KRESTON PEDABO

Newsletter

August 2026

Welcome to this month’s Edition of our newsletter!

In today’s dynamic business environment, competitive advantage is defined not only by strategy, but by the discipline of execution. This month, we explore how operational excellence enables organisations to improve performance, build resilience, and drive sustainable growth.

We also examine the capital allowance reforms under the Nigeria Tax Act (NTA) 2025 in “Capital Allowances under the NTA: Old vs New Rules,” looking at what the shift to a straight-line relief system means for cash flow and investment planning.

This edition explores how leaders can embed operational excellence into everyday operations to create lasting value and strengthen long-term competitiveness.

Enjoy your read!

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Operational Excellence as a Competitive Advantage: Embedding Efficiency for Sustained Performance

Across industries, the organisations that consistently outperform their peers rarely do so on the basis of strategy alone. Strategy sets direction, but it is the quality of execution that ultimately determines whether strategic ambitions translate into measurable results. Operational excellence is precisely that discipline: the systematic, enterprise-wide commitment to delivering value more effectively, more reliably, and more sustainably than the competition.

Yet operational excellence remains widely misunderstood. For many organisations, it is reduced to cost-cutting exercises or productivity drives that yield short-term gains without addressing the structural conditions that limit long-term performance. True operational excellence is not a one-time initiative. It is a management philosophy and an institutional capability that must be embedded into organisational culture, leadership behaviour, and operating systems to generate enduring competitive advantage.

As competitive pressures intensify across Nigerian and African markets, organisations that invest in building genuine operational capabilities are increasingly better positioned to sustain growth, attract investment, and navigate disruption. Those that continue to rely on informal processes, reactive management practices, and disconnected performance systems are finding it progressively harder to scale, compete, or deliver consistently to stakeholders.

This article examines the strategic case for operational excellence, explores the dimensions through which efficiency can be embedded into organisational DNA, and outlines a practical framework for organisations seeking to close the gap between strategic intent and operational reality.

Operational Excellence as a Strategic Imperative

The relationship between operational performance and competitive advantage is well-established in management literature. Organisations that operate with greater efficiency can deliver equivalent or superior output at lower cost, redirect savings towards innovation and growth, and respond to market changes with greater agility. Over time, these capabilities compound into structural advantages that are difficult for competitors to replicate.

The challenge is that operational excellence is not simply a matter of working harder or cutting costs. It requires deliberate investment in the processes, systems, and people capabilities that enable an organisation to perform consistently at a high level. Without this investment, efficiency gains tend to be fragile and are easily reversed when conditions change or when leadership attention moves elsewhere.

According to the McKinsey Global Institute, organisations that systematically embed operational improvement into their management systems achieve productivity gains that are materially higher than those that pursue isolated efficiency programmes.

As noted in Kreston Pedabo's article on **operating model transformation and organisational resilience**, organisations that periodically reassess their structures, governance mechanisms, and resource allocation frameworks are often better positioned to respond to disruption and sustain long-term performance. The same logic applies at the operational level: organisations that build continuous improvement into their standard management processes accumulate performance advantages that are compounding and durable.[1]

Several factors are currently reinforcing the strategic importance of operational excellence:

- ☑ Rising input costs and margin pressure across sectors
- ☑ Increased customer expectations for service reliability and responsiveness
- ☑ Greater investor scrutiny of cost efficiency and capital productivity
- ☑ Competitive entry from digitally-enabled organisations with lower cost structures
- ☑ Regulatory requirements that demand process rigour, documentation, and accountability
- ☑ The need for scalable operating models that can support geographic or product expansion

In this environment, operational efficiency has ceased to be a back-office concern. It is a boardroom priority with direct implications for organisational competitiveness, financial performance, and long-term sustainability.

[1] Kreston Pedabo. (2025). Strategic Planning in Uncertain Times: How Businesses Can Stay Ahead.

The Dimensions of Operational Excellence

Operational excellence is not a single capability but a confluence of practices, systems, and behaviours that work in concert to improve organisational performance. Understanding its constituent dimensions is essential for organisations seeking to move beyond surface-level efficiency initiatives towards genuine, sustained improvement.

Process Design and Standardisation

Effective operational performance begins with well-designed processes. Processes that are poorly structured, inconsistently applied, or inadequately documented create variability in outputs, increase error rates, and generate unnecessary cost. Standardisation, understood as the codification of best practices into repeatable procedures, is foundational to operational excellence.

