PERFORMANCE EVALUATION IN A DECENTRALIZED ORGANIZATION: A STUDY OF CFAO NIG. PLC.

BY

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JULY, 1995.

DECLARATION

I hereby declare that this thesis is the result of my sole effort under the supervision of Mr. O.T. Odiongenyi. To the best of my knowledge and belief, this work has never been previously presented in any submissions for an award of a higher degree. All work and articles consulted have been duly acknowledged. I assume full responsibility for any limitations contained in this research work.

7/9/2011

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CERTIFICATION

This dissertation entitled "Performance Evaluation in a Decentralized Organization: A study of CFAO NIG. PLC" by Onwuagba, Nkem Vincent meets the regulations governing the award of Master of Science Degree in Accounting and Finance of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

To my dear father who is not educated, yet cherishes the virtues of education. Papa, this is the meaning of your struggles and sacrifices.

ONWUAGBA, NKEM VINCENT

A B S T R A C T

The overall objective of this study has been to convey the message that organizations use a variety of divisional performance measurement methods, some of which are imperfect while others have some merits. This enquiry demonstrates that one of top management's most challenging jobs is to design and implement consistent divisional measurement tools that will adequately motivate divisional managers to act in the best interests within the purview of the entire corporate entity. Consequently, we were motivated to:

(1) Undertake a comparative analysis of methods of appraising the performance of divisions and divisional managers in CFAO NIG. PLC -- a decentralized organization.

(2) For this purpose, three key financial performance indicators of Profitability, ROI and Residual Income were selected for analysis. Based on these performance tools, the study seeks:

   (a) To identify the criteria adopted by CFAO for evaluating her managerial performance.

   (b) To justify the suitability of the adopted criteria vis-a-vis the criteria widely favoured in the literature. The determination of this suitability will be made in the light of: feasibility; motivation of managers and staff; and the degree of freedom from control by the corporate headquarters.

Various dimensions of related matters in the literature were reviewed

and the techniques for proper conduct of the research encompasses the administration of questionnaires and the conduct of interviews to solicit for desired information. Statistical instruments were equally employed to comparatively analyse and interpret the assembled data. The major findings and conclusions of the research are:

(1) The acceptance of two hypotheses bordering on control and motivation while a third on information flow was outrightly rejected. This shows that CFAO has well established control and corporate reward systems, but lack good communication system which is not in line with modern technology.

(2) That determining appropriate choice of performance appraisal and dysfunctional decision making are the greatest problems working against decentralization. Not surprising then that profitability measure was exposed as a subjective and biased measurement criterion, which the management of CFAO equally misconceived and subsequently misapplied in ranking divisions and their managers.

(3) That corporate management is yet to embrace the objective and widely accepted measurement techniques of ROI and Residual Income. Probably, it is oblivious of the fact that responsibilities should be delegated basically for profits in relation to the investment base.

(4) That management does not give due recognition to non profit measures of performance. The non pursuit of sound personnel development programmes for instance, would definitely ensure that vacuum is always

created in the management hierarchy and that corporate resources committed to divisions are not efficiently and effectively managed.

(5) That top corporate management grips firmly on power control measures and this no doubt defeats the very essence of decentralization.

(6) The accounting system as currently practiced in the organization is not portrayed in good light and these inadequacies are viewed to be below standard for a conglomerate of such magnitude.

The principal findings and conclusive remarks on the study are pulled together to serve as basements for our recommendations. They include among others;

(1) The discontinued use of profitability measure of managerial performance due to its subjectivity, for the more objective ROI and Residual Income measures.

(2) Upgrading the communication and accounting systems in line with modern standards.

(3) Embarking on vigorous formal and informal training programmes for management and staff to always ensure the availability of skilled personnel for all levels in the management hierarchy.

(4) The concession of more autonomy to subordinate managers for speedy decision making so as to facilitate improved performance and greater profitability.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study:

The researcher was motivated to carry out this study having experienced a decentralized organization in process and was impressed by the manner internal control is routinely enforced; how communication and information flow with the accompanied feed- back are disseminated; how sales and profit figures are regularly and consistently reported by the numerous profit centres to their regional divisional head offices; how jobs and employee behaviour are standardized; and how the divisions compete strongly to attain corporate sales and profit targets so as to qualify for the accompanied incentives. Hence, there was the desire to study the relationship between organization structure and organization performance.

As organizations grow in size and complexity, top management faces two continuing problems of how to divide activities and responsibilities and how to coordinate and control subunits for effective performance (Underdown,1986)[1].

In order to meet these increasing demands, business management has to

shift emphasis from the simplistic techniques of earlier years to a far more profound and science-based approach to administration. Consequently, authority for decision making has to be allocated to various subordinate managers, and as soon as this occurs, the result is the decentralization of the decision making process. Decentralization is a way of diversifying an organizational structure into functional, regional and product components to accord with differences in the business environment so as to enhance effective control and allow greater responsibility to lower-level managers for improved performance and greater financial return.

The structure of an organization determines the extent to which it will decentralize and this is dictated especially when the organization becomes more complex, formalized or centralized and hence proves more difficult to operate. When this situation arises, communication, coordination and control become more cumbersome and as a way out, some activities are dispersed or delegated to subordinate managers. At this point, the organization is said to have decentralized its operations. Decentralization therefore constitutes a worthy study to pursue in order to establish the claims that it reduces the probability of information overload, facilitates rapid response to changing conditions or new information, provides more detailed input into a decision, instils motivation and represents a potential vehicle for training managers in developing good judgement. This training prepares them for assuming greater authority and

responsibility as they climb in the organization hierarchy.

The degrees of decentralization are basically two-fold in theory. According to Underdown (1986), total decentralization means a minimum of control or constraint on managers and a maximum of the freedom to make decisions even at the lowest level of the management hierarchy and total centralization implies the maximum of constraint or control on managers and the minimum freedom to make independent decisions[2].

In practice however, organizations are seldom totally centralized or decentralized. Total centralization is not feasible because it is impossible for top management to attend to all administrative decisions. Equally, total decentralization implies a collection of completely separate businesses aiming at their own individual goals (Solomons, 1968)[3]. In other words, every organization is decentralized to some extent or there could be no real organization.

The extent to which an organization will be decentralized depends upon the philosophy of its top management which maximizes the excess of benefits over costs. This benefit-cost approach helps to identify the central issues. Decentralization is likely to be most beneficial and least costly when the organizational units are entirely independent of each other; then, there is more likelihood of optimal decisions and less of dysfunctional decisions.

When an organization is decentralized, the central management establishes criteria for assessing the performance of the subunits and such criteria are two fold: the first set comprises of profitability, return on investment and residual income which are financial or profit measures of performance in an organization and it is basically on these criteria that this study will mainly dwell. The second set includes productivity measurement, marketing effectiveness, personnel development and public (social) responsibility which constitute nonprofit measures of performance, but serve as prime indicators of profitability in the long run.

Devire (1979) describes performance as "... the degree of success in achieving stated objectives and this is what should be measured by performance criteria.... I can see only two reasons to use performance appraisal. One is to motivate, the other is to identify high and low performers"[4]. Therefore, performance of divisions and divisional managers can only be evaluated within the context of specific or stated objectives. If performance evaluation is successfully implemented, it will ensure growth for the firm.

1.2. Statement of the problem:

Having decided to decentralize to the aspired degree chosen by top management, there nevertheless arise the problems of communication,

coordination and most importantly, the exercise of power and control especially he behavioural aspect which is often overlooked by management. Underdown (1986) agrees that "the problem of controlling divisional operations is more complex than that of controlling a single activity within an organization"[5].

This complexity of control is particularly as a result of corporate strategy, business size and environment, technology and the occurence of transactions between various divisions of such organizations. Investment centres pose additional problems as regards the assessment of financial performance of divisions and divisional managers. However, in order to minimize some of these problems, modern business organizations have found performance evaluation very useful in their operations. Some theorists and management teams recommend the adoption of one or more criteria for performance evaluation without subjecting their claims to any research.

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The issue is even more complicated because of the fear that some organizations might be tempted to adopt inconsistent criteria in evaluating the performance of their various units. Such complication is likely to arise due to the existence of possible alternative definitions of income and investments bases including accounting techniques for analysis. This practice is more pronounced if the segments are highly interdependent in their operations as they compete strongly to maximize their own individual goals. This generates yet another

problem of dysfunctional decision making which probably constitutes the largest cost associating decentralization (Hongreen, 1982)[6].

1.3 Purpose of the Study:

1. The overall objective of this study is to undertake a comparative analysis of methods of appraising the performance of divisions and divisional managers in a decentralized organization - CFAO (Nigeria) PLC.

2. For this purpose, the following key performance indicators were selected: Profitability, Return On Investment(ROI), and Residual Income. Based on these key indicators, the study will seek:

(i) To identify the criteria adopted by CFAO (Nigeria) PLC for evaluating the performance of her divisions and divisional managers.

(ii) To identify the justification or suitability of the adopted criteria vis-a-vis the criteria widely favoured in the literature (eg. Profitability, ROI and Residual Income). The determination of this suitability will be made in the light of : feasibility; motivation of managers and staff; and the degree of freedom from control by the corporate headquarters.

(iii) To collect raw data from specific documents recorded for administration purpose in the organisation and used to analyse and compare the three divisions based on the criteria adopted. Thereafter, to make similar comparative analysis of the three divisions using the same data on other criteria in the literature. It is hoped that these analyses will facilitate the discovery of

some discrepancies in top management's judgements on performance evaluation in the organization.

(iv) To offer appropriate suggestions and recommendations based on the findings.

1.4 Significance of the Study:

The outcome of this study which seeks to comparatively analyse methods of appraising the performance of divisions and divisional managers in a decentralized organization, is hoped to be of tremendous benefit to the management teams at both the corporate headquarters and the various segments of the organization under study. It is expected to throw more light on ways of improving their performance and broadening their exposure to better corporate management.

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The business community in general, especially the management teams of similar decentralized organizations in the economy, will also find this study very useful in enhancing their managerial skills and competence. Similarly, growing firms and potential corporate investors are expected to be more informed about embracing the decentralized organization structure due to its modest contributions to greater financial gains and corporate growth.

In addition, government and its agencies are expected to gain immensely

from the resultant outcome of this study which is likely to serve as a motivator for improved performance in public establishments, especially now that the government has embraced the idea of privatization and commercialization of most of its establishments for improved efficiency and grater financial returns.

Finally, like any other research work, it is hoped that this study, besides contributing meaningfully to academic development, would also serve as a basis for further research.

1.5 Research Hypotheses:

In line with the already stated central problems confronting a decentralized organization, the study addresses the following hypotheses:

Hypothesis I

The delegation of authority and responsibility for decision making necessarily constitutes an effective means of control in a decentralized organization with the aim of attaining corporate objectives.

Hypothesis 2

The corporate reward system and attainable standards are indispensable means of motivating management and staff in a decentralized organization for improved performance towards achieving greater profitability and corporate growth.

Hypothesis 3

A good communication system, transfer pricing policy and sound allocation of controllable costs and revenues in a decentralized organization, speed up managerial decision making and subsequently enhance objective evaluation and comparison of managerial performance.

It is pertinent to note that these research hypotheses are self explanatory and they give the study a clear focus. They constitute part of the motivating factors that initially aroused interest for this research. This study is therefore expected to ascertain their significance as they apply to CFAO Nig. Plc. which is a typical decentralized organization in Nigeria.

1.6 Scope Delimitation:

Although, there exists other decentralized organizations in the country, this study is restricted to three giant divisions of CFAO (Nigeria) Plc. namely; Qualitex, Structec, and General Import/Structor respectively. Their head offices are located at Lagos with numerous branch network dispersed nationwide. The branches of these three divisions located at Lagos coordinate activities for the western region; those located at Kano coordinate for the north while those at PortHarcourt coordinate for the east.

The organization was chosen for this study because it represents one of

the oldest and largest conglomerates in the country and typifies an ideal decentralized organization, owing to its diverse nature of operation, as it engages in manufacturing and processing, construction, engineering, service, distribution and general merchandise businesses (Annual Report, 1993)[7]. Another reason that prompted this decision is as a result of the inherent difficulties encountered in sourcing relevant data from establishments for research studies, coupled with the accompanied time, efforts and money constraints involved.

The criteria considered in this study are centred mainly on Profitability, RO1 and Residual Income which constitute financial measures of performance appraisal. Finally, this study covers the period between 1989 through 1993 financial years to facilitate a meaningful assessment.

1.7 Definition of Key Terms:

Cost (Expense) Centre:

A responsibility centre that has control over the incurrence of cost, but has no control over the generation of revenue or the use of investment funds.

Decentralization:

The delegation of decision making authority throughout an organization by allowing managers at various operating levels of management hierarchy to make key decisions relating to their areas of responsibility.

Direct Expenses:

Operating costs directly traceable or incurred for the sole benefit of a specific department or division and usually subject to the control of the division manager.

Divisionalization:

Dividing or physically dispersing an enterprise into relatively autonomous units. This term is usually reserved for those situations when the division is by product, operating units, region (territory) or customer, rather than by function.

Dysfunctional Decision Making:

Decision making where the benefit to one subunit is more than offset by the costs or loss of benefit to other subunits and the organization as a whole.

Hierarchy of Authority:

Positions or control relationships of managers and subordinates in an organization through which authority stems from the highest executive level and is delegated downward. Managers at each higher level are responsible for the coordination of a larger part of the organization.

Indirect Expenses:

Operating costs incurred for the entire enterprise as a unit and therefore not subject to the control of the individual division manager.

Internal Control:

A central responsibility of top management mainly aimed at ensuring accountability for actions and the overall efficiency of operations in an

organization.

Investment Centre:

A responsibility centre that has control not only over the incurrence of cost and the generation of revenue, but also over the use of investment funds. In this study, it is also referred to as division.

Optimal Decision Making:

Decision which makes the best allocation of available resources within a responsibility centre and benefits the organization as a whole.

Organization Structure:

Defines how jobs or tasks are to be allocated, who reports to whom, and the formal coordinating mechanisms and interaction patterns that will be followed. It is normally depicted by a chart.

Performance Evaluation:

A measure based on managerial competence and the generation of profit in relation to the level of physical and financial assets employed in a responsibility centre. In this study, evaluation is used synonymously with appraisal and assessment.

Profit (Revenue) Centre:

A responsibility centre that has control over the incurrence of cost and the generation of revenue, but has no control over the use of investment funds.

Residual Income:

The net operating income that an investment centre is able to earn above

some minimum rate of return on its operating assets.

Responsibility Accounting:

An information reporting system that classifies financial data according to areas of responsibility in an organization and reports the activities of managers by including only revenue and cost categories that are controllable by a particular manager. It is also known as activity or profitability accounting.

Return On Investment (ROI):

A measure of profitability in an organization that is computed by multiplying the profit margin by the investment turnover.

1.8 Summary of Chapter:

In this chapter, we explained what decentralization means and considered its various degrees. We also stated that the structure of an organization determines the extent to which it will decentralize. Furthermore, we identified control, the appropriate choice of performance criteria and dysfunctional decision making as the greatest problems working against decentralization.

The purpose and significance of this study were clearly stated and we went ahead to delimit the scope to the use of profitability, ROI and Residual Income as the specific criteria to be given prominence in appraising the performance of three divisions of CFAO. Some hypotheses were formulated

which will be statistically tested for significance and conclusions appropriately drawn from them in later chapters, depending on the available information and outcome of our investigation and analysis.

1.9 Organization of the Remaining Chapters:

The procedural presentation of the remaining chapters in this study is explained as follows:

Chapter two shall dwell on the review of related literatures. The review will cover areas like organization structure, control systems, motivation of management and staff, transfer pricing, controllable costs and revenues and responsibility accounting centres.

In chapter three, research methodology for the study will be precisely stated and discussed. Here, an explanation of the methods of data collection and analysis techniques will be equally addressed.

Based on the outcome of the analyses and interpretations of assembled data in chapter four, summary and conclusions will be drawn in chapter five. Recommendations will also be made based on the summary.

Finally, problems and limitations encountered during the course of the research study will be discussed while avenues for further research work will equally be highlighted.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Overview:

Since World War II, an increasing number of firms have evidently found it to their advantage to move toward the decentralized type of structure. More recently, the trend has been so pronounced and mostly noticeable among those diversified manufacturing companies whose operations lend themselves readily to grouping activities on the basis of products. Prompted by this fact, William (1968) affirms that if a firm produces a line of similar products, it is likely to have a highly centralized, functional type of structure, while a firm will have a decentralized type of structure if it has diversified into a variety of products[1].

Drucker (1984) named General Motors, Dupont, Sears and General Electric - all American companies as blazing the trail of decentralization even before 1929[2]. Similarly in the Nigerian context, companies like CFAO, SCOA, UAC, PZ and Liver Brothers among others also initiated the decentralized type of organization structure.

This chapter reviews the works already done by various advocates of decentralized structure of organization. Here, dimensions of organization

structure are discussed, while the different bases or techniques employed in appraising the performance of divisions and divisional managers are also considered with particular emphasis on financial measures. The responsibility accounting system on which these measures are based is structured around three responsibility centres consisting of cost centres, profit centres and investment centres, each of which is important in defining a particular managerial sphere of responsibility and evaluating performance.

As Osaze (1990) would agree, the two main elements in performance evaluation are the target and actual performance and only a comparison between them would enable one to adjudge performance as being either satisfactory or unsatisfactory depending on the extent to which expectations are met or otherwise[3]. This chapter also considers these elements as they variously apply to different performance measurement criteria.

2.2 Concepts of Decentralization:

The concepts of decentralization entails the general views of different authors and scholars as they conceive the notion in their own perspectives. Organizations are made up of people and management accomplishes its objectives by working through people because it cannot shoulder alone the numerous decision making functions involved. This is why Warren (1985) is of the opinion that "if centralized operations become unwieldy as a business grows,

the need to delegate authority and responsibility to subordinates for portions of operations arises. This separation of a business into more manageable units is termed decentralization"[4].

Similarly, Garrison (1985) sees decentralization as "the delegation of decision-making authority throughout an organization by allowing managers at various operating levels to make key decisions relating to their areas of responsibility"[5]. These managers to whom authority is delegated are responsible for their segments performance and are accountable to their superiors at the corporate headquarters.

On a slightly different note, Drucker (1964) views decentralization policy as a federal union which means division of powers, of functions, and entails unity in action. It is one of the prerequisites of any management whether that of a business or of the military[6].

Also contributing, Gibson et al (1976) state that "the concept of decentralization does not refer to geographic dispersion of the organization's operating units; rather it refers to the delegated right of managers to make decisions without approval by higher management"[7]. In other words, delegated authority is synonymous with positions of power in the management hierarchy.

Meanwhile, this study, in addition to sharing the aforementioned opinions, views decentralization as a means of enhancing sound managerial judgement in the efficient and effective utilization of money, men and material resources towards maximizing profits and optimizing the entire corporate growth. Based on the level of profitability attained, top management employ some criteria to evaluate and compare the performance of subordinate managers and their divisions.

Caplan (1971) has noted that "the extent of decentralization can vary significantly depending on: (1) how widely throughout the organization and how deeply into the organization the right to make important decisions is dispersed; and (2) the level of responsibility that is given to the various decentralized decision makers"[8]. In essence, this view could be rightly summed up to mean wide and narrow or flat and tall hierarchies of management decision making powers in decentralized organization structures.

Various authors of management accounting basically distinguished three types of decentralized responsibility centres as forming the basement upon which delegated decision making could be exercised by divisional managers and their performance subsequently evaluated using some criteria for comparative analysis. These are: Cost centres, Profit centres and Investment centres respectively.

Stieglitz (1971) has provided valuable summary for this discussion by enumerating competence to make decisions by subordinate managers; adequate and reliable information flow; and scope of impact of the decision as the three criteria upon which the delegation of decision making authority is dependent[9].

2.2.1: Objectives of Decentralization:

Objectives are guidelines prepared by top management to establish the long-range direction of an organization. Not all forms of organizations have the same objective. For some, the objective is to produce a product and maximize profit. For others, the objective may be to render humanitarian service (e.g. the Red Cross). And yet, other organizations have as their objective, to provide government or social services (e.g. fire and water departments). However, the main objective of a decentralized organization no doubt, falls in the first category - that is, effective decision making to maximize profit. This is because it is on this basis that a division manager's performance is evaluated for comparative analysis between other managers or across divisions.

From the various definitions of decentralization, the salient points have been identified. One is the delegation of authority and responsibility for decision making to subordinate managers. This is achieved by splitting large and complex activities into manageable pieces so as to relieve top management from

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detailed operating decisions. In addition, it involves the efficient and effective control of costs, revenues and investments in responsibility centres for maximum profit coupled with accountability for overall performance to top management. In our opinion, these should essentially inform the motive of decentralization because all are jointly aimed at providing the bases for evaluating managerial performance in addition to broadening their experience and exposure for improved performance and enhanced corporate growth.

