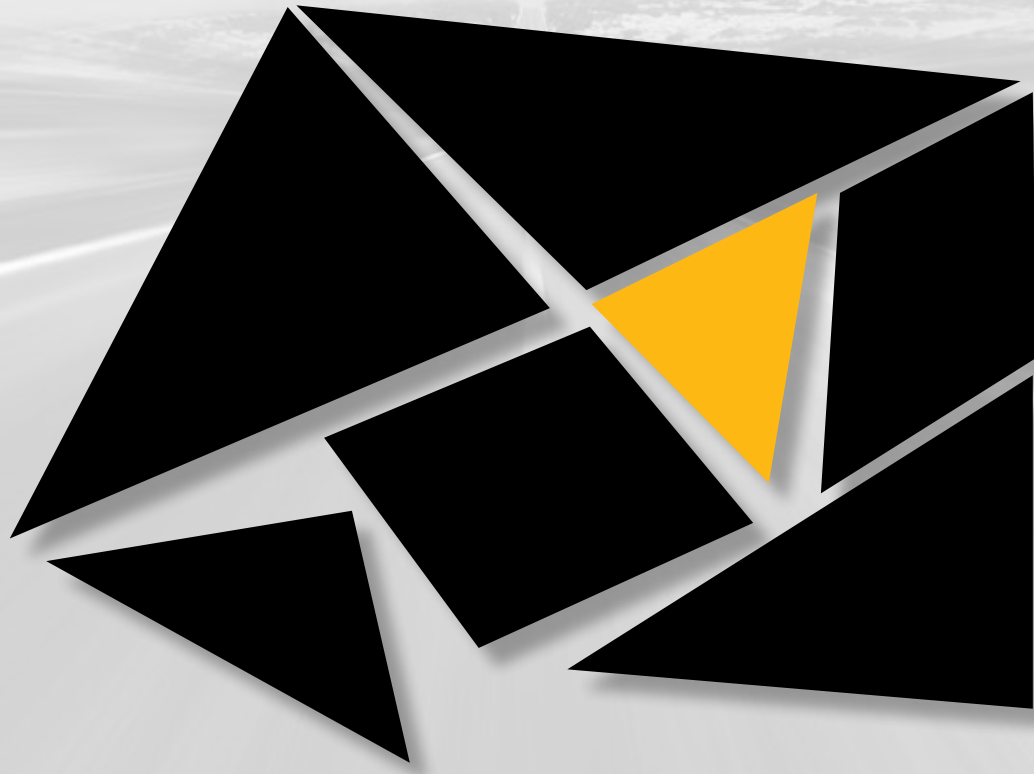


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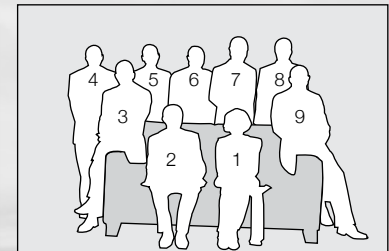
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# BOARD OF DIRECTORS



**01**

# BOARD OF DIRECTORS



1. Ms Nivy Moodley
2. Mr Alwyn Nel (Chairperson)
3. Mr Xola Sicwebu
4. Mr Noel Mbongwe
5. Mr Jonas Mosia
6. Dr Julius Nyalunga
7. Mr Nico Vermeulen
8. Mr Bongani Coka (Acting CEO)
9. Mr Sam Morotoba

02

CHAIRMAN'S REPORT





Mr Alwyn Nel  
Chairperson

Taking over the reigns at Productivity SA as chairperson of the new board in the last two months of the financial year-end was like taking over the joystick of an aeroplane in mid-flight and navigating it on the path that the cockpit crew had charted. Everything had to be done with military-style precision. This handover was made possible by the Minister of Labour, Membathisi Mdladlana, and the Director General of Labour giving excellent guidance to the board on its appointment as well as Productivity SA's executive management team who have been a pillar of strength during this inaugural phase.

Outside of the normal functioning of Productivity SA, its legal institutional framework has also been changed to that of a fully fledged Department of Labour agency. In its preamble, it states, 'whereas pursuant to section 9(2) of the Skills Development Act 37, 2008 ("the act"), the Minister of Labour established Productivity SA whose aim and objectives are to improve productivity and competitiveness in the workplace throughout South Africa'. To this end the Minister of Labour has said, 'it must continue to raise the urgency and the importance with which productivity has to be given the face of world competitiveness'.

This process of giving productivity the face of world competitiveness is well under way, and for the board, the first priority was to get endorsement from the Parliamentary Portfolio on Labour Productivity SA's strategic intent and budget for the next financial year. Together with the new legal institutional framework, the funding model also

changed and was resolved amicably with a time delay of only three months that could occur in the implementation of some of our programmes.

### THE YEAR THAT WAS

The past year, as mooted, was one of transformation and restructuring, and the introduction of need-based interventions related to productivity and competitiveness in alignment with government programmes on service delivery. The Switzerland-based Institute of Management Development (IMD) produced the *World Competitiveness Yearbook (WCY) 2010*, with information provided through South Africa's Productivity SA, an organisation tasked with improving productivity in this country. Recognised internationally as one of the leading surveys of competitiveness between nations, the *WCY* is an annual report on the competitiveness of selected countries. In results released on 18 May 2010, South Africa's economic competitiveness improved for the second consecutive year. In 2008, South Africa was ranked 53rd and in 2009 it moved to 48th position. This year, the country moved four notches higher to be ranked 44th out of a total of 58 countries that were selected. The progress is an indication of the resilient nature of the South African economy despite the impact of the global economic and financial crises last year. Global competitiveness is measured using four criteria: Economic Performance, Government Efficiency, Business Efficiency and Infrastructure.

The South African economy continues to benefit from rising demand for exports and generally buoyant commodity prices, resulting in a notable acceleration in economic activity. These developments accelerated the economic growth rate, which turned positive in the third quarter of 2009 and which increased further in the first quarter of 2010, leading to improved productivity. The acceleration to a brisk annualised rate of 4.6 percent was widespread among the major economic sectors, with manufacturing playing a strong role alongside mining and commerce. Capacity utilisation nevertheless remained at low levels.

Real gross domestic expenditure supported the stronger growth in the first quarter, with all the major expenditure components registering improvements. Real final consumption expenditure by households picked up strongly, with purchases of semi-durable and durable goods progressing at double-digit rates. This was facilitated by acceleration in the growth rate of real disposable income, relatively low interest rate and inflation, positive wealth effects and improvement in household confidence. With the increase in consumption expenditure well aligned with the growth in personal disposable income, the ratio of household debt to disposable income declined in the first quarter of 2010.

South Africa can improve on and even better its competitiveness position next year, especially given the current economic conditions where there is improved national and international demand for our products, a stable

economic environment, reduced inflationary pressures, promotion of public and private investment to build capacity, imminent competition in key industries, encouraging a stable exchange rate, and further development of the skills of our people to expand our asset base.

Productivity SA over the past year has continued to serve the interests of government, organised labour and business (the tripartite alliance) by performing its key competencies with aplomb in monitoring and impacting on productivity promotion, employment opportunity creation, stimulating economic growth and alleviating poverty.

We are still leading the productivity initiative in Africa and collaborate across the spectrum with the SADC region and our international partners in global productivity leadership and benchmarking.

This report also reflects the organisation's achievements in productivity knowledge, productivity promotion, turnaround solutions and organisational productivity solutions, and the Workplace Challenge.

Despite our involvement in various spheres of productivity development as mentioned above, Productivity SA's flagship programmes – the Turnaround Solutions and the Workplace Challenge – remain vital to the organisation's sustained and improved success in the future. The Turnaround Solutions programme is aimed at turning around those companies that are in distress (heading for

disaster and closure). An excellent success rate has been achieved with this programme in saving these companies and keeping the workforce in sustainable employment.

The Workplace Challenge programme is aimed at enhancing the productivity and competitiveness of companies by improving their employer/employee relations and developing world-class best operating practices. This programme is funded by the Department of Trade and Industry (the dti) and managed by Productivity SA, and is primarily aimed at small, medium and micro enterprises (SMMEs).

On the productivity research front, our quarterly publication, the *Productivity SA* journal, provided useful information to its stakeholders on employment, capital output, productivity output, capital productivity, unit labour and capital costs. This publication is distributed to government, labour, business, international productivity institutions as well as institutions such as the World Bank and the Institute of Management Development.

## PRODUCTIVITY AS THE FUTURE ECONOMIC GROWTH DRIVER

Productivity is a key enabling factor governing how society adds value through optimally mixing available resources (human knowledge and skills, technology, equipment, raw materials, energy capital and intermediary services). Economic growth contributes



towards the prosperity of nations, makes companies competitive in the global market, and thus contributes to the quality of life.

As in all other countries, productivity-improvement programmes in South Africa will contribute to creating more jobs; will facilitate labour and management cooperation; and will encourage the equitable distribution of productivity gains, thereby leading to a reduction in poverty. For South Africa to achieve the six percent economic growth it needs to substantially reduce poverty, it has to sharply improve its export levels. This can only be achieved by leveraging the potential of all productivity- and competitiveness-enhancing programmes to lift the quality of South African products to world-class standards, while remaining competitively priced. Improved productivity levels are therefore imperative for South Africa to reach six percent annual growth in a best-case scenario, or simply to remain competitive and not lose international market share.