Standardisation does not imply rigidity. Well-designed processes provide a stable foundation while allowing the flexibility necessary to accommodate legitimate variation in context or customer need. The goal is consistency of outcome, not uniformity of input.

Process design initiatives typically involve mapping current-state workflows to surface redundancies and bottlenecks, applying lean principles to eliminate non-value-adding activities, standardising procedures across functions and locations, and embedding controls at critical points to reduce error and rework.

Performance Measurement and Visibility

Organisations cannot improve what they do not measure. Robust performance measurement systems covering productivity, quality, cost, cycle time, and customer outcomes provide the visibility necessary for informed management decisions and timely course correction.

Yet many organisations suffer from measurement deficits: they track activity rather than outcomes, generate data that is not acted upon, or operate with metrics that are poorly aligned with strategic priorities. These conditions create the illusion of performance management without its substance.

Effective performance measurement requires a coherent framework that translates strategic objectives into operational metrics at each level of the organisation. As highlighted in Kreston Pedabo's article on **strategic planning in uncertain times**, organisations that maintain clear line-of-sight between enterprise strategy and operational execution are better positioned to allocate resources effectively and adapt to changing conditions.[2]

Workforce Productivity and Capability

People remain the primary drivers of operational performance. Even the most sophisticated systems and processes depend on capable, motivated, and well-directed individuals for effective execution. Workforce productivity, measured as the output generated relative to people costs and effort, is therefore a critical determinant of operational efficiency.

Improving workforce productivity requires attention to role design, workload distribution, supervision quality, and the tools and information available to frontline staff. It also requires investment in skills development, particularly as organisations increasingly rely on digital systems that demand new technical competencies.

As discussed in Kreston Pedabo's article on **building a future-ready workforce**, organisations that invest strategically in capability development are better positioned to sustain performance improvements over time, since process and system changes are only as effective as the people implementing them.[3]

[2] Kreston Pedabo. (2025). Strategic Planning in Uncertain Times: How Businesses Can Stay Ahead.
[3] Kreston Pedabo. (2025). Workplace Learning: How to Build a Future-Ready Workforce.

Technology Enablement

Technology has become an indispensable enabler of operational excellence. Enterprise systems, automation tools, analytics platforms, and digital workflows allow organisations to process information faster, reduce manual effort, improve decision quality, and deliver greater consistency at scale.

However, technology investment alone does not deliver operational improvement. Many organisations have made substantial investments in enterprise systems without achieving meaningful gains in productivity or efficiency, because the underlying processes were not redesigned, the data inputs were unreliable, or the workforce was not adequately trained to use the systems effectively.

The critical insight is that technology amplifies existing operational capability, both its strengths and its weaknesses. Organisations that deploy technology onto well-designed processes, with capable and engaged people, achieve substantial efficiency gains. Those that automate poorly-designed processes or invest in systems ahead of organisational readiness often find that technology creates complexity rather than simplifying it.

Governance, Accountability, and Continuous Improvement

Sustained operational excellence requires governance structures that embed accountability for performance at every level of the organisation. Without clear ownership of operational outcomes, improvement initiatives tend to be treated as projects with defined end dates rather than as ongoing management responsibilities.

Continuous improvement, the principle that processes can always be made more effective, efficient, or reliable, is the cultural and institutional foundation of operational excellence. Organisations that institutionalise continuous improvement create mechanisms through which frontline staff can identify problems, propose solutions, and test interventions, generating a pipeline of incremental gains that compounds into substantial performance improvement over time.

Why Operational Excellence Initiatives Often Fall Short

Despite widespread awareness of its importance, operational excellence remains elusive for many organisations. Improvement initiatives are launched, initial gains are achieved, and then performance drifts back towards previous levels as attention moves elsewhere. Understanding why this pattern recurs is essential for organisations serious about breaking it.

Several factors commonly undermine the sustainability of operational improvement:

- Treating efficiency as a project rather than a management discipline
- Failing to establish clear ownership of operational performance outcomes
- Focusing on symptoms rather than root causes of operational underperformance
- Implementing systems or tools without redesigning underlying processes
- Pursuing cost reduction without addressing the process or capability gaps driving cost
- Allowing short-term operational pressures to crowd out improvement activities
- Underinvesting in change management and workforce engagement
- Measuring activity rather than outcomes, masking underlying performance gaps

The most fundamental issue is cultural. Operational excellence is not a technical problem with a technical solution. It is a management discipline that requires sustained leadership commitment, clear accountability structures, and an organisational culture in which continuous improvement is expected, recognised, and rewarded.