Furthermore, the desirability to attain greater market share; to provide greater flexibility and better coordination of related activities; to bring more entrepreneural quality to varied operating decisions - indeed, to ensure better management within the total enterprise, constitute the main reasons why more companies have embraced varying degrees of decentralization (Stieglitz, 1965)[10].

The objectives of decentralization must demand both a high degree of business performance and a high standard of conduct throughout the enterprise. Sharing this view, Drucker (1984) identified some objectives essential for the successful implementation of a decentralized structure as follows: "potential for growth, enough freedom granted division managers for quick and decisive decision making, healthy competition and peaceful co-existence among the divisions. This harmonious relationship strengthens both parties and makes

them more autonomous; more efficient; more responsible and better performers"[11].

However, on a more divergent note, the goal structure of business organizations is both diverse and complex because there are difficulties in identifying clear-cut and well-ordered goals. These goals are of differing importance which changes over time. They are also competitive as the attainment of one denies the attainment of another. Concluding this case, Caplan (1971) cited an example, that performance directed at one criterion (e.g. profitability), could conceivably have an unfavourable effect on other criteria (e.g. personnel development and public responsibility). In addition, certain goals may be difficult to express in quantitative terms, which means that the measurement of their attainment will be difficult as well[12].

2.3. The Influence of Organizational Structure on the Performance of a Business Entity:

Organization recognizes the need for formally coordinating the interaction patterns of organization members towards achieving a common goal or set of goals more efficiently through group effort. "Organization structure on the other hand, defines how tasks or jobs are to be allocated, who reports to whom, and the formal coordinating mechanisms and interaction patterns that will be followed" (Robbins, 1990)[13]. This is the macro view of organization structure.

Each firm tends to design its organizational structure to meet its own peculiar needs. In other words, the way people and jobs are put together with defined roles and relationships is an important determinant in whether an organization is successful or not.

The determinants of organization structure include: the organization's overall strategy; size or the number of people employed by the organization; the degree of routineness in the technology used by the organization to transform its inputs into finished products or services; the degree of uncertainty in the organization's environment; and the self-serving preferences of those individuals or groups who hold power and control in the organization. All these determine to a greater extent the level of performance attainable by business enterprises from time to time.

Organization structure itself is made up of three basic components, each of which in turn is important in affecting or influencing performance in an organization in its own unique way. These components according to Robbins (1990) include:

1. complexity
2. formalization
3. centralization[14].

They constitute the micro view of organization structure. There has been no one

best approach to the study of organizations, their structural components and overall functioning as each organization theorist tries to tackle the issue in his own peculiar away.

However, the three components as stated above are more comprehensive as they encompass in one way or the other the views of most authors. Although, this discussion will be purely centered around them, but for a clearer picture and understanding of organizational structure, they need be further broken down into four primary activities namely: "job definition (specialization) or division of labour, departmentalization (grouping and coordination) of jobs, determining appropriate spans of control, and delegation of authority and responsibility (decentralization)". (Gibson et al, 1976)[15].

2.3.1: Complexity:

This refers to the degree of differentiation that exists within an organization. It has three dimensions: Horizontal, vertical and spatial differentiation. Horizontal differentiation refers to the degree of specialization and the division of labour. It is measured by calculating the number of occupational specialties and the average length of training required by each. It can be stated that the larger the number of different occupations within an organization that require specialized knowledge and skill, the more complex that organization is. This is because diverse orientations make it more difficult for organizational members to

communicate and even more difficult for management to coordinate their activities.

CFAO Nig. Plc., the organization under study, has many specialized divisions which engage in numerous business activities cutting across manufacturing and processing, engineering and construction, technical sales and services, distribution and general merchandising among others[16]. For enhanced performance and greater profitability, these divisions also engage the services of specialized personnel both skilled and unskilled to work in their specialized departments.

Vertical differentiation refers to the depth of the organization and is measured by counting the number of hierarchical levels separating the chief executive from the employees or operators working on the organization's output. As the number of hierarchical levels in the organization increases, the greater the differentiation, and hence complexity. The more levels that exist between top management and operatives, the greater the potential of communication distortion, the more difficult it is to coordinate the decisions of managerial personnel, and the more difficult it is for top management to oversee or monitor the actions of operatives.

Vertical differentiation may be understood best as a response to an

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increase in horizontal differentiation. By virtue of its enormous size and complexity, CFAO Nig. Plc. has a tall hierarchical structure which comprises of several management levels (see Appendix A). The divisions are equipped with advanced information technology for speedy communication and feedback. This also enhances smooth coordination and control in the conduct of the divisions' operations.

Spatial differentiation refers to the extent to which the location of an organization's offices, plants, and personnel are dispersed geographically. It is measured by the number of separate locations, the average distance of these sites or divisions from corporate headquarters, and the proportion of the organization's personnel located at these separate units. Spatial differentiation can be thought of as an extended dimension to horizontal and vertical differentiation. That is, it is possible to separate tasks and power centres geographically.

As one of the oldest conglomerates in Nigeria, CFAO engages in diverse nature of businesses as already mentioned. This informs the numerous divisions, subsidiaries and affiliated companies under the parent organization. All the divisions have their headquarters located at Lagos under the headship of general managers while a large network of branches under subordinate managers criss-cross the country (see Appendices B-D). This in essence means

that the organization's offices, plants and personnel are geographically dispersed nationwide. The primary motive is aimed at achieving improved performance and greater profitability for the business entity.

Summarizing these three dimensions of complexity in organization structure therefore indicates that the greater the horizontal differentiation, holding the span of control constant, the taller the hierarchy of position power. Furthermore, the more geographically dispersed the organizational units, the more complex the organization. And finally, "the more complex the organization, the greater the difficulties of communication and information flow, coordination and control" (Richard, 1977)[17]. When these difficulties arise, the operation of a business enterprise on the whole will be adversely affected and more specifically, the levels of performance and profitability will be severely reduced to the barest minimum.

The complexity of an organization influences greatly the performance of a business entity. This is so because organizations contain subsystems that require communication, coordination and control if they are to be effective. The more complex an organization, the greater the need for effective communication, coordination and control devices. In other words, as complexity increases, so do the demands on management to ensure that differentiated and dispersed activities are working smoothly and together toward achieving the organization's goals.

Recently, CFAO restructured its management and activities to cut costs and become more responsive to customers and competitors. But available facts from interview extracts on senior managers revealed that complexity, formalization and centralization constitute the main motive behind such exercise so as to improve on communication, coordination and control. Complexity means a lot to managers because it creates different demands and requirements on managers' time. The higher the complexity, the greater amount of attention they must pay to dealing with problems of communication, coordination and control.

Management's decision to increase differentiation is made typically in the interests of economy and efficiency. But these decisions create cross-pressures to add managerial personnel to facilitate control, coordination and conflict reduction. So, the economies that complexity creates may be counter balanced by the increased burden of keeping the organization together (Richard, 1977)[18]. It is common knowledge that organizations have a natural propensity to grow to survive. Over time therefore, those organizations that survive will tend to become more complex as their own activities and the environment around them become more complex.

One can then conclude that an understanding of complexity is important and influential to the performance of a business entity, for it is a characteristic

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that managers should look for and expect if their organization is healthy. Therefore, management can then be expected to choose the lowest degree of complexity to maximize control consistent with the satisficing criterion for organizational effectiveness.

2.3.2 Formalization:

This is the extent to which jobs within the organization are standardized. The higher the formalization, the more regulated the behaviour of the employee. Formalization can be achieved on- the-job where the organization makes rules and procedures to regulate what employees do. Similarly, formalization process can be achieved of-the-job as characterized by the training professional employees receive prior to joining the organization.

The professionalization they have undergone has socialized them to think and behave in accordance with the norms of their profession. The most popular formalization techniques are the selection process for identifying individuals who will fit into the organization; role requirements; rules, procedures and policies; training and having employees undergo rituals to prove their loyalty and commitment to the organization. A combination of on and off-the-job formalization processes are adopted in CFAO.

The formalization process is also important in influencing the performance

of a business enterprise. Organizations use formalization because of the benefits that accrue from regulating employees' behaviour. Formalization specifies strict standards of employee grooming. Standardizing behaviour reduces variability in an organization. The management of Dumex Industrial (a division of CFAO) for instance, can be confident that its product (maltex drink) will look and taste the same regardless of where in the world it is produced and consumed. Dumex can infact attribute its corporate success to its product consistency and uniformity worldwide. Standardization therefore promotes coordination for effective performance in an organization.

The economics of formalization also should not be overlooked. The greater the formalization, the less discretion required from a job incumbent. Arlyn (1976) quickly points out here that "this is relevant because discretion costs money... Jobs that are low on formalization demand great judgement. Given that sound judgement is a scarce quality, organizations have to pay more (in terms of wages, salaries and benefits) to acquire the services of individuals who possess the ability"[19]. For example, to secure the services of a plant purchasing officer who can perform purchasing duties efficiently and effectively with no formal directives, might cost an organization much.

However, if the purchasing agent's job is highly formalized to the point that a comprehensive manual is available to resolve nearly every question or

problem that might occur, this job may be done just as competently by someone with far less experience and education for lesser fee. This explains incidentally, why many large organizations including CFAO Nig. Plc. have voluminous and lengthy accounting manuals, personnel manuals, and purchasing manuals. These organizations have chosen to formalize jobs wherever possible so as to get the most effective performance from employees at the lowest cost.

2.3.3 Centralization:

This is the most problematic of the three components of organization structure. It considers where the locus of decision making authority lies. In some organizations, decision making is highly centralized. Problems flow upward, and the senior executives choose the appropriate action. In other cases, decision making is decentralized. Authority is dispersed downward in the hierarchy. It is important to recognize that, as with complexity and formalization, an organization is not either centralized or decentralized.

In the opinion of Blunt (1983), "centralization and decentralization represent two extremes on a continuum. Organizations tend to be centralized or tend to be decentralized or falls somewhere in between. The placement of the organization on this continuum however, is one of the major factors in determining what type of structure exists"[20]. From available facts, the exercise of power and control in CFAO falls in between as stated above. Subordinate

managers have some freedom to express their views in running their divisions.

For instance, every financial year, budgets (targets) are set for divisions and branches in CFAO and division managers have responsibility over all accruing revenues and expenditures directly incurred in running their divisions (see Appendices E-I). Most importantly, they take charge of assets invested in their divisions which they employ to generate revenues and equally reinvested in other viable commercial ventures. Some of these activities include conceiving and establishing new branches, importation of materials and the acquisition of equipments of certain specifications. Beyond this specification, clearance is sought from the corporate headquarters.

Similarly, division managers negotiate for contracts and bank loans in addition to taking legal and transfer pricing decisions. Prices are fixed for branches within each division whereas, they are negotiable between divisions (intra-company) and external transfers. On the other hand, investment decisions involving corporate projects of significant or strategic nature are the exclusive preserve of top management. Some of such projects include the establishment of new divisions, mergers, acquisitions including reorganization and restructuring of corporate activities.

The degree of control that an individual holds over the full decision

making process can be used as a measure of centralization. The five steps in this process are: collecting information, processing and interpreting such information, making the appropriate choice, authorizing and executing action. Decision making is most centralized when the decision maker controls all these steps. Like complexity and formalization, centralization is also important and contributes meaningfully to influencing the performance of a business enterprise. It represents a range from high to low - that is, centralization to decentralization.

As already described, in addition to being collections of people, organizations are decision making and information processing systems. Organizations facilitate the achievement of goals through coordination of group effort. Furthermore, decision making and information processing are central for coordination to take place. Yet, "information itself is not a scarce resource in organizations as wrongly believed. This is because, advanced information technology currently in practice, provides managers with bundles of data to assist in making decisions. The scarce resource in actual fact is the processing capacity to attend to information" (Blunt 1983)[21]. We live in a world that overwhelms us with information flow and this assists greatly in speeding up managerial decision making for effective performance in business entities.

Managers are limited in their ability to give full attention to processing the data they receive. After that limit is reached, further input results in information

overload. To avoid reaching the point where a manager's capacity is exceeded, some of the decisions can be assigned or delegated to others. With this therefore, the concentration of decision making at a single point can be dispersed and this dispersion is decentralization. Reasons that prompt organizations to decentralize include; reduction of information overload; rapid response to new information; provision of more detailed input to decision; instilling motivation to employees through decision making participation and training managers in developing good judgement which prepares them for assuming greater authority and responsibility.

However, it is interesting to note that what obtains currently in practice is pseudo decentralization. That is, as Robbins (1990) puts it, "top management will create the appearance of delegating decisions downward but use information technology for feedback. This feedback allows those in control to monitor lower-level decisions closely and to intercede and correct at any time, the decisions they do not like"[22]. If people are allowed discretion, but are permitted the opportunity to make decisions because their performance can be rapidly and accurately assessed, it seems that there has been no real sharing of control, influence or power in the organization. It is conceivable then, that the goal of decentralization is not always desirable due to its deceptive application using advanced information technology.

Meanwhile, there are conditions under which centralization is preferred. When a comprehensive perspective is needed in a decision or where concentration provides significant economies, centralization offers distinct advantages. Top level managers are obviously in a better position to visualize organizational problems by choosing strategic actions that will be consistent with the best interests of the whole organization rather than merely benefitting some special-interest group.

This discussion leads to the conclusion that either high or low centralization may be desirable, and situational or environmental factors will determine the appropriate degree. But virtually, all organizations process information so that managers can make decisions. As such, attention must be given to identifying the most effective way in which to organize where those decisions should be made. This will in turn go a long way in enhancing the attainment of corporate objectives through effective performance.

2.4. Profit Centres and Decentralization:

Profit centres are decentralized units of an organization in which the managers have the authority and responsibility to make decisions that affect both costs and revenues with the sole aim of maximizing profitability for the units and the firm as a whole. Profits serve as the basis of evaluating and comparing the performance of managers in an organization decentralized by profit centres. Top

management employs some criteria in measuring performance so as to facilitate comparative analysis between sub-unit managers.

Profit centres represent one of the three types of responsibility centres that serve as basements for exercising delegated decision making by subordinate managers in decentralized organizations. In a sense, profit centres may be viewed as separate businesses within a business. This is why Dean (1982) is of the opinion that since profit centres have some autonomy to operate independently and act like economic entities free to trade within and outside the firm, their managers would be greatly motivated to always maximize their contribution profits as well as that of the overall firm[23]. This is because, as earlier mentioned, the level of profitability attained forms the sole basis of appraising their performance during any given period and on this, they are held responsible by top management to account for their stewardship from time to time.

Responsibility accounting reports through which the performance of profit centre managers is communicated, is a system of accounting in which costs are assigned to various centre managers according to where responsibility and control of the costs is deemed to rest. The aftermath of such report is that managers are held responsible for variances resulting from differences between budgeted and actual results. Heitger and Matulich (1980) have listed four assumptions embodied in responsibility accounting:

1. Managers should be held responsible for the activities occurring in the area of the organization over which they exercise control.
2. Managers should strive to meet the goals and objectives established for them and for their segment of the organization.
3. Managers should participate in establishing the goals against which their performance is measured.
4. Goals should be attainable with efficient and effective performance[24].

Because profit centre managers make decisions regarding costs and revenues, their responsibility accounting reports are normally in the form of income statements. These income statements for individual profit centres, report condensed costs and revenues through either gross profit or operating income. Alternatively, profit centre income statements may include a breakdown of direct and indirect revenues and expenses by responsibility for their incurrence and may identify contributions made by each profit centre manager to overall corporate profit. Income statements prepared in this alternative format are said to follow the departmental (or contribution) margin approach to responsibility accounting.

The concepts of responsibility accounting are very important, since they assist in defining a manager's sphere of responsibility and also in determining how his performance will be evaluated and reported upward in the organization.

Warren (1985) has therefore identified three formats to responsibility accounting for decentralized profit centres through which the performance of their managers are evaluated, compared and communicated. These are:

(1) Gross Profit

(2) Operating Income

(3) Departmental (contribution) margin[25].

2.4.1. Gross Profit:

It is one of the most significant figures in the income statement of a business enterprise. Since the sales and the cost of merchandise sold are both controlled by the profit centre manager, the reporting of gross profit therefore forms the basis of measuring and evaluating his performance. Top management applies some measurement criteria on the gross profit and uses the result for comparative analysis between managers or across profit centres. This means that two or more profit centre managers can be compared on the basis of their realized gross profit during any given period, and the manager with the highest profit is adjudged the best by top management.

Gross Profit is also useful in cost analysis and control. All these reports aid management in directing its efforts toward obtaining a mix of sales that will maximize profits through improved performance by subordinate managers. The greatest problem of this format is that it gives a misleading profit figure as not all

general expenses are deducted before arriving at the profit figure.

2.4.2 Operating Income:

When profit centres reporting extend to operating income, each centre manager is assigned not only the related revenues and costs of merchandise sold, but also that part of operating expenses incurred for its benefit. Such expenses are grouped under sales, administrative, general and miscellaneous expenses and some of them include salaries, advertisements, rents, depreciation, interests and taxes.

If the profit centre manager properly manages and controls these expenses relating to his centre, he would achieve greater operating income since this forms the basis on which top management evaluates his performance. Also based on the realized operating income for any particular period, comparative analysis could be carried out between profit centre managers (or across centres) to determine who excels. This is made possible through their level of profitability and contribution to overall corporate growth. The final result of the analysis guides top management in making other decisions such as determining which manager should be rewarded or penalized or forming opinion about the future corporate activities.

The major problem of operating income is that of determining the actual

amount of an expense chargeable to each profit centre which is not always a simple matter, although, some may be identified with the appropriate centre concerned.

2.4.3 Departmental (Contribution) Margin:

This approach to responsibility accounting for evaluating and comparing the performance of profit centre managers arises because of the shortcomings associated with the gross profit and operating income formats. These problems include the possibility of the use of arbitrary bases by corporate management in allocating operating expenses, which is likely to yield incorrect amounts of income or profits generated by profit centres, and consequently not objectively appraising the managers' performance. In addition, the reporting of operating income by profit centres and its subsequent usage to appraise the performance of such centre managers may be misleading, since the centres are not independent operating units. They are segments of a business enterprise and no single unit of a business can earn an income independently.

Prior to the preparation of an income statement in the contribution margin format, it is necessary to differentiate between operating expenses that are direct and those that are indirect. As a result, the manager of each profit centre can be held responsible for operating expenses traceable to his centre. A reduction or efficient management of the direct expenses by the manager for instance, will

have a favourable effect on the margin earned or realized by his unit and contribution to the net income of the enterprise. This control measure is very important because the manager's performance is evaluated and compared by top management on the basis of the profit margin he is able to generate at any specified time period.

Just like the gross profit and the operating income, the contribution margin is also used for comparative analysis between two managers or across centres by top management, and the subordinate manager with the highest profit margin is adjudged the best. Also based on the overall result of the analysis, top management can reward or penalize each manager depending on his level of performance.

This contribution margin income statement format, may be very useful to management in making sound decisions and plans for future operations. For instance, an analysis of this type can be useful when the discontinuance of a certain operation or centre is being contemplated. And this situation can only arise if it is clearly established that the performance of a profit centre manager has been evaluated and weighted to be below expectation.

2.5 Accounting Tools and Performance Evaluation in Investment Centres:

The need for sound appraisals of executive performance has been recognized

in industry for many years. The initial efforts in this direction tended to be subjective and usually consisted of appraisals of personal traits or preconceived characteristics that management personnel were presumed to have, rather than on actual performance results. The lack of performance criteria that are related to job responsibilities and the increasing use of executive plans that are subjective and unquantifiable, were some of the shortcomings of this early appraisal efforts.

However, in recent years, companies have taken steps to overcome these aspects of subjective appraisals and to meet the growing need for judging performance in terms of individual targets through accounting (mathematical) approach. Again, this initiative has its own serious short-comings which revolves around the fact that once the individual targets have been established, mathematics takes over the basic responsibility of management to manage (Patton, 1982)[26].

In investment centres, accounting information assists managements in both divisions and corporate headquarters for decision making, and also guides top management in appraising the performance of divisions and divisional managers. It is essential therefore in controlling the operations of a decentralized organization through the use of responsibility accounting information.

According to Warren (1985), since investment centre managers have responsibility for revenues and expenses, Operating Income (or profitability) forms an essential means of reporting. Furthermore, because investment centre managers also have responsibility for the assets invested in the centres, two additional measurement criteria of rate of Return on Investment (RO1) and Residual Income are used for evaluating investment centre performance[27]. Each of these measurement criteria will be described in turn.

2.5.1 Operating Income (Profitability):

This is one of the bases for assessing the profitability of investment centres in decentralized organizations by assigning each division manager not only the related costs and revenues of merchandize sold, but also that part of operating expenses incurred for its benefit. Operating income is a useful measure in evaluating across two or more divisions of similar operations to know the manager who makes more profit. However, its major problem is that it does not reflect the amount of investment in assets nor cost of capital committed to each division. Again, there is the problem of properly evaluating between two or more divisions if the depreciation polices or methods adopted in such divisions vary. Operating Income is computed as follows:

Operating Income = Operating Revenues - operating expenses (costs).