Productivity SA furthermore applauds President Jacob Zuma for announcing, in his State of the Nation address on 11 February 2010, bold and decisive steps in implementing measures against alleviating the impact of the global recession on our economy. I quote: 'Compatriots and friends, we are meeting against the backdrop of a global economic crisis. Last year, we experienced our first recession in 17 years. The crisis cost our economy

about 900 000 jobs. Many of those who lost their jobs were the breadwinners in poor families. In February last year, government, business, labour and community representatives agreed on a package of measures to reduce the scale and impact of the crisis. We have put many of these measures in place. We have implemented decisive anti-recession spending by government, especially on infrastructure. To ensure a safety cushion for the poor, we brought social grant increases forward, and extended the child-support grant to children over 14 years of age. In the next three years, an additional two million children from poor households, aged 15 to 18 years, will benefit from the child-support grant. The Industrial Development Corporation has put aside R6-billion to help companies in distress. Government introduced a "training lay-off scheme" to allow workers the option of a period of training instead of retrenchment. These efforts were enhanced by our public works programme.'

### CONCLUSION

In a short space of time, a tremendous amount of work was completed. This was made possible by the selfless sacrifices that the board of directors, executive management and Productivity SA employees have made. Still more work needs to be done, but the foundation for the future growth path of Productivity SA has been laid, upon which we shall build.

What remains outstanding is the appointment of a new chief executive officer which the board of directors will appoint in due course.

In conclusion, I want to take this opportunity to sincerely thank my colleagues on the board for their support and guidance, those who gave so generously of their time and expertise during a very difficult start in office, as well as the Minister and the Department of Labour who warmly welcomed us in Cape Town during our first meeting. The same appreciation goes to the executive management and Productivity SA employees who on a daily basis are giving only their best to the organisation, and to the Parliamentary Portfolio on Labour which is performing a sterling job in directing us via its oversight role. Thanks to you all.

*Alwyn Nel  
Chairperson*

03

CEO'S REPORT







*Mr Bongani Coka  
Acting Chief Executive Officer*

## INTRODUCTION

I think it is fair to say that the 2009/10 financial year could be described as 'extremely challenging' if you are a glass-half-full kind of person, and 'truly alarming' if you regularly catch yourself staring at the bottom of the tumbler.

Together with the rest of the world (bar one or two relative escapees, such as Norway and Australia), in 2009/10 South Africa experienced one of the worst recessions in living memory. At a time when the country was already struggling to manage high unemployment, escalating electricity costs and withdrawing investments, the financial tsunami that had already crashed over America, the UK and most of Europe – leaving them disorientated and gasping for breath – headed south.

The result is that a staggering additional one million jobs have subsequently been lost (taking our current unemployed tally to almost 12.5 million), inflation is sitting at around 4.6% and we have a growth rate of approximately -3%.

The recession's impact on local industries was catastrophic, in some cases, with resources and commodities (especially platinum, coal and metals), and the construction, property, automotive and financial sectors, taking the full brunt of the fallout.

Perhaps most tellingly, this was the first decline in annual revenue that anyone could remember. On April Fool's Day, 1 April 2010, SARS announced total revenue of R598.5-billion, R26-billion down on the previous fiscal year – a decline of 4.4%. Revenue was hit much harder than the economy itself.

In moving forward, according to Finance Minister Pravin Gordhan, South Africa has to reposition itself and look beyond the conventional approaches in order to improve its economic competitiveness, create jobs and beat poverty.

It is also widely agreed that SMMEs have a pivotal role to play in local economic regeneration and employment stimulation in South Africa, as have our non-traditional markets, which need to be tapped into to grow the economy further.

We also know that enterprises need to change the way they conduct their business. Companies that successfully apply a critical mass of proven management techniques – setting goals, tracking performance, energising the shop floor and nurturing talent – perform better, on average, than competitors that use such tools sporadically.

This is where Productivity SA comes in. Our longstanding programmes make it possible for us to either turn companies around and put them on a

path of recovery, or put them on a journey of world competitiveness.

These advanced management techniques are linked not only to solid returns for investors but also to a positive work-life balance for employees and managers.

### SAVING JOBS

Statistics South Africa reported that a further 79 000 jobs were lost in the first quarter of 2010, taking unemployment to 25.2%, one quarter of our entire population.

Describing South Africa's latest employment figures as 'depressing, to say the least', Gordhan said that South Africans within the labour movement, the business community and the government 'need to work harder and need to work together in order to ensure that the level of job creation in South Africa improves phenomenally'.

The year 2010 marks the 10th anniversary of the Social Plan programme. A Department of Labour initiative, the Social Plan is designed to put in early warning systems to prevent job losses and return failing businesses to health and profitability. This programme was given over to Productivity SA to manage and implement, which it has done with excellent results for the past eight years.

With the help of a state-of-the-art diagnostic tool, the Social Plan is able to perform a quick diagnosis to identify crisis areas within the company. Management and employees are then encouraged to work in collaboration with Productivity SA to develop and implement a turnaround strategy.

In keeping with our legislative mandate, Productivity SA responded to the economic fallout through its Social Plan by deploying resources to save as many jobs as was feasible, resulting in us exceeding our targets and stretching our financial and human resources to the limit.

Since its inception a decade ago, the Social Plan has saved 119 623 existing jobs and created 586 new jobs.

### 2010 WORLD CUP

Our strong technological and economic base puts us on a par with many well-developed countries; however, infrastructure shortfalls have contributed to keeping us from realising our full economic potential. The 2010 Soccer World Cup was a resounding success in many ways, not least of which is its immediate legacy of a boost to national infrastructure improvements and a much-needed increase in employment in these particularly difficult times.

An improved transport system has an impact on productivity levels, and suitable transport infrastructure can result in less time spent travelling for workers. Production can fall if workers have inadequate time and morale levels are low. Workers who arrive at work on time tend to be more motivated to get the work done and their stress levels are lower. An efficient transport system forms part of the value chain that enhances productivity and the 2010 Soccer World Cup has played a significant role in this regard.

### WORKPLACE CHALLENGE PROGRAMME (WPC)

Structural problems that contribute to low productivity include adversarial workplace relations and lack of skills and motivation. Therefore, the Workplace Challenge is changing the way enterprises are managed by promoting participation of all employees within the company. Through this programme, management is encouraged to introduce progressive management techniques and work systems, including positive work attitudes and teamwork.

In addition, if South Africa is to be a competitive economy, we need to follow in the footsteps of multinationals, which implement the principles of good labour/management collaborations. When



these principles are in place, enterprises become responsive to the demands of their customers.

The speed imperative underscores the importance of reducing time to market for new products, delivery time for orders and lead time for production, while flexibility aims at meeting increased and diverse expectations from customers. Time-based performance, including delivery, reliability and production, has become a top priority along with other aspects of flexibility such as product changeover time, rapid change of product mix, workforce flexibility and the speedy introduction of new products

Through the WPC programme, Productivity SA emphasises that companies should find the right responses to various competitive imperatives at all steps of the value chain, which include: originality, speed, customer focus, quality and productivity, as well as continuous improvement of all these factors. Firms must constantly seek new ways of satisfying their customers in order to remain one step ahead of the competition.

I am pleased to report that Productivity SA nurtured more 192 companies in the last financial year on their journey to world competitiveness.

## AFRICAN UNION

Africa is endowed with abundant resources, but the relative inefficiency and ineffectiveness of their use is hampering its competitiveness. It is also adversely affecting the capacity of African nations to deliver on social and human development in the framework of the Ouagadougou 2004 Declaration and Plan of Action on Employment Promotion and Poverty Alleviation, as well of the NEPAD objectives and the Millennium Development Goals.

Since there is a high correlation between national productivity and the level of employment, productivity improvement is known to break the vicious cycle of poverty. But low productivity leads to low wages, resulting in unemployment and, hence, poverty.

Therefore, the issue of productivity has been formally raised at the African Union (AU). In October 2009, the 7th Labour and Social Affairs Commission of the AU adopted the Productivity Agenda for Africa 2010/16 (PAFA), a five-year plan geared to advance the quality of life of African people through productivity improvement. The objectives of the PAFA are to:

- Increase value-added productivity and competitiveness of African economies

- Facilitate the improvement of a productivity culture among people in Africa
- Mobilise all relevant stakeholders at national, regional and continental levels for socio-economic development

A number of strategies have been identified in attaining the intended objectives:

- Promote labour management relations within the enterprises/organisations
- Promote the use of productivity approaches, techniques, tools and processes by all stakeholders
- Encourage and support the setting up of National Productivity Organisations and the strengthening of existing ones in member states
- Establish continental and regional infrastructures to drive and coordinate the productivity movement in Africa
- Promote productivity in key sectors of the economy, in particular the informal economy, SMEs, the public/parastatal sector, industry and communities
- Establish and maintain strategic partnership with international and regional institutions

## HUMAN RESOURCES

In this age when knowledge, creativity and innovation have emerged as the major competitive weapons, the role of employees has become more important than ever before. The way that employees think about the organisation, their role, their ambitions, their jobs, their values and vision, shapes their behaviour and participation in the organisational processes. Therefore, it would not be wrong to say that employees are the source of productivity, ie the fountainhead of improvement.