As highlighted in Kreston Pedabo's article on **change management strategies**, transformation initiatives require deliberate stakeholder engagement, transparent communication, and strong leadership commitment to minimise resistance and support implementation success. This is as true for operational improvement programmes as it is for broader organisational transformation.[4]

[4] Kreston Pedabo. (2024). Change Management Strategies: Overcoming Resistance in Implementation.

Embedding Efficiency for Sustained Performance

The distinction between organisations that achieve temporary efficiency gains and those that embed operational excellence as a durable capability lies in how improvement is governed, resourced, and institutionalised. The following elements are critical to making efficiency gains sustainable.

Leadership Commitment and Role Modelling

Operational excellence begins at the top. Where senior leaders visibly prioritise operational performance by attending review meetings, interrogating performance data, and holding managers accountable for outcomes, the signal cascades through the organisation. Where leaders delegate operational improvement to specialist teams while remaining disengaged from execution, improvement initiatives rarely take root beyond the team directly responsible for them.

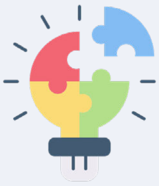
Leadership commitment is demonstrated not through announcements but through behaviour: the questions leaders ask, the information they request, and the standards to which they hold their direct reports. Organisations in which senior leadership exhibits genuine operational discipline tend to develop cultures in which operational performance is taken seriously at every level.

Clear Performance Ownership at Every Level

Sustained operational performance requires that every team and individual understands what they are responsible for delivering, how performance will be measured, and what good looks like. Ambiguity in ownership generates gaps in accountability: problems go unaddressed because no one is clearly responsible for resolving them.

Establishing clear ownership requires role clarity, well-defined performance indicators at each organisational level, regular performance review mechanisms that create constructive accountability, and escalation pathways that allow operational issues to be surfaced and resolved efficiently. Where these mechanisms are absent, operational performance tends to be driven more by individual effort and goodwill than by institutional discipline, which is a fragile foundation for sustained efficiency.

Structured Problem-Solving Capability



Organisations that sustain operational excellence over time develop internal capabilities for structured problem-solving. Rather than relying on individual judgment or escalating every issue to senior management, they establish methodologies rooted in approaches such as root cause analysis, process redesign, and lean problem-solving frameworks, through which operational problems are diagnosed and resolved systematically.

Building this capability requires investment in training, the creation of forums in which problem-solving occurs regularly and visibly, and a culture in which raising problems is encouraged rather than penalised. Organisations in which performance gaps are routinely surfaced and addressed tend to improve far faster than those in which problems are concealed or ignored for fear of adverse consequence.

Integration of Improvement into Standard Management Rhythms

One of the most common reasons operational improvement initiatives fail to deliver lasting results is that they are treated as separate from normal management activity. Dedicated improvement teams are established, projects are launched, and interventions are implemented, but the outputs are handed back to operational managers who then continue to manage in the same way as before.

Sustainable efficiency requires that improvement is integrated into the standard management rhythm: regular operational reviews that examine performance against clear targets, structured escalation of variances, disciplined follow-through on improvement actions, and periodic reassessment of processes and targets as the operating environment evolves. When improvement becomes part of how the organisation manages itself, rather than something done in addition to normal management, it is far more likely to compound into durable competitive advantage.

Kreston Pedabo's EFFECT™ Framework for Operational Excellence

To support organisations in building sustainable operational excellence capabilities, Kreston Pedabo applies the EFFECT Framework: a six-pillar model designed to address the structural, cultural, and operational dimensions of sustained efficiency improvement.

E

Evaluate Operational Realities
A rigorous assessment of current operational performance is conducted across processes, people, systems, and governance structures. Performance gaps are identified, root causes are diagnosed, and a clear baseline is established from which improvement can be planned and measured.

F

Frame the Efficiency Architecture
Processes are redesigned, standardised, and documented to eliminate waste and improve reliability. Operating procedures are aligned with strategic priorities, and key controls are embedded to reduce error, rework, and compliance risk.