2.5.2 Return On Investment (RO1):

This is a tool used for evaluating profitability and managerial performance in an investment centre by dividing income with the investment in operating assets and expressed as a ratio or percentage. Alternatively, profit margin is multiplied by the investment turnover. The main advantage or RO1 analysis compared with other profitability measures is that it relates an earnings performance to the investment in resources employed to achieve the earnings. In other words, the three factors subject to control by divisional managers (i.e. revenues, expenses and invested assets) are considered in its computation. Thus divisional performances can be compared even though their sizes may vary significantly. The higher the RO1, the more effectively the division is utilizing its assets in generating income.

The variants of ROI computations are:

(1) $$ROI = \frac{\text{Operating Income}}{\text{Invested assets}}$$

(ii) Expanded ROI formular:

ROI = Profit margin x Investment turnover

$$= \frac{\text{Operating Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Invested assets.}}$$

The expanded version of the ROI formular is useful in management's evaluation and control of decentralized operations and this aids decision to

expand business activities. It also emphasizes the fact that ROI is actually a function of two variables; (1) Profit margin, which is the ratio of operating income to sales and (2) Investment turnover, which is the ratio of sales to invested assets.

Garrison (1985) is of the opinion that to achieve a desired ROI, management must control both variables. ROI can also be improved by: increasing sales; reducing costs (expenses); or reducing investment in assets, or by a combination of all three factors[28]. The profit margin component focuses on profitability by indicating the rate of profit earned on each sales naira amount, while the investment turnover component focuses on efficiency in the use of assets and indicates the rate at which sales are being generated for each naira amount of invested assets.

A major disadvantage of the ROI as a performance measure and control is that it may motivate divisional managers to reject new investment proposals, even though the rate of return on such investments exceeds the minimum considered acceptable by the firm. Another problem with ROI as a measurement criteria is the tendency to place too much emphasis on its usage for performance evaluation across divisions without recognizing its subjective nature and the difficulties associated with obtaining quantitative measures of performance relative to other important goals. For example, comparing a consultancy

department that is made up mainly of intangible human resources and a manufacturing division made up mainly of tangible assets is problematic.

Still yet, other problems associated with ROI as a control measure include determining how revenues are measured, particularly when part of a division's output is transferred to another division rather than being sold externally and determine which costs are deducted in determining divisional operating costs - that is, if it would be only those that are controllable by the division, or also a portion of central corporate administrative and staff costs.

There are also the additional problems of defining or measuring investments which hinder objective evaluation across divisions using ROI. These problems include determining:

(1) What assets to be included in the investment base, and

(2) What valuation method or basis to be used.

For (1), various alternatives for calculating the investment base include: total assets; working capital plus other assets; total assets employed; and stockholders equity. For (2), there are two valuation bases namely: historical cost and current replacement cost.

No practical method provides a perfect measure of profitability for the divisions. Therefore, if one has to compare ROI across divisions, one has to

explain the basis of determining the ROI in such divisions. Meanwhile, Davidson et al (1985) are of the opinion that the major problem is making a definite choice and developing a reasonable policy to follow it consistently across time and across divisions so that effects of any biases could be stabilized appropriately[29].

Perhaps, the opinion of Mauriel and Anthony (1966) seems to summarize these shortcomings of ROI thus: "...`generally accepted accounting principles' for calculating corporate profit and investment are also applied to investment centre accounting. Unfortunately, these principles may cause distortions in divisional ROI or residual income measures. As a result, management may be misled as to both the absolute size and the trend of an investment centre's contribution to corporate ROI"[30]. Furthermore, a book-ROI index, strictly followed, can discourage growth, provide misleading evaluations of a division manager's performance, and possibly even lead top management to direct corporate expansion funds away from the most promising divisions.

2.5.3 Residual Income (RI):

This additional measure of divisional performance evaluation is useful in overcoming some of the defects associated with profitability and the ROI, by taking the cost of capital into consideration. RI is the amount of income earned in excess of a certain minimum return placed on the investment in operating assets. Operating assets include cash, accounts receivable, inventory, fixed assets and

all other assets held for productive use in the organization. Examples of non operating assets include land being held for future use or a factory building being rented to someone else (Garrison, 1985)[31]. RI is computed as follows:

RI = (Operating Income) - (Investment in Operating Assets) x (Percent Capital Charge)

= (Operating Income) - (Cost of Capital).

When the RI is positive, the income from an investment in operating assets is greater than the firm's required return on investment or cost of capital and therefore, the investment is attractive. A negative RI indicates that an investment's return is inadequate to satisfy the minimum amount required by management. When RI is used to evaluate performance, the objective is to maximize its amount instead of the return on investment.

The major advantage of RI as a performance measure is that it not only gives consideration to a minimum rate of return on investment, but also to the total magnitude of the operating income earned by each division. RI also has its own shortcomings. There is the problem of income and problem of measuring cost of capital. Another problem as noted by Engler (1990) is that "relying exclusively on residual income may also present an incorrect signal (like the ROI). This is because when investment centres are of different sizes, residual income used by itself may cause an investment centre manager to be treated unfairly"[32].

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Put more clearly, RI is an absolute number, not deflated by the size of the division; a larger division therefore, will find it easier to earn a given amount of RI than a smaller division, not necessarily because they are better managed but simply because of the bigger numbers involved.

Comparison of the Use of ROI and RI:

Shwayder (1970) has identified three aspects of the superiority of RI over ROI as follows:

(1) Motivation of divisional manager

(2) Evaluation of divisional manager

(3) Sensitivity of performance indicator to changes in the cost of capital[33].

RI technique has an advantage over ROI because it prevents the possibility of a division manager being motivated to reject an opportunity to earn a return on investment acceptable to the firm as a whole, but below the ROI of the investment centre. Thus, RI encourages profitable investments in many situations where the ROI approach might discourage them. In addition, using RI, all divisions will have the same profit objectives for comparable investments, while the ROI approach provides an erroneous incentive for investments.

In comparing or evaluating the performance of divisions and divisional

managers, the use of RI demands straight-forward calculation while the ROI demands more elaborate calculation. Therefore, the RI approach is easier for a manager to understand and control because he is asked to maximize a number rather than a percentage (ratio).

Finally, using the RI approach, the division manager is more sensitive to modifying the division's required rate of return as the firm's cost of capital changes in the capital market. This means that the RI has a great deal of flexibility in that the rate can be varied from time to time as a means of implementing corporate capital investment policies.

2.6 Transfer Pricing and Decentralization:

Transfer pricing refers to the prices charged by one segment (division) of a firm for products or services transferred to another segment of the same firm. It can also be described as inter-company billing of goods and services. When these inter-company transfers are made, the revenue of the selling segment becomes the cost (expense) of the receiving segment. A sound transfer pricing relationship is needed to maintain the independence of the divisions and to produce a sound accounting information that will guide the corporate management in evaluating the divisional performances.

The objective of transfer pricing is to encourage divisional managers to transfer goods and services between their divisions so as to maximize overall

corporate income. This is because according to Davidson et al (1985), "the problem of what transfer price to set between segments of a company has no easy solution and often leads to protracted and heated disputes between.... managers. Yet, some transfer price must be set if data are to be available for performance evaluation of the... divisions of a company"[34].

Helmkamp (1987) has identified three basic approaches to transfer pricing decisions common in practice:

1. cost-based transfer prices
2. market-based transfer prices
3. negotiated market-based transfer prices[35].

2.6.1 Cost-Based Transfer Pricing:

A transfer price that is based on some form of the selling (transferring) segment's costs. It is the most basic form of transfer pricing. When the segment transferring products or services is operated as a cost centre, a cost-based transfer pricing policy is sound because no attempt is made to measure revenue and profit. However, this study is of the view that the cost price approach is inappropriate for decentralized operations organized as profit or investment centres, because such division managers have responsibility for both revenues and costs. The use of cost as a transfer price therefore, ignores the supplying division manager's responsibility over revenues.

In other cases, the absence of an established market price may force a

firm to use some variations of cost, such as cost plus a certain mark-up. However, because of the complications of different costs for different purposes (which can lead to dysfunctional decisions), if a firm decides to settle on a cost pricing policy, it must clearly define and determine the costs to be included in the price charged by the transferring division. Some combination of actual costs, standard costs, full (absorption) costs, and variable costs can be used to define the cost-base used for transfer pricing.

A major problem with cost-based pricing is that the selling segment may have no incentive to efficiently control costs as these inefficiencies are automatically passed on to the buying segment. However, despite these shortcomings, cost-based pricing policy is fairly in common use. Advocates of this pricing policy argue that they are easily understood and highly convenient to use. Garrison (1985) is of the opinion that if transfer prices are to be based on cost, then standard costs rather than actual costs should be used as this will at least, eliminate the problem of passing inefficiency from one division to another[36].

2.6.2 Market-Based Transfer Pricing:

This is a transfer price that is based on essentially the same amount the selling division of a firm would receive from an outside sale. If a readily identifiable external market exists for the products or services transferred, a market-based transfer pricing excels. Ricketts and Jack (1988) also share this

view as they explained that "a market-based transfer price is the ideal transfer price because it adjusts automatically for changes in supply and demand, motivating managers to make decisions that produce the greatest possible profit for a firm"[37].

This pricing policy is designed for use in highly decentralized organizations as divisional managers freely express their independence and autonomy to operate semi autonomous businesses (profit or investment centres) by buying and selling on their own. From a company-wide perspective, this is optimal as long as the selling division is operating at full capacity and can sell all it produces. The use of market price or negotiated-market price in transfers between units facilitates an excellent basis for evaluating divisional managerial performance by permitting both buyer and seller to be treated as independent, autonomous units. Both the selling and buying divisions can sell and buy from each other or from outsiders as much as they want at the market price.

Other advantages associated with market pricing policy are that it helps assure profit independence of the divisions; any gains or losses in inefficiency of the selling division do not get passed on to the buying division; use of competitive market price is also relatively free from argument; thereby saving administrative costs.

Although, this approach is adjudged the best, it is limited by such factors as the absence of comparable market prices; imperfect information about market conditions; and differences in the products involved. A major problem with market prices can occur when a selling division operates below capacity.

2.6.3 Negotiated Market-Based Transfer Pricing:

This is a transfer price agreed on by both the buying and selling division managers, who act as though they were unrelated firmwise in their negotiations for price selling. Once more, Garrison (1985) summarized a negotiated market price as appropriate when:

1. selling and administrative costs can be avoided on internal sales;
2. units (products) to be transferred is large enough to justify quantity discounts;
3. the selling division has idle capacity;
4. the item needed by the buying division is not available from any outside source and therefore must be produced internally by another division[38].

Negotiated market prices are used most widely in those situations relating to (4) above where no intermediate market exists for an item.

The main advantage of this pricing policy is consistent with the concept of decentralized decision-making in divisionalized firms. For instance, if the buying

and selling managers are not able to agree on an equitable price, or if it appears that a decision is about to be made that would result to a suboptimization, the firm's top management may have to intervene to set the transfer price. Alternatively, each manager may have the freedom to terminate the negotiating process and do business elsewhere if possible.

This is simply the price that is paid for the concept of divisional autonomy as any forced decision by top management during difficult situations between divisions, would be detrimental and override the spirit of delegated authority and responsibility. Another potential disadvantage of negotiated transfer prices is that significant time may be required by the divisions to carry out the negotiation process. Furthermore, interdivisional hostility may result, and this could hurt the overall corporate performance.

Meanwhile, no particular transfer pricing scheme is best in all circumstances. This study also shares the opinion of some scholars that the choice revolves around such factors as the extent of intermediate markets; the extent top management chooses to intervene in divisional decisions; the volume of trading among divisions; and other factors.

A General Formular for Computing Transfer Prices:

Due to the complexity of transfer pricing problems and the absence of a

theoretically correct solution for all situations, this study considers appropriate a general rule that division managers can use in computing the appropriate transfer prices between segments in a decentralized organization. The formular is stated thus: "a transfer price should be no less than the unit variable cost of the products or services being transferred, plus the contribution margin per unit that is lost by the selling segment from sales to outside sources because of a decision to sell internally" (Helmkamp, 1987)[39]. The contribution margin given up is the opportunity cost of making an internal sales since it is a measure of the profit foregone from external sales. The formular can be expressed as follows:

Minimum		(Variable)		(Contribution Margin)
Transfer	=	(Costs per)	+	(Per unit lost on)
Price		(Unit)		(outside sales)

This general formular as considered above is very subjective for one may be prompted to argue as to what happens if there is no external market for the product or service. In that regard, the researcher is of the opinion that the simplistic view point that what comes out of one corporate pocket goes into another ignores the fact that the amount of the transfer price may affect certain divisional decisions, which in turn may affect the overall profitability of the company.

For instance, suppose that a transfer price is set at N15 per unit and there is no external market in which to sell the product. If the buying division feels that

this price is too high, it may take less than it would at a lower price. In this case, the buying division may be doing what is best from the standpoint of its own profitability, but the actions of the two divisions together may not be best for the company as a whole.

2.7 Cost Concepts for Planning, Control and Performance Evaluation:

The key issue in measuring divisional operating costs is to ascertain which costs should be allocated to divisions, since the ultimate profit forms the main basis of evaluating and comparing the performance of division managers. Therefore, in one way or the other, all costs affect the level of attainable profit realized by division managers for any given time period.

Knowledge of cost concepts is important for external reporting, managerial decision making, planning, control and performance evaluation. The primary information needs are generally the costs of carrying out the organization's activities. In principle therefore, a cost is a sacrifice of resources. This definition of cost as a sacrifice leads directly to the opportunity cost concept which is the best alternative use of resources foregone because of some action.

Distinguishing between costs and expenses is important in this discussion. Costs as used in managerial accounting are sacrifice of resources or the total

amount of resource expended for some good or service, whereas expenses are costs that are used up (and matched against revenue) in a particular accounting period. Both of them affect positively or negatively the level of profitability attainable by a division manager and subsequently his performance, depending on how best he manages them during a particular evaluation period.

In a decentralized organization, a number of cost classifications have been found to be useful in practice for planning and controlling operations. The most common are: period versus product; fixed versus variable; direct versus indirect; and controllable versus noncontrollable (Garrison, 1985)[40]. All these costs determine in one way or the other, the level of profitability realizable by the division managers. This profit incidentally forms the basis on which their performance is evaluated by top management by employing some measurement criteria. The outcome of this appraisal facilitates comparative analysis between managers or across divisions to determine their level of contribution to overall corporate financial growth.

Costs that are more easily attributed to time intervals are known as period costs, whereas those more easily attributed to products are called product costs. An example of a period cost is the annual lease on an office building or the salary of an organization top executive, and an example of a product cost is the cost of materials used to make a good, or the cost of merchandise purchased for

resale. Both costs are attributable to the division and therefore determine its profit. If cost of production is minimized through effective management, profit would similarly be maximized and the division manager would be evaluated and compared favourably.

Perhaps the most useful classification of costs for planning managerial decision making is by cost behaviour. Variable costs are affected by the volume of business activity levels as they change with respect to some variables such as time, units of output or hours of labour. Fixed costs are not affected by activity levels, at least in the short run. This classification is meaningful only over some specified range of activity levels. Strictly speaking, variable costs are zero when the activity level is zero because they vary directly and proportionately with the activity level. Profit levels attained by a division manager also increase or decrease according to the activity level and this subsequently influences or determines his performance, whether favourable or unfavourable.

A division's direct operating costs, whether controllable by the division manager or not, are virtually always deducted from divisional revenues in measuring divisional operating profits. From top management's perspective, any cost attributable directly to a division is necessary for that division to operate, even if the cost is not controllable by the division manager. Hence, the duty of the division manager would therefore be to properly control costs attributable to

his division so as to maximize profit and subsequently be evaluated favourably by top management.

Controllable versus uncontrollable costs refers to whether the division manager has control or not over the costs. One of the most important concepts in managerial accounting is that of controllability of costs. This concept is particularly useful in performance evaluation and strongly influences the development of many managerial accounting reports. If division managers in a decentralized organization are risk-averse, they will prefer to have the rewards for their performance based on factors they can control, all things being equal.

For example, the Kano division manager of General Motors would be held responsible for costs incurred in the Kano division, but not for costs in other divisions of the same firm. This cost responsibility will no doubt prompt subordinate managers to always check their spending habit and monitor their cost control responsibility for enhanced profitability so as to compare favourably when their performance is evaluated by top management. Furthermore, knowing which costs are controllable allows managers to set priorities in performing one of their most important missions of cost control. For instance, knowing that in the shortrun, factory rent is a noncontrollable cost, whereas direct labour hours worked are controllable, enables managers to focus their attention on costs that can be more easily managed for improved performance.

Virtually, all costs are controllable by top management, but at lower levels of the organization, managers do not have the authority to control as many costs. The time interval is also important for classifying costs as controllable or uncontrollable because costs become more controllable for longer time intervals. For instance, as one moves up the organization to higher levels of management hierarchy, more and more costs become controllable as the management at each level has the power to authorize the costs. If the advertizing costs can be authorized by top management, but not by a division manager, advertizement costs are controllable by top management, but not by the division manager. The costs would therefore not be deducted from the divisional revenues in measuring divisional operating profits for performance evaluation and for comparative analysis between other managers or across divisions.

The controllable cost concept is applied in a number of ways. Lets assume that in a company, the current fuel price increases were considered outside the control of anyone in the company. In another company however, the argument was made that top management had the authority to change or close operations in some divisions and thus effect fuel usage, so this cost was controllable by the management of the latter company. The implication of this decision is that divisions whose managers have not been measuring up to expectation in terms of maximizing profitability in comparison with other divisions, would be considered for this closure to enhance fuel usage. In essence, the

classification of costs as controllable or uncontrollable is sometimes a discretionary matter that must be decided by management.

For effective performance evaluation and comparative analysis of divisions and divisional managers, costs should be appropriately allocated to departments, divisions or units concerned by using well defined bases. The motives behind this proper allocation are to make division managers aware of central headquarter's costs; for divisions to price their products properly so as not to operate at a loss; and for external financial reporting and tax purposes.

There are problems encountered in cost allocation which include the difficulty in identifying controllable costs owing to the selection of arbitrary allocation bases and for the fact that they are often needed for a particular purpose (such as product costing for external financial reporting). These problems may be misleading, however, and can even lead to incorrect decisions, inaccurate plans and misinterpretations of managerial performance and subsequent evaluation.

The existence of these shortcomings has prompted Davidson (1985) to suggest three principal steps for proper cost allocation thus:

1. Accumulating the costs that relate to the product, department or division;
2. Identifying the recipient or object of the allocated costs;

3. Selecting a method or basis for relating costs to cost objects[41]. If these steps are strictly adhered to, costsawould be appropriately assigned to divisions and this would facilitate objective performance evaluation and comparison of division managers in a decentralized organization.

2.8 Nonprofit Measures of Performance:

Apart from assessing the performance of business enterprises through profit or economic measures, there exist other factors which constitute non profit (and non quantitative) measures of performance evaluation, but serve as prime indicators of profitability in the long run. Some of these factors include:

1. Productivity effectiveness
2. Marketing effectiveness
3. Public (social) responsibility
4. Personnel development
5. Employee attitude

2.8.1 Productivity Measurement:

Managers influence productivity improvement through their skills in efficiently and effectively directing, coordinating and controlling the use of money, material and human resources inputs in the production process, so as to maximize outputs in the form of goods and services, employee job behaviours, and performance measures (Henderson, 1980)[42]. Of the three inputs

enumerated, the most crucial to the success of a business is the human resources. This is because success is possible even when monetary and material resources are in short supply, provided the use of human resources is maximized.

2.8.2 Marketing Effectiveness:

Roger et al (1966) described marketing effectiveness as properly planning, directing and controlling all phases of the marketing operation aimed at increasing absolute sales volume for maximum return. This means the ability to constantly look ahead and contain the increasing competitive power, size of the total market and even threats to profits in the business environment43. Besides the factors already mentioned, marketing effectiveness is also enhanced through such things as ensuring a large share of each market segment for the firm; growth of sales; attracting and maintaining large number of customers or potential customers and avoid relying on a single customer or group of customers. Finally, effective market position involves constantly determining what markets the company should be in to realize greater financial gains.

2.8.3 Public (Social) Responsibility:

This is a manner in which an organization conducts its business keeping the good of society in mind. The firm exercises such responsibility to stockholders, creditors, customers, management, employees, and the general public

(Chapman, 1976)[44]. The concept of social responsibility is relatively new and it is taken very seriously. The idea is that it is no longer enough to balance the books of accounts and make profit and subsequently evaluate managerial performance on that basis alone. Social responsibility also constitutes a means of appraising managers. In the 1960s, industry's role was taken for granted but today, it is questioned.