Productivity SA is committed to the ideal of being an 'employer of choice'. In keeping with this, we conducted a culture survey to assess how our key assets – our employees – view our organisation. The findings of the survey resulted in an action plan to investigate four pillars that can bring about the transformation necessary to meet our staff's needs.

## 40 YEARS ON

The year 2009 saw the 40th anniversary of Productivity SA – cause for celebration, indeed. Since 1969, Productivity SA has improved productivity in over 2

000 companies, between them employing over 500 000 people. Productivity accounting within the public sector has brought about cumulative productivity gains of R11-billion, and projected cost savings of over R43-million through our interventions in SMMEs.

During these four decades, the organisation has grown from a small unit of a few people without any powers based solely in Johannesburg, to an influential national body with African and global recognition. One of our executive directors held the first post of president in the Pan-African Productivity Assembly (PAPA) in 1992 in 2005 we launched the partnership programme with the Asian Productivity Organisation (APO); and in 2008 South Africa hosted the World Productivity Congress, the first time it had been held on African soil. There is no doubt that we have come a very long way in 40 years, and we are proud to play a leading role in the growth of productivity in South Africa.

## CONCLUSION

Going forward, the challenge is for South Africa and Productivity SA to work to improve the country's productivity and achieve an even better WCY ranking

next year. This is possible given our low interest rates, improved inflation and credit outlook, and consumer confidence, which can further boost the goods market.

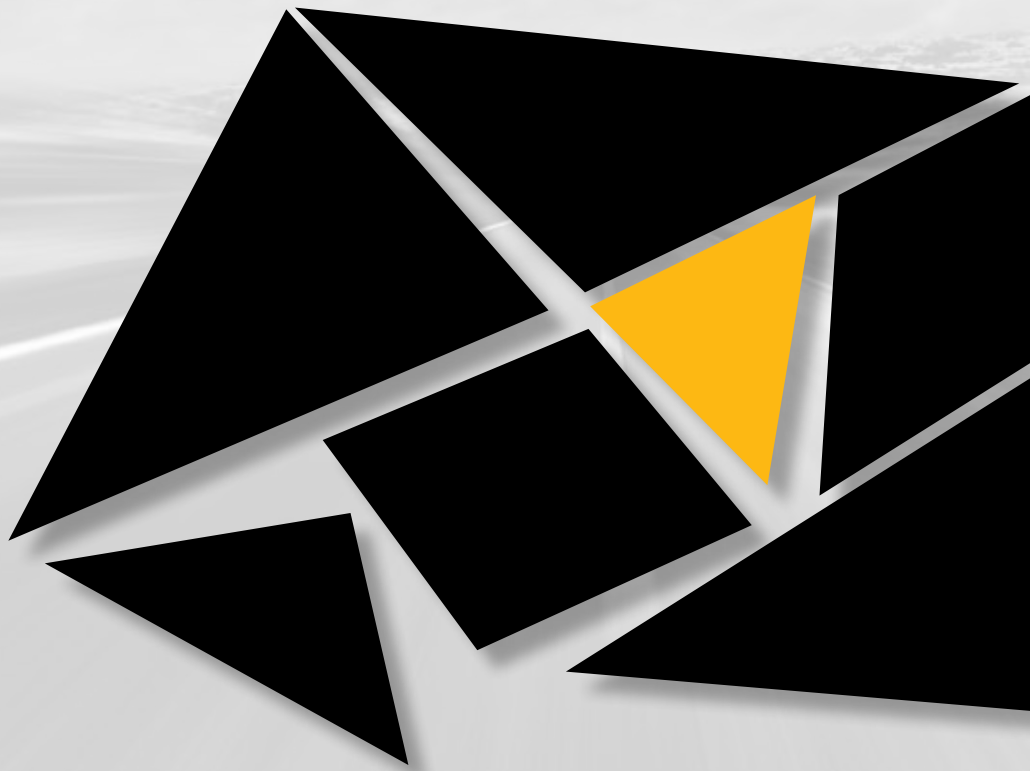
Long-term international statistical trends show a strong correlation between national productivity and the level of employment. The more productive an economy is, the more competitive it is in global markets, often causing unemployment rates to fall. The more productive an enterprise is, the more income it can generate and allocate to new investments and creating new jobs.

Therefore, productivity is not only a vital indicator of where to invest and create more jobs, but is also the source of funds for creating new jobs and redeploying people.



*Bongani Coka*  
*Acting Chief Executive Officer*

**04**



**EXECUTIVE  
MANAGEMENT**



Mr Bongani Coka  
Acting Chief Executive Officer  
as of January 2009



Mr Neville Goba  
Executive Manager:  
Public Sector Productivity



Mr Sello Mosai  
Executive Manager: Knowledge  
Management, Research and  
Value Chain Efficiencies



Mr Iggy Sathekge  
Executive Manager:  
Strategic Leadership



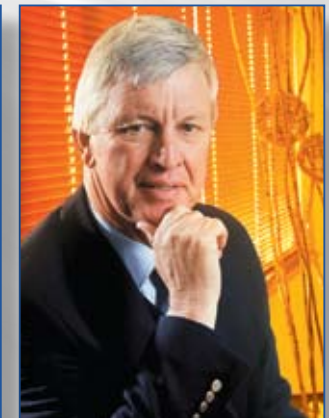
Ms Lovedelia Maupye  
Executive Manager:  
Human Resources



Ms Yolisa Ndimu  
Regional Manager:  
KwaZulu-Natal



Ms Mudzunga Mashamba  
Executive Manager:  
Turnaround Solutions



Mr Geoff Collins  
Regional Manager:  
Cape Town

05



JOB SAVING

The year 2009 posed a challenge for most economies as the recession hit many companies hard. The result of this was a trail of job losses in many economies. Businesses were under immense pressure to keep afloat and even those that were thriving had to 'tighten their belts' and be more cautious about the way they operated.

As distressing as the recession was, we at Productivity SA found it quite an opportune time to use the downturn in the economy to accelerate the implementation of the Turnaround Solutions programme, which seeks to develop and implement 'turnaround solutions' to companies in decline. The Turnaround Solutions programme has been running since 2000 (an initiative from the Jobs Summit of 1998) and the 2009/10 financial year was the last year in the most recent five-year service level agreement between ourselves and the Department of Labour (DoL).

In his 2009 Budget Vote Speech, the Minister of Labour endorsed the solid results of the Social Plan programme and committed to expanding it as a primary defence against job losses. Since inception, Turnaround Solutions (TS) has saved over 119 623 jobs and created more than 586 new jobs. The Social Plan programme continues to maintain this momentum despite a lag in the recovery of the economy.

The following table shows the programme's impact over the past five years as per our five-year service level agreement with the DoL:

### 5.1 IMPACT OF TURNAROUND SOLUTIONS, 2005-2010

Key result area	Measure/indicator	Results to date
Contribute to preventing job losses	<ul style="list-style-type: none"> <li>Establish 250 Future Forums in distressed companies</li> </ul>	<ul style="list-style-type: none"> <li>534 Future Forums established</li> <li>119 623 jobs impacted upon since inception</li> </ul>
Turnaround interventions developed to prevent job losses	<ul style="list-style-type: none"> <li>Develop 250 turnaround strategies</li> </ul>	<ul style="list-style-type: none"> <li>317 strategies developed</li> </ul>
Build capacity of Proactive Future Forums	<ul style="list-style-type: none"> <li>Establish 250 Proactive Future Forums in stable companies</li> </ul>	<ul style="list-style-type: none"> <li>281 Proactive Future Forums established</li> <li>154 Future Forums trained</li> </ul>
Identify sector projects to prevent job losses	<ul style="list-style-type: none"> <li>Conduct 30 sector/industry studies</li> </ul>	<ul style="list-style-type: none"> <li>Desktop research conducted on 27 sectors</li> </ul>

We were also encouraged by the Ministers of Labour's endorsement of the programme's track record since inception and his word that the programme is going to be extended to reach more companies in need.

Following this, we increased our marketing campaign and various other efforts to engage South African companies that need assistance to withstand the pressures brought about by the economic downturn.