F

Focus People and Capability
Workforce productivity is assessed against operational requirements. Role design, skills gaps, and supervision quality are addressed through targeted interventions that equip people to deliver consistently against performance expectations.

E

Enable Technology and Data
Technology investments are evaluated for alignment with operational priorities. Where systems are underutilised or poorly integrated, remediation plans are developed. Where new capabilities are required, implementation is sequenced alongside the process and capability foundations necessary for effective adoption.

C

Create Accountability Structures
Performance ownership is clarified at every level of the organisation. Measurement frameworks are developed that provide meaningful visibility of operational outcomes, and governance mechanisms are established that create constructive accountability for delivery.

T

Transform into a Continuous Improvement Culture
The conditions for sustained improvement are embedded into leadership behaviour, management systems, and organisational culture. Continuous improvement forums, problem-solving methodologies, and performance review rhythms are institutionalised, ensuring that efficiency gains are maintained and built upon over time.

The framework operates as an integrated cycle:
Evaluate → Frame → Focus → Enable → Create → Transform
This approach ensures that efficiency improvements are not only achieved but embedded as a durable organisational capability.

Operational Excellence in the Nigerian Context

The case for operational excellence is particularly compelling in the Nigerian business environment, where organisations face a distinctive combination of cost pressures, infrastructure constraints, talent challenges, and competitive dynamics.

Energy costs represent one of the most significant operational cost drivers for Nigerian businesses. Organisations that invest in energy management programmes, combining consumption monitoring, process adjustments, and infrastructure improvements, consistently identify material cost reduction opportunities. The same principle applies across other operational cost categories: procurement practices, logistics efficiency, inventory management, and administrative overhead all represent areas where disciplined operational management can yield substantial financial benefit.

Beyond cost, operational excellence is increasingly important for Nigerian organisations seeking to compete for regional or international contracts, attract foreign investment, or partner with multinational corporations. These counterparties routinely conduct operational due diligence as part of their evaluation process, and organisations that can demonstrate structured processes, rigorous performance management, and strong governance tend to be viewed as more credible and lower-risk partners.

As highlighted in Kreston Pedabo's article on **navigating the digital landscape**, organisations that successfully integrate technology into well-designed operational processes are better positioned to compete in an environment where digital capability is increasingly a baseline expectation rather than a differentiating factor. [4]

The Financial Reporting Council of Nigeria (FRCN), through the Nigerian Code of Corporate Governance (NCCG 2018), also emphasises the importance of accountability, transparency, and effective governance in organisational performance, all of which are directly reinforced by a genuine commitment to operational excellence.

[5] Kreston Pedabo. (2024). Navigating the Digital Landscape: Developing a Comprehensive Digital Strategy.

Conclusion

Operational Excellence as a Compounding Advantage

The organisations that outperform over the long term are rarely those that made the best strategic bets or had the most favourable market positions. More often, they are the organisations that executed consistently, managed resources efficiently, and built operational capabilities that compounded into structural advantages over time.

Operational excellence is not a destination but a discipline that must be continuously practised, reinforced, and evolved as the operating environment changes. The organisations that treat efficiency as an institutional capability rather than a project outcome are those best positioned to translate strategic ambition into sustained competitive performance.

The imperative for Nigerian and African businesses is clear. In a competitive environment characterised by rising costs, demanding customers, and increasingly capable competitors, the ability to operate efficiently, reliably, and at scale is no longer a differentiator. It is a prerequisite for long-term viability.

Harvard Business Review notes that organisations are more likely to achieve sustainable transformation when improvement initiatives are embedded into the way the organisation is managed, rather than treated as standalone programmes that run parallel to normal operations. The same principle applies to operational excellence: it must become part of the institutional fabric of the organisation, not an add-on managed at the margins.

For organisations ready to move from operational aspiration to operational reality, the path is well-understood: rigorous assessment of current performance, deliberate redesign of processes and governance structures, sustained investment in people capability, and the leadership commitment to hold the organisation accountable for continuous improvement.

For independent advisory support on operational improvement, process redesign, performance management, and organisational effectiveness, please contact Kreston Pedabo Management Consulting at:

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[6] Harvard Business Review. (2020). The Right Way to Lead a Transformation..