As a result, business organizations in conjunction with other public institutions, execute their public responsibilities by providing social amenities for welfare maximization in the form of employment, donating to charity, building schools and health centres, constructing roads and recreational facilities, and contributing to rural development. It is true that the modern society cannot exist without industry, and the latter must find its proper place within the society. Therefore, whether or not a firm has been successful must be determined by society itself sometime in the future.

2.8.4 Personnel Development:

The efficiency of any organization depends directly on how well its members are trained. Newly recruited employees usually need some induction training before formally taking up their jobs since no one is a perfect fit at the time of hiring. Older employees also require training to keep alert to demands of their present jobs and to prepare for transfers and promotions. Training is an ongoing

process in an organization because of new innovations.

Personnel development consists of: training to increase skills and knowledge to do a particular job; and education which is concerned with increasing general knowledge, understanding and background. The two broad groups of employees to be trained are operators and managers (Say et al, 1981)[45]. Basically, both groups are trained and educated through formal and informal means including: learning on-the-job, apprenticeship programmes, special courses, seminars and workshops, job rotation and delegation of authority and responsibility for managerial expertise.

An effective personnel development programme according to Fillippo (1980), increase productivity and efficiency, heighten morale, motivate workers and promote organizational stability and flexibility. It also help people climb promotional ladders to more responsibilities and better jobs[46]. Although, an organization spends heavily on training its personnel, the gains it derives from such worthy venture is immeasurable as it contributes meaningfully to corporate growth and ensures continuity of management in the future.

2.8.5 Employee Attitude:

The behavioural aspects of managers and other employees of the organization determine to a great extent the level of performance achievable by

any management team from time to time. To be precise, the exhibition of good moral conduct by employees in the discharge of their assigned roles, is indispensable and contributes greatly to the management and financial success of any firm. Therefore, to ensure continuity and high level of performance for the firm, it is necessary to constantly motivate employees through the implementation of such things as: paying a wage above the industry's average; providing job satisfaction and career development; looking after staff welfare; training employees in certain skills; and reducing labour turnover.

2.9 Advantages and Disadvantages of Decentralization:

Advantages:

There is no universal agreement in the management accounting or organization behaviour literature about why it is better to decentralize operations. However, the following argument are only partially agreed upon by different scholars.

1. Delegation of authority in a decentralized structure enhances sound and speedy decision making. This is because, division managers are more intimately acquainted with problems or local conditions that often arise and may anticipate and react to operating information more quickly without reference to corporate top management. Managers advance in their experiences through constant practice and this may lead to managerial innovation and ingenuity which contribute to

even greater performance.

2. By spreading the burden of decision making among many levels of management in a decentralized organization, democracy is enthroned, while top management is relieved to concentrate more on broader responsibilities such as strategic or long term planning and coordination of operations for the enterprise.

3. Decentralization encourages excellent training for professional managers since they concentrate on acquiring expertise in their areas of responsibility. This ensures constant supply of experienced and quality management team able to take up higher positions and assume greater authority and responsibility.

4. A more effective bases for measuring a manager's performance is provided by decentralization since it typically leads to the creation of profits it and investment centres. According to Garrison (1985) "the overwhelming experience of multidivisional companies is that divisional autonomy and independent profit responsibility lead to much success and profitability than do closely controlled, centrally ministered operations"[47].

5. The delegation of authority serves as a positive reinforcement or motivation for managers, in that they may view such delegation as an indication of top management's confidence in their abilities to participate in decision making. Hence, their morale and level of job

satisfaction tend to increase as they exercise greater authority over factors affecting their careers. In addition, this motivation leads to competitive atmosphere within the organization and managers participate actively in this regard since their performances are evaluated and compared with their peers on the basis of results.

Disadvantages:

Certainly, most advocates of decentralization are aware that certain costs would definitely be incurred if an organization shifts from a centralized to a decentralized structure. Some of these costs are identified as follows:

1. Managers must be trained for competence to handle decision making formerly made at higher levels and this may require expensive formal and informal training programmes so as to avert costly mistakes.
2. In a decentralized structure, there is the inevitable duplication of efforts, assets and staff in the operating divisions. Furthermore, the division managers incur costs separately in gathering and processing information which would have been minimal in a centralized organization structure.
3. Coordination and controlling operations will be much more burdensome for top management because decision making is dispersed throughout the organization. Moreover, since many managers have worked in centralized organizations, it will be very uncomfortable for them to delegate authority

in a more decentralized arrangement. These old attitudes are difficult to alter and often lead to resistance.

4. To alter accounting and performance appraisal systems so that they are compatible with the decentralized arrangement is costly. Administrative costs are incurred because the new and more sophisticated systems must be tested, implemented, and evaluated.

5. In decentralized firms, decisions made by one manager may adversely affect other managers in such a way that the profitability of the entire company may suffer. This is called dysfunctional decision making and it often arises as a result of friction between divisions for an appropriate transfer price. Commenting on this, Garrison (1985) is of the opinion that "part of the price of decentralized business success and profitability is an occasional situation of suboptimization due to pettiness, bickering, or just plain managerial stubbornness"[48].

Like most issues, there is definitely no clear-cut answer about whether decentralization is better for an organization. It would appear that considering thoroughly each organizational factor (e.g. manpower, size and control mechanisms), is a prerequisite for reaching decisions concerning decentralization.

2.10 Summary of Chapter:

We have just concluded our discussion by considering the contributions made by various advocates of decentralized organization structure in different perspectives. Some problems and prospects associated with decentralization were also highlighted without reaching a consensus as to whether it is commendable for implementation by business firms. Rather, each organization is left to freely consider its applicability or otherwise, depending on the circumstances it finds itself.

Numerous financial (economic) and non financial measurement criteria through which the performance of divisions and divisional managers in decentralized firms could be appraised were examined, and their accompanied shortcomings equally identified. However, in subsequent chapters, particular emphasis would be made on the usage or application of profitability, Return on investment (ROI), and Residual Income (RI) which constitute financial measures in evaluating the divisional performances of the understudied organization - CFAO NIG. PLC.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Overview:

In this chapter, an attempt would be made towards identifying and describing the common types of research methods or procedures currently in use, and view them in relation to the issue before us, so as to appropriately justify where our own problem rightly belongs. The problem under consideration is actually the performance appraisal in a decentralized organization.

To realize this objective, some financial measures will be comparatively analysed and some research hypotheses will equally be tested for significance. All will be in the next chapter after current practices must have been investigated and discussions held with the relevant officers in the understudied organization.

The problem under study obviously belongs to the present time and it is on that basis that a suitable research method would be chosen so as to facilitate a meaningful research. The problem is neither historical because we are not trying to find out what has happened nor is it prognostic or predictive because we are equally not trying to forecast what would happen in the future. It is rather a descriptive survey because we are trying to explore what is currently in practice.

In this section, we shall therefore state and explain the research method adopted and the mode of collecting information vital for the study. Our research population and sampling size, including the tools for analysing the gathered data would also be precisely stated.

3.2 Methods (Techniques) of Research:

Osuala (1982) has identified some basic research methods which he categorized into three time frames of past, present and future respectively. They include:

1. Historical research method
2. Experimental research method
3. Descriptive research method[1].

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Descriptive research method is further subdivided into four types: case studies; correlational study; cross-sectional and longitudinal studies; and sample survey study.

Historical research means searching to find out. It interprets past trends of attitude, event and fact. Furthermore, it attempts to ascertain a clearer perspective of the present and to ensure the simple scholarly desire of the scientist to arrive at an accurate account of the past. Sources of historical research are classified into two categories, namely, documents and relics. This

research method is beneficial for recalling or relating the past events to the present situation while the main limitation is that articles and manuscripts are frequently subjected to distortions and so many editorial changes that they no longer resemble their original form.

Experimental research method requires the actual comparison of certain activities in an attempt to ascertain the cause and effect relationships. According to Osuala (1982), "the purpose of experimentation is to identify the conditions underlying the occurence of a given phenomenon... Experimentation simply enables the researcher to improve the conditions under which he observes and, thus, do arrive at more precise results. This is the essence of the scientific method"[2].

Case studies are indepth description and analysis of a single problem of particular concern. The background, current position and other influences on a social unit, event, institution or a community is investigated. The emphasis of the case studies approach is the total situation under study as they do not generalize to other units or groups. It is the view of Hubbel (1962) that case studies may be very enlightening, for it is likely that no one else has gone so thoroughly into the individual problem. There is also the inspiration it gives to the beginner, for the task seems fresh and all his own[3].

A correlational study deals with large number of variables. The study is concerned with the establishment of relationships among the variables as well as predicting future occurence. Besides these, the degree of relationship is also determined.

A cross-sectional study is one in which data are collected at one point in time, but different sub groups are sampled. One notable feature of this approach is that data are quickly and easily collected. Despite this advantage, it also has a weakness which is based on the assumption that each group or person at a different point in time, reproduces the same data that the earlier groups or persons would, if a longitudinal study is done. In a longitudinal study, data are collected on the same person, group or institution at different points in time. It takes time to complete the study.

The sample survey study describes both large and small populations by selecting an unbiased sample and using the results to generalize on the population. Hubbel (1962) is of the opinion that by surveying a certain field for statistics, one can get material for case studies or for comparisons. In essence, survey research is an elaboration or combination of case study and comparison[4]. Survey research rarely studies whole populations; it normally studies samples drawn from populations and from the results of these samples, infer the characteristics of the defined population or universe.

Since the problem for this study as earlier mentioned, is to evaluate the performance of a decentralized organization by using some key financial measures, the problem is properly fitted within the present time and as such, we resolve to adopt the case study method. This choice is considered appropriate because we do not intend to make predictions or explain past events. The justification for this approach is further explained below.

A clear distinction between a case study and a historical study is that the former is concerned with the present while the latter deals with the past. Similarly a case study differs from an experimental research in that while the former is oriented towards the determination of the status of a given phenomenon in its natural setting, the latter rather focuses toward the isolation of causative factors. Furthermore, a case study differs from a survey study in that the former is oriented to the more intensive and longitudinal study of a smaller sample whereas the latter is based on a large cross-sectional samples.

Contributing to this discussion, Osaze (1985) also shares the view that "case studies contrasts distinctly with the survey method which uses statistical techniques that often yield averages and departures from averages... Hence, in surveys, phenomena are being studied extensively but in the case study, they are being investigated intensively using one or a few samples"[5]. Therefore, the

question of representativeness ceases to be of any practical significance in a case study.

Case studies can be conveniently classified according to the techniques of obtaining information. These include personal interviews, questionnaire, telephone and observation. Personal interview is very similar in nature and purpose to the questionnaire and both techniques are essentially interchangeable or used together for research purposes.

3.3 Sources and Methods of Data Collection:

Raw data were sourced mainly from financial documents including: Annual Reports containing condensed financial statements for the past five years (1989-1993), extracts from confidential reports maintained as administrative records, and other responses to questionnaires and interview questions by respondents in the divisions and corporate headquarters.

Method of data collection was primary and consisted mainly of the administration of questionnaires, the conduct of personal interviews with division managers and accounting officers, and participant observation. These methods reflect the case study research techniques already explained in some details. The combination of interviews and questionnaire procedures is mainly informed because of their usefulness in cross-checking and minimizing differences in

response to the posed questions. More importantly, the kind of people or respondents involved in the study, are the very busy type and as such, there is the likelihood that questionnaires sent to them might not be returned.

The questionnaires were designed to reflect the research hypotheses posed in chapter one so as to enhance logic, ease in processing, tabulation and analysis, comparison and interpretation of information. To this end, the questions were concise, short and clear-cut and the number kept at a minimum, so as to elicit desired information.

Since most of the problems covered in the social sciences are varied and complex, the researcher considered necessary the usage of the combined open and closed-ended questionnaires. The essence of this was to make provision for the respondents who might wish to clarify their positions further with regard to some of the items (see Appendix J.).

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Furthermore, the researcher personally visited the three divisions under study, including the corporate headquarters to administer the questionnaires and subsequently conduct necessary interviews with the relevant officers concerned. This decision no doubt ensured a better cooperation by the respondents in supplying vital documents and pieces of information needed for the research. Finally, it is hoped that through this personal contacts, the study will be speedily completed.

3.4 Research Population and Sampling Approach:

Since this research study is to be carried out through the sample survey method, the population has to be precisely defined and the significance of the research findings limited to that population. An adequate sample size would then be determined after a clear definition.

We therefore quickly name all the accounts officers, divisional managers, supervisors and departmental managers of CFAO as constituting the population for this study. Listing these officers as the population is considered justifiable since they make up an aggregate of the decentralized organization under study and have certain defined characteristics in common. Performance evaluation of the various divisions and their managers including other officers is a typical characteristic which they all possess in common and this is exactly the problem we are considering in this study.

It is essential to have an adequate sample size of the population from which generalizations or inferences would be made in a study. This is because of the difficulties encountered by researchers in attempting to study whole populations. Sample can be defined as a limited number of elements selected from a population or universe which is representative of that population or universe.

Various methods or approaches of selecting samples include: simple random, double, stratified, systematic, cluster, quota, convenience and judgement samplings. Non random or judgement sampling is considered appropriate for adoption in this study so as to minimize sampling errors. This choice is made because of our personal knowledge and opinion that the elements constituting the sample size would be representative enough to serve the purpose of this study.

The issue of an adequate sample size is still a controversial one, since no one can say with confidence that the chosen sample is too small, too large or even adequate. According to Osaze (1985), what is adequate depends on the nature of the problem being investigated, the size of the population and the resources at the disposal of the researcher[6].

However, since the data from the organization would be alike or homogenous in many respects, the elements in the population similar, and only very few groups or categories of data need be aggregated, then a small sample size would be quite representative of the population. Based on these arguments therefore, it is only rational that the investigation should centre around those that clearly understand our mission. Hence, divisional managers and accounts officers of the three divisions of CFAO at their head offices in Lagos, will do for our sample size and questionnaires will be administered and interviews conducted with them accordingly.

These identified officers were specifically chosen as constituting the sample size because by their training, experience and positions in the organization, they are better placed than other officers to clearly understand the purpose of this study. As a result, they will quickly comprehend and interprete the technical accounting terms as expressed in the questionnaire, and subsequently provide adequate and accurate responses to them in addition to the interview questions posed.

More importantly, since the division managers are the subjects of evaluation and comparison in this study, they automatically qualify to make up the sample size. Similarly, the accounting officers were considered to make up the sample size because they actually recorded the raw data that will be sourced from the accounts departments to facilitate the comparative analysis.

With this explanation therefore, the sample taken from these officers is considered an adequate representation of the entire population. Furthermore, it is hoped that this decision will facilitate the desired information and hopefully reduce sampling biases and errors.

3.5 Data Analysis Techniques:

Recall that research hypotheses including the purpose of this study were clearly stated in chapter one. In line with these, the questionnaire and interview

approaches considered to carry out this study were modelled to solicit the desired information from respondents, so as to appropriately test the significance of the three formulated hypotheses and subsequently carry out meaningful comparative analysis of the chosen criteria. Hence, the analysis will assume a two-tier process.

Firstly, since we are concerned with analysis that comprise mainly of norminal (classificatory) data, Chi-Square (X^2) tests will be appropriate formular to test for significance. A X^2 is a sample statistic in the family of distributions which is employed to test the significance of the difference between two samples. The justification for its choice and usage in this study is informed because of its application in cases where the more usual tests such as normal and t-distributions would not apply. An instance of its unique application is where the values are not continuous but are expressed in at least two categories of "yes" or "no" provided it is relatively easy to apply.

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In addition, the value of X^2 can never be negative since the differences between the observed and expected frequencies are always squared. Hence, it makes computation by hand very convenient and understandable through the use of tables. Finally, X^2 test which is aimed at comparing and measuring the agreement between the observed and expected frequencies is computed following these steps:

1. $X^2 = \frac{\sum(O-E)^2}{E}$

where, O = observed or actual frequency

E = expected or theoretical frequency

2. Determination of E(expected value): $= \frac{Rt \times Ct}{N}$

where, Rt = rows total

Ct = columns total

N = total response

3. df (degrees of freedom) = K - 1

where, K = number of categories

4. α (level of significance) = 0.05 or 5%

5. Decision Rule:

The null hypothesis is accepted if the computed value of X^2 is less than the critical (table) value of X^2. Otherwise, the null hypothesis is rejected. Similarly, the main objective of the study will be treated by comparatively analysing the three chosen financial criteria of Profitability, ROI and Residual Income, using their statistical formulae on the assembled data as follows:

1. Operating Income (Profitability):

= (operating revenues) - (operating costs)

2a. ROI: = Operating Income / Invested Assets

b. Expanded

ROI: =Profit Margin x Investment Turnover

$$=\frac{\text{Operating Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Invested Assets}}$$

3. Residual

Income(RI): = (Operating Income) - (Cost of Capital)

The results of these comparative analyses will be classified and summarized using tables, figures, rankings and expressed as percentage and ratios. It is our hope that this exercise will facilitate clarity in understanding and interpreting the comparative performance appraisal of the three divisions and their managers including the overall functioning, impact and effectiveness of the organization as a whole.

3.6 Summary of Chapter:

In this chapter, we have attempted to state clearly the techniques and instruments for proper conduct of the research. The various methods of carrying out research studies were discussed in detail and our own choice was made and subsequently justified. Sources and methods of data collection were equally stated and we settled on questionnaire and interviews approaches.

The research population was precisely defined because the significance of

the research findings will be limited to it. Meanwhile, since the whole population could not be reached because of probable difficulties, a sample of it, considered adequate was determined and justified. Description of the techniques through which the assembled data would be analysed and presented to facilitate comparison and easy comprehension was equally discussed.

In the next chapter, we shall employ all these instruments to process, present, analyse, classify, measure and interprete our data accordingly.

References:

1. Osuala, E.C (1982).Introduction to Research Methodology. African FEP Publishers Plc. pp. 137-164.

2. Ibid., p. 154.

3. George, Shelton Hubbel (1962). Writing Term Papers and Reports. Barnes and Nobel Inc. New York. p. 82.

4. Ibid., p. 83.

5. Osaze, B.E. (1985). Guidelines for Conducting Research. Corys Books. p. 12.

6. Ibid., p.13.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Overview:

This chapter is devoted to the presentation, analysis and interpretation of the raw data assembled from our investigation, through appropriate statistical techniques as earlier detailed in section 3.5. We also stated that the procedure for this analysis will assume two dimensions. The first part which is preliminary to the study, mainly takes care of the influence certain key variables such as control, motivation, communication and information flow have on the performance of a decentralized business operation. The analysis here will be carried out based on the three formulated hypotheses in section 1.5. They will be statistically tested for significance and conclusions drawn from them, is hoped to be very useful in assessing their applicability to CFAO.

The second part of the analysis dwells on the main objective of this study which is the comparative analysis of some methods of measuring the performance of divisions and divisional managers in the three divisions of CFAO under study - namely Qualitex (manufacturing), Structec (engineering/construction) and General Import/Structor (sales, services and general merchandize) respectively. To facilitate this analysis, Profitability, ROI

and Residual Income which constitute three financial criteria for performance appraisal will be employed as earlier indicated.

The chapter begins right away with highlighting the manner of responses from our respondents by presenting their opinions accordingly. This is followed by the discussion, interpretation and comparative analysis of our findings.

4.2 Analysis and Interpretation of Available Data

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4.2.1 Part One: Testing of Hypotheses

The method of testing the significance of the three formulated null hypotheses for this study is hereby presented in accordance with the outlined procedure as stated in section 3.5. On the whole, a total of 148 questionnaires were administered in the three divisions including the corporate headquarters. However, only 115 were fully completed and returned which represents an impressive 78% approximated response rate.

It is important to note at this juncture, that numerous authors of management accounting literature are strongly of the view that in centralized organization structures, there is a higher degree of success in the application of control measures, motivation and the contribution of communication and information flow to speedy managerial decision making. For instance,

Underdown (1986), states that the problem of coordinating and controlling divisional operations is more complex than that of controlling a single activity within an organization. This is because the range of decisions over which divisional managers have authority is much more extensive[1]. Similarly, Robbins (1990) shares the same view that "the more geographically dispersed the organizational units, the more complex the organization. And the more complex the organization, the greater the difficulties of communication, coordination and control"[2].

Consequent upon the aforementioned views, we are motivated in this study to test the significance of these variables as they apply to CFAO - a decentralized organization. The resultant outcome of our analysis, is hoped to serve as an important means of establishing the extent of their successful application in a decentralized organization structure. Furthermore, since all the three hypotheses constitute non financial measures of performance, it is also hoped that they will provide sound bases for further research work.

Solution:

1. HO_1: The delegation of authority and responsibility for decision making necessarily constitutes an effective means of control in a decentralized organization with the aim of attaining corporate objectives.

Table 4.1: Presentation of the Observed responses/frequencies from respondents.