The results of the impact made in 2009/10 are as follows:





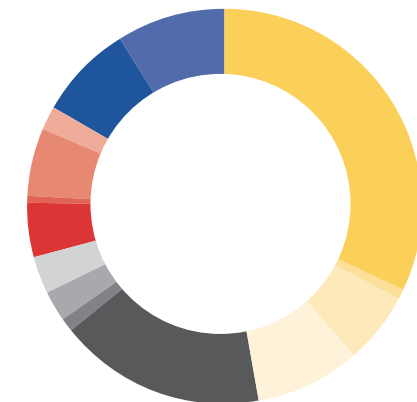
## 5.2 IMPACT OF TURNAROUND SOLUTIONS, 2009/10

Key result area	Measure/indicator	Results to date
Contribute to preventing job losses	<ul style="list-style-type: none"> <li>Establish 120 Future Forums in distressed companies</li> </ul>	<ul style="list-style-type: none"> <li>136 Future Forums established</li> <li>18 246 jobs impacted upon</li> </ul>
Turnaround interventions developed to prevent job losses	<ul style="list-style-type: none"> <li>Develop 70 turnaround strategies</li> </ul>	<ul style="list-style-type: none"> <li>83 strategies developed</li> </ul>
Build capacity of Proactive Future Forums	<ul style="list-style-type: none"> <li>Establish 137 Proactive Future Forums in stable companies</li> <li>Establish 100 early warning systems</li> </ul>	<ul style="list-style-type: none"> <li>164 Proactive Future Forums established</li> <li>100 early warning systems established</li> </ul>
Identify sector projects to prevent job losses	<ul style="list-style-type: none"> <li>Conduct 12 sector/industry studies</li> </ul>	<ul style="list-style-type: none"> <li>Desktop research conducted on 13 sectors</li> </ul>

THE NUMBER OF INTERVENTIONS MADE IN SECTORS DURING 2009/10 IS AS FOLLOWS:

Sector	Number of Companies
Agriculture	95
Arts and Crafts	3
Cleaning and Catering Services	17
Clothing and Textiles	26
Construction	50
Electrical Appliances	3
Food Products	8
Metal and Steel	9
Manufacturing of Furniture	13
Printing Services	2
Manufacturing of Plastics and Rubber	16
Security Services	6
Transport Services	23
Manufacturing of Wood Products	26
TOTAL	297

NUMBER OF COMPANIES IN SECTORS



## 5.3 GEOGRAPHIC SPREAD OF TURNAROUND INTERVENTIONS, 2009/10

### TURNAROUND INTERVENTIONS



Geographic spread of turnaround interventions 2009/10

### PROACTIVE INTERVENTIONS



Geographic spread of proactive interventions 2009/10

## CASE-STUDY (LENONG GENERAL ROAD MAINTENANCE)



### BACKGROUND

Lenong General Road Maintenance was founded by Mr Collins Kubeka in 1997 in the Ekurhuleni Metro after identifying a niche market in road construction and maintenance. Founder Member and current Managing

Director, Mr Kubeka (a qualified and experienced engineer) is able to network and successfully tender and secure projects from both the public and the private sectors. Although Lenong actively takes advantage of opportunities presented by government's enabling environment, for example the Preferential

Procurement Policy Framework (PPPF), by tendering for government related jobs, its main target is private sector built environment and roads projects.

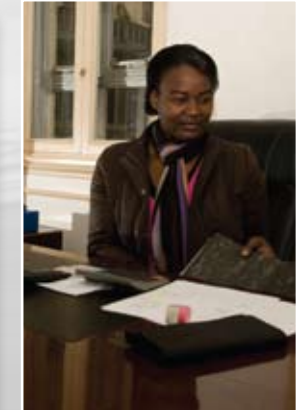
The main business activities of Lenong General Road Maintenance are general road maintenance, civil construction, plant hire, road sign supplies and road grass cutting. A preliminary inspection of Lenong's previous projects register revealed that since inception it had managed to undertake a number of medium-sized projects amounting to approximately R78m over a ten-year period. The financial statements of Lenong, however, showed that the company was in decline. Despite the increase in turnover between February 2007 and February 2008, Lenong's net loss situation had increased by 156% from negative R223k in 2007 to negative R571k in 2008.

### CHALLENGES

The problems that led to the decline in Lenong's operational and financial performance in 2008 included the following:

- The wages and salaries costs were too high when compared to the industry norm.
- There was a mismatch between wages and salaries costs when compared to productivity.
- The company did not have any labour relations, financial or operations systems in place to

## CASE-STUDY (LENONG GENERAL ROAD MAINTENANCE)



operationalise and streamline the business; as a result the fixed expenses were unnecessarily high.

- Lenong did not have a full-time book-keeper; the financial reporting was therefore slow and inaccurate.
- Most of the workers were not informed of how a business runs or how to manage a construction site.

### PRODUCTIVITY SA'S APPROACH

A holistic approach was taken by Productivity SA's service providers involving in-depth analysis of the PPR results and a workshop with Lenong's management. Lenong's Future Forum employed the 'why-why' analysis to get to the root cause of identified problems.

A 'why-why' is conducted to identify root causes of a problem and to formulate solutions.

A turnaround strategy was jointly developed between Productivity SA and Lenong's Future Forum with a view to finding a long-lasting solution to the identified problems and more. The following interventions were developed and implemented as part of the Turnaround Solution:

#### Performance Management/Labour Relations System

A Performance Management system incorporating the Labour Relations policy was developed in accordance with the Labour Relations Act and Fair Labour Practices. The policy covered issues such as employer/employee relations, conditions

of employment, recruitment and appointment procedures and performance appraisal vis-à-vis employee productivity. The envisaged bottom-line impact was to reduce absenteeism by 5% and to boost staff morale and foster corporate citizenship and employee engagement.

### OPERATIONS MODEL

The model covered a wide array of modus operandi related issues like the business model of Lenong, organisational structure and reporting relationships, an update of Lenong's target market, a review of the vision and mission statement, training and skills gap analysis,

## CASE-STUDY (LENONG GENERAL ROAD MAINTENANCE)



corporate governance structure, and many more. The desired benefit of the operations model was to reduce time wastage due to unclear operational procedures and reporting relationships, e.g. during the creativity session it emerged that site-based employees were frustrated when it came to the allocation of projects and accountability thereof as projects were allocated in a haphazard manner that led to confusion and conflict. It was expected that with proper and clear operational procedures in place Lenong's fixed expenses would reduce by at least 5% while turnover would correspondingly improve by 5% because of quality enhancement and improved customer satisfaction.

### FINANCIAL/WORKING CAPITAL MANAGEMENT SYSTEMS REVIEW

This review culminated in the formulation and documentation of a Financial Management Procedures Manual detailing the financial operational procedures and checks and balances for Lenong General Road Maintenance. The following areas were covered: Finance Department structure, summary of the functions of the Department, major Financial Policies, Debtors and Cash Control, Expenditure Control, Documents Control, Creditors Control, Fixed Assets Control, Payroll Control, Management Accounting,

Financial Reporting and Budgetary Control. In addition Lenong employed a full-time accountant who immediately installed a computerised accounting package and streamlined the finance department as recommended in the new system.

### QUALITY MANAGEMENT SYSTEM

One of the key success factors in civil construction (and in any business) is the quality of the product. Organisations that maintain a competitive edge are those that constantly endeavour to improve the quality of their products. Having realized that part of the problem at Lenong was caused by excessive re-works, a Quality Management system was drawn up on ISO9001:2000 standards. IDC had also expressed concern when Lenong submitted an application for funding that there were no quality procedures and measures in place and they were therefore reluctant to risk their money.

### Construction Management Procedures Manual

The Construction Management Procedures Manual was designed to counteract problems by clearly stating how a site should be administered in order to operate profitably. In conjunction with the Operations

model and the Quality Management system, the Construction Management Procedures manual was designed to add to the bottom-line through improved working methods that would lead to a decrease in both variable and fixed expenses while at the same time positioning Lenong to current and potential customers as an organized company that is capable of sustainably delivering a quality product on time and within the allocated budget.

### Source Funding And Performance Guarantee

Lenong had just landed lucrative projects with Ekurhuleni valued at approximately R20m. The threat however was that Lenong had no working capital to execute the jobs. The management of Lenong had approached the IDC for a performance guarantee of R2m and financing of R5m in order to begin working on the new projects. The IDC's requirements were that Lenong should develop a bankable business plan. They also insisted that Lenong have operational, accounting and quality systems in place, as without those checks and balances it would be difficult for them to advance any loans or guarantees.

# CASE-STUDY (LENONG GENERAL ROAD MAINTENANCE)

## TRAINING OF SENIOR MANAGERS IN PROJECT MANAGEMENT

The purpose of including project management in the turnaround package of Lenong was to enhance Senior Management's ability to multi-task and to run Lenong's projects profitably and to the clients' satisfaction.

## RESULTS AND IMPACT

### Quantitative Impact Analysis

TABLE 1: BOTTOM LINE IMPACT

Year	30 Nov 2009 (Interim Accounts)	29 February 2009	29 February 2008
Turnover	R24,5m	R10,1m	R19,8m
Gross Profit	R6,8m	R4,2m	R10,2m
Net Profit/(Loss)	R1,0m	R1,2m	(R571k)
Number of employees	100	70	50

## ADDITIONAL INFORMATION

Productivity SA's involvement came at an opportune time when Lenong was showing signs of decline yet it had just clinched lucrative new projects. Lenong was facing a bleak future as it lacked working capital to execute the new projects because of the loss situation it was experiencing and the fact that the funders insisted on operations systems being in place before any funding could be extended.

Through Productivity SA's involvement, Lenong was able to raise a loan facility of R16m (including performance guarantee) which enabled it to successfully undertake new projects. The systems implemented gave assurance to the funders that Lenong was a fundable organisation and in turn Lenong was able to clinch more projects from Ekurhuleni Metro because of its good track record.

06



**PRODUCTIVITY  
AWARENESS DRIVE**



## 6.1 OBJECTIVE

A key mandate of Productivity SA is to promote productivity in South Africa. Awareness of the significance of productivity in social and economic development plays an important role in creating a productivity culture in all strata of society. The past 12 months have seen growth in momentum in highlighting the importance of productivity. A series of promotional activities were put in place to focus on the following objectives:

- To create a broad understanding of the impact of and the necessity for increased productivity in society
- To supply general information regarding productivity in South Africa
- To promote Productivity SA and its services, and celebrate productivity improvements in organisations

The following are some of the activities undertaken during the 2009/10 financial year.

