unsuccessful variance analysis create undesirable recovery expenses such as operating costs, capital investments and facilities, and expenses derived from contingency cost.

Rationale for the Problem Statement

Organizations should stay focused in all financial management procedures. All enterprises, in order to have successful projects and continuous profits, must have an effective and upgraded financial project administration. The tools and techniques provided by financial management are the key for every organization to manage all the undesirable expenses. Additionally, when the mechanisms of planning for estimations and budget requirements are working efficiently, all financial obstacles can be managed without difficulty. The application of cost control tools and techniques, and the development of financial recovery plans can secure any business process and can help organizations to achieve successful projects.

"Healthy" organizations pay extra attention to their financial management processes and this is not by accident. Nowadays, competition is large and only enterprises with accurate planning processes concerning cost estimation, cost budgeting and cost control can get what they want. It is necessary to follow all the financial techniques, tools and strategies in order to "survive" in global level. When financial obstacles managed effectively, companies achieve successful financial projects. For fulfilling their mission it is needed great effort and continuous improvement.

Projects fail because of many reasons. The most common reasons that a project can fail are because of bad estimates and ineffective planning concerning scope, time or budget. When we have effective and well-organized project planning estimates and when fundamental financial principles are applied properly, we can achieve the desired financial project goals.

Hypothesis

Basic priority for organizations should be the improvement in all financial management procedures and mostly in planning process concerning cost estimating, cost budgeting and cost controlling. This study provides essential recommendations in these procedures that an organization should develop, create, apply and improve in order to achieve the desirable financial project goals.

CHAPTER 3—REVIEW OF LITERATURE

Literature Review

This review of literature focuses on the processes and principles that an enterprise should follow and implement in order to improve the financial part in any project. In addition, focuses on the enterprise organizational planning and how that scheduling effects projects management. In other words, this study underlines and indicates all these crucial "movements" that organizations must apply and all these methods and techniques that must execute in order to achieve effective project financial management with healthy finance fastening. The bibliography concerning financial management, project management and organizational strategies is enough opulently and the next thematic units describe all these activities that today's Organizations must accomplish in order to improve project financial management.

Enterprise organizational planning

Organizational planning is a time-consuming process and when done correctly it provides an outline of organizational goals and a way of how these goals can be achieved. The process of planning itself is a key to success and it is needed to involve all these key persons and these strategies developed to meet organization the desirable goals. The infra thematic units describe why organizations must pay extra attention to the process of planning and how effective strategic movements can improve the financial management and all financial project's procedures.

Globalization of business

Nowadays, many companies rely to a large and increasing extent on abroad operations. We observe increase concerning globalization of business because of many factors. A number of developments have contributed to the globalization of business. The most important factors that have led to that increased globalization of business are: the technology, the increasing political impact of consumers, the improvement of transportation and the multinational firms.

Losey, M.R. (2000) asserts that rapid technological developments have led to the emergence of new products and services and thereby new business and new industries. The technology-driven competitive edge is coming to be more and more temporary as new technological breakthroughs are reaching the markets sooner than ever before. As technology has become more advanced, the costs of developing new products have increased. These rising costs from technological evolution have led to joint ventures to global operations for many organizations, as they seek to expand markets, and thus spread development costs over higher unit sales. Moreover, the low cost and high quality products that desired from political clout of consumers, guided organizations business to a widely global market.

Furthermore, an additional factor is that the improvements in communication and transportation where lowered, mainly shipping costs, and as a result international trades become more feasible. Advancements in transportation have shrunk the distances between resources, processing and markets. Another factor is that we live in a world populated with multinational organizations that are able to shift production to wherever costs are lowest. Organization whose manufacturing operations are restricted to one country cannot compete unless costs in its home country happen to be low. As a result of all these factors, survival demands that most manufactures must sell and produce in global level.

Global Business outsourcing

Global outsourcing is the strategic use of outside resources to perform activities that are traditionally handled by internal staff and resources. It is a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers, Corbett M.F. (1996). The traditional global outsourcing emphasis on tactical benefits like cost reduction, cheaper labor cost in low-cost countries that have more recently been replaced by productivity, flexibility, speed and innovation in developing business applications, and access to new technologies and skills.

The obvious advantages of outsourcing include costs reduction, eliminating learning curves that are too steep, acquiring economies of scale, accessing technical expertise, securing flexible staffing, managing time more efficiently, controlling quality, and minimizing excessive downtime. These apparent advantages should not be seen as a blind invitation to pursue what some might consider being a managerial fad. Appropriate analytical techniques should be employed along with sound professional judgment to arrive at an outsourcing decision.

Global outsourcing has received considerable attention in the popular and business press over the last few years. Global outsourcing is a strategy of redesigning, redefining, reshaping, and energizing organizations all over the world, Casale F.J. (1999). The potential of global outsourcing is enormous. If implemented correctly, some authors claim it can dramatically improve an organization's effectiveness. According to the Outsourcing Institute, on average, organizations are realizing a nine per cent cost saving and a fifteen per cent increase in capacity and quality through global outsourcing Crane D. (1999). There is enormous pressure on major corporations to establish competitive positions in a global marketplace.

The global imperative for outsourcing accelerates as firms evolve from sellers of products and services abroad to setting up operations in foreign countries and staffing those operations with host country or their party nationals. Most large organizations believe that in order to compete globally, they have to look at efficiency and cost containment rather than relying strictly on revenue increases. As enterprises seek to enhance their competitive positions in an increasingly global marketplace, they are discovering that they can cut costs and maintain quality by relying more on outside service providers for activities viewed as supplementary to their core businesses (Sinderman M., 1995; Wild J., 1999; Ryan P.W., 1999).

In order to identify why organizations take the risk of global outsourcing, data were collected in three areas: Firstly, global outsourcing projects are undertaken for several reasons. The top reasons identified in the survey results were cost reduction, quality improvement, increase exposure to worldwide technology, delivery and reliability improvements and gain access to materials only available abroad. Moreover establish a presence in a foreign market, use resources that are not available internally, reduce the overall amount of specialized skills and knowledge needed for operations, make capital fund available for more profitable operations, and to combat the introduction of competition to the domestic supply. This suggests that global outsourcing is undertaken for purposes that have a large impact on the organization's bottom line, although more distant purpose such as strategy, competitive advantage, and competitor actions may have been the rationale for the more direct reasons.

Furthermore, global outsourcing projects target specific types of activities or functions. Organizations were asked to identify the types of activities that they outsourced or were attempting to outsource. The top activities or functions identified were purchasing parts or components for the final products, information technology such as application

development, contract programming and data entry and simple processing, management services, manufacturing of components for the final product or the whole product, product design, engineering projects, distribution and sales of products or services.

Finally, global outsourcing strategy should have a specific goal. In other words, the strategy should have an objective with a measurable outcome. Organizations were asked to identify their most specific goal in global outsourcing strategy. The survey choices included: performance, cost-savings, productivity, customer service, market share, and quality which were suggested by several authors (Jennings D. 1996; Jones W. 1997; Ramarapu N., Casale F.J 1999, 1997; Kleppes R., 1999; Bender P., 1999), as the primary goals of outsourcing efforts.

At this point we should mention that global outsourcing projects do not meeting success always. The risk on that process is high and sometimes organizations failure to achieve the desirable goal. On the other hand it is more than obvious that a large percent of organizations they classified their efforts as successful. They indicated that the dollar savings and indirect benefits generated by the outsourcing programs were greater than the costs of implementing these programs.

Global outsourcing strategies help organizations to improve performance, increase access to international markets and leading-edge technologies, enhance responsiveness to customer needs, and contribute to organizational goals of increased efficiency, reduced costs, reduced cycle time, and improvement in the quality of the goods and services in their organizations.