Question Numbers (categories)	Observed Values		
	Yes	No	Total
2	95	20	115
3	83	32	115
4	78	37	115
5	82	33	115
Total	338	122	460

Degrees of freedom (df) = 3
Level of significance = 0.05

Table 4.2: Computation of the Expected Frequencies to test the significance of control measures

Question Numbers	Expected Values		
	Yes	No	Total
2	338(115/460)=84.5	122(115/460)=30.5	115
3	338(115/640)=84.5	122(115/460)=30.5	115
4	338(115/460)=84.5	122(115/460)=30.5	115
5	338(115/460)=84.5	122(115/460)=30.5	115
Total	338	122	460

Next, we arrange the corresponding observed (actual) and expected (theoretical) frequencies in an orderly manner to facilitate the computation of the Chi-Square (X^2) value.

Table 4.3: Computation of the value of X^2 to prove the significance of control measures

Questions and Responses		Observed O	Expected E	O-E	$(O-E)^2$	$\frac{(O-E)^2}{E}$
2	Yes	95	84.5	10.5	110.25	1.3047
2	No	20	30.5	(10.5)	110.25	3.6148
3	Yes	83	84.5	(1.5)	2.25	0.0266
3	No	32	30.5	1.5	2.25	0.0738
4	Yes	78	84.5	(6.5)	42.25	0.5000
4	No	37	30.5	6.5	42.25	1.3852
5	Yes	82	84.5	(2.5)	6.25	0.0740
5	No	33	30.5	2.5	6.25	0.2049
	Total	460	460	0		$X^2 = 7.1840$

(see Appendix K for X^2 Table)

Decision Making:

At a 0.05 (5%) level, the difference is significant if X^2 with 3 degrees of freedom is above 7.815. The computed value of $X^2 = 7.1840$ is smaller than the critical (table) value, or falls in the acceptance region. Thus, we accept the null hypothesis. The conclusion therefore is that delegation of authority and responsibilities to subordinates and constant monitoring of corporate activities in CFAO, ensures effective control, improved performance and cordial relationship between management and staff, and across divisions. This overwhelming response rate goes further to confirm the successful application of control measures in a decentralized organization.

Solution:

2. HO_1: The corporate reward system and attainable standards are indispensable means of adequately motivating management and staff in a decentralized organization for improved performance towards achieving greater profitability and corporate growth.

Table 4.4: Presentation of Observed Frequencies from Respondents

Question Numbers	Observed Values Yes	No	Total
6	94	21	115
7	86	29	115
8	81	34	115
Total	261	84	345

Degrees of freedom (df) =2
Level of significance =0.05

Table 4.5: Computation of the Expected Values (Frequencies) to test the application of motivation factors

Question Numbers	Expected Values Yes	No	Total
6	261(115/345)=87	84(115/345)=28	115
7	261(115/345)=87	84(115/345)=28	115
8	261(115/345)=87	84(115/345)=28	115
Total	261	84	345

Next, we arrange the corresponding observed and expected frequencies in an orderly format to enable the computation of X^2 value.

Table 4.6: Computation of the Value of X^2 to prove the application of motivation factors

Questions and Responses		Observed O	Expected E	0-E	$(O-E)^2$	$\frac{(O-E)^2}{E}$
6	Yes	94	87	7	49	0.5632
6	No	21	28	(7)	49	1.7500
7	Yes	86	87	(1)	1	0.0115
7	No	29	28	1	1	0.0357
8	Yes	81	87	(6)	36	0.4138
8	No	34	28	6	36	1.2857
Total		345	345	0	X^2 =	4.0599

Decision Making: At a 0.05 level, the difference is significant if X^2 with 2 degrees of freedom is above 5.991. The computed value of X^2 = 4.0599 is smaller than the critical value or falls in the acceptance region. Hence, we

accept the null hypothesis. The conclusion therefore, is that predetermined targets/standards and corporate rewards (penalties) greatly motivate management and staff of CFAO for improved performance and greater profitability. In other words, the management of CFAO entices its employees with incentives for improved performance and greater profitability. The outcome of this analysis has proven the workability of motivation in a decentralized organization.

Solution:

3. HO_1: A good communication system, transfer pricing policy and sound allocation of controllable costs and revenues in a decentralized organization, speed up managerial decision making and subsequently enhance objective evaluation and comparison of managerial performance.

Table 4.7: Presentation of the Observed Frequencies from Respondents

Question Numbers	Observed Values Yes	No	Total
9	17	98	115
10	32	83	115
11	35	80	115
12	30	85	115
Total	114	346	460

Degrees of freedom (df) = 3

Level of significance = 0.05

Table 4.8: Computation of the Expected Frequencies to test the effectiveness of good communication network.

Question Numbers	Expected Values		
	Yes	No	Total
9	114(115/460)=28.5	346(115/460)=86.5	115
10	114(115/460)=28.5	346(115/460)=86.5	115
11	114(115/460)=28.5	346(115/460)=86.5	115
12	114(115/460)=28.5	346(115/460)=86.5	115
Total	114	346	460

Next, we arrange the corresponding observed and expected frequencies in an orderly manner to enhance the computation of the X^2 value.

Table 4.9: Computation of the Value of X^2 to prove the effectiveness of good communication network.

Questions and Response		Observed O	Expected E	O-E	$(O-E)^2$	$\frac{(O-E)^2}{E}$
9	Yes	17	28.5	(11.5)	132.25	4.6404
9	No	98	86.5	11.5	132.25	1.5289
10	Yes	32	28.5	3.5	12.25	0.4298
10	No	83	86.5	(3.5)	12.25	0.1416
11	Yes	35	28.5	6.5	42.25	1.4825
11	No	80	86.5	(6.5)	42.25	0.4884
12	Yes	30	28.5	1.5	2.25	0.0789
12	No	85	86.5	(1.5)	2.25	0.0260
Total		460	460	0		X^2 =8.8165

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Decision Making: At a 0.05 level, the difference is significant if X^2 with 3

than the critical value, or falls in the rejection region. Thus we reject the null hypothesis. The conclusion is that in CFAO, the communication and information flow is not good enough and therefore does not facilitate speedy managerial decision making. Furthermore, the basis for allocating controllable costs and revenues does not allow for a meaningful feedback and convenient comparison and reconciliation of accounts, neither does it enhance objective evaluation of managers and divisions.

4.2.2 Part Two: Computation of The Main Objective:

Available information from the questionnaire and interview responses including other financial documents, indicate that the management of CFAO employs profitability (profit before tax) as criteria to periodically evaluate the performance of her divisions and divisional managers (see Appendices L to N). On the other hand, the numerous network branches (profit centres) are equally evaluated based on their attainable gross profits. Furthermore, assets employed constitute the investment base for the divisions and entire corporate entity.

Finally, each of the five financial years (1989-1993) under review, will be separately presented, enterpreted and comparatively analysed by employing the three selected financial methods of appraising the performance of divisions and divisional managers in the three divisions as earlier stated in the main objective of the study in section one.

Table 4.10: Presentation and Analysis of Data for the 1989 Financial Year

Criteria	Qualitex (Div. A)	Structec (Div. B)	Gen.I/Structor (Div. C)
	N'000	N'000	N'000
1. Profitability:	8,793	8,305	7,816
2a. ROI:	8,793 / 72,878	8,305 / 54,659	7,816 / 63,769
	=12%	= 15%	= 12%
b. Expanded ROI:	8,793 x 170,689 / 170,689 x 72,878	8,305x152,722 / 152,722 x 54,659	7,816x161,705 / 161,705 x 63,769
	= 0.05 x 2.3	= 0.05 x 3	= 0.05 x 2.5
	= 12%	= 15%	= 12%
3.Residual Income:	8,793 -(72,878x10%) = 1,505	8,305 -(54,659x10%) = 2,839	7,816 -(63,769x10%) = 1,439

Interpretation and Comparative Analysis:

A quick glance at Table 4.10, indicates that using the corporate choice of absolute profit for measurement, Division A surpassed the others in performance during the 1989 financial year. Divisions B and C came second and third respectively. However, using ROI for assessment, Division B was able to turn

the table against Division A by generating the highest ROI of 15%, even when it has the least invested assets. Divisions A and C were at par with a ROI of 12%. Nevertheless, on further analysis, Division C would be adjudged better than Division A because even with the least operating income and invested assets, it was able to earn the same ROI with Division A. To be precise, Division A descended to a mere third place from its former premier position.

Similarly, applying the expanded version of ROI for evaluation across divisions, its two components of profit margin and investment turnover which focus on profitability and efficiency in the use of assets, still reveal that Division B excelled the others in both aspects. It is closely followed by Divisions C and A in that order. Although, Division C surpassed Division A slightly in the efficient management of assets (2.5 to 2.3), both still attained the same overall ROI of 12%. In the generation of ROI, Div. A slipped behind Div. B. (12% to 15%) even when it earned the largest operating income. Meanwhile, it is interesting to note that the three divisions performed equally based on the ratio of profit earned to sales.

Considering Residual Income as a performance indicator, Div. B still maintained the lead by generating N2,839, while Divisions A and C come second and third respectively. Div. B earned N1,334 more residual income than Div. A despite the fact that Div. A earned more operating income than Div. B. The

reason for this difference is that Div. A has N18,219 more assets than Div. B. Hence, Div. A's operating income is reduced by N1,822 (N1,8219x10%) more than Div. B's operating income in determining residual income. This feat performed by Div. B proves that disparity in the size of divisions does not necessarily guarantee performance in similar magnitude or proportion. Stated more precisely, smaller divisions can perform better than bigger divisions.

In conclusion therefore, the comparative analysis of these three performance criteria, shows that corporate management of CFAO has not treated the divisions fairly. In actual fact, Div. B would have been rated overall best, instead of Div. A as management had concluded using only profitability as the basis of its evaluation. This argument goes to confirm that profitability as a performance measurement tool is faulty and therefore imperfect. On the whole, Div. B performed the overall best in 1989, followed by Divisions A and C respectively.

Table 4.11: Presentation and Analysis of Data for the 1990 Financial Year.

Criteria	Qualitex (Div. A)	Structec (Div. B)	Gen.I/Structor (Div. C)
	N'000	N'000	N'000
1. Profitability:	3,452	3,237	3,668
2a. ROI:	3,452 / 68,492	3,237 / 51,369	3,668 / 59,930
	= 5%	= 6%	= 6%
b. Expanded ROI:	3,452x173,422 / 173,422 68,492	3,237x154,153 / 54,153 51,369	3,668x163,788 / 163,788 59,930
	= 0.02 x 2.5	= 0.02 x 3	= 0.02 x 2.8
	= 5%	= 6%	= 6%
3.Residual Income:	3,452 -(68,492x10%) = (3,397)	3,237 -(51,369x10%) = (1,900)	3,668 -(59,930x10%) = (2,325)

Interpretation and Comparative Analysis:

Considering management criteria for evaluating the performance of her divisions and their managers, information on Table 4.11 clearly shows that Div. C attained the highest profit during the 1990 financial year, closely followed by Divisions A and B in that order. On the other hand, using ROI for measurement, Divisions B and C tallied for earning ROI of 6% each way, while Div. A slipped to the third place with a ROI of 5%.

Meanwhile, a further analysis on this criteria (ROI), indicates that Div. B, even though it generated the same ROI of 6% with Div. C, should be rated higher because it has the least operating income and invested assets. This further goes to confirm that disproportionate divisions can be conveniently evaluated and compared for performance. Similarly, based on the expanded ROI, although, all divisions realized the same profit margins of 2%, however, Div. B had the most efficient use of its invested assets by gaining the highest turnover of 3. It is closely followed by Divisions C and A in that order.

Using RI measurement, it is sad to note that all the three divisions realized negative returns with Div. A descending to a third place by losing the heaviest amount. Divisions C and B are second and third losers in magnitude, despite the fact that Div. C generated more operating income than Divisions A and B. This dismal performance indicates that their investment returns are inadequate to satisfy the minimum amount required by management and therefore not attractive. This is because when RI is used to evaluate performance, the objective is to maximize its amount instead of the ROI (Warren, 1985)[3].

In conclusion, it is worth mentioning that management erred this financial year in adjudging Div. C as the best, based on its profitability criteria alone. In actual fact, the outcome of our comparative analysis gives Div. B the edge, followed by Divisions C and A in that order. On a parting note, 1990 signifies a

bad year for business activities as evidenced from the generation of very low ROI and negative Residual Income returns by the divisions.

Table 4.12: Presentation and Analysis of data for the 1991 Financial Year.

Criteria	Qualitex (Div. A)	Structec (Div. B)	Gen.I/Structor (Div. C)
	N'000	N'000	N'000
1. Profitability:	10,343	9,734	10,951
2a. ROI:	10,343 / 85,082 = 12%	9,734 / 63,811 = 15%	10,951 / 74,447 = 15%
b. Expanded ROI:	10,343x208,157 / 208,157 85,082 = 0.05 x 2.4 = 12%	9,734x195,147 / 195, 147 63,811 = 0.05 x 3 = 15%	10,951x234,176 / 234,17 74,447 = 0.05 x 3 = 15%
3. Residual Income:	10,3343 -(85,082x10%) = N1,835	9,734 -(63,811x10%) = N3,353	10,951 -(74,447x10%) = N3,506

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Interpretation and Comparative Analysis:

From Table 4.12, based on the amount of divisional operating income (profitability) as a management performance measurement criteria, Div. C was the most profitable for making the highest profit during the 1991 financial year. Divisions A and B were less profitable with Div. A reporting N609 more profit than

Div. B. Based on this performance measure, Div. C is ranked first by management, while Divs. A and B are second and third respectively.

However, assessing performance through ROI, Divisions B and C finished first with 15%, while Div. A trailed behind them with a 12% ROI. Hence, relative to the assets invested in Div. A which is the largest, it is adjudged the least profitable division. In absolute terms however, Div. B should be assumed the best performer using ROI. This is because even with the least operating income and invested assets, it was able to earn an equal ROI 15% with Div. C, which is also greater than that of Div. A's 12%. On a similar note, employing the expanded version of ROI, all the divisions interestingly performed the same feat of 5% on profit margin. Divisions B and C tallied again on the efficiency in the use of their invested assets by earning an investment turnover of 3 apiece, while Div. A lagged slightly behind them (2.4 to 3). Employing the RI criteria, Div. C earned more than the other divisions as it got the largest operating income. Also Div. B earned N1,518 more residual income than Div. A inspite of the fact that Div. A generated more operating income and this relegated it to a third place. However, this disparity in performance is not far fetched as Div. A has N21,271 more assets than Div. B. Therefore Div. A's operating income is heavily reduced by N2,127 (N21,271x10%) more than Div. B's operating income in determining residual income. Stated in the briefest terms, this analysis goes to contradict the notion widely held in the literature that larger divisions find it easier to earn given

amounts of RI than smaller divisions which may even lead to investment centre managers being treated unfairly (Engler, 1990)[4].

Going by the outcome of our comparative analysis, we conclude that management's decision in awarding the best place to Div. C based on profitability criteria alone was not objective enough. This is because as earlier stated, profitability is not exhaustive as it does not consider all variables subject to the control of division managers. Although, Div. C still surpasses the others using RI measurement, the story was a different thing altogether with ROI, since it tallied with Div. B which performed better even when it has the least operating income and assets.

Table 4.13: Presentation and Analysis of Data for the 1992 Financial Year

Criteria	Qualitex (Div. A)	Structec (Div. B)	Gen.I/Structor (Div. C)
	N'000	N'000	N'000
1. Profitability:	22,566	16,627	22,566
2a. ROI:	22,566 / 140,649 = 16%	16,627 / 105,486 = 15%	2,566 / 123,067 = 18%
b. Exp. ROI:	22,566x301,524 / 301,524 140,649 = 0.08 x 2 = 16%	16,627x361,829 / 361,829 105,486 = 0.05 x 3 = 15%	22,566x381,931 / 381,931 123,067 = 0.06 x 3 = 18%
3. Residual Income:	22,566 -(140,649x10%) = N8,501	16,627 -(105,486x10%) = N6,078	22,566 -(123,067x10%) = N10,259

Interpretation and Comparative Analysis:

With reference to Table 4.13, Divisions A and C came out best during the 1992 financial year, based on profitability criteria for evaluating across divisions by management of CFAO. Both divisions attained the same amount of profits and this gave them the first place, while Div. B finished behind them with a far less amount. On the other hand, using ROI criteria, Div. C is adjudged the best performer by generating the highest ROI of 18%. Contrarily, even though Div. A has the same amount of operating income with Div. C. and a larger amount of

invested assets, it dropped to the second place with a ROI of 16%. Div. B still trailed behind by earning a 15% ROI although, with the least operating income and invested assets. However, with the expanded ROI, Div. A was able to earn the highest profit margin of 8%, but with the least investment turnover of 2. The product of these factors resulted in a ROI of 16% which is still more than Div. B's 15% that has a higher investment turnover of 3. Div. C's profit margin is slightly higher than that of Div. B (6% to 5%) and this still gives Div. C the edge despite the fact that they both have similar investment turnover of 3.

Considering RI measurement, Div. C earned more residual income than other divisions, even though it has the same amount of operating income with Div. A. The reason for this difference can be attributed to the fact that Div. A has N17,582 more assets than Div. C. In actual fact therefore, Div. A's operating income is reduced by N1,758 (N17,582x10%) more than Div. C's operating income in determining residual income.

With the aid of our comparative analysis, we conclude this discussion by pointing out that management has not fairly treated Div. C. by awarding it the overall performer along with Div. A during this 1992 business season. This subjective judgement came about as a result of non exhaustive treatment of all available avenues for performance evaluation, since its decision is based solely on profitability measure. To be precise, Div. C surpassed the others using ROI

and RI in addition to profitability because it has a smaller amount in invested assets than Div. A.

Table 4.14: Presentation and Analysis of Data for the 1993 Financial Year

Criteria	Qualitex (Div. A)	Structec (Div. B)	Gen.I/Structor (Div. C)
	N'000	N'000	N'000
1. Profitability:	27,483	29,099	25,866
2a. ROI:	27,483 / 198,441	29,099 / 148,831	25,866 / 173,636
	= 13%	= 19%	= 15%
b. Expanded ROI:	27,483x509,578 / 509,578 198,441	29,099x577,521 / 577,521 148,831	25,866x77,521 / 577,521 173,636
	= 0.05 x 2.6	= 0.05 x 3.8	= 0.05 x 3
	= 13%	= 19%	= 15%
3. Residual Income:	27,483 -(198,441x10%)	29,099 -(148,831x10)	25,866 -(173,636x10%)
	= 7,639	= 14,216	= 8,502

Interpretation and Comparative Analysis:

Reading from Table 4.14, conveys the fact that Div. B was the most profitable during the 1993 business year, for making the highest profit based on profitability criteria as employed by management for measurement. Divisions A and C were less profitable with Div. A reporting N1,617 more operating income than Div. C.

Equally, using ROI criteria for evaluation, Div. B maintained its leading position by earning the highest ROI of 19% despite its least invested assets. On the contrary, Div. C with a 15% ROI performed better than Div. A which has 12%, even when Div. A has larger operating income and invested assets. In other words, relative to the assets invested in Div. A, which constitutes the largest of the three divisions, it is adjudged the least profitable division. Similarly, based on the expanded version of ROI, the overall ranking still remains the same. Although, the three divisions realized the same profit margins, Div. B's investment turnover of 3.8 is the largest. Thus, by more efficiently utilizing its invested assets, Div. B has the highest ROI than Divs. A and C. Div A generated an investment turnover of 2.6 which is slightly lower than that of Div. C's 3.

Considering RI measurement, Div. B rounded up its leading streak by earning the highest RI. Also Div. C stagnated Div. A to the third place by earning N863 more residual income than it. This is inspite of the fact that Div. A generated more operating income than Div. C. Again, the reason for this difference is that Div. A has a larger amount of assets to the tune of N24,805 more than Div. C. Hence, Div. A's operating income is reduced by N2,481 (24,805x10%) more than Div. C's operating income in determining residual income.

The concluding remarks from our comparative analysis is that coincidentally, Div. B performed all round best during the 1993 business season when all the three considered performance indicators were applied for measurement. This goes to confirm management's view despite the fact that it based its judgement solely on profitability, which constitutes its choice criteria. However, the only disparity in management's decision is that Div. A shifted from a second position using profitability measure and dropped to a third place when ROI and RI measures were employed respectively. The reverse is the case for Div. C which substituted Div. A's position by elevating to the second place.

Table 4.15: Ranking the divisions based on profitability, ROI and RI computations for 1989-1993 Financial Years.