## 6.2 CELEBRATION OF OUR 40TH ANNIVERSARY

A 40th birthday is always reason to celebrate, and so it was with Productivity SA. Four decades of intense

growth, transformation and hands-on learning in a time and country of great change makes for a highly compelling and exciting history. However, Productivity SA was eager not to simply remember its past, but to utilise this anniversary as an opportunity to formally chronicle our road from embryo to global player, and acknowledge the invaluable roles played by all our staff, partners and mentors, and the companies we have assisted throughout our maturity.

When Productivity SA (then known as the National Productivity Institute or NPI) initially embarked on its unmarked path to productivity, it had a choice of two directions: the creation of productivity awareness; or addressing specific problems hampering productivity growth in the country. The feeling at the time was that a general productivity awareness programme would be less effective than a programme aimed at addressing specific problems causing low productivity, so the latter approach was adopted and work started immediately.

Many of Productivity SA's achievements were based on sound pioneering productivity measurement work, and it became known throughout the world for its excellence in productivity measurement. The development of the Resource Allocation Strategist (REALST) productivity measurement model, which determines to what extent an organisation's financial performance is influenced by price recovery and productivity, was a major breakthrough for Productivity SA.

Since 1969, Productivity SA has improved productivity in more than 2 000 companies, employing over 500 000 people. We've saved over 96 000 jobs through our turnaround programme. Productivity accounting within the public sector has brought about cumulative productivity gains of R11-billion and projected cost savings of over R43-million through our interventions in SMMEs. Turning 40 has given us a lot to celebrate. All our awareness activities were based on the 40th-anniversary celebration.

## 6.3 PRODUCTIVITY SEMINARS AND WORKSHOPS

Four seminars and discussions about the findings and recommendations of research on the impact of local government economic empowerment programmes on SMMEs were conducted in the Limpopo and KwaZulu-Natal provinces. The primary focus of the research was on LEDs, IDPs and affirmative procurement.

A workshop whose aim was to seek buy-in and partnership with institutions which play a vital role in the national economic sphere was successfully conducted and the desired results were achieved. The objective was to partner with institutions such as the IDC, business chambers, government investment agencies and key national departments in the establishment of suitable South Africa-specific competitiveness indicators which would be used to measure our





economy's competitiveness level compared with a few countries that are relatively on the same developmental level with us, ie Brazil, India and Ireland.

The provincial Department of Economic Development and Tourism played a key role in each region to drive the productivity campaign. A total number of 16 companies participated in the awards project.

The provincial Departments of Economic Development and Tourism embarked on show-and-tell road-shows in seven municipal regions of the provinces which took place in the month of October.

An average of 80-100 delegates attended each and every road-show.

Additional seminars were conducted through the Workplace Challenge programme during productivity months in October 2009 through productivity and competitiveness awareness workshops in Polokwane (Limpopo), Emalaheni (Mpumalanga), Mount Edgecombe (KwaZulu-Natal), Port Elizabeth (Eastern Cape), Stellenbosch (Western Cape) and Midrand (Gauteng).

## 6.3.1 NATIONAL PRODUCTIVITY AWARDS

In a calculated bid to raise the status of Productivity SA and create heightened awareness of the importance

of productivity, Productivity SA launched the National Productivity Awards, and on 1 June 1979, the first six National Productivity Awards winners were announced, with five organisations receiving Merit Certificates.

The prestigious Productivity SA awards ceremony is an annual event recognising individuals, organisations and communities for their contributions to building South Africa's productive capacity.

The prestigious National Productivity Awards honour organisations for their contributions to building South Africa's productive capacity and showcase the productive successes in our country.

The National Productivity Awards are open to private- and public-sector organisations. Others eligible to enter are professional bodies, associations and local authorities. The entries are divided into Corporate, Public Sector and Emerging Businesses. All award nominees receive recognition certificates, and in addition, one gold award is presented per category for Corporate, Public Sector and Emerging Businesses.

The competition was open in the following categories:

- Corporate
- Emerging sectors (small to medium-size companies)
- Public sector or government departments

The National Productivity Awards process starts with the following provinces running provincial awards:

- KwaZulu-Natal
- Western Cape
- Limpopo
- Gauteng

## 6.3.2 PARTNERSHIPS

Partnerships were formed with the following organisations to drive the awards in the regions:

- Provincial government
- Chambers of business
- Investment and growth agency
- Department of Economic Development and Tourism
- Media

## 6.3.3 PROVINCIAL AWARDS

### 6.3.3.1 Western Cape

There were 15 finalists comprising four companies in the corporate sector, seven in the emerging sector and four in the public sector.

The awards function took place on 25 September 2009 at the Bay Hotel in Cape Town. The keynote speaker was Mr Albert Schuitmaker, CEO of the Cape Chamber of Commerce.

The function was attended by 100 delegates drawn from business chambers, provincial government and short-listed companies.

### 6.3.3.2 KwaZulu-Natal

The interest in the productivity awards in the region resulted in 36 companies submitting the application forms, but only 13 companies made it to the final nominees.

The awards function took place on 27 August 2009 at the Inkosi Albert Luthuli International Convention Centre and the keynote speaker was the MEC for Economic Development and Tourism, Mr Mike Mabuyakhulu, from the KwaZulu-Natal Provincial Government. The function was attended by 120 delegates.

### 6.3.4 ADJUDICATION

The following people were responsible for the adjudication function:

- Ms Alta Mulder – CEO, Ekurhuleni Chamber of Business
- Mr Nthikeng Letsoalo – Senior Manager, Eskom
- Mr Barnes Sookdeo – Senior Lecturer, Department of Business Management, UNISA

- Ms Magda Hewitt – Head of Department UJ, Entrepreneurship
- Mr Pule Komane was the process auditor from Stofile Inc

### 6.3.5 AWARDS FUNCTION

The awards function took place on 30 October at the Kyalami Theatre on the Track and was attended by around 480 guests. The keynote speech was given by Mr Joseph Maqekeni, president of National Council of Trade Unions.

### 6.3.6 NATIONAL PRODUCTIVITY AWARDS WINNERS

The following companies emerged as overall national winners for 2009:

**EMERGING SECTOR:** Prowell Kombuise

**CORPORATE SECTOR:** Power Construction

**PUBLIC SECTOR:** Electrical Support Services, City of Cape Town

Key result area	Indicator	Results
• National Awareness Campaign	• Print and electronic campaign • 70 media articles published	• Awareness campaign implemented • 72 articles
• Partnership Programme (Vuna)	• Relationship with municipalities	• One municipality (eThekweni)
• Productivity-related knowledge	• Monthly electronic newsletter • Six productivity magazines • Annual report • Marketing support material • 40th-anniversary publication	• Three to date • Five magazines produced • Completed • Completed • Completed

# PRODUCTIVITY AWARENESS DRIVE



Key result area	Indicator	Results
<ul style="list-style-type: none"> <li>Social Plan Programme</li> </ul>	<ul style="list-style-type: none"> <li>Signed SLA</li> <li>Social Plan workshop</li> <li>Social Plan marketing (print and electronic campaign)</li> <li>Annual report</li> </ul>	<ul style="list-style-type: none"> <li>Completed</li> <li>17 completed</li> <li>Completed</li> <li>Completed</li> </ul>
<ul style="list-style-type: none"> <li>Productivity Month campaign</li> </ul>	<ul style="list-style-type: none"> <li>Company participation in awards</li> <li>Productivity Month programme presented to exco, 30 July</li> </ul>	<ul style="list-style-type: none"> <li>71 companies</li> <li>Completed</li> </ul>
<ul style="list-style-type: none"> <li>Stakeholder Management</li> </ul>	<ul style="list-style-type: none"> <li>Two awards SLAs with regions signed</li> <li>Regional Productivity Awards ceremony</li> <li>National Productivity Awards ceremony</li> </ul>	<ul style="list-style-type: none"> <li>Two SLAs</li> <li>Completed</li> <li>Completed</li> </ul>
<ul style="list-style-type: none"> <li>Stakeholder Management</li> </ul>	<ul style="list-style-type: none"> <li>Two partnerships with provincial Departments of Economic Development</li> </ul>	<ul style="list-style-type: none"> <li>Limpopo, KwaZulu-Natal, Western Cape and Mpumalanga partnerships</li> </ul>
<ul style="list-style-type: none"> <li>Stakeholder Management</li> </ul>	<ul style="list-style-type: none"> <li>BUSA, AHI, SEIFSA</li> <li>Stakeholder management strategy</li> <li>Partnerships with Setas</li> </ul>	<ul style="list-style-type: none"> <li>Completed (presentation with AHI and SEIFSA)</li> <li>Completed</li> <li>One partnership programme (Inseta partnership – summit)</li> </ul>
<ul style="list-style-type: none"> <li>Brand Management Programme</li> </ul>	<ul style="list-style-type: none"> <li>Development of CI manual</li> <li>Living the Brand workshops</li> </ul>	<ul style="list-style-type: none"> <li>Completed</li> <li>Completed</li> </ul>



07



**PROVISION OF INDUSTRY-RELATED INFORMATION AND KNOWLEDGE**



The objective of the programme is to provide cutting-edge industry-related information and knowledge on the productivity of priority economic sectors. A study on the impact of labour legislation on productivity has been conducted and the report on the findings as well as recommendations of the research is being compiled. The study investigated how the Labour Relations and Employment Equity Acts affected productivity of workers at their places of employment and how employer-employee relations were affected. This includes strikes, absenteeism, morale, skills of workers and company profitability.