Global outsourcing has been prescribed as an important tool for attaining and maintaining a competitive advantage. Global outsourcing is nothing less than the whole sale restructuring of the corporation around core competencies and outside relationship, Corbett M.F., (1999). For having always successful global outsourcing projects and achieving cost

reduction, quality improvement and satisfied customers, organizations should understanding and managing the major risk factors identified in the survey, by developing a comprehensive plan outlining detailed objectives, expectations, requirements, and expected benefits of global outsourcing projects. This happens by selecting global outsourcing partners based on their expertise in the operation and their cultural fit with the firm and by developing effective communication channels with the right components. In addition, project managers must be able to view global outsourcing as a useful tool to enhance their competitive positions in an increasingly global market place.

Organizational financial planning

Financial planning in the company is a dynamic process requiring that a variety of profitability, capital structure and stability variables be simultaneously considered. The firm is viewed as attempting to optimize a multiple objective criterion of time dated variables involving both short and long term financial goals.

In all organizations projects managers must try always to make their companies more valuable and must understand how investors determine the values of stocks in order to evaluate, identify and implement projects that meet or exceed investor expectations, Jack R. Meredith (2003). However, companies must have a well organized and articulated plan in order to achieve a value creation. In financial planning, the investment opportunities are considered simultaneously with the financial and dividend options available to the company. Main goal for every enterprise is to trying to maximize its owner's wealth and because this wealth is co-determined by the risk returned characteristics of the income streams generated by the enterprise, both risk and expected return are often taken as separated missions in the evaluation of capital investment projects.

Financial imperatives

Profit: Pure economic profit is the increase in wealth that an investor has from making an investment, taking into consideration all costs associated with that investment including the opportunity cost of capital. Accounting profit is the difference between retail sales price and the costs of manufacture. An important difficulty in measuring either definition of profit is in defining costs. Accounting profit may be positive even in Competitive equilibrium when pure economic profits are zero. Profit is needed in order to balance equity and dept. Profits created by a business will be used to reimburse the owners of the business and/or to create further opportunities for the business to grow. To maximize profits, a business must examine all aspects of its operations in an attempt to maximize revenues and minimize costs.

Cash flow: Cash flow is an accounting term that refers to the amounts of cash being received and spent by a business during a defined period of time, sometimes tied to a specific project. Measurement of cash flow can be used to evaluate the state or performance of a project and to determine problems with liquidity. Being profitable does not necessarily mean being liquid. A company can fail because of a shortage of cash, even while profitable. In addition, cash flow can be used to generate project rate of returns and to examine income or growth of a business when it is believed that accrual accounting concepts do not represent economic realities. Alternately, cash flow can be used to 'validate' the net income generated by accrual accounting, Brigham and Houston (2003).

The estimating project's cash flows constitute a difficult part and are needed in order to pay above burdens. Many variables are involved and many individuals and departments participate in that process. As an example here, we can imagine the forecasts of unit sales and sales prices that are normally made by the marketing group, based on their torts reactions, and trends in consumer's tastes. It is difficult to forecast the cost and revenues associated with

large projects, so forecast errors can be quite large. The above *figure1* describes an example of Net Present Value calculation and how project cash flows affect the whole process.

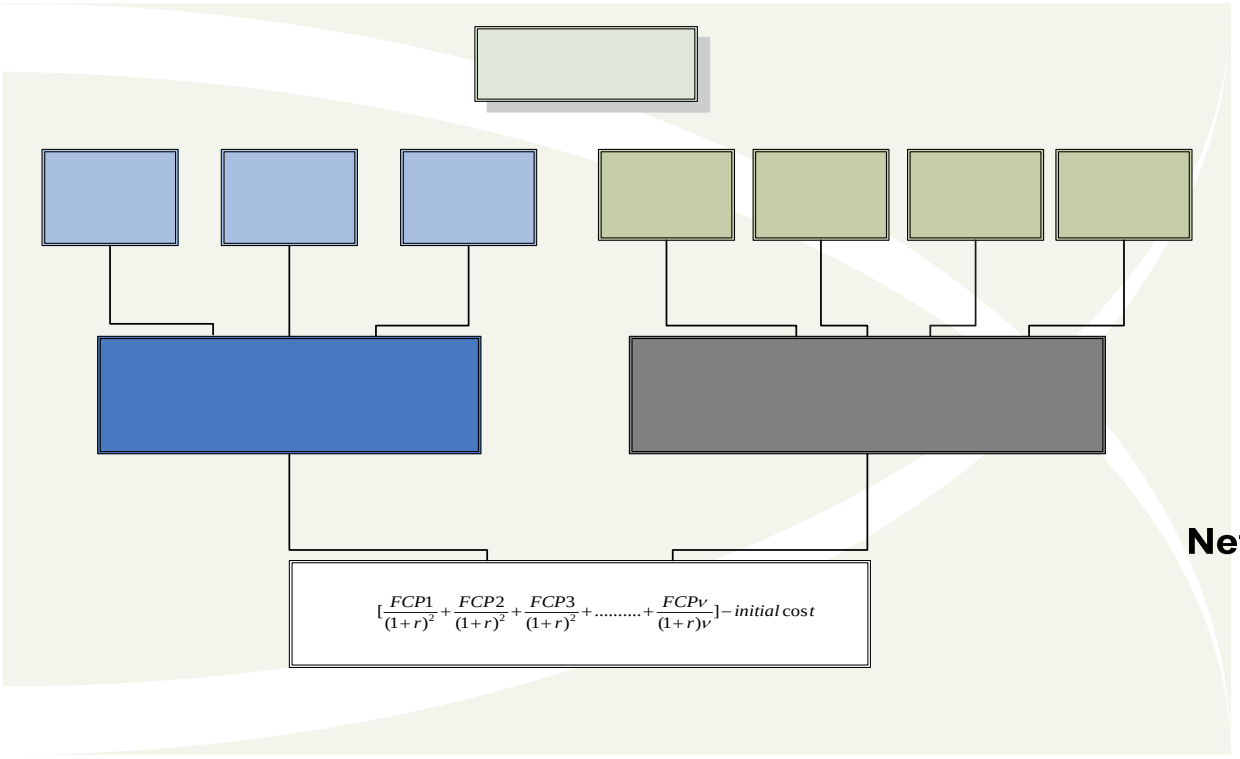

Figure 1: NPV Calculation / *Msg Systems*

Finally, an additional parameter that is as necessary and important as profit and cash flow is the financial health which is needed in order to be able to pay and be left with profit. All these financial imperatives constitute crucial factors and organizations must always increase and improve them and follow the appropriate procedures.

Financial and project cost management procedures

In any project, one of the most important issues that need extra attention in order to meet project successful end is how well organizations can handle the financial and cost procedures. The following units pinpoint mainly the importance of cost and describe why financial and cost management principles are essential.

The Strategic Role of Financial and cost Management

Financial management refers to how businesses raise, use and monitor funds. It involves the processes of planning, monitoring and controlling the business's financial position and performance. Effective financial management will allow a business to maximize profits, increase the wealth of its owners and expand the business. Its strategic role is to give the business long term, big picture goals to aim for, as well as the specific objectives needed to reach these goals. Financial reports are crucial for effective financial management.

Martin Wong (2000) explains that strategic cost management is based on two important concepts: processes and cost drivers. Many businesses have applied activity-based techniques to re-engineer processes; the role of the cost driver has not been fully exploited. By viewing cost drivers at a far higher activity level, management can gain a richer and more robust understanding of cost dynamics, breaking down the discord between strategic and operational goals.

Philip H. Siegel (2001) defines cost management as a set of techniques and methods for controlling and improving a company's activities and processes, its products and services to achieve continuous improvement and deal with global competition.

Project cost management is primarily concerned with the cost of the resources needed to complete schedule activities. It constitutes the procedure of placing responsibilities on these persons that they deal with that kind of management and it is the collecting of actual cost data in a suitable format and the appropriate evaluation of comparing and taking corrective action as necessary, PMBOK Guide (2003).

An effective project cost management demands extra attention to some crucial steps and processes. Tools like Work Breakdown Structure are helpful in order to achieve a careful and well organized project planning. Additionally, project cost management involves processes such as estimating the cost of the planned resources, monitoring expenditures as

work proceeds, converting the estimate to a viable control budget and modifying the approach when the finding are not adequate.