Criteria	Year	Qualitex (Div. A)	Structec (Div. B)	Gen.I/Structor (Div. C)
		Ranking	Ranking	Ranking
1.Profitability:	1989	1	2	3
	1990	2	3	1
	1991	2	3	1
	1992	1	2	1
	1993	2	1	3
Overall Ranking		Second	Third	First
2. ROI:	1989	3	1	2
	1990	3	1	2
	1991	3	1	2
	1992	2	3	1
	1993	3	1	2
Overall Ranking		Third	First	Second
3. Residual Income(RI):	1989	2	1	3
	1990	3	1	2
	1991	3	2	1
	1992	2	3	1
	1993	3	1	2
Overall Ranking		Third	First	Second

Source: Tables 4.10-4.14

Concluding Remarks:

A glance at Table 4.15 clearly depicts the divisions as they finished during the five financial years under review (1989-1993). Although, none of the divisions significantly outwitted the others, it can still be noted that Comparing the

three criteria generally, Div. B surpassed the others having abandoned its former third position using profitability measure to a prestigious first place under ROI and RI respectively. Div. C follows in the second position by descending from its former first place using profitability. Lastly, Div. A comes third, also slidding from its second position under profitability.

The essence of this analysis is to emphasize the fact that it is as a result of the defects associated with profitability measure, that prompted the management of CFAO to wrongly evaluate and subsequently rank the divisions and their managers.

4.3: Summary of Chapter:

In this chapter, a two part analysis of the assembled data from our investigation have been considered. Responses from our respondents have equally been appropriately presented, tabulated, statistically analysed, interpreted and conclusions drawn from the findings.

In the first part, three hypotheses bordering on control, motivation, communication and information flow were tested for significance. Two of them were accepted while one was outrightly rejected. The second aspect which addressed the main objective of this study was also statistically computed, and the three employed performance evaluation criteria of profitability, ROI and RI

were exhaustively treated and comparatively analysed as they affect the three understudied divisions.

Following the inconsistent nature of profitability as a measurement criterion, the management of CFAO equally misconceived and subsequently misapplied it in ranking divisions during the period under review.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Overview:

In the last chapter, we analysed and interpreted the data we assembled. In this chapter, based on the findings of our investigation, we shall summarize, conclude and make recommendations accordingly.

The chapter is made up of seven sections. Section 5.2 is devoted to the summary of the study. In section 5.3, discussion emphasizes the principal findings of the study while section 5.4 contains the major problems we encountered during the course of our study. In section 5.5, we highlight possible areas for further research which are significantly related to the study. Finally, sections 5.6 and 5.7 dwell on the conclusions and recommendations respectively.

5.2 Summary:

A major objective of this study has been to convey the message that decentralized organizations use a variety of divisional performance measurement methods, some of which are imperfect while others have some merits. Consequently, a comparative analysis of some financial criteria were employed

to evaluate the performance of divisions and divisional managers in CFAO. The result reveals that one of top management's most challenging jobs is to design and implement consistent divisional measurement tools that will adequately motivate divisional managers to act in the best interest of the entire corporate entity.

Earlier on in the study, literature on the subject matter was considered in different dimensions encompassing the influence of organization structure on performance, operation of responsibility accounting centres, cost control, transfer pricing and non profit measures of performance. We learnt that decentralization or delegation of authority for decision making, is prompted mostly when centralized decision making becomes too unwieldy as an organization grows in size and complexity with the aim of improving performance for enhanced profitability.

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Similarly, the study reveals that division managers in CFAO exercise control measures over revenues, costs and invested assets assigned to their divisions. In addition, division managers take charge of legal matters including investment decisions in areas such as negotiating for contracts and loans, building projects, transfer pricing and acquisition of machineries. These are all key issues in performance measurement which is communicated upward in the organization hierarchy from lower to higher levels of responsibility, through a

system of integrated performance reports. Meanwhile, it is interesting to note that inspite of all these responsibilities shouldered by division managers, their control powers are still restricted to a certain degree by top corporate management (see section 2.3.3 for detail).

As a case study, the questionnaire and interviews methods including personal observation were employed to gather necessary data from the three divisions under study. Both open and close-ended questions were used in the questionnaire. Responses were encouraged through the formulation of minimum questions which are short and clear-cut. This paid off as signified by the impressive response rate of about 78%. In addition, all division managers including other senior managers and accounting officers were successfully interviewed to solicit for information.

The Assembled data were analysed with emphasis on control, motivation and communication and information flow variables. They were statistically tested for significance and subsequently interpreted before conclusions were drawn. Similarly, a comparative analysis of some financial measures of performance namely profitability, ROI and Residual Income was considered.

On the whole, evidence arising from our analysis shows clearly that two hypotheses which considered motivation and control measures were accepted

while the third on communication and information flow was rejected. In addition, the comparative analysis of the three selected financial measures strongly exposed profitability criteria as a subjective tool of appraising managerial performance in CFAO and therefore unreliable.

5.3 Principal Findings:

The favoured profitability measure adopted by the management of CFAO in evaluating the performance of her divisions and divisional managers was found to be a biased and unsatisfactory means of performance appraisal. This is because divisions and their managers were unfairly treated regarding overall ranking during the five financial years under review (1989-1993).

This defect was exposed after an indepth analysis of ROI and RI techniques were considered and subsequently compared with profitability measure. Hence, as widely held in the literature, this goes to confirm its major problems of not reflecting the amount of investment in assets nor cost of capital committed to each division. To buttress this point further, it is surprising to note that during the 1990 financial year when the three divisions generated very low ROI and negative Residual Incomes, the management of CFAO was still contented that the divisions were profitable i.e. based on profitability measure alone (see Table 4.11). This misconception was prompted by the faulty choice of profitability as a performance measurement tool. To be precise, divisions and

their managers were denied the rightful positions and by implication, their appropriate or due rewards.

It is pertinent to note that these additional criteria of ROI and RI, despite their own shortcomings, are found to be very objective, consistent and convenient for assessing performance between managers and across divisions, as they clearly and concisely reflect the true performance of divisions. This objectivity is facilitated because of the consideration of key factors subject to control by division managers such as revenues, costs and invested assets. These factors incidentally constitute the bases on which the performance of managers are routinely evaluated and subsequently compared in CFAO.

Also discovered during the course of this study is the fact that besides the emphasis laid on the generation of profit, CFAO as a corporate entity does not adequately recognize the importance of non profit measures for assessing the performance of her divisions and managers. Not much is done in vital areas such as public (social) responsibility and personnel development. Available facts from interviews conducted with divisional managers and other officers reveal this. Moreover, the subject matter was not mentioned in the chairman's speeches (reviews) as contained in the Annual Reports made available to us, nor were they reflected on the financial statements therein (see Appendices 0-R). Learning on-the-job and the periodic reassignments or swapping of staff within the

organization, presumably to acquaint with one another's job, is the only spectacular gesture in this regard.

Furthermore, it is the popular view of respondents that there exists restricted freedom from control on subordinate managers by the corporate headquarters. During the interview sessions, some of the officers were very emphatic that this tight control measure does not adequately motivate them to put in much of their own initiatives in managing the affairs of their divisions appropriately. In other words, the control system in CFAO is highly formalized.

Although, delegation of authority enhances effective control in CFAO as confirmed by the acceptance of hypothesis number one, yet the company loses much as division managers are greatly denied the necessary freedom for even greater performance. This is because of top management's firm grip on power control measures.

Similarly, the acceptance of hypothesis number two suggests that corporate rewards and penalties such as promotions, fringe benefits, share options, and queries, suspensions and dismissals, motivate management and staff of CFAO for greater performance. Nevertheless, it is sad to note that these rewards (penalties) are not appropriately administered as revealed by the deceptive application profitability as a performance measure. This defect was clearly proven by our analysis.

Finally, it was observed that the accounting system in CFAO is yet to be addressed in line with modern technology, and this is viewed to be below the standard of an organization of such magnitude. Similarly, communication equipment in the organization do not measure up to expectation. It is not surprising then that our hypothesis number three was outrightly rejected when tested for significance in chapter four. As a consequence, information feedback does not facilitate speedy managerial decision making for enhanced performance.

5.4 Limitations of the Study:

Any issue concerning human behaviour has serious limitations and this study is not an exception. This is because our respondents' views might not be strictly correct. It is important to note that during the course of the study, the researcher experienced constraints of time, efforts and most particularly, financial resources to enable the administration of questionnaires and subsequent conduct of interviews at the designated divisional and corporate headquarters.

The principal concern of this exercise has been to source relevant data that will facilitate analysis from which meaningful comparisons could be made and conclusions drawn. Nevertheless, it is regrettable that the constraints already enumerated would still not allow a larger scope of research to include the consideration of wider range of financial and non financial measures of performance.

Furthermore, even though enough of the required facts were made available, some others that would have been very vital for comprehensive analysis were not released. One of such documents is the confidential file containing analysis of performance for divisions, subsidiaries and affiliated companies documented for internal use. As if this was not enough, some officers bluntly refused to grant interviews when approached, despite the fact that strong assurance was given to keep all information strictly confidential and utilized solely for the purpose of this study.

The prevailing economic situation, coupled with constant management interference in corporate affairs do not help matters either. This is because these measures often constitute threats and instability to workers positions. In the simplest terms, it is currently difficult to secure the prompt attention and full cooperation of respondents as they are instilled with fear of possible loss of their jobs.

In the same vein, some of the officers interviewed confided in the researcher that confidential documents are closely guarded secrets of the organization and are not meant for the public. This may suggest why some of the officers were not fully responsive especially to questions concerning corporate financial policies. The researcher was advised by one of the managers to include such denials as difficulties encountered in the research work.

Another hindrance experienced was the late return of most of the questionnaires despite the fact that the questions formats therein were carefully designed to solicit prompt and desired response. Although, this does not imply that the response rate was not impressive, yet, the delayed return equally slowed down the pace of work on the study. Of course, one cannot forget the problems or demerits of sourcing information through the questionnaire and interview methods which very much confronted us. Closed-ended questions are meant to encourage high response rate, but the obvious fact is that they do not yield information of sufficient scope or depth. Similarly, the interviewer's bias created its own hindrance.

Finally, for all practical purposes, it seems reasonably evident that the contemplation of these enumerated constraints, informed in the first place, the choice of only a handful but reasonable number of divisions in identical or similar circumstance for this study.

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5.5 Areas for Further Research:

Certain areas excluded from this study for want of space, time and financial constraints were highlighted, but some more important areas demand closer study for further research. These are further explained below.

There is need to conduct intensive research on non financial and non quantifiable measures of performance in CFAO. Some of such measures include marketing effectiveness, public responsibility and personnel development. Specific effort is needed to establish generally acceptable methods of properly quantifying and measuring their values which will be followed consistently over time and across divisions.

Most important of all these measures is personnel development and meaningful research into it is commendable. This is because an effective personnel development programme, besides enhancing the coordination of other performance measures, increases productivity and efficiency in the management of corporate resources. It also heightens morale, motivation of workers and above all, promotes organizational stability and flexibility.

We are prompted by this proposal because currently in CFAO, the attention given to personnel development is not encouraging enough. As earlier mentioned, aside from learning on-the-job and rotating staff which are obvious, no other meaningful training programme was revealed or observed during our investigation. Although, employee training scheme is clearly stated in the company's annual reports (see Appendix O), yet there is little to show for it. This fact was confirmed while cross-checking our facts with division managers and other officers as almost all of them claimed they never went through the scheme,

and most of them have put in upto a decade and above in the service of CFAO. Probably, such programme was more viable when the economy was in good shape, but certainly not now.

There is also the necessity to frequently conduct and update research studies about the useful role employee behaviours or attitudes play in influencing performance in business organizations. This is obviously indispensable and the motive mainly implies developing an increased awareness and understanding of the complex, social and psychological forces which motivate organization participants in line with economic considerations.

It is important as well to carry out this same research study in another format or dimension using different variables, research techniques and statistical tools for analysis different from the present approach. The major objective in this regard will be to further propagate the development of performance measurement as a vital attribute of organizational growth.

Furthermore, researching into a sound system of transfer pricing policy that is acceptable is advocated at this point in time. This concept, if applied with skill and moderation, will provide a lasting solution to the long dilemma of speedily reconciling transactions resulting thereof. The present system in CFAO whereby prices are fixed for branch transfers within each division, but negotiable

between divisions (intra-company) and externally, may lead to suboptimization and therefore put the economic interest of the divisions and the entire company in jeopardy. Therefore, researching into this field is long overdue because of the qualities or attributes of transfer pricing as a good means of control and performance appraisal.

5.6 Conclusions:

For the fact that we still have much to learn about performance appraisal, some of what appear in these pages must be tentative and exploratory. Future research will undoubtedly cast new light on many of our conclusions and in all probability, be modified to suit prevailing circumstances. Besides, even at this relatively early stage, there is value in exploring these matters so that we can begin to develop a store of knowledge and understanding about performance in a decentralized organization. Based on the principal findings from our investigation, we therefore conclude as follows:

The overwhelming experience of decentralization in CFAO is that divisional autonomy and independent profit responsibility lead to improved performance and greater financial success than do closely controlled, centrally administered operation. However, part of the price of this success is an occasional situation of suboptimization due to pettiness, bickering, or just plain managerial uncompromizing posture.

The top management in CFAO faces the challenging task of constantly evaluating and maintaining high standards of performance through regular monitoring, coordination and control of activities of subordinate managers. Performance evaluation is an area where research work has not been stepped up in developing countries like Nigeria, with the aim of blending theoretical knowledge with actual practice.

Findings from two of the hypotheses we tested for significance in this study, proved that CFAO has well established control and corporate reward (penalty) systems that motivate division managers to take actions that are consistent with the firm's profit objectives. On the contrary, one of the hypotheses gave the impression that communication and information flow in CFAO is not good enough and hence delays the pace of decisions making. As earlier stated, these evidences provide good bases for further research, especially as they mostly constitute non financial tools of performance appraisal.

Although, the management of CFAO may assume the usage of profitability measure very feasible or convenient in motivating its managers, unfortunately, it lacks objectivity in adequately evaluating and comparing between managers and across divisions as revealed by our analysis. The adoption of Profit Before Tax (PBT) as a base is not properly defined because as an interim figure of profit, all the necessary deductions such as taxation and uncontrollable expenses credited

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to divisions are not taken care of before computation. This decision prompted the resultant figures to be biased, erroneous and misleading as justified by the outcome of our comparative analysis in the preceding chapter.

However, it was reasonably proved that ROI an RI tools are objective and consistent means of performance measurements. Furthermore, throughout the five business seasons under review, our study revealed that none of the three divisions significantly outwitted the others in performance as each one of them had a share of good and bad outings. Nevertheless, based on the three considered criteria, an overall ranking shows that Div. B surpassed the others. It is closely followed by Div. C while Div. A finished last (see Table 4.15).

Despite its large and diversified nature, CFAO is yet to embrace the adoption of the more favoured and widely accepted measurement techniques of ROI and RI. It is even more astonishing to note that some of the officers are oblivious of the merits of such tools. The overwhelming response on the questionnaires and answers advanced when interview questions were posed in this regard are evidence to back up this fact.

On a final note, it is hoped that the outcome of this study will contribute immensely to knowledge. If properly implemented, it will serve as a good reference material on performance evaluation for the management and staff of CFAO.

5.7 Recommendations:

Consequent upon our research findings, the following recommendations are made:

It is obvious that centralization of authority and responsibility is old fashioned and will not be capable of achieving the highest degree of efficiency in a conglomerate like the CFAO, whose activities are highly diversified with the aim of optimizing corporate financial growth. Decentralization obviously is more ideal because it is a sound and well conceived concept of organization structure. Hence, management should continue to intensify effort at firmly consolidating its success.

However, to achieve this feat and realize the desired corporate goal, management must relax its firm grip on control which defeats the very essence of decentralization. It can effect this by allowing divisional managers greater flexibility or a fair degree of autonomy. This enhanced freedom will no doubt, motivate managers to effectively employ the strategic role of modern management towards influencing the optimum use of resources within their control and hence, step up efforts for improved financial performance.

The management of CFAO should seek an optimal balance between multiple goals and multiple performance measures - both financial and non

financial. This is because when a single dimensional model of performance appraisal is emphasized to the exclusion of others available, the system can be easily manipulated to distort the decision making process. Already, evidence from our study has shown how inaccurate and inadequate the management choice of profitability is. This assertion is true even though management considers such measure appropriate.

Evidence from our investigation has proven the reliability of ROI and RI as satisfactory means of assessing performance. This is because both criteria consider the major factors subject to control by division managers in CFAO as earlier enumerated in section 2.3.3. Hence, it is appropriate advocating their adoption for the purpose of objectively assessing managerial performance.

Furthermore, since one of the most important indicators of financial success of a company is its overall return on investment, it therefore seems natural for the management of CFAO to seek to delegate responsibility not just for profits alone, but for profits in relation to the investment base. Management should therefore be convinced about these qualities and effectively communicate the reasons for adopting them to division managers and then apply them consistently over time and across divisions, so as to be able to stabilize the effects of any biases that might arise in their application.

Adequate attention should also be given to non financial measures of performance especially in areas like employee behaviour, social responsibility and personnel development. The benefits realizable from personnel development for instance, is immeasurable. This is principally because it prepares managers for assuming greater authority as they rise in the organization. Hence, the management of CFAO should generally endeavour to gear efforts towards providing sound formal and informal training for their managers and other employees so as not to create vacuum in the management hierarchy. It is not enough to have employee training schemes in print without properly implementing such laudable programmes.

Management should strive to properly define profit and investment bases when it eventually recognizes the usage of ROI and RI measures of performance. This will prevent the likelihood of biased judgement resulting from inaccurate and inadequate computations and subsequent assessments. From all indications, we recommend Net Profit and Net Assets as more appropriate bases for implementation since both factors take care of all necessary deductions.

It is our candid opinion that top corporate management of CFAO establishes specific rules for setting transfer prices that encourage division managers to optimize overall company goals. In other words, this approach will go to check excesses resulting from their freedom to negotiate intra-company as well as external prices for goods and services. In this circumstance,

management will always be available to intervene when deadlock ensues between managers. Meanwhile, a sound accounting system must be in place for speedy reconciliation of transactions and objective appraisal of managerial performance. This rightly informs the need for our last recommendation.

Finally, it is important that management directs more effort towards improving the firm's communication and information system in line with modern technology. This will undeniably facilitate feedback for speedy managerial decision making and particularly ensure the efficient coordination of activities in its numerous divisions and branch network nationwide. The rejection of the hypothesis in this regard properly informs this recommendation.