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Capital Allowances under the NTA: Old vs New Rules

Introduction

Nigeria's Capital Allowance Reform Under the NTA 2025: A Fundamental Shift in Timing, Compliance, and Investment Strategy

The enactment of the Nigeria Tax Act (NTA) 2025, effective 1 January 2026, represents one of the most comprehensive overhauls of Nigeria's tax system in decades. While the legislation spans multiple tax areas, its impact on capital allowances stands out as particularly significant for businesses across all sectors.

Capital allowances have long served as a critical mechanism through which companies recover the cost of capital investments. By allowing the gradual deduction of qualifying expenditure from taxable income, the regime directly influences cash flow, investment decisions, and overall tax planning. The NTA 2025 does not eliminate this benefit; rather, it redefines how and when it is accessed. At its core, the reform introduces a shift away from accelerated, front-loaded tax relief toward a more uniform and predictable system. While this may appear to be a technical adjustment, its practical implications are far-reaching.

The Role of Capital Allowances in Business Taxation

To appreciate the significance of the reform, it is important to understand the function capital allowances serve within the tax system. When businesses incur expenditure on long-term assets—such as buildings, machinery, vehicles, equipment, or technology—they are not permitted to deduct the full cost immediately. Instead, tax law allows that cost to be written off over time.

This mechanism ensures that taxable profits more accurately reflect the economic use of assets. At the same time, it provides businesses with a form of tax relief that supports capital investment.

Under the previous framework, governed by the Companies Income Tax Act (CITA), this relief was structured in a way that bring early recovery. Taxpayers could claim an Initial Allowance in the year of acquisition, often representing a substantial percentage of the asset's cost, followed by Annual Allowances spread over subsequent years.

This approach had a clear advantage: it reduced tax liability at the point when businesses had just committed significant capital, thereby easing liquidity pressures.

The Structural Shift Introduced by the NTA 2025

The NTA 2025 fundamentally moves from this model. The long-standing two-tier structure of Initial and Annual Allowances has been replaced with a single, straight-line system.

Under the new regime, relief on capital expenditure is granted annually at fixed rates determined by asset classification. These classifications have been streamlined into three broad categories:

Class	Rate	Qualifying Capital Expenditure
Class 1	10%	Building Expenditure, Agricultural Expenditure, Mast Expenditure, Intangible Assets Expenditure, Heavy Transportation Expenditure
Class 2	20%	Plant Expenditure; Agricultural Equipment Expenditure, Furniture and Fittings Expenditure Mining Expenditure Other Equipment Expenditure
Class 3	25%	Motor Vehicle Expenditure; Software Expenditure; Other Capital Expenditure

Relief is granted on each qualifying asset on a straight-line basis at the applicable rate over time, with no accelerated deduction in the first year. Additionally, a notional residual value of 1 percent of the asset's original cost must be retained in the tax records until disposal. This restructuring achieves administrative simplicity and consistency. However, it also removes the timing advantage that characterised the previous regime.

Timing of Relief: The Most Significant Change

Although the total amount of capital allowance available over the life of an asset remains broadly unchanged, the timing of that relief has shifted considerably.

Under the old regime, a company investing in plant and machinery could claim a substantial portion of the cost—sometimes up to 75 percent—within the first year. Under the NTA framework, that same investment would yield a deduction of only 20 percent annually.
The acceleration of tax relief under the previous system effectively improved cash flow by reducing early tax payments. By contrast, the new regime spreads that benefit over several years, delaying its financial impact.

For capital-intensive industries, this change introduces a real cost. Businesses must now finance a larger portion of their investments upfront, without the immediate tax relief that previously offset part of that burden.

Implications for Cash Flow and Investment Planning

The shift in timing has direct implications for how businesses plan and execute investments. Projects that were previously attractive due to early tax relief may now appear less favorable when evaluated under the new system.

Cash flow forecasting becomes more critical, as companies must account for higher tax outflows in the early years of asset acquisition. Financing structures may also need to be adjusted, particularly for businesses that rely on debt to fund capital expenditure.

Moreover, the reform may influence the timing of investments. Companies approaching the transition period may reassess whether to accelerate or defer capital expenditure, depending on how the new rules affect their tax position.

In essence, while the NTA simplifies the mechanics of capital allowances, it introduces a layer of strategic consideration that was less pronounced under the previous regime.

Enhanced Flexibility in Utilisation

Despite the delayed relief, the NTA introduces important improvements in flexibility. The removal of the 66⅔ percent cap on the utilisation of capital allowances allows businesses to fully offset their taxable income, subject only to the limit of total income.