Cost management generally describes the approaches and activities of managers in short run and long run planning and control decisions that increase value for customers and lower costs of products and services. Cost management has a broad focus and it includes the continuous control of costs. The planning and control of costs is usually inextricably linked with revenue and profit planning. For instance, to enhance revenues and profits, managers often deliberately incur additional costs for advertising and product modifications. Cost management is not practiced in isolation and it is an integral part of general management strategies and their implementation.

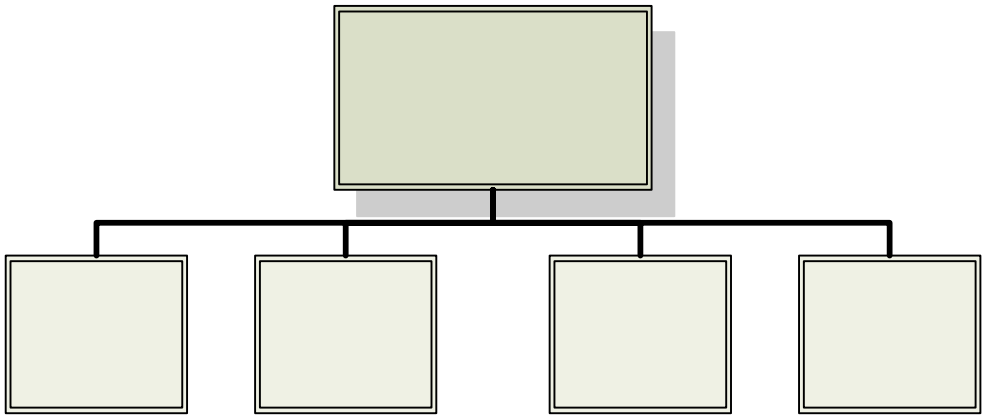

Figure 2: Project Cost Management main processes / International PM Commission

Financial and cost management are important for high-light measures or wastage of resources, finish a project within approved budgets, track budget change approvals and generally avoiding unwelcome results. Cost estimating, cost budgeting, cost control and resource planning are key processes which interact with each other and each process can involve effort from one or more persons or groups of persons based on the needs of the project.

Cost estimating

Cost estimating includes identifying various costing alternatives. The most noted types of cost estimation techniques are the parametric modeling, analogous estimating, bottom-up estimating and the computerized tools. PMBOK Guide (2003) analyzes and some other tools and techniques but these are the most practical and common used.

Analogous estimating, which also called top-down estimating, uses the actual cost of previous or similar projects as the basis for estimating the cost of the current project. Main characteristic of that method is that is less costly than other techniques and it is not as accurate as other techniques. Additionally, it is most reliable when the project is similar with a past one and the individuals involved in the project have the necessary skills to make the estimates.

Analogous estimating has some important forms. The simplest form of analogous estimating is Ratio which based on assumption that there is a linear relationship between cost and duration of a project. Moreover, has the form of the Three-Quarters Rule which based on comparing the capacity of an existing and proposed project. In that form capacity ratio can be the size, complexity, speed or accuracy of deliverable. In order to calculate the cost of propose project we have the above:

Cp=cost of proposed project, **Ce**= cost of existing project, **Sp**=size or capacity of proposed project, **Se**=size or capacity of existing project.

$$C_p = \sqrt[4]{C_e \times \left(\frac{S_p}{S_e}\right)^3}$$

Another form is the Square Root Rule which based on comparing the cost of an existing and proposed project. In addition, result is the duration of the proposed project, based on the duration of the existing. Here we have:

Tp=duration of proposed project, **Te**=duration of existing project, **Cp**=cost of proposed project, **Ce**= cost of existing project.

Then:

$$T_p = \sqrt{T_e \times (\frac{C_p}{C_e})}$$

An additional form of analogous estimating is the Two-Thirds Rule which allows sharpening of estimated duration of a proposed project if the project contains several concurrent and similar activities. The result is the duration of proposed project, based on duration of existing. Given that:

Np=concurrent subsystems of proposed project, **Ne**= subsystems of existing project, **Tp**=duration of proposed project, **Te**=duration of existing project.

Then:

$$T_p = \sqrt[3]{T_e \times (\frac{N_p}{N_e})^2}$$

Parametric modeling involves the use of project characteristics in a mathematical model in order to predict project's cost. That method is considered when historical information for developing the model is accurate. The difference of parametric modeling is that relies on historical data and not on existing cost data defined through current cost estimates that consider procurement cost and resource demands. Finally, it is worth to mention that project cost plans would be relevant because they are near to real-time costs.

Bottom-up estimating identifies the individual cost of items for each of the detailed element needed within the project. The possibilities to develop the overall cost for the project by adding the individual project cost together are increased. Moreover, this method is close to the traditional cost-accounting approach but the definition of cost is not provided again.

Apart from these cost estimation techniques, cost estimating includes the resource planning which determines resources that produce cost for the project. What is more, in the process of Resource Planning identified the different elements that make up a Work Breakdown Structure, the information in a Work Breakdown Structure dictionary and the sources of historical information and project objectives with project justifications. Additionally, match project deliverables and project's products to their examples, identify the types of organizational policies, determine the elements for creating resource pool description and identify examples of what to include in an activity duration estimate.[1]

To this end, we realize that costs are estimated for all resources that will be used on the project. Costs include the resources of materials, supplies, labour and allowances for inflation and cost reserves. Everyone that undertakes and being involved into the process of cost estimating must always be in apposition to identify various costing alternatives and applying all the essential tools and techniques for achieving the desirable goal.

Cost budgeting

Cost budgeting is the process of allocating cost to individual separate work items to establish a cost baseline in order to measure project's performance. Cost estimates, the work

[1] Steven M. Kinsella "Activity Based Costing"

breakdown structure and the project schedule constitute the items that included in the input category of cost budgeting. Both cost budgeting and cost estimating are essential subjects that need extra attention in all projects. Furthermore, it is critical to the survival of business, when establishing accurate and appropriate cost budgeting and cost estimation and when recognizing that cost is a significant factor, in selecting the most capable project in a competitive bid.

PMBOK Guide (2003) analyzes cost budgeting tools and techniques where are: cost aggregation where schedule activity cost estimates are aggregate by work packages according to the work breakdown structure. Moreover, the parametric estimating which is the technique that involves using project parameters in a mathematical model in order to predict total project costs. Models like parametric model are most likely to be reliable when the historical data used for developing the model and when the parameters are readily quantifiable. What is more, reserve analysis where establishes contingency reserves such as the management contingency reserve. Management contingency reserves are budgets reserved for unplanned changes to project scope and cost. All these techniques are important in order to achieve correct estimations in cost concerning individual schedule activities or work packages to establish a total cost baseline for measuring project performance.

There are two fundamentally different strategies to gather input data for the budget, top-down budgeting and bottom-up budgeting. The strategy of top-down budgeting is based on collecting the judgments of top managers and the available past data concerning similar activities. These managers estimate the overall project cost and all these cost estimates are then given to lower-level managers, who are expected to continue the breakdown into budget estimates for the specific tasks that comprise the subprojects. This process parallels the hierarchical planning process and with this way the budget is broken down into successively finer detail from the top level following the Work Breakdown Structure. The advantages of

this strategy are that budgets are stable as a percent of total allocation and the statistical distribution is also stable, making for high predictability. Additionally, aggregate budgets can often be developed quite accurately and small yet costly tasks do not need to be individually identified. Moreover, the experience and judgment of the executive accounts for small but important tasks being factored into the overall estimate.[2]

In the method of bottom-up budgeting, elemental tasks, their schedules and their budgets are constructed following the Work Breakdown Structure. The initial estimates are made in terms of resources such as materials and labor hours. Bottom-up budgets are more accurate in the detailed tasks but it is critical that all elements be included, Jack R. Meredith (2003). The advantages of this strategy are that individuals are closer to the work and apt to have a more accurate idea of resource requirement. In addition, involvement is a good managerial training technique, giving lower-level managers valuable experience. Moreover, the direct involvement of low-level managers in budget preparation increases the likelihood that they will accept the result with a minimum of aversion

To this end, it is important to mention that top-budgeting is very common and true bottom-up budgeting are rare. Senior managers see the bottom-up process as risky and they tend not to be particularly trusting of ambitious subordinates who they fear may overstate resource requirements. Additionally, they are reluctant to hand over control to subordinates whose experience and motives are questionable.