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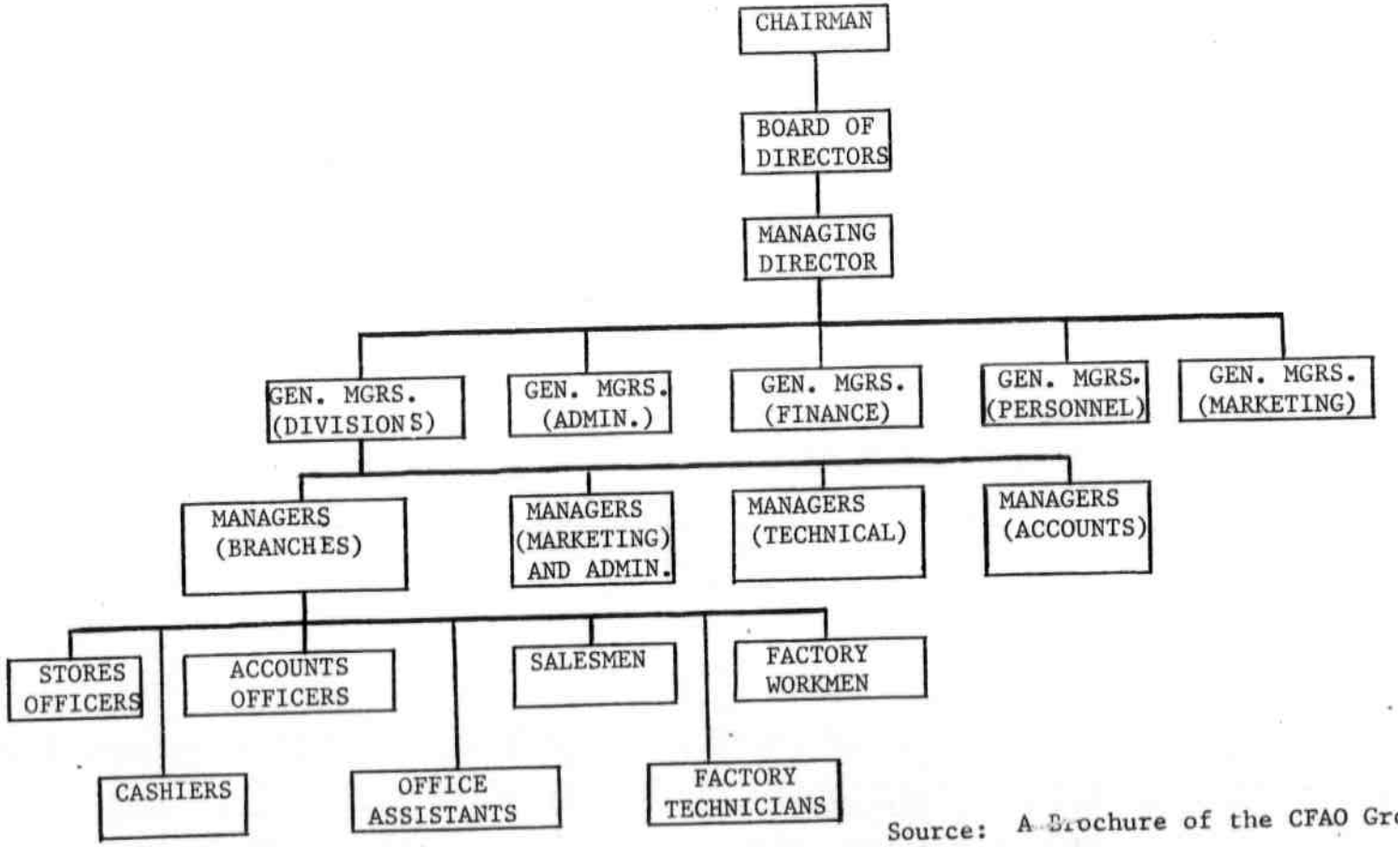
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APPENDIX A

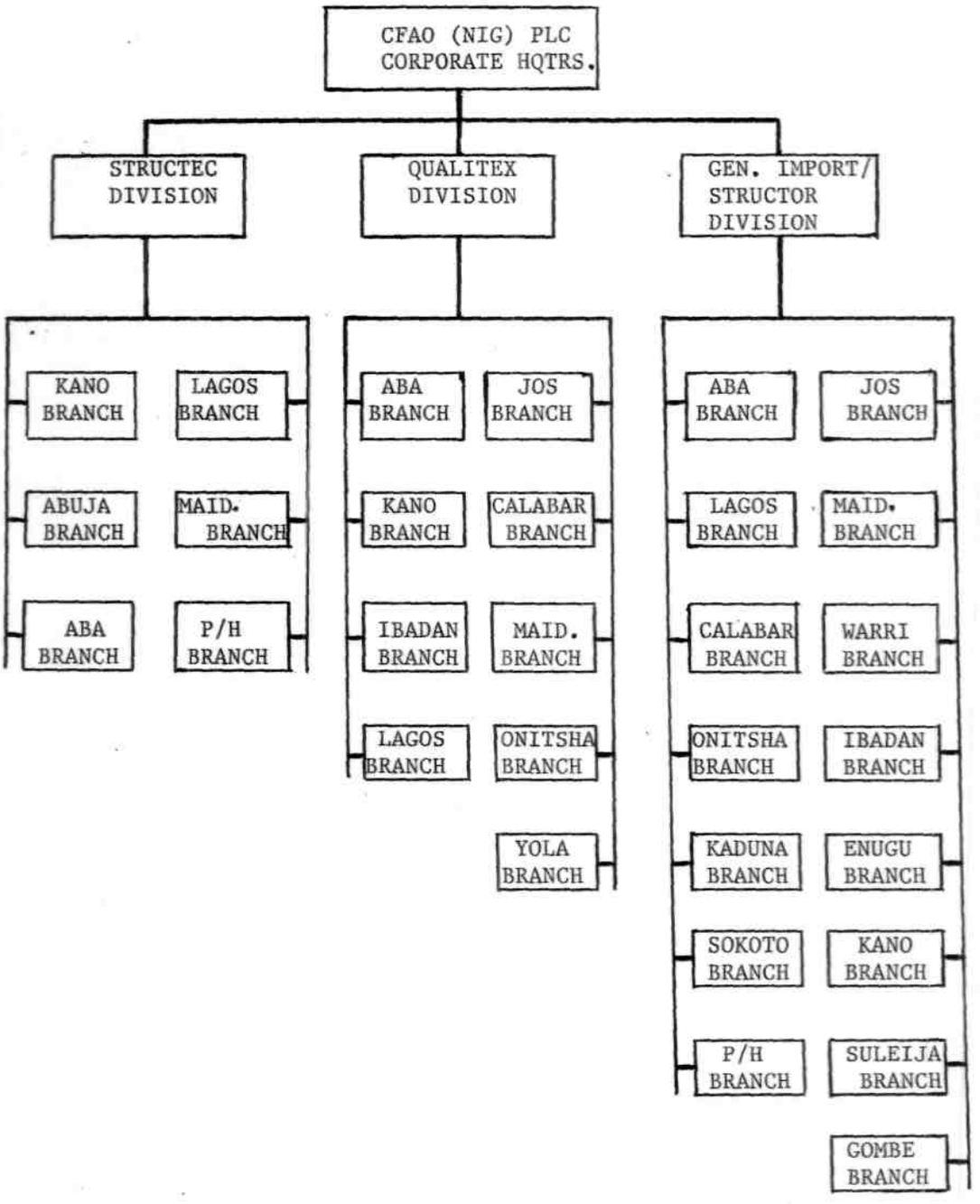
A partial decentralized organisation chart for CFAO showing tall hierarchy of management control:



Source: A Brochure of the CFAO Group in Nigeria.

APPENDIX B

A partial decentralized organisation chart for CFAO showing dispersed branch network for three divisions:



Source: A Brochure of the CFAO Group in Nigeria.

APPENDIX C

LOCATIONS	ADDRESSES	DIVISIONS/SUBSIDIARIES
ABA	4, Factory Road	General Import/Structor, Qualitex, Motors.
BAUCHI	Gombe Road	NMI Mercedes
BENIN	173, Uselu/Lagos Road	Motors
CALABAR	38, Marina	General Import/Structor, Qualitex
ENUGU	24, Okpara Avenue	General Import/Structor, Electro-Hall
GOMBE	Biu Road	General Import
IBADAN	7, Lebanon Street	Qualitex
	59, Onireke Street	GI/Structor, Electro-Hall
	Oluyole Industrial Estate	Motors
ILORIN	106, Murtala Muhammed Way	GI/Structor
JOS	9A, Beach Road	General Import/Structor, Qualitex
KADUNA	7, Ahmed Bello Way	General Import/Structor, Electro-Hall
	Ahmed Talib Avenue	GI/Structor
	1A, Alli Akilu Road	NMI Mercedes
KANO	12, Lagos Street	Co-ordination North, Qualitex
	12, Murtala Muhammed Way	General Import/Structor, Structec
		Electro-Hall
	90, Tafawa Balewa Road.	Depi Ltd.
	10, Club Road	NMI Mercedes
	Sharada Industrial Estate	International Tanners Ltd.
	5, Independence Road. Bompai	Northern Textile Manufacturers Ltd.
	55A, Tafawa Balewa Road	Motors
LAGOS	1, Davies Street.	Head Office
	71/72 Adeniji Adele Road	GI/Structor
	31, Moloney Street	Moloney Supermarket
	26, Wharf Road, Apapa	Moloney Supermarket
	Plot 2, Oshodi/Apapa, Exp. Way	GI/Structor, Structec
	3, Davies Street	Qualitex
	4a, Ijora Causeway, Plot 1, Block "C"	Motors
	Fatai Atere Way, Matori	Heavy Vehicles Department
	24, Wharf Road, Apapa	Electro-Hall
	Plot 1, Oshodi/Apapa, Exp. Way	NMI
	9, Dockyard Road, Apapa	CICA Limited
	Agbara Ind. Estate	Dumex Industrial Ltd.
	Isreal Adebajo Close, Ikeja	Nigeria Ball-Point Pen Ind. Ltd.
		Studio Press Packaging Ltd.
	Oba Akran Avenue, Ikeja	Galvanising Ind. Ltd.
	Plot 20, Iganmu Ind. Estate	Passat Industries.
MAIDUGURI	5, Kirikasama Road	GI/Structor, Qualitex
	Sir Kassim Ibrahim Road	NMI Mercedes Electro-Hall
ONITSHA	24, New Market Road	GI/Structor, Qualitex, Motors
P/HARCOURT	8, Azikiwe Road	Co-ordination East GI/Structor, Structec
		CICA ltd.
	4, Aba Road	Electro-Hall
	2A, Aba Road	Motors
	Trans-Amadi Layout	NMI
SOKOTO	32/33 Abdulahi Fodio Road	GI/Structor, Electro Hall, NMI Mercedes
SULEIJA	Kaduna/Lokoja Road	GI/Structor
WARRI	Warri/Sapele Road	GI/ Structor
YOLA	Mohammed Mustapha Way,	
	Jimeta	Qualitex
	Kilometre 5, Old Mayo	M'Billa Farms Ltd.
	Belwa Numan Road	

The Group in Nigeria

APPENDIX D



LOCATIONS	*ADDRESSES*	*DIVISION-SUBSIDIARY*
ABA	4, Factory Road	General Import/Structor Qualitex Motors
ABUJA	Plot No. 568, Michael Okpara Street Wuse Zone II, Abuja	General Import/Structor Electro-Hall Structec Motors
BAUCHI	Gombe Road	NMI Vehicles
BENIN	173 Uselu/Lagos Road	Motors
CALABAR	38, Marina	General Import/Structor
ENUGU	24, Okpara Avenue	General Import/Structor Electro-Hall
GOMBE	Biu Road	General Import/Structor
IBADAN	7, Lebanon Street 59, Onireke Stfeet Oluyole Industrial Estate	General Import/Structor Qualitex Electro-Hall Motors

KASHIM IBRAHIM LIBRARY

APPENDIX E

QUALITEX NIGERIA

SALES - 1994/1993

MONTH: NOVEMBER 1994

	TURNOVER, 1994				GROSS PROFITS - 1994				ACHIEVED - 1993			
	MONTH		CUMULATIVE		MONTH		CUMULATIVE		TURNOVER		GROSS PROFIT	
	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	MONTH	CUMULALTIVE	MONTH	CUMULATIVE
AMUWO	6,172	4,800	43,108	52,800	2,492	1,282	13,055	14,102	4,240	43,100	1,005	11,310
PORT HARCOURT	1,439	3,000	15,708	33,000	377	750	4,766	8,250	1,838	28,835	631	5,711
ABA	905	400	2,305	4,400	363	120	960	1,320	407	2,575	159	972
EAST	2,344	3,400	18,013	37,400	740	870	5,726	9,570	2,245	31,410	790	6,683
KANO	2,701	1,500	11,602	16,500	547	500	3,844	5,500	961	11,900	325	3,810
MAIDUGURI	1,918	480	8,719	4,400	400	120	2,733	1,320	72	2,264	37	936
ABUJA	527	400	8,799	4,400	167	120	2,044	1,320	141	1,974	62	737
NORTH	5,146	2,300	29,120	25,300	1,114	740	8,621	8,140	1,174	16,199	424	5,483
TOTAL TRADING	13,662	10,500	29,120	115,500	4,346	2,892	27,402	31,812	7,659	90,708	2,219	23,477
SITES	1,882	2,000	27,839	22,000	2,110	1,500	28,638	16,500	1,545	15,940	956	15,392
T O T A L	15,544	12,500	118,080	137,500	6,456	4,392	56,040	48,312	9,204	509,578	3,175	38,869

APPENDIX F

GENERAL IMPORT/STRUCTOR - BRANCH PERFORMANCE JANUARY - DECEMBER 1993

:H	AMOWO		P/HARCOURT		KANO		ABA		MAIDUGURI		ABUJA		SITE/W/SHOP		TOTAL	
	T.O	G.P	T.O	G.P	T.O	G.P	T.O	G.P	T.O	G.P	T.O	G.P	T.O	G.P	T.O	G.P
JARY	2,717*	662*	3,379	203*	1,751	611*-	451	111	103*	65*	-	-	1,138	934*	9,539	2,526*
RUARY	, 4,124	1,289	1,892*	378*	460*	184*	171*	65*	46*	31*	-	-	776*	678*	7,469	2,625*
CH	4,513	1,281	3,653	562*	786*	334*	318	210	86*	52*	-	-	1,033	867*	10,389	3,325*
IL	3,563	993*	4,168	444*	1,142*	430*	49*	24*	675	267	60*	36*	1,527	1,356	11,183	3,550*
	3,269*	628*	2,745*	467*	1,297*	468*	269	135	258	75*	187*	90*	1,408	1,963	9,433*	3,826
IE	3,541	1,053	3,323	428*	1,244*	369*	231*	106	207	57*	283	89*	1,601	1,448	10,430	3,550*
LY	3,143*	1,159	2,825*	622*	950*	227*	153*	24*	465	207	395	97*	1,897	1,576	9,828	3,912
GUST	5,392	1,097	1,796*	766	1,148*	236*	317	39*	230	106	341	92*	943*	1,040	10,167	3,376*
PTEMBER	3,879	1,170	1,752	519*	1,232*	355*	42*	15*	101*	36*	268	113	2,006	1,947	9,280	4,155
TOBER	4,719	968*	1,463	692*	990*	273*	166*	80	22	2*	298	157	2,068	2,615*	9,726	4,787
VEMBER	4,240	1,005*	1,838*	631*	961*	325*	407	159	72*	37*	141*	62*	1,545	956	9,204*	3,175*
CEMBER	6,598	1,400	1,409	561*	637*	227*	803	210	361	81*	229*	60*	3,011	3,095	13,048	5,634
TAL	49,698	12,705	30,243*	6,273*	12,598*	4,039	3,377	1,178*	2,626*	1,016*	2,202	796	18,953	18,497	577,521	44,504
NNUAL BUDGET	42,000	12,600	36,000	9,000	15,600	6,240	3,000	1,200	3,000	1,200	3,000	1,200	11,400	10,713	114,000	42,753
ONTHLY BUDGET	3,500	1,050	3,000	750	1,300	520	250	100	250	100	250	100	950	943	9,500	3,563
ARGET FOR 12 MONTHS	42,000	12,600	36,000	9,000	15,600	6,240	3,000	1,200	3,000	1,200	2,250	900	11,400	10,713	114,000	42,753
% ACTUAL/TARGET/ SHORTFALL	+18.3	+0.72	-15.99	-30.3	-19.24	-35.27	+12.57	-1.83	-12.47	-15.33	-2.13	-11.56	+66.25	+72.66	+5.00	+4.10

* Target achieved ** Target not achieved

APPENDIX G

STRUCTEC BRANCH - PERFORMANCE NOVEMBER 1994

	AMUWO		P/HARCOURT.		KANO		ABA		MAIDUGURI		ABUJA		SITE/WORKSHOP		TOTAL	
ONTH	T.O.	G.P.	T.O.	G.P.	T.O.	G.P.	T.O.	G.P.	T.O.	G.P.	T.O.	G.P.	T.O.	G.P.	T.O.	G.P.
NUARY	5,041	1,377	1,420*	795	971*	437*	34*	11*	214*	110*	107*	41*	2,317	2,184	10,104*	4,955
BRUARY	4,955	1,367	1,586*	591*	660*	335*	50*	28*	169*	86*	1,454	157	2,172	2,166	11,046*	4,730
RCH	3,302*	832*	1,768*	371*	798*	412*	85*	42*	104*	58*	1,159	188	3,274	3,269	10,490*	5,172
PRIL	3,776*	1,081*	1,701*	296*	546*	168*	195*	85*	329*	167	203*	102*	2,132	2,660	8,882*	4,559
AY	3,275*	1,453	832*	248*	538*	174*	95*	47*	315*	105*	506	138	3,236	3,199	8,797*	5,364
UNE	3,986*	640*	1,473*	658*	581*	212*	69*	34*	880	250	460	138	3,185	3,357	10,634*	5,289
ULY	2,762*	965*	1,030*	382*	1,194*	419*	408	196	1,069	337	241*	105*	1,995*	2,244	8,699*	4,648
UGUST	1,293*	386*	990*	407*	1,346*	339*	135*	34*	1,476	630	2,693*	662	2,388	2,251	10,320	4,709
EPTEMBER	3,462*	992*	2,322*	324*	841*	311*	39*	21*	1,131	391	739	245	2,938	2,982	11,471	5,177
CTOBER	5,083	1,479	1,146*	318*	1,425*	489*	290*	99*	1,109	169	716	100*	2,306	2,313	12,075	4,967
NOVEMBER	6,172	2,492	1,439*	377*	2,701	547	905	363	1,918	400	527	167	1,882	2,110	15,544	6,457
DECEMBER																
TOTAL	43,108	13,052	15,708	4,766	11,602	3,844	2,305	960	8,719	2,733	8,799	2,044	27,825	28,735	118,062	56,027
ANNUAL BUDGET	57,600	15,380	36,000	9,000	18,000	6,000	4,800	1,440	4,800	1,440	4,800	1,440	24,000	18,000	150,000	52,700
MONTHLY BUDGET	4,800	1,282	3,000	750	1,500	500	400	120	400	120	400	120	2,000	1,500	12,500	4,392
TARGET FOR ELEVEN MONTHS	52,800	14,102	33,000	8,250	16,500	5,500	4,400	1,320	4,400	1,320	4,400	1,320	22,000	16,500	137,500	48,312
% ACTUAL/TARGET	-18.36	-7.42	-52.40	-42.23	-29.68	-30.11	-47.61	-27.27	+98.16	+107.05	+99.98	+54.85	+26.48	+74.15	-14.14	+15.97

* Target not achieved

APPENDIX I

EXPENSES BY BRANCHES

	Acc. Code	Class of Expenses	AMUWO		PORT HARCOURT		KANO		ABA		MAIDUGURI		ABEOKUTA		TOTAL	
			MONTELY	CUMU.	MONTELY	CUMU.	MONTELY	CUMU.	MONTELY	CUMU.	MONTELY	CUMU.	MONTELY	CUMU.	MONTELY	CUMU.
		B/F	1,565,824	12,362,227	433,114	4,368,528	242,232	2,657,759	77,325	589,533	28,247	261,404	25,021	274,697	2,371701	20,514,190
27	63811	Entertainment	26,202	144,379	6,187	62,308	775	2,448	791	3,034	-	1,435	-	810	33,955	214,413
28	63820	Posts & Telegram	55,996	535,734	14,933	78,753	10,876	1,850	1,850	9,073	858	71,017	2,500	22,239	87,014	934,497
29	63850	Bank Charges	156,059	563,206	8,239	113,246	7,070	43,449	610	3,640	21,945	38,184	4,649	12,981	198,573	774,706
30	63880	Subscription to Magazines, & Newspapers	-	12,000												12,000
31	63890	Sundry Expenses	101,870	251,765	1,200	10,325	1,110	15,675	400	2,770	520	3,385	550	4,330	105,650	288,250
32	64100	Insurance Premium	37,671	277,038	41	22,910	23	12,753							37,735	312,701
33	64300	Subscription to Clubs	-	10,850				1,210								12,060
34	64600	Donations (Gifts & Tips)	-	6,000	-	10,000										16,000
35	65000	Pensioneer Salary Pam African Staff	3,947 9,487 18,357	3,947 102,622 2,811,690	239,424	1,390,494	176,884	996,378	13,860	7,235	400	11,330	5,797	24,496	440,436	5,334,722
36	65040	Charges on Salary African Staff	158,080	1,092,539	115,922	871,272	39,212	400,402	1,965	4,895	-	1,190	-	4,278	315,179	2,374,575
37	65200	Salary Expatriate	20,400	353,320											20,400	353,320
38	65240	Charges on Salary Expatrate	94,530	813,773											94,530	813,773
39	65500	Leave Passage to Expatriate	53,300	600,757											53,300	600,757
40	65900	Social Security Charges	9,102	42,306	-	2,648									9,102	44,953
41	66300	Duties, Taxes & Stamp Duty	4,782	70,010	2,327	93,253	1,425	11,358	-	522	-	1,209	-	-	8,583	176,458
42	67100	Interest on Liaison	1,300,996	12,500166	-										1,300,996	12,500,166
43	67200	Bank Interest	264,677	3,653,390	793	-2,118	7,587	136,136	-	869	1,136	1,070	-	-	274,198	3,789,346
		Others	100,000	1,100,112											100,000	1,100,112
		TOTAL	3,981,280	37,308,831	822,[illegible]0	7,021619	487,194	4,495,246	69,061	[illegible],101	53,106	390,354	38,517	343,831	5,451352	50,167,009

APPENDIX J

QUESTIONNAIRE

TOPIC: PERFORMANCE EVALUATION IN A DECENTRALIZED ORGANIZATION: A STUDY OF CFAO NIGERIA PLC

Introduction:

Dear Sir,

This questionnaire is meant to assist us in learning more about performance evaluation in a decentralized organization.

Our objective is to help expand the body of knowledge about this important area of management.

To do this of course, means going to someone such as yourself who knows. Your help with the few questions will take only a few minutes and will make a real contribution to the accuracy and success of this study.

Please, oblige us by expressing your true feelings since all information supplied will be treated in strict confidence and will be available only for the purpose of this research work.