This change eliminates a longstanding constraint that often resulted in unutilised allowances being carried forward. Under this new regime, entities that fall within the small and medium company category as delineated in the old regime, would be allowed to carry forwards remaining allowances indefinitely, providing greater continuity and reducing the risk of losing tax benefits due to timing mismatches. This aspect of the reform may partially offset the impact of slower relief, particularly for businesses with fluctuating profitability.

A Stronger Compliance Environment

Another defining feature of the NTA 2025 is its emphasis on compliance and documentation. The introduction of an explicit rule disallowing capital allowances where Value Added Tax or import duties have not been paid represents a significant tightening of the regime.

This provision effectively links eligibility for tax relief to compliance with indirect tax obligations. Businesses must now ensure that all relevant taxes associated with asset acquisition are properly accounted for and documented.

The new regime, therefore shifts the focus from mere ownership and use of an asset for trade or business as a basis for capital allowance claims, but also on the integrity of the underlying transaction. This elevates the importance of record-keeping and internal controls, particularly for organisations with complex procurement processes.

Transitional Provisions and Their Practical Impact

The transition from the old regime to the NTA framework is governed by detailed provisions designed to preserve accrued benefits while ensuring alignment with the new system.

For assets on which allowances have already been claimed, the remaining relief is recalculated based on the allowable life under the NTA. This is achieved by subtracting the number of years already claimed from the total number of years permitted under the new rates.

Where the number of years already claimed equals or exceeds the new allowable period, taxpayers are entitled to a one-time residual allowance at the point of transition. Thereafter, the asset remains in the tax records at a notional value, typically one percent (1%) of its original cost until disposal.

Assets that have been fully written off prior to the commencement of the NTA do not qualify for further allowances. While these rules provide a framework for transition, their practical application may require careful analysis, particularly for businesses with diverse and long standing asset portfolios.

Revised Approach to Asset Disposal

The NTA also introduces a simplified approach to the treatment of asset disposals. The previous system of balancing charges and allowances has been replaced with a straightforward gain or loss computation. This is because taxes on gains on disposal of fixed assets, previously governed by the repealed Capital Gains Tax Act, have now been subsumed under Total Profit in arriving at Income Tax for the period.

Consequently, under the new regime, the difference between the sale proceeds and the residual tax value of the asset referred to as “Chargeable Gains” now forms part of the taxable income.

This change removes a degree of flexibility that existed under the old system, where balancing allowances could provide tax relief in certain circumstances. As a result, businesses must now adopt a more strategic approach to asset disposal, taking into account the absence of such relief.

Enhanced Flexibility in Utilisation

The impact of the capital allowance reform is unlikely to be uniform across all sectors. Industries characterised by heavy capital investment are expected to feel the effects more acutely, particularly in the early stages of project development.

Conversely, businesses with lower capital intensity or more stable income profiles may experience less disruption. For such entities, the simplicity and predictability of the new regime may outweigh the disadvantages associated with delayed relief.

From a policy perspective, the reform aligns Nigeria's capital allowance system more closely with international practices, emphasising transparency and consistency. However, this alignment comes at the cost of reduced immediate incentives for capital investment.

Conclusion

The capital allowance reforms under the NTA 2025 represent a fundamental shift in Nigeria's approach to tax relief on capital expenditure. By replacing a front-loaded system with a straight-line model, the legislation prioritises simplicity and uniformity over accelerated recovery.

While the total value of tax relief remains largely unchanged, the timing of that relief has been significantly altered. For businesses, this change translates into higher tax liabilities in the early years of investment and a greater need for careful financial planning.

Ultimately, the success of this reform will depend on how effectively businesses adapt to the new framework. Those that proactively reassess their asset strategies, strengthen compliance processes, and incorporate the new timing dynamics into their planning will be better positioned to navigate this evolving landscape.

In a system where the rules of recovery have changed, understanding not just how much relief is available, but when it is realised has become more important than ever.

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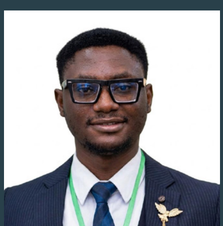

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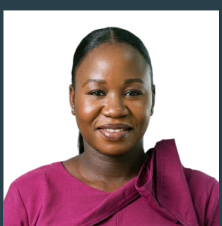

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