[2] Jack R. Meredith "Project Management a managerial approach"

Cost control

Cost control is equally important to all organizations and it is not only "contains" the process of monitoring but also analyzing the data in order to take corrective actions before it is too late. Cost control implies effective cost management, which must include cost accounting, project cash flow, cost estimating, enterprise cash flow, direct labor costing, overhead rate costing and other tactics, such as incentives and profit-sharing. Moreover, Cost control concerning project searches out the causes of positive and negative variances and constitutes a part of integrated change control. According to PMBOK Guide (2003) project cost control includes:

- Managing the actual changes when and as they occur
- Ensuring requested changes that agreed upon
- Influencing the factors that create changes to the cost baseline
- Monitoring cost performance for detecting and understanding variances from the cost baseline
- Recording all appropriate changes accurately against the cost baseline
- Assuring that potential cost overruns do not exceed the authorized funding periodically
- Informing appropriate stakeholders of approved changes
- Acting to bring expected cost overruns within accepted limits

Cost control is actually a subsystem of the management cost and control system rather than a complete system. Any cost control system is only as good as the original plan against which performance will be measured, Harold Kerzner (2003). Furthermore, in order to achieve effective cost control it is important to apply some very useful tools and techniques. These techniques are: Cost Change Control System, Performance Measurements Analysis, Forecasting, Project Performance Reviews and Variance Management.

Cost Change Control System defines the procedures by which the cost baseline can be changed. In addition, it includes the documentation, forms, tracking systems and approval levels necessary for authorizing changes. The cost control system is integrated with the integrated change control process.

Performance Measurements techniques help to assess the magnitude of any variances that will invariably occur. The earned value technique compares the cumulative value of the budgeted cost of work performed at the allocated budget amount to both the budgeted cost work scheduled and to the actual cost of work performed. (The following unit describes thoroughly the role and the benefits of earned value).

Forecasting includes making estimates of conditions in the project's future based on information and knowledge available at the time of the forecast. Forecasts are generated and based on work performance information which is about the project past performance and any information that could impact the project in the future.

Project Performance Reviews compare cost performance over schedule activities or work packages overrunning and under running planned value, milestones and milestones met. Performance reviews are meetings held to assess schedule activity, cost account status and progress and provide the techniques of variance analysis, trend analysis and earned value technique.

Variance Management: the cost management plan describes how cost variances will be managed. The amount of variances tends to decrease as more work is accomplished. The larger variances allowed at the start of the project can be decreased as the project nears completion.[3]

[3] PMBOK Guide

Earned value analysis

Projects are closer to success when we exactly are in a position to know where we are on schedule, where we are on budget and where we are on work accomplished. Earned value constitutes a useful tool because provides an "early warning" signal for prompt corrective action. It is an approach for monitoring project's progress that relies on the budgeted cost of activities completed to ascribe value. It indicates how much of the budget and time should have been spent, with regards to the amount of work done to date.

Figure 3: Key features and attributes of Earned Value / Gartner (2006)

Having an earned value system and make it operate properly it is essential to have a fully defined scope for the project in which the value earning system can be applied, a baseline plan and a timeframe for the work to be accomplished.

For measuring the progress of contractors in external projects, the calculation of earned value is a very effective tool. Computation of earned value can be part of an audit activity and it can be integrated into the progress monitoring system. At any point during the life of the project, the progress indicated by the earned value of the project, can be determined by summarizing the earned value of lower level components along the Work Breakdown Structure, Parviz F. Rad (2002).

Earned value is a metric devised to achieve meaningful comparisons between planned and completed work. Cost variances result when the actual cost of the work and its flexible budget (earned value) differ. Significant variances are analyzed to identify and correct problems before they worsen.

The most crucial factor in order to apply the Earned Value method is to define the earned value measurements. These measurements are:

Planned value (BCWS): the value of the work to be performed in the measurement period which formerly called the budgeted cost of work scheduled

Earned Value (BCWP): the value of the work actually accomplished, whether planned to be accomplished or not, and was formerly called the budgeted cost of work performed

Actual Cost of Work Performed (ACWP): the total costs actually incurred in the reporting period for the work performed in the reporting period. The ACWP includes not only the work planned to be done but also all other work done but not planned

Cost Performance Index (CPI): the ratio of earned value to actual cost. An efficiency measure in the sense that it measures how effective each dollar of actual cost is employed to create one dollar of earned value

Schedule Performance Index (SPI): the ratio of earned value to planned value. An efficiency measure on schedule in the sense that it measures how effective each dollar of

planned work is being accomplished in the baseline timeframe to generate one dollar of earned value

Budget at Completion (BAC): The sum of all budgets established for the contract

Estimate at Completion (EAC): Actual direct costs plus indirect costs which are allocable to the contract, plus the estimate of costs (direct and indirect) for authorized work remaining.

Cost Variance (CV): the amount of cost overrun or underrun.

Schedule Variance (CV): schedule overrun or underrun in dollars.

These measures with the following series of evaluative ratios will be used to assess the current state of the project and will help us to identify what was supposed to be done, what has actually been made, and the amount of effort or cost that has been expected to be done and all these in terms of currency.

Earned Value Ratios

BCWP – ACWP = CV	Cost Variance _ amount of cost overrun or underrun
BCWP – BCWS = SV	Schedule Variance _ schedule overrun or underrun in $
BCWP / ACWP = CPI	Cost Performance Index _ normalized cost overrun or underrun
BCWP / BCWS = SPI	Schedule Performance Index _ normalized schedule overrun or underrun
BAC / CPI = EAC	Estimate at Completion _ updated estimate of total project cost
BAC – EAC = VAC	Variance at Completion _ amount of overrun or underrun at delivery
(BAC – BCWP) / CPI = ETC	Estimate to Complete _ funds needed to complete the project

Figure 4: Earned Value Ratios / Parviz F. Rad (2002)

The data for this method will be collected in a similar way as in the audit method. This means that assigned personnel, preferably cost accounts, will be send from the accounting department to each cost centre in the project in order to be able to monitor and record the project's daily expenditure. At the end of each day the results will be concentrated and processed by the cost accountants for the extraction of a general daily report. Finally at the pre-arranged meetings for the audits, these daily reports will be presented in a general cumulative report indicating all the measures.

The earned value analysis audit date report will be an earned value budget sheet which will include all the budget, actual and earned value figures for each work package in the project, as well as projections at completion. Additionally, a schedule report with a Gantt chart indicating the progress to date as deriving from the SPI index of the earned value analysis will accompany the earned value budget sheet. This happens in order to evaluate and verify the results of the audit, as well as to have a second opinion concerning schedule.

To sum up, the use of the earned value system has several benefits which help the overall process of the project. Some of these benefits are that it is a single management control system that provides reliable data and early warning signals concerning the project's performance. Also the use of CPI as a predictor for the final cost of the project and the periodic CPI as benchmark are worth of mentioning. All these make earned value system a very valuable tool.

Literature Review Summary

This literature review and particularly this study are focalized on these crucial points that large organization should pay attention for improving and succeed in financial management. The desirable results demand great effort and the implementation of specific procedures is necessary for securing enterprises effective management concerning projects cost and financial issues.