1. What is the nature of your business?

Manufacturing	--	Construction	--
Engineering	--	Service	--
General Merchandize	--	Others (Specify)	--

2. How many profit centres does your division have under its control?

(a) Do you think that constant monitoring and coordination of activities in such centres would enhance the overall performance of your division? Yes/No

3. Do you think the dispersion of decision making to various managerial levels in the organization allows for effective coordination and control of management and staff? Yes/No

(a) Don't you think such control measures will be very burdensome or difficult for top management? Yes/No

4. Does your organisation adopt the policy of reassigning staff so as to get acquainted with one anothers' job? Yes/No

(a) Would you regard such management policy as training employees on-the-job for improved performance? Yes/No

5. Do you consider effective management supervision and internal control of staff as measures contributing towards your division's performance and that of the entire organization? Yes/No

(a) Does there exist cordial relationship between management and staff in your division? Yes/No

(b) Is inter-divisional relationship properly enhanced in your organization? Yes/No

6. Does the central management set specific performance targets/standards for the divisions to achieve regularly?

Yes/No

(a) How often does your division achieve such targets?

All the time -- Most of the time --

Some of the time --

(b) How often does your division come out top-most in overall performance?

All of the time -- Some of the time --

Most of the time -- None of the time --

7. Does the central management penalize the staff of your division for failing to attain performance targets Yes/No

(a) Are the management and staff of your division honoured/rewarded by the organization when they achieve target performance? Yes/No

8. In your opinion, would you say that such incentives (rewards) motivate management and staff for improved performance towards achieving greater profitability? Yes/No

9. How effective would you rate the communication and information flow within the entire organization?

Excellent -- Good -- Fair -- Poor --

(a) Would you agree that timeliness in the dissemination of information and feedback speed up decision making for improved performance in your division? Yes/No

10. Do the divisions in your organization engage in transfer pricing? Yes/No

(a) If yes, does such practice quicken the reconciliation of your accounts and subsequently facilitate the assessment of your divisional performance? Yes/No

11. Would you say that the bases or procedures for determining and allocating controllable costs and revenues attributable to your division by top management is appropriate? Yes/No

(a) In your opinion, do you think that such practice:

(i) enhances objective comparison between actual and budgeted controllable costs and revenues? Yes/No

(ii) facilitates smooth performance evaluation between managers or across divisions in your organization? Yes/No

12. As it is widely contemplated, would you agree that decentralization of organizational activities increases the costs on management and reduces the overall organizational profit? Agree/Don't Agree

13. What criteria does the central management of your organization adopt in assessing the performance of her divisions and divisional managers?

Profitability -- ROI -- Residual Income --

Others (specify) _____

(a) Are such criteria consistent for all the divisions in the organization?

Yes/No

14. Do the undermentioned reasons appropriately explain why your organization prefers the adoption of her chosen criteria to the exclusion of others available?

(a) The chosen criteria is feasible (convenient) for the organization.

Yes/No

(b) Divisional managers and staff are adequately motivated towards achieving greater success for the organization. Yes/No

(c) The degree of freedom from control by the corporate headquarters is:

(i) Total -- (ii) Restricted --

(iii) In between (i) and (ii) --

(iv) To a greater extent --

(v) To a lesser extent --

(vi) Others (Specify) _____

15. How does your organization define or determine the following:

(a) Division Income (Profit)?

PBIT -- PBT -- NI --

Others (Specify) ___

(b) Investment base?

Total assets -- Working capital plus other assets ------

Total assets employed -- Stockholders' equity --- --

Others (Specify) _____

(c) Minimum acceptable rate of return placed on your invested assets (i.e. the percent capital charge)? _____

16. Does your organization encounter any limitation or difficulty in applying its chosen criteria for performance evaluation?

Yes (briefly explain) _____

No -------

17. What do you think are the greatest problems working against the maximization of profit in your organization and what specific measures do you suggest are necessary to improve effective performance?

Briefly explain) ----------

APPENDIX K

$\chi^2_{0.100}$	$\chi^2_{0.050}$	$\chi^2_{0.025}$	$\chi^2_{0.010}$	$\chi^2_{0.005}$	df
2.70554	3.84146	5.02389	6.63490	7.87944	1
4.60517	5.99147	7.37776	9.21034	10.5966	2
6.25139	7.81473	9.34840	11.3449	12.8381	3
7.77944	9.48773	11.1433	13.2767	14.8602	4
9.23635	11.0705	12.8325	15.0863	16.7496	5
10.6446	12.5916	14.4494	16.8119	18.5476	6
12.0170	14.0671	16.0128	18.4753	20.2777	7
13.3616	15.5073	17.5346	20.0902	21.9550	8
14.6837	16.9190	19.0228	21.6660	23.5893	9
15.9871	18.3070	20.4831	23.2093	25.1882	10
17.2750	19.6751	21.9200	24.7250	26.7569	11
18.5494	21.0261	23.3367	26.2170	28.2995	12
19.8119	22.3621	24.7356	27.6883	29.8194	13
21.0642	23.6848	26.1190	29.1413	31.3193	14
22.3072	24.9958	27.4884	30.5779	32.8013	15
23.5418	26.2962	28.8454	31.9999	34.2672	16
24.7690	27.5871	30.1910	33.4087	35.7185	17
25.9894	28.8693	31.5264	34.8053	37.1564	18
27.2036	30.1435	32.8523	36.1908	38.5822	19
28.4120	31.4104	34.1696	37.5662	39.9968	20
29.6151	32.6705	35.4789	38.9321	41.4010	21
30.8133	33.9244	36.7807	40.2894	42.7956	22
32.0069	35.1725	38.0757	41.6384	44.1813	23
33.1963	36.4151	39.3641	42.9798	45.5585	24
34.3816	37.6525	40.6465	44.3141	46.9278	25
35.5631	38.8852	41.9232	45.6417	48.2899	26
36.7412	40.1133	43.1944	46.9630	49.6449	27
37.9159	41.3372	44.4607	48.2782	50.9933	28
39.0875	42.5569	45.7222	49.5879	52.3356	29
40.2560	43.7729	46.9792	50.8922	53.6720	30
51.8050	55.7585	59.3417	63.6907	66.7659	40
63.1671	67.5048	71.4202	76.1539	79.4900	50
74.3970	79.0819	83.2976	88.3794	91.9517	60
85.5271	90.5312	95.0231	100.425	104.215	70
96.5782	101.879	106.629	112.329	116.321	80
107.565	113.145	118.136	124.116	128.299	90
118.498	124.342	129.561	135.807	140.169	100

SOURCE: Reprinted by permission from "Tables of the Percentage Points of the χ^2 Distribution." *Biometrika*, vol. 32 (1941), pp. 188–189, by Catherine Thompson. Reproduced by permission of Professor E.S. Pearson.

Financial Summary

APPENDIX L

	1992 ₦'000	1991 ₦'000	1990 ₦'000	1989 ₦'000	1988 ₦'000
Capital Employed					
Fixed Assets	66,179	39,587	36,556	39,331	35,908
Deferred Expenditure	—	—	—	3,483	—
Investments	27,013	4,435	3,443	3,681	5,789
Stock and Work-in-Progress	395,151	219,172	193,048	252,357	109,387
Sundry Debtors and Prepayments	346,630	245,253	132,332	124,967	126,345
Cash and Bank Balances	—	23,316	62,696	31,672	43,032
	834,973	531,763	428,075	455,491	320,461
***Less:* Liabilities**					
Current Liabilities	480,541	277,275	195,155	283,850	210,534
Medium-Term Loan	26,590	1,516	623	818	1,909
Debenture Stock	75,000	75,000	75,000	75,000	25,000
	582,131	353,791	270,778	359,668	237,443
Net Assets	252,842	177,972	157,297	95,823	83,018
Financed by:					
Share Capital	78,000	78,000	78,000	39,000	26,000
Debenture Redemption Reserves	59,000	39,000	29,000	25,000	23,000
Other Reserves	113,246	60,972	50,297	31,823	34,018
Minority Interest	2,596	—	—	—	—
	252,842	177,972	157,297	95,823	83,018
Profit and Loss Account					
Turnover	2,010,162	1,300,980	963,457	898,363	653,002
Profit before Taxation	118,767	60,839	21,578	48,850	30,159
Profit after Taxation	83,010	40,125	12,587	28,405	20,030
Dividend	19,500	15,600	11,700	15,600	10,400
Earnings per 50k Ordinary Share	53·21k	25·72k	8·07k	18·21k	12·84k
Dividend per 50k Ordinary Share	12·50k	10·0k	7·50k	10k	6·67k
Net Assets Value per Share	₦1·62	₦1·14	₦1·01	61k	53k

Note:

The Earnings, Dividends and Net Assets per share have been arrived at for all the years using 156,000,000 ordinary shares in issue at 31st December, 1992.

Financial Summary

APPENDIX M

Capital Employed	1993 N'000	1992 N'000	1991 N'000	1990 N'000	1989 N'000
Fixed Assets	75,532	66,179	39,587	36,556	39,331
Deferred Expenditure	-	-	-	-	3,483
Investments	39,100	27,013	4,433	3,443	3,681
Stock and Work-in-Progress	553,962	395,151	219,172	193,048	252,357
Sundry Debtors and Prepayments	484,221	346,630	245,253	132,332	124,967
Cash and Bank Balances	87,442	44,081	23,316	62,696	31,672
	1,240,257	879,054	531,765	428,075	455,491
Less: Liabilities					
Current Liabilities	804,447	524,622	277,275	195,155	283,850
Medium-Term Loan	28,843	26,590	1,516	623	818
Debenture Stock	66,667	75,000	75,000	75,000	75,000
	899,957	626,212	353,791	270,778	359,668
Net Assets	340,300	252,842	177,972	157,297	95,823
Financed By:					
Share Capital	78,000	78,000	78,000	78,000	39,000
Debenture Redemption Reserves	75,000	59,000	39,000	29,000	25,000
Other Reserves	178,505	113,246	60,972	50,297	31,823
Minority Interest	8,795	2,596	-	-	-
	340,300	252,842	177,972	157,297	95,823
Profit and Loss Account					
Turnover	3,397,184	2,010,162	1,300,960	963,457	898,363
Profit before Taxation	161,663	118,767	60,829	21,578	48,850
Profit after Taxation	114,828	85,379	40,125	12,587	28,405
Minority Interest	(2,149)	(2,369)	-	-	-
Profit after Tax and Minority Interest	112,679	83,010	40,125	12,587	28,405
Dividend	23,400	19,500	15,600	11,700	15,600
Earnings per 50k Ordinary Share	72.23k	53.21k	25.72k	8.07k	18. 21k
Dividend per 50k Ordinary Share	15. 00k	12. 50k	10. 00k	7. 50k	10. 00k
Net Assets Value per Share	N2. 13	N1. 60	N1. 14	N1. 01	N0. 61 .

Note: The Earnings, Dividend and Net Assets per share have been arrived at for all the years using 156,000,000 Ordinary Shares in issue at 31 December, 1993.

APPENDIX N

CFAO Structec
THE WATER ENGINEERS
WATER SUPPLY, SEWAGE, WATER PROOFING, EQUIPMENTS FOR BUILDING.

Head Office Address: Plot 2 & 4, Block D, Amuwo-Odofin Industrial Scheme, Apapa/Oshodi Express Way
P. O. Box 391, Apapa
☎ 801730–8, 847709
Cable: Senafrica Lagos.
Telex: 21438 Senafr NG
Fax: (2141) 801739.

A BRANCH OF CFAO (NIGERIA) PLC. REGISTERED OFFICE 1, DAVIES STREET, LAGOS. RC 6508

SUMMARY CONTRIBUTIONS FOR THREE DIVISIONS

1. Capital charge 10% flat.

2. Capital employed:

								Total N'000
Qualitex	16%	Structec	12%	General Import/Structor	14%	1989		455,491
Qualitex	16%	Structec	12%	General Import/Structor	14%	1990		428,075
Qualitex	16%	Structec	12%	General Import/Structor	14%	1991		531,763
"	16%	"	12%	"	"	14%	1992	879,054
"	16%	"	12%	"	"	14%	1993	1,240,257

3. Profit Before Taxation:

Qualitex	18%	Structec	17%	General Import/Structor	16%	1989		48,850
"	16%	"	15%	"	"	17%	1990	21,578
"	17%	"	16%	"	"	18%	1991	60,839
"	19%	"	14%	"	"	19%	1992	118,767
"	17%	"	18%	"	"	16%	1993	161,663

4. Turnover:

Qualitex	Structec	General Import/Structor		Total N'000
19%	17%	18%	1989	898,363
18%	16%	17%	1990	963,457
16%	15%	18%	1991	1,300,980
15%	18%	19%	1992	2,010,162
15%	17%	17%	1993	3,397,184

5. Operating Expenses:

Qualitex	Structec	General Import/Structor		Total N'000
14%	13%	15%	1989	16,245
13%	15%	14%	1990	7,140
12%	14%	13%	1991	20,178
15%	15%	16%	1992	39,855
16%	16%	18%	1993	53,947

P. NKEM OGUEJIOFOR
GENERAL MANAGER
CFAO STRUCTEC
P. O. BOX 391, APAPA.

Kano Branch: 10/12, Lagos Street, P. O. Box 18, Kano. ☎ 064–647545, 645509
Maiduguri Branch: 5, Kirikasama Road, Canteen Area, P. O. Box 30, Maiduguri. ☎ 076–231027
Abuja Branch: Zone 2 Wuse Opp. Ibro Int. Hotel Wuse, Abuja ☎ 09–5232503
Port Harcourt Branch: 8, Azikiwe Road, P. M. B. 5130, Port Harcourt. ☎ 084–300140–2
Aba Branch: 4, Factory Road, P. O. Box 48, Aba. ☎ 082–225392

Directors: Chief M. Okoya-Thomas (Chairman), J. Zymelman (Managing Director) (French), Prince M. O. Oyedele, R. Grant (British), Alhaji S. Ilias
Chief O. A. Lampejo, J. N. Udoh, Professor W. O. Uzoaga, S. Decam (French), C.M. Villa (French)

DONATIONS AND GIFTS

Donations to charitable organisations during the year amounted to N50,820.00.

EMPLOYMENT AND EMPLOYEES WELFARE, SAFETY AND HEALTH

The Group shows great concern for the welfare, safety and health of all employees. To this end safety regulations are conspicuously displayed at all Group locations and are strictly enforced. The Group provide subsidies towards transportation, housing and lunches. Free medical services are provided for all employees during and after office hours.

EMPLOYEES INVOLVEMENT AND TRAINING

There are six established Industrial Unions within the Group. There is also a Committee of Shop Stewards and The Senior Staff Association. Employees are therefore kept fully informed through these bodies on the company's performance and particularly on matters affecting their welfare.

Since the employees are regarded as one of the important assets of the Company, the development of their professional, management and technical skills are therefore of paramount importance to the Group.

Towards this end, the Company continues to pursue the manpower development and training of employees at all levels through our in-house training programmes at our Group Training School in Amuwo-Odofin, Lagos and in Kano and Port-Harcourt branches. This is complemented by international courses in France and United Kingdom

BY ORDER OF THE BOARD

PRINCE M. C. OYEDELE

COMPANY SECRETARY

LAGOS, 21ST APRIL, 1994

KASHIM IBRAHIM LIBRARY

CFAO (NIGERIA) PLC

Chairman's Review, 1993

THE ECONOMY

The political uncertainty that existed in the country during the year had a very negative impact on the business climate. Over a long period of time, strikes and rallies disturbed economic activity, particularly in Lagos State, and fuel shortages disrupted the movement of goods to our branches.

At the macro economic level, inflation, interest rates and foreign exchange rates continued to condition the operating environment. Interest rates remained high while the level of inflation reached unprecedented levels. Foreign exchange became increasingly scarce as the year progressed and we were unable to satisfy all our needs.

RESULTS

At Company level, a turnover of N2,790,643,000 was achieved, representing an increase of 64% over the 1992 figure of N1,706 million.

Profit before tax was N138,922,000 compared to N100,452,000 in 1992, representing an increase of 38%. This comparatively lower increase can be attributed to the high level of interest rates during the year.

At Group level, a turnover of N3,397,184,000 was achieved as against N2,010,162,000 in 1992. Profit before tax increased from N118,767,000 in 1992 to N161,663,000 in 1993.

Shareholders' funds increased from N206,861,000 to N270,915,000 at Company level and from N250,246,000 to N331,505,000 at Group level during the course of the year.

Earnings per share and net asset value per share stood at 62.40k and 212.50k respectively. The quoted price per share was 115k as at 31st December, 1993 as against 125k at the same date in 1992. However, these prices are not a true reflection of the actual value of the Company.

At divisional level, results were as follows:

GENERAL IMPORT/STRUCTOR:
This division performed very well in 1993 with profit up by about 300% and turnover 70% higher than in 1992.

While volumes continue to be secured through reliable local suppliers, it has been possible to increase margins by developing imports.

QUALITEX:

The textile industry in general experienced many difficulties during the year and as a leading wholesale distributor, Qualitex was affected accordingly. However results were satisfactory with both turnover and profit exceeding previous year's levels.

MOLONEY SUPERMARKET:
There has been increased competition in this sector of our business and this has affected the results of this division. Various means to extend the range of products and to boost the volume have since been put in place.

STRUCTEC:
Results were below expectations. The main reason for this was that contracts from state governments and parastatals did not materialise. However prospects for the current year are more promising.



MOTORS:
Turnover and profit were significantly higher than in the previous year and this can be mainly attributed to the success of the MITSUBISHI franchise. Other franchises such as DAEWOO and MICHELIN also contributed to the positive result.

ELECTRO-HALL:
This division continues to expand, mainly as a result of the success of the SHARP franchise. The policy of network development has yielded good results and during the year a new branch was commissioned in Ikeja.

TRANSCAP TRAVEL:
Results were satisfactory bearing in mind the stiff competition and the general inflationary trend that affected operating costs. As there is a limitation on the margin that can be obtained, the development of this division can only be done through increased turnover.

SUBSIDIARIES

NIGERIAN MOTOR INDUSTRIES LIMITED
Both the Vehicle and Technical Equipment/OTIS divisions had a good year. Importation of PEUGEOT vehicles was started and in view of their competitive pricing, they were well received in the market. It was also the first full year of the locally assembled PEUGEOT distributorship and results greatly exceeded expectations. The MERCEDES trucks and buses dealership continued to perform soundly and so retain its place as a leader in this segment of the market.
There has been a strong demand for generating sets in the Technical division and OTIS continues to lead the market for lifts.

DEPI LTD.
At this perfume and cosmetics manufacturing company in Kano, results showed good improvement over previous years. New products are now being developed for the market in the current year.

NORTHERN TEXTILE MANUFACTURERS LTD.
Although turnover increased satisfactorily, expected margins could not be achieved and this affected profitability.

ASSOCIATED COMPANIES

Nigerian Ball-Point Industries Ltd. had a very successful year with substantial increases in both turnover and profitability. As capacity utilisation remained close to 100%, additional investments will be made in 1994 to further boost production.
Dumex Industrial (Nigeria) Ltd. performed well although competition intensified and deliveries to customers were delayed because of fuel shortages.
Cica (Nigeria) Ltd. had a moderately successful year. Turnover improved but profitability was affected by high interest rates.

DIVIDEND AND BONUS ISSUE

A dividend of N23,400,000 representing 15k per 50k share is being proposed, together with a bonus issue of one new share for every four shares registered in the names of the current shareholders.

BOARD MEMBERSHIP

Mr. C. Villa resigned as a Board member to take up another appointment with the C.F.A.O. group in Ivory Coast. Mr. R. Monet has re-joined the Board after an absence of over twenty years during which time he served the C.F.A.O. group in senior executive capacities both in France and the U.K. The other change concerns the appointment of Alhaji M. Hassan as an Executive Director.

PERSONNEL

In 1993 there were a number of national strikes which inevitably affected our trade group. Despite this, our industrial relations policy remains unchanged in that we try to promote harmony and mutual respect while at the same time remembering our duty to our shareholders.
Despite the many difficulties encountered by our staff in 1993, the impressive performance is as a result of their efforts and on your behalf I would like to thank them.

FUTURE PROSPECTS

It is common knowledge that the economy of Nigeria is going through a particularly trying period. Given this context, we are understandably cautious about the future although our management is capable of adjusting to the prevailing circumstances and of exploiting whatever commercial prospects exist. The reduction in interest rates since January, 1994 is a positive measure for both commerce and industry and this should be of benefit to the Group. The problem of foreign exchange allocation remains very acute and indications are that we will be unable to obtain sufficient amounts to satisfy the demands of the Group. This will make the present business conditions even more difficult.

CONCLUSION

The results in 1993 confirm the trend of previous years and indicate that the Group is on a very sound footing. Although 1994 presents us with a complete new challenge, we believe that we can continue to operate efficiently and everything possible will be done to produce an acceptable result.

Chief Molade Okoya - Thomas, MFR.
Chairman