## 7.1 SECTOR STUDY 2009/10

Turnaround Solutions has a mandate from the Social Plan Technical Support Facility (SPTSF) to assist companies in distress in order to prevent job losses. This is achieved through the development of enterprise-specific turnaround strategies. In an effort to achieve greater impact, the mandate includes the involvement of industries and sectors in distress where job losses are imminent.

Turnaround Solutions therefore identifies the common factors that hamper growth and competitiveness in an industry or sector with the objective of making recommendations to address these problem areas.

Using the industry studies as a platform and with the cooperation of existing industry structures, turnaround strategies can be developed to assist these industries to improve their competitive ability.

The first step in pursuing this mandate is to identify those industries and sectors that are in distress and which could be assisted to stop job losses or potential job losses. These industries or sectors are referred to as priority sectors. This exercise is done on an annual basis to ensure that Productivity SA focuses on those sectors that require assistance the most. The identification process utilises a number of criteria that would indicate that an industry is in distress, such as contribution to GDP, employment levels, unit labour cost, etc.

Arising from this, Productivity SA completed in-depth studies of the following industries in the manufacturing and mining sectors during the 2009/10 financial year:

- Basic chemicals
- Plastic products
- Other transport equipment
- Rubber products
- Beverage industry
- Food industry
- Non-ferrous metal products
- Non-metallic minerals
- Manufacturing of wood and wood products

- Metal products excluding machinery
- Coal mining
- Gold mining

The following generic constraints hampered growth and competitiveness in these industries:

- A general skills shortage which includes management and lower-level skills. A severe shortage of technical skills is of great concern to these industries and to the country as a whole.
- These industries cannot compete with overseas manufacturers as imports are increasing dramatically while exports are declining. In some industries this is exacerbated by import parity pricing practices by the large role-players at the beginning of the value chain.
- World-class manufacturing principles are not implemented by many firms in these industries.
- Many industries are characterised by a few large organisations at the beginning of the value chain which control the mining and primary value-adding process. Their pricing structures and a culture of non-cooperation with firms further down the value chain hampers the development of the value-adding process as many products are exported unprocessed.
- A lack of investment in equipment, which is regarded as essential to be able to compete in world markets, further contributes to the uncompetitiveness of these industries.



- Research and development is seriously lacking in many industries. Where it does exist, it appears to be uncoordinated and most efforts do not end up in saleable products.

The most cost-effective way to maximise the impact of improvement initiatives are those that are implemented on a collective basis. This can be done effectively through the formation of industry clusters. The transfer of skills and the implementation of best-practice initiatives and systems can be delivered to more firms simultaneously through the clustering process. This has the added advantage that firms can share their learning experiences and constraints, and find solutions from those already through the process.

- Productivity Statistics 2008 report – completed, awaiting final print version before circulation to stakeholders and clients.
- IMD WCY 2010 report – completed and awaiting hard copies to be sent through to us for records and archiving.

Key result area	Measure/indicator	Results
Impact of labour legislation (Labour Relations Act and Employment Equity Act) on productivity	Research report	Report not completed
Impact of municipal programmes on SMME development	Four seminars	Seminars completed
Competitiveness indicators position document	Updated competitiveness indicators position document Stakeholder workshop held	Completed
Productivity Statistics 2008	Statistics report	Report completed
IMD World Competitiveness Yearbook 2010	Macro economic trend and competitiveness analysis report	Report completed

### 7.2 KNOWLEDGE MANAGEMENT

Knowledge Management conducted an assessment report interviewing 40 people internally as well as seven external stakeholders. The research was based on a quantitative study and the results gave rise to the Knowledge Management Strategy report.



Currently, four projects are being implemented from the Knowledge Management Strategy, namely: Implementation of Microsoft SharePoint, Productivity SA Website Development Programme, REALST Training and REALST Skills Transfer.

## 7.3 INFORMATION TECHNOLOGY

The most important item in the IT department was the migration of emails to an offsite-hosted environment with only connectivity needed to retrieve emails from any location using a local area network, landline, 3G signal or handheld device. This also safeguards the emails as the archive facility is now 10 years for any received or transmitted email.

Huge savings were also negotiated and implemented with service providers during the financial year as well as better control and uptime for services rendered to users in Midrand and the other two branches. The introduction of Microsoft SharePoint and the development programme of the website are two of the main current projects.

Measure/indicator	Key result area	Results
The purpose of this project is the institutionalisation of the REALST productivity accounting programme through internal capacity-building. In order for Productivity SA to ensure that productivity accounting capacity is retained, staff have to be developed in the principles and application of the REALST productivity accounting programme	Project 1: REALST knowledge transfer	Training scheduled in July 2010
Productivity SA has decided to implement Microsoft's SharePoint as its Enterprise Content Management system and Knowledge Management tool. This content-management tool will enhance searchability and collaboration as well as thorough records and documents management	Project 2: Microsoft SharePoint Enterprise Content Management (ECM) implementation	Work-in-progress
Knowledge Management, IT and Marketing and Communication is developing an entirely new website. The website will consist of a landing page (homepage) and links to the different programmes' own websites	Project 3	Work-in-progress

Key result area	Measure/indicator	Results
Mimecast	Better availability and convenient retrieval of emails	Migrated to Mimecast email hosting service with 10-year archive facility on all emails and connectivity through all available methods currently offered from any location
Financial	Introduce cost saving from certain service providers	New SLAs were negotiated and others terminated to gain momentum for cost saving in the department

08

# IMPLEMENTATION OF CONTINUOUS-IMPROVEMENT PRINCIPLES IN THE WORKPLACE







The mandate of the Workplace Challenge programme is to improve productivity and competitiveness of South African firms and sectors through constructive labour relations and the implementation of continuous-improvement principles in the workplace. The Workplace Challenge achieves these objectives through:

- **Collaboration between employers and workers**
  - Facilitating constructive dialogue between government, business and labour to improve economic performance and productivity at industry level, and
  - Enhancing the capacity of stakeholders so as to make change happen.
- **Improving workplace practices**
  - Piloting improvement in activities aimed at transforming the workplace by implementing improved operating practices (striving for best operating practices and world-class competitiveness).

- **Sharing and disseminating processes and lessons**

- Sharing information and lessons learnt from participating firms and other interested parties.

## 8.1 HIGHLIGHTS

The Workplace Challenge continued to assist enterprises to improve their productivity and competitiveness in the midst of the global economic crisis during the 2009/10 financial year. This was also a financial year in which almost all of the operational targets were exceeded, for example:

- 187 enterprises nurtured against a target of 64 enterprises
- 16 capacity-building workshops were conducted against a target of six capacity-building workshops
- 19 clusters at implementation phase against a target of 12 clusters

The Workplace Challenge also developed a diagnostic tool that will be used during the nurturing phase to highlight enterprise readiness to participate in the programme, as well as productivity and competitiveness constraints, and to assist with baseline measures.

The Workplace Challenge continued to refine and improve its implementation tool, the Workplace Transformation Toolkit, through experiences gathered through its wide implementation. It also made strides in closing the gap to get ISO 9001 accreditation with the development of all process flows and standard operating procedures.

The Workplace Challenge continued to learn from its international counterparts by sending two delegates to Finland for an International Clustering for Competitiveness conference and one delegate to Japan for Productivity Study Tours.

Above all, some enterprises acknowledged that they could have been liquidated during the financial crisis if they had not had the Workplace Challenge to their rescue.



KEY ACTIVITIES	MEASURE	RESULTS
<b>OBJECTIVE 1</b>		
Workplace collaboration between employers and workers		
Facilitate constructive dialogue between the social partners, managers and workers, and participating enterprises on improving productivity and competitiveness in the workplace	64 enterprises nurtured	181 enterprises nurtured
Develop the capacity of employers and workers to jointly participate in the programme	Six capacity-building workshops	16 capacity-building workshops
<b>OBJECTIVE 2</b>		
Improve workplace practices in South African enterprises to improve productivity and competitiveness		
Implement workplace transformation in clusters and user groups of between six and nine enterprises, each striving for best operating practices and world-class standards	12 participating projects at year-end	19 participating projects at year-end
Provide aftercare programme (Workplace Transformation) for graduate clusters and user groups	20 participating user groups and clusters at year-end	19 participating user groups and clusters at year-end
Establish a process of accreditation and awards for enterprises achieving world-class competitiveness	Developing and testing of diagnostic audit for accreditation and award purposes	Diagnostic audit developed and tested



## 8.2 Case Study: Bay Precision & Mining (Pty) Ltd

The aim of this case study is to demonstrate how Bay Precision & Mining (BPM) achieved good results in terms of quality, cost, delivery, safety and morale only one year after starting the Workplace Challenge programme (WPC). This achievement is attributed mainly to engaging all staff in the process of implementing the programme.

### 8.2.1 INTRODUCTION

BMP was established in 1986 as Bay Engineering (Pty) Ltd, and changed its name to Bay Precision & Mining (Pty) Ltd in March 2001. The original owners are still involved, but 25 percent of the company belongs to employees.