CHAPTER 4 – METHODOLOGY USED IN THE STUDY

In this chapter, the research methodology that this study deploys will be represented. It was planned, at the early phase of the proposal of this project concerning the part of methodology, to be used the results and all the necessary objectives that will derived from interviews and reports but undesirable and indefinite outcomes did not meet the author's expectations. For that reason and because are appeared difficulties concerning lack of data and lack of necessary sources, this research methodology is totally based upon bibliography, articles and web sources that preceding chapters referred to.

This research project occurs out of three basic concerns. The first concern is about the appropriate structure that organizations must have and all these strategic steps that need implementation for achieving large organizations the desirable project goals. The second one is the improvement of organization's financial management. In other words, all these necessary tools and techniques that will help enterprises to succeed a wealthy financial fastening. Finally, the third concern refers to the upgrading project management procedures that must be followed from organizations, mostly in complex projects.

The processes and principles that organizational structure, project management and financial management provide, concerning project's execution, they combined in a systematic way. Author's main intention is to approach these thesis main concerns according to systemic theory. Organizations should give emphasis to the "whole" and not to procedures and processes separately. What is more, any change or any application concerning tools and techniques, must be implementing methodically and systematic for avoiding the creation of impervious and solid obstacles. Small changes today can generate large problems in the future and because of that reason all these three concerns must developed in interdependence for achieving finally the goal of successful and mostly financially satisfactory projects.

In this research the data and information collection are based mostly on the method of textual analysis concerning books, web articles and documents. After the understanding and the evaluation of these sources, are collected all these parts that referred to the operational organizational structure and organizational strategies, the principles and techniques of efficient financial management and the values of project management processes. Main purpose of this study is the combination of all these "pieces" in order to provide for organizations the best possible solutions and ways of achieving the desirable goal.

This research methodology based mostly on these resources that describe the way that today's large organization must follow and these procedures that need implementation for being enterprises in a more competitive position concerning the global business level. The author's desired outcome of this methodology is to lead the reader to comprehend why all these three concerns that described are important and why their combination is essential for achieving organizations effective financial project management.

Research paradigms - strategies

The way research is designed and conducted reflects the researcher's basic beliefs about the world, Hussey and Hussey (1997). All researchers adopt a set of theoretical assumptions, or a worldview in their research process as these will determine the entire course of the research project. The philosophical assumptions about how research should be conducted are termed paradigms. Seeking the underlying epistemology in social research, a number of alternative typologies of different paradigms exist. Here, Chua's classification of research epistemologies will be adopted as it has been particularly influential, Chua (1986). Chua has identified three paradigms, distinguished by assumptions, namely the positivism, interpretivism and critical approaches.

Positivism asserts that only verifiable claims based directly on experience could be considered genuine knowledge, Patton (2001). The positivistic paradigm is based on the approach used in the natural sciences. It seeks the facts or causes of social phenomena, with little regard to the subjective state of the individual. Under this research epistemology, the world is highly deterministic and all phenomena can be conceptualised by cause-effect relationships, Bryman (2004).

Interpretivism has derived from the criticisms against positivistic paradigm. It contends that the social world is full of meanings constantly created and recreated by humans. The main argument of the interpretivism against positivism is that the physical sciences deal with "objects which are outside us", while the social sciences deal with "action and behaviour which are generated from within the human mind", Hussey and Hussey (1997). In social sciences meanings cannot be objectively observed and therefore interpretive researchers intend to understand phenomena by assessing the meanings that participants assign to them, Orlikowski and Varoudi (1991).

The aim of **Critical approaches** is, by exposing the structural contradictions within social systems, to critique the status quo and thereby to transform these restrictive social conditions, Orlikowski and Varoudi (1991). "The responsibility of the researcher does not end with an understanding of a social situation but must extend to a critique of unjust and inequitable conditions of the situation from which people require emancipation", Ngwenyama and Lee (1997).

This study because of the nature of the data is not based on demandingly at one of these three dominant research paradigms. After all, this project is closer to the positivism paradigm.

CHAPTER 5 - RESULTS

Organizational structures

Organizations in order to achieve high quality and financially performed projects, they need a structure that inhibits creativity, effectiveness and innovation. The creation of an appropriate organizational structure minimizes the risk of possible problems concerning the achievement of tasks with the applicable cost and provides to human beings their needs satisfied. It is very important for an organization to work efficiently with a specific structure that provides the desirable results, because any organizational change can bring out major conflicts that block organization's progress.

Main priority for every enterprise is to maximize its profits and to provide successful projects. Organizations that do not have the power and the skills to overcome mostly financial obstacles and have problems with project cost control and generally problems with cost management meet stagnancy and failure projects. That is why it is so essential a specific organizational structure. The most well-known and typical structures are: the functional (traditional) structure; pure product (projectized) organizational structure, and weak, balance or strong matrix organizational form (see Appendix A). Each of these organizational structures has advantages and disadvantages, and organizations must evaluate some crucial factors before selecting a project organizational form. These criteria referred mostly on project size and length, on organization's project management experience, on project's location and concerning available resources and unique aspects of the project, Harold Kerzner (2003). All these factors must be analyzed and evaluated for the organization to select the best possible structure in order to meet project goals and achieve project financial wealth. Finally, it is important to mention that there is no such thing as a good or bad organizational structure but there are only appropriate or not organizational structures.

For achieving large organizations effective financial management mostly in complex projects, the structure of pure product (projectized) and matrix organizations are the most appropriate.

Organizational strategies

Nowadays, organizations in order to be competitive and innovative it is needed to follow and implement strategies that help them to succeed. These strategies include crucial procedures and when the implementation of them is made methodically and according specific activities, organizations achieved a lot of benefits. There are numerous types and kinds of strategies because of different organization fields and departments. In the field of project financial management one of the most prevailing strategy, for achieving organizations mostly benefits concerning project cost, is the outsourcing. In preceding chapters is been made a description concerning outsourcing processes from bibliography. Outsourcing strategy can bring crucial benefits to organizations and helps in improving enterprises mostly the processes of effective financial management.

Organizations have a number of strategies for improving their financial management operations. Outsourcing is one of several approaches considered for improving the field of financial management. The use of outsourcing to help improve finance and accounting activities is growing and there are clear indicators that larger private sector organizations are actively considering as an option to improve efficiency and drive down administrative costs. It is been observed from several researches that finance and accounting outsourcing has

grown rapidly since 1994[4], (GAO/AIMD/NSIAD, Outsourcing Finance and Accounting, 2002).

The most crucial benefits concerning financial management, which derived from outsourcing implementation, are:

- High quality projects and services at lower price
- Saving up on taxes and saving on operational costs
- Hiring cheaper and more motivated employees
- Saving money concerning labor training cost, who are already trained
- Increasing productivity of the business
- Possibilities to assess the latest technologies at no cost

Principles of Financial and Cost Management / tools and techniques

Financial and cost management constitutes a very important and especial part for every organization. When all principles and responsibilities that provide followed faithfully, then organizations can achieve and complete in a high percentage the critical project goals. Effective cost management offer to organizations many benefits and many obstacles are overcame easily. Project managers must pay extra attention to the processes that mostly cost management provides in order to succeed in estimating, monitoring and budgeting concerning project cost.

[4] American Management Association

The aim of that kind of management is to minimize the cost of the project while maintaining satisfactory levels of quality as well as the scope of the deliverables concerning the duration of the project. Parviz F. Rad (2002) is claimed that cost management process is most effective when it is formalized and integrated with the organization's project management policies and procedures. That means that all the processes that cost management provide, ensures that all persons included in the project must follow a specific set of crucial procedures. It is very important from the organization's people side that undertakes the project, to apply and develop all the necessary cost management objectives for achieving in all parameters efficient project cost management.

There are some significant steps that organizations need to implement and create for avoiding undesirable results that will drive the whole project at failure. According to Parviz F. Rad (2002) an effective cost management system must include:

- Triple–constraint tradeoff decisions from consultants with the stakeholders
- Change management board
- Change result form
- Configuration on management board
- Change log
- Correct focus between planned and actual values variances
- Updated Work Breakdown Structure
- Timely progress reports
- Cash flow constraints
- Current estimates and budgets
- Software responsive to the specific needs of the project

Having organizations an effective cost management plan system they can predict efficiently any kind of risk concerning cost that may threaten important procedures. Financial and cost management improvement demands methodically movements and organizations

should follow and apply specific tools and processes for achieving these results that will allow enterprises to succeed at the stage of the project's termination.

Apart from effective cost management system and the processes that provide, organizations should implement and apply in parallel all these essential elements that effective financial management provides too. Financial reporting, internal control, budget control, cash management, accounting records and source documentation are essential elements where needed for financial management's improvement. Additionally, there should be followed all the principles that financial management offer.

Key processes of project management

There are five Project Management Process Groups (see Figure 5) required for any project. These key five process Groups have clear dependencies and are performed in the same sequence on each project, (PMBOK Guide).

The five Process Groups are:

- *Initiating Process Group* where defines the project or project phase
- *Planning Process Group* where defines and plans the course of action required to attain the objectives with scope that the project was undertaken
- *Executing Process Group* where integrates people and resources to implement the project management plan for the project
- *Monitoring and Controlling Process Group* where measures and monitors progress in order to identify variances from the project plan and be taken these correctives actions when it is necessary
- *Closing Process Group* where formalizes acceptance concerning product or service and brings the project or a project phase to termination

A Process Group includes the project management processes that are linked by the inputs and outputs and the result or the outcome of one process become the input to another. It

is important to mention that Group Processes would normally be repeated for each phase or subproject mostly in large and complex project that are undertaken from large organizations.

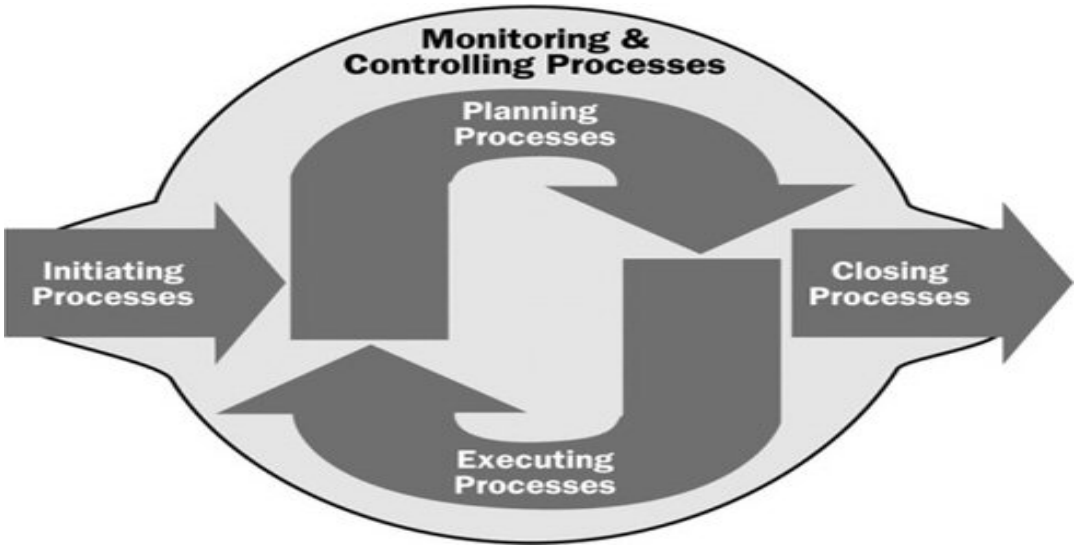

Figure 5: Project Management Processes Groups Mapped to the Plan-Do-Check-Act Cycle / PMBOK Guide

All these project management processes when implementing correctly and with the appropriate manner, ensure to organization a successful project. For achieving organization mostly in financial and cost management part the processes that project managers must pay extra attention are the processes of planning and controlling. The planning process includes the sub processes of resource planning, cost estimation and cost budgeting and the controlling process include the sub process of cost control.

- Resource planning is a necessary process for estimating the type, the quantities and probably the cost of resources required to perform each schedule activities.
- Cost estimating is the essential process in order to develop an approximation concerning costs of the resources needed to complete project activities.
- Cost budgeting is important for aggregating the estimated costs of individual activities or work packages to establish a cost baseline.
- Cost control is the process of influencing the factors that create variances and controlling changes to the project budget.

These crucial processes concerning cost management demand all these necessary skills that project manager and team members must provide in order to obtain successful cost project management.

Final results

Nowadays, large organizations for achieving a strong and competitive position must implement successful projects. One of the most important factors that need much more attention and it is essential for project's success is financial project management. According to the author's opinion, the next steps, methods, strategies, tools and techniques should be followed from every large organization that undertakes large and complex projects, in order to improve project cost and financial management and achieve the desirable financial project goals.

As described, organizational structures have advantages and disadvantages. For that reason and because this study is referred to large organizations that undertake complex and large projects the functional-traditional structure it is not recommended. What is more, the appropriate organizational structures that will provide in high percentage effective project cost management are the projectized and matrix organizations. Moreover, it should be mentioned that is needed great effort from organizations that follow these structures and pay attention to the financial and cost problems that are created during the project's processes.

In Pure Product (Projectized) structures, organizations in order to achieve effective project financial and cost management should:

- Create strong functional groups for improving technology.
- Improve process of monitoring and control.

- Implement outsourcing strategy for reducing cost concerning multiproduct execution, upgrade opportunities for technical interchange between projects and advance career continuity for project personnel.

In pure matrix structures, organizations in order to achieve effective project financial and cost management should:

- Improve and overcome difficulties in monitoring and control
- Achieve coordination concerning time, cost and performance
- Management goals should meet project goals
- Improve communication channels for avoiding conflicts
- Project organizations should not operate totally independently
- Activate quickly and effective when individual problems are occurred

The most of disadvantages that are detected concerning projectized and pure matrix organizational structures interact harmfully mostly in financial and cost parameters and only if organizations follow, apply and develop the above activities and procedures they can improve financial management and accomplish effective project cost management.

CHAPTER 6 – DISCUSSIONS, CONCLUSIONS, RECOMMENDATIONS

Nowadays, large organizations create and implement projects under circumstances that are characterized from different difficulties. Moreover, business competition "touches" very high levels and when all these activities taking action into global level, it is more than obvious that organizations must pay extra attention to some crucial facts. Financial and cost management concerning projects constitute an important and essential part for every organization. All these procedures and elements that this kind of management provides must be followed precisely and effectively. Organizations that fail to create an efficient financial project management meet big difficulties and the final project is far away from success.

Previous chapters describe which are the main key procedures and activities that demand attention and should be followed from organizations. Additionally, the desired results concerning project's financial and cost issues are achieved when organizations follow specific elements and it is important to mention that all these processes, tools, techniques, strategies and procedures must be approached systemically. Primal role for organizations should be an operational and effective organizational structure. After the implementation of the appropriate structure, organization's people should identify the difficulties and the obstacles that are created, concerning financial and cost project management, and act quickly and methodically. Complex and large projects demand upgraded skills, experience and people that having the efficiency to interfere effectively when difficulties concerning financial and cost issues are appeared.

The methodology that this study applies, originates from bibliography, articles, web resources and from documents with the goal to provide solutions of how organizations can achieve successful cost and financial project management. The key of success is not only to the implementation of all these elements that the author suggests according to books and

articles, but also the need from the organizations to face and approach the main objective of this study in a systemic way.

Figure 6: The systemic approach of thesis main concerns

A system is a group of interdependent parts. These parts are generally systems themselves and are composed of other parts. Systems' thinking is an approach to analysis that is based on the belief that the component parts of a system will act differently when isolated from its environment or other parts of the system. Furthermore, this approach can help organization's people to enduring solutions to problems and gives them a more accurate picture of reality and they can work with a system's natural forces in order to achieve the desirable results. It also encourages them to think about problems and its solutions with an eye toward to the long view. Main objective of systems thinking is that we must see the whole.