The company is a precision manufacturer and fabricator of components and products, based in Tulisa Park in the south of Johannesburg. Major customers are, inter alia, Hydro Power Equipment in the mining sector; Transvaal Electric, which manufactures flame-proof electrical motors for export; and IHC Merwede, which manufactures dredging pumps for worldwide distribution. BPM also supplies SCAW Metals with railway components and assemblies.

KEY ACTIVITIES	MEASURE	RESULTS
<b>OBJECTIVE 3</b>		
Skills development		
Train and coach change facilitators and interns in change-management processes	<ul style="list-style-type: none"> <li>Nine change facilitators trained and coached</li> <li>Two interns trained and coached</li> </ul>	<ul style="list-style-type: none"> <li>10 change facilitators trained and coached</li> <li>Two interns trained and coached</li> </ul>
Provide practical opportunities for change facilitators to develop their change-management skills	168 enterprises (clusters, user groups, model companies and aftercare)	219 enterprises
<b>OBJECTIVE 4</b>		
Research world-class competitiveness and best operating practices and evaluate the impact of the Workplace Challenge		
Explore and document best international practices and lessons	Four quarterly e-newsletters sharing lessons learnt in the implementation of international best practices distributed	Three quarterly e-newsletters published
Research geared to evaluate the impact of the Workplace Challenge with the intention of improving its effectiveness	Two research papers	One research paper
Ongoing evaluation of the Workplace Challenge programme	Two six-monthly company impact assessments	Two impact statements collected
<b>OBJECTIVE 5</b>		
Share and disseminate processes, experiences and lessons		
Collate and package Workplace Challenge processes, experiences and lessons	Nine success stories	Eight success stories

Flexibility and price competitiveness are two components of the company's successful business strategy. BPM views its highly trained and innovative staff complement as one of the main contributing factors to the company's flexibility and price-competitive edge (the staff complement fluctuates around 105 members). Staff members operate a wide range of engineering machinery, which, depending on the intricacy of the task, includes conventional or CNC lathes, a conventional vertical lathe, or a CNC vertical lathe. In addition, a CNC horizontal borer with pallet changer, a conventional horizontal borer, and a variety of radial drills or conventional and CNC milling machines are used. As in other engineering firms, the company also employs other artisans, such as boilermakers and TIG and CO<sub>2</sub> welders.

### 8.2.2 RESULTS OF IMPLEMENTING THE 20 KEYS/WORKPLACE CHALLENGE PROGRAMME

BPM has only recently started with its Continuous Improvement programme. The company regards flexibility and price competitiveness as the keys

to the favourable results obtained and recognises that these results would not have been possible without the commitment and motivation of all staff members to the implementation of the Continuous Improvement programme.

The motivation and involvement of BPM employees is facilitated by three important actions:

Firstly, on 1 March 2008, a year before the company joined the WPC programme, an employee-owned company was formed to facilitate the broad-based black economic empowerment deal, in which 25 percent of the company was transferred to the employees. Employees are thus represented on the BPM board of directors. This provided a basis of motivation and commitment for employees with respect to implementing the WPC programme.

Secondly, BPM joined the Gauteng cluster of the Workplace Challenge programme of Productivity SA in April 2009. The WPC is focused on applying a management style that fosters better cooperation between management and staff. One of the first steps

in this programme, as implemented by BPM, was to establish a Plant Level Committee (PLC) to ensure smooth implementation of the Best Operating Practices and Continuous Improvement actions. This was done through the active involvement of key employees in the WPC programme. The PLC may be regarded as a role model of excellence in facilitating organisational development for other continuous improvement companies!

Thirdly, through the WPC, the company's participation is facilitated by Organisation Development International, a best operating practice/world-class competitiveness consulting firm that helps manufacturing companies to implement the 20 Keys.

The 20 Keys is a structured but flexible programme for implementing various important principles that aid companies in achieving world-class performance. The 20 Keys was launched in June 2009. The initial results were achieved by implementing Key 2 (Goal Alignment), Key 1 (Cleaning and Organising) and Key 10 (Workplace Discipline) combined with Key 3 (Small Group Activities).

# IMPLEMENTATION OF CONTINUOUS-IMPROVEMENT PRINCIPLES IN THE WORKPLACE



2.1 KEY 2 (GOAL ALIGNMENT) SEEMED TO HAVE MADE THE MOST SIGNIFICANT CONTRIBUTION TO THE OVERALL RESULTS OF NOVEMBER 2009:

MANAGING DIRECTOR - QCDSM Measures		
	MEASURES	TARGET
Q = Quality	Rework %	< 1%
	Scrap %	<1%
	Cost of poor quality	<2% of turnover
C = Cost	Overtime cost	Less than xxxx% of sales
	Raw material cost - COS	< 35%
	Value adding	> xxxxx
	Machine performance - run hrs	50%
	Investment in working capital	xxxxx
	Profit vs budgeted	>100%
D = Delivery/Speed	Turnover vs budget	>100%
	Lead time	< 22 days
	Debtor days	< 50 days
	Supplier on time delivery performance	3 days
S = Safety	Man days lost due to disabling injury	< 5 days per month
	Number of incidents	5 per month
	Findings in OHSACT audit	< 2 findings
M = Morale	Staff turnover	< 2%
	Number of implemented suggestions	3 per month
	Attendance / absenteeism	> 98% based on hours attended
	Number of grievances	< 2 per year
	Internal training (hrs monthly)	2 hrs per person per month
	External training (days per year)	½ a day per person per year

In a recent audit by Organisation Development International (ODI) of Key 2 (Goal Alignment) implementation, BPM achieved its Key 2 three-year goal after only one year! The third-year goal for Key 2 was, starting from a score of 1.5, to achieve an audit score of 2.5; however, this was actually attained after only one year, indicating how well the Mini Business Units (MBUs) are functioning!

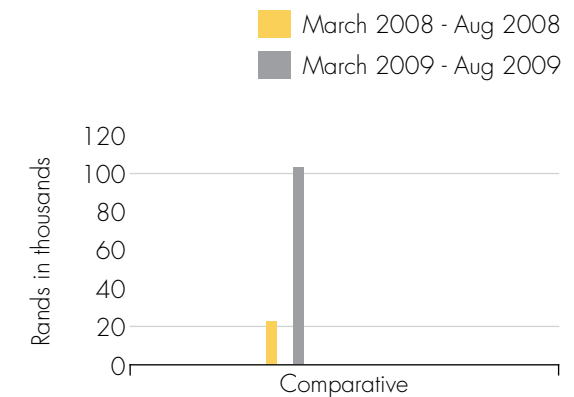
## SKILLS LEVELS

- Skills Matrix = 4 levels of competency
- Level 1 = is trained and can do the job under supervision
- Level 2 = is trained and can do the job without supervision
- Level 3 = is level 1&2 and can innovate and make improvements to the job
- Level 4 = is level 1&2 can innovate, make improvements and train others

## CURRENT SKILLS LEVELS AS A RESULT OF THE WPC

- Current staff complement = 116
- Start of WPC = 106 (April 2009)
- Current skills levels = 40%
- Start of WPC = 37%

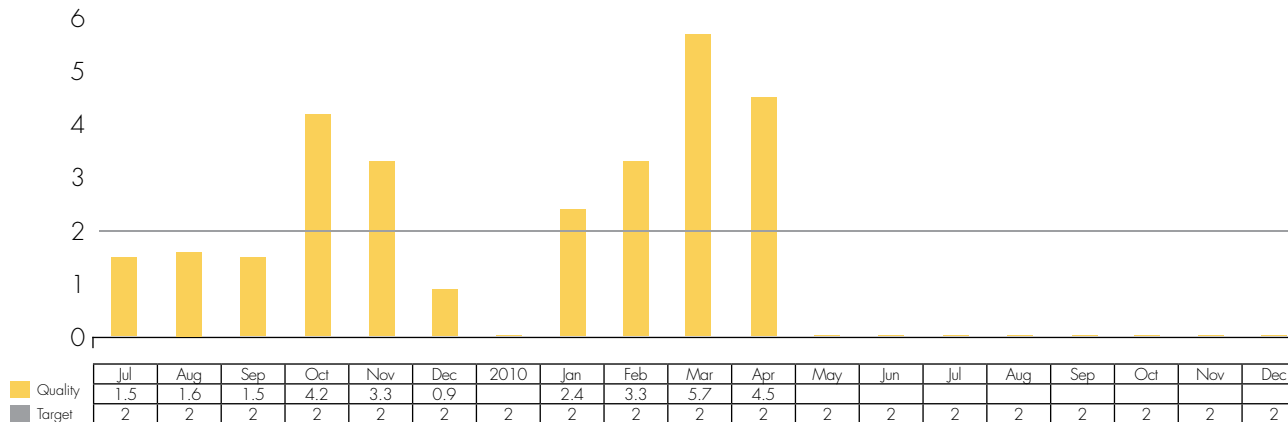
## COST OF TRAINING



In addition, comparing overall targets set in April 2009 with actual results up to November 2009 indicates that the company's performance is definitely on an upward-sloping curve!