When organizations see the forest and not the tree, are one step closer to the success. In other words, main purpose of this study apart from the necessary processes, strategies and procedures that organizations need to apply and develop in order to achieve project's financial

goals, is to underline why it is important from organizations to think of the whole system. Appropriate organizational structures, effective financial management procedures, efficient cost management tools and project cost management techniques will not bring in the desirable results if implementing and applying separately. Organizations personnel must always think about the system because any kind of change, either the smallest one, affects the whole system. We must not forget that today's small changes generate big future problems. To this end, organizations should develop and implement all it is needed for achieving finally project's financial goals and thinking always in a systemic way.

In this research are analyzed the difficulties that organization's people face during the project's processes concerning cost and financial issues. It is been given great emphasis to these three concerns that constitute main objectives of this study, which are the appropriate organizational structures and strategies, financial-cost management concepts and key project management processes. The combination of these three concerns drives us to the desirable result which is the main goal of this study. According to author's opinion, at this manner organizations are able to achieve effective financial project management but is needed great effort and continuous improvement. This study suggests solutions and alternative approaches that will make organizational structures more operational and effective concerning project cost management.

It is mentioned that appropriate organizational structures for large and complex projects are the projectized and pure matrix structure. Moreover, are observed disadvantages and are suggested resolutions for achieving organizations appropriate structures without operational difficulties concerning project cost management procedures. Some of these resolutions are referred to the improvement of communication channels and the achievement of coordination between time, cost and performance.

Project communications management is an interesting and important part for every organization because its processes provide the critical links among people and information that are necessary for successful communications. Enterprises with lack of effective communication face up many problems and difficulties. Main project's processes meet stagnancy and project's progress is not secured. All these problems that lack of efficient communication creates have harmful impact concerning cost and financial project management. There have been observed projects that met financial failure because the lack of effective communication between organization's functions or departments. For that reason it is important from the enterprises to create a communication plan that will determine the information and communications needs of the project stakeholders. Moreover, performance reporting is necessary and managing communications in order to satisfy the requirements of project stakeholders.

Another resolution that is referred is concerning the coordination between time, cost and performance. Organizations in order to succeed in the main aspects of the project, which are time, cost and performance, need a balance in order to monitor effective these aspects. Project manager must have the necessary skills to control effectively these crucial parameters because interact with each other and must be a balanced level between them. To be more specific, if we have an increasing in time or in performance then we must increase the cost. All these three aspects must always be balanced in order to achieve the desirable project results.

Furthermore, this study is referred also to some crucial tools and techniques that financial and cost management provide and help organizations to succeed in specific areas. Earned value is one of the most important that today's organization use in order to succeed in process of monitoring and controlling. As described, Earned Value is an approach for monitoring project's progress that relies on the budgeted cost of activities completed to

ascribe value. It indicates how much of the budget and time should have been spent, with regards to the amount of work done to date. All measurements that an earned value system provides are very helpful and enterprises according to the results that these measurements offer, can predict and anticipate possible "damages" concerning project's progress. For avoiding organizations cost overruns and undesirable results that drive project behind schedule, should pay attentions to the results of crucial indices like Cost Performance Index (CPI) and Schedule Performance Index (SPI). These indices are key indicators and used to analyze cost/schedule performance data reported. To this end, earned value system is a great one and gives to organizations opportunities to achieve an effective monitoring concerning mostly project costs.

Large organizations undertaking large and complex projects should pay extra attention to these crucial procedures and elements that this thesis underlines. Achieving a successful project it is not easy and is needed great effort and continues improvement in all important parameters. All financial management key procedures, tools and techniques constitute a "powerful weapon" for every organization and when are followed and implemented with the appropriate way, enterprises are one step closer to achieve successful projects concerning the financial and cost management part.

Conclusively, the author's main intention is to lead the reader to comprehend the value of financial project management and realize which are the most important processes, activities strategies and procedures that organizations need to implement for achieving desirable results concerning financial and cost project management. After all, today's business world is characterized for its great antagonism and the need of alternative financial solutions, and that is why specific procedures and strategies that this thesis recommends are essential.

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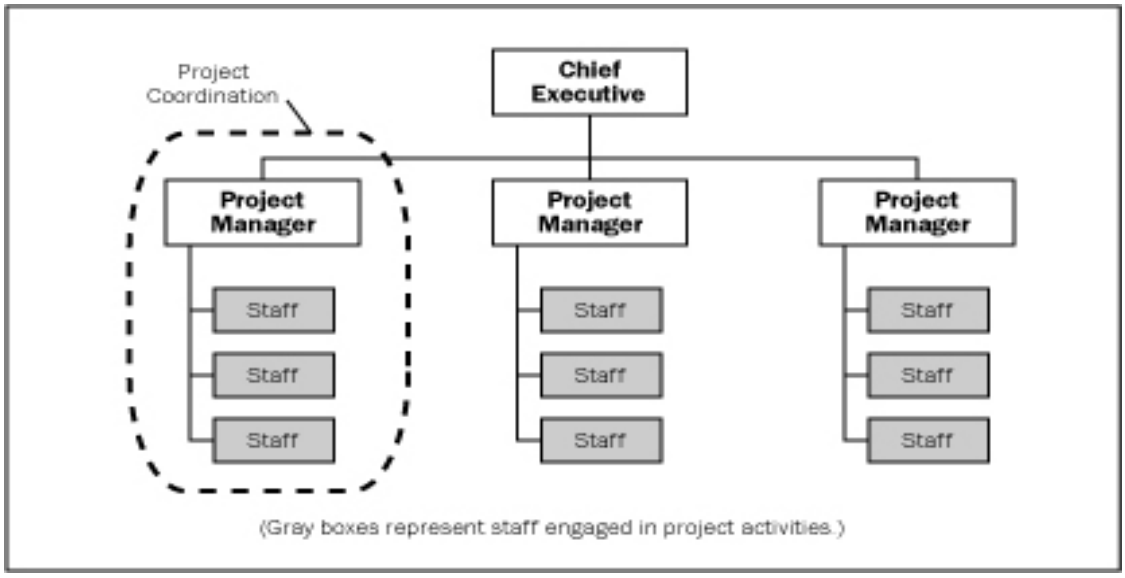
APPENDICES

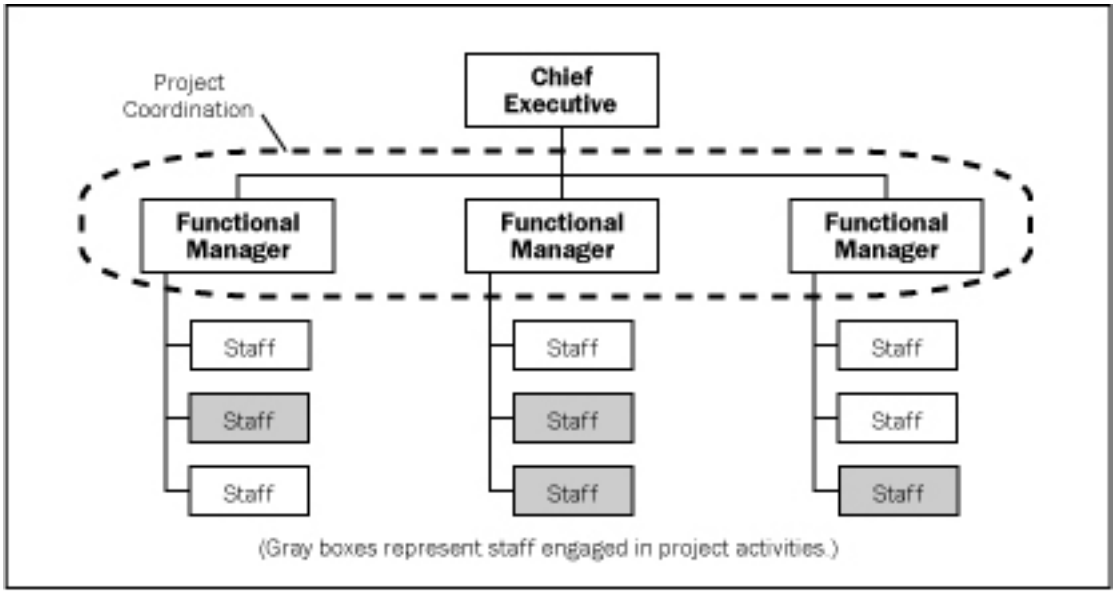
APPENDIX A: Organizational Structures

Projectized Organization Structure



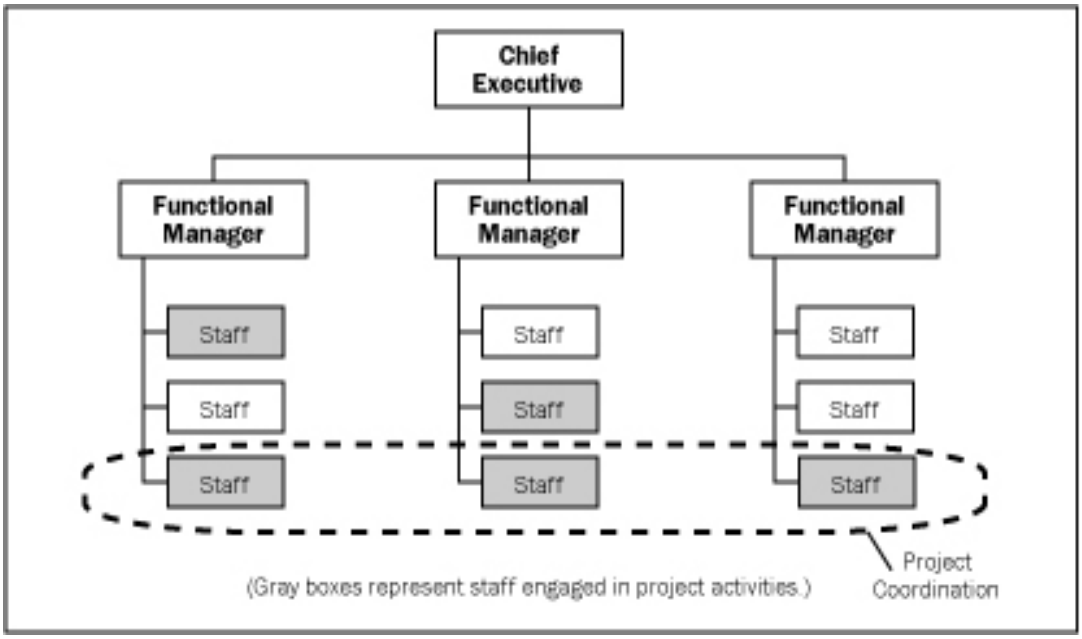
Projectized Organization Structure / PMBOK Guide 2004

Functional - Traditional Organization Structure



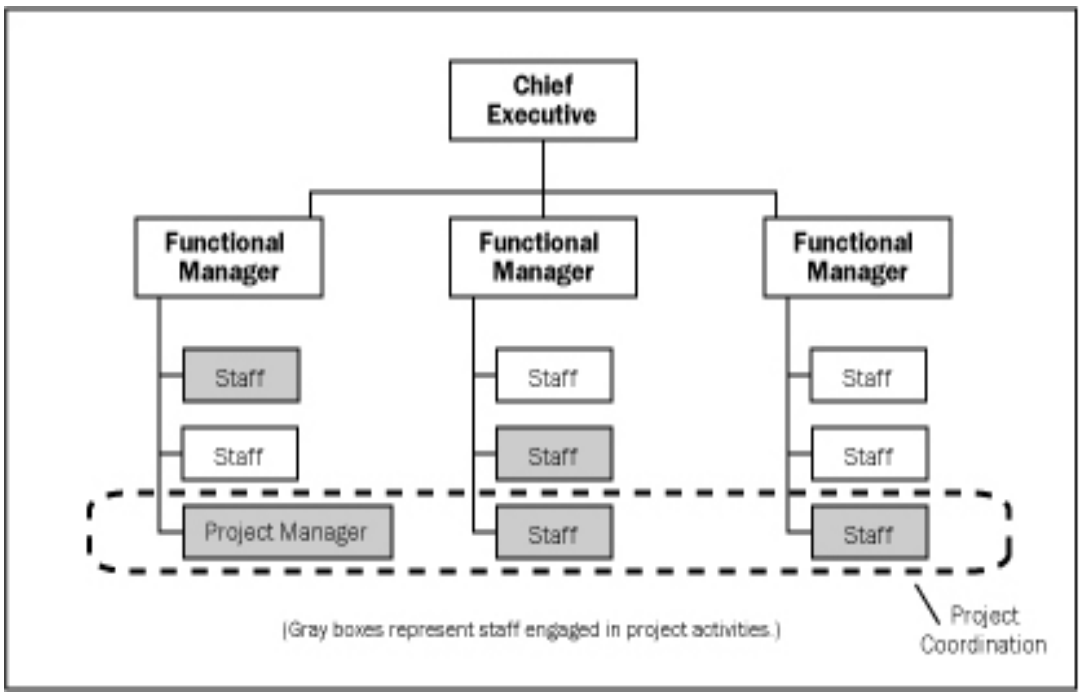
Functional Organization Structure / PMBOK Guide 2004

Weak Matrix Organization Structure



Weak Matrix Organization Structure / PMBOK Guide 2004

Balanced Matrix Organization Structure



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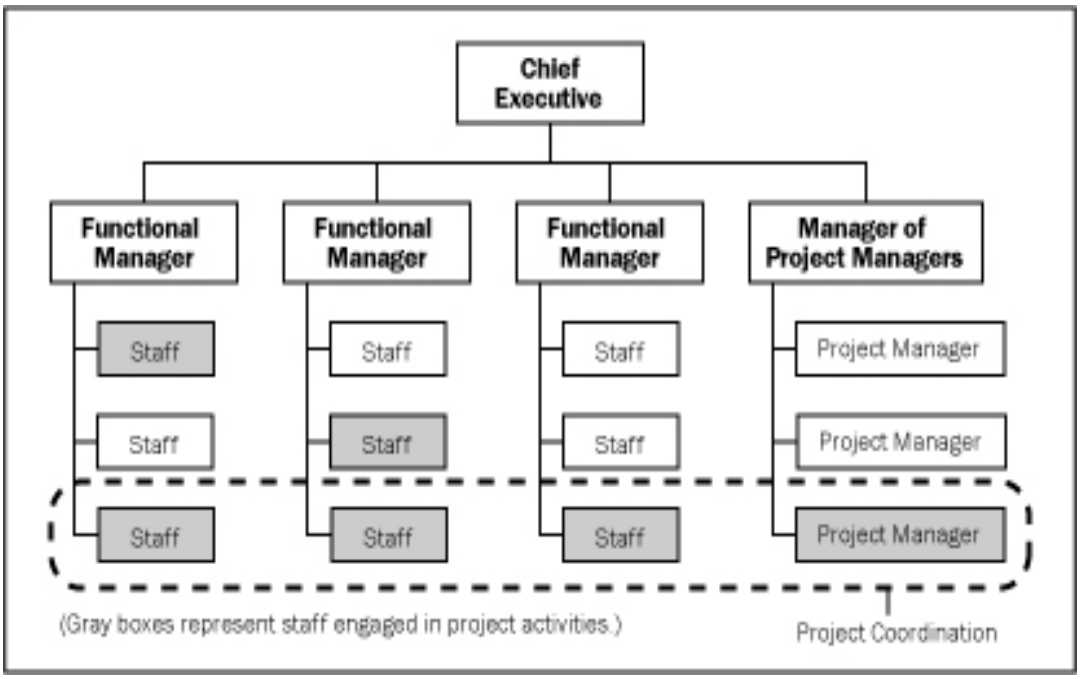
Strong Matrix Organization Structure



Strong Matrix Organization Structure / PMBOK Guide 2004