- Turnover results, October 2009: The company showed a 20.74% increase in sales turnover from April 2009.
- Salaries and wages results, October 2009: The company showed an 18.49% increase in cost of staff since April 2009.
- Quality results, October 2009: The company showed a 44.50% reduction in cost of quality since April 2009.
- Quality, cost, delivery, safety and morale results:

QUALITY SCRAP AND REWORK %



■ This measurement is calculated as follows:  

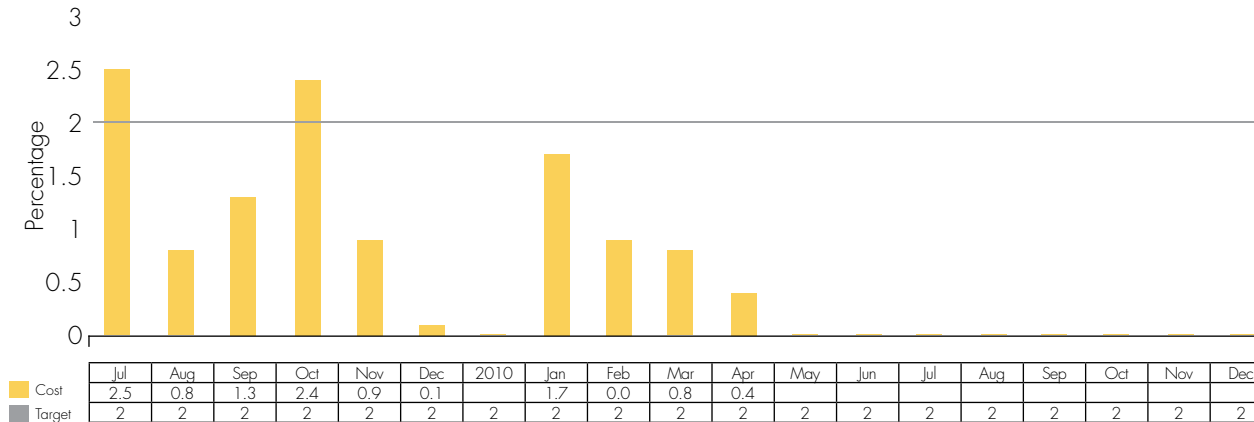
$$\frac{\text{Total number of parts returned}}{\text{Total number of parts shipped}} \times 100 = \text{percentage}$$

Cost of scrap was R41 669 in July 2009 and came down gradually to R15 148 in October 2009, although it was still above the target of 2% of turnover.

In early 2010, the cost of scrap percentage increased gradually from 2.4% to 3.3% to 5.7%, and then came down to 4.5%. The main reason for this is that production volumes increased dramatically.



## COST - COST OF QUALITY %



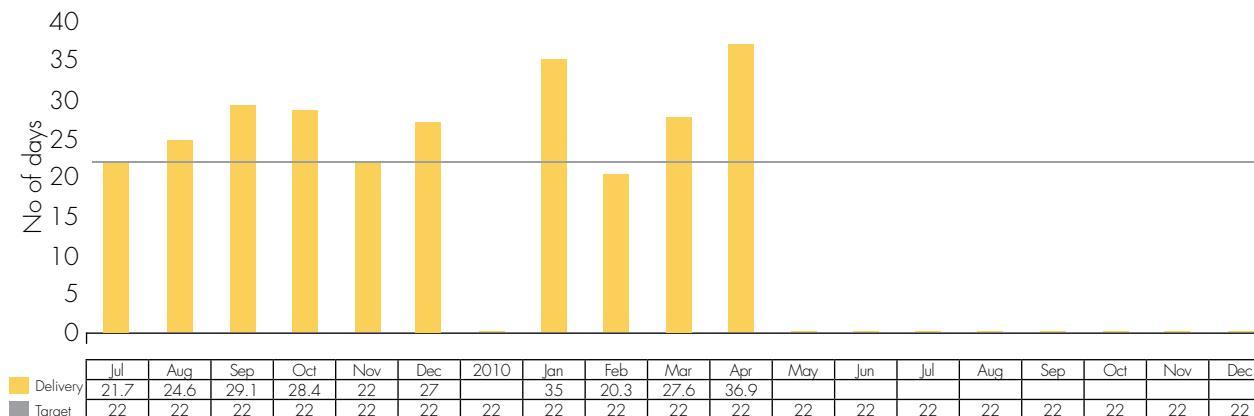
■ This measurement is calculated as follows:

$$\text{Cost of quality} / \text{Total turnover} \times 100 = \text{percentage}$$

From January to April 2010, the company started to achieve the quality target when the cost of quality percentage continued its declining graph from 1.7% to 0.9% to 0.8% to 0.4%, which is good, and far below the target of 2%.

Even though scrap and rework seem to be on the incline, actually cost of quality compared with turnover has decreased. Delivery is still a serious concern for BPM and a process to facilitate the problem and decrease the upward trend has been implemented.

## DELIVERY NO OF DAYS

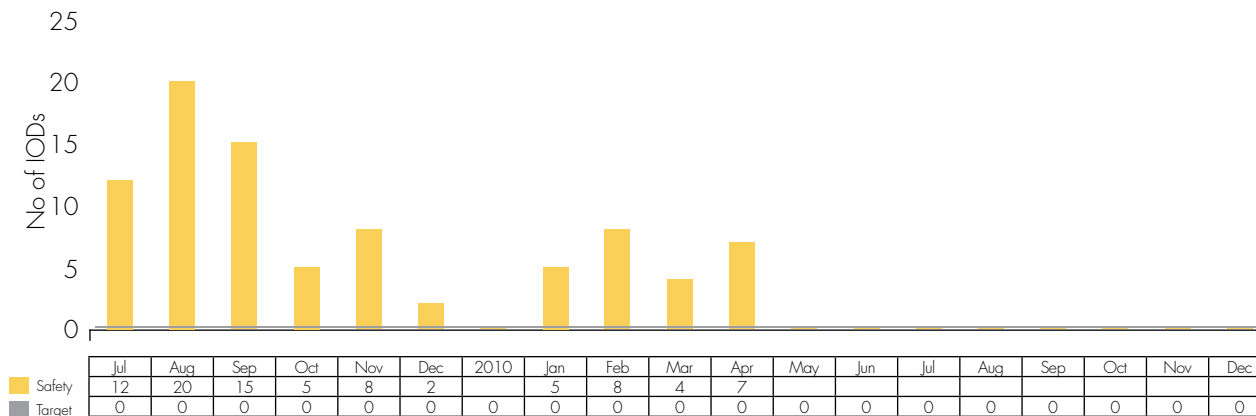


■ This measurement is calculated as follows:

$$\text{Average number of delivery days per part} = \frac{\text{Total number of days lead time}}{\text{Total number of parts shipped}}$$

Delivery lead times averaged 22 days in July 2009, then increased to 24.5 days in August, 29 days in September and 28 days in October 2009. However, in January 2010, it went up to 35 days owing to the December 2009 shutdown, and then increased further to 36 days. This continues to be a concern for the company, attributable mainly to fluctuating demand.

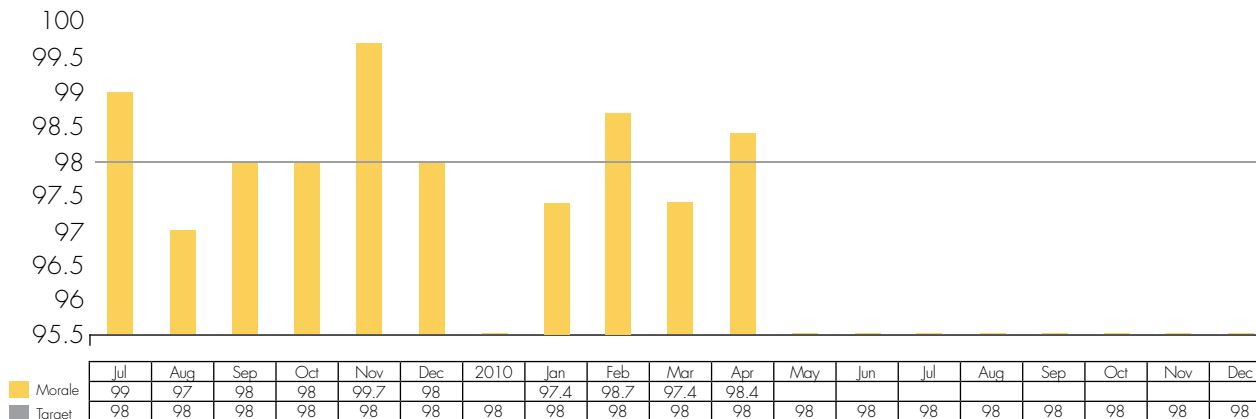
### SAFETY NO. OF IODS



■ This measurement is calculated as follows:  
 Total number of injuries per day (all injuries, ranging from minor to disabling injuries)

Safety performance also deteriorated from seven injuries on duty (IOD) in July 2009 to 13 in August and 19 in September, but then seems to have improved drastically to only four in October 2009. In 2010, the company's performance inched closer to the real target of zero injuries on duty per month. (It must be noted that reporting on injuries on duty includes minor nicks and cuts and that there were no disabling injuries.)

### MORALE ATTENDANCE %



■ This measurement is calculated as follows:  

$$\frac{\text{Total number of staff} \times \text{Total days worked}}{\text{Total number of days absent} \times 100} = \text{percentage}$$

As is the case with many other organisations in the WPC start-up phase, the morale of BPM staff fluctuated after the company initially joined the WPC project. Attendance was good (almost 99%) in July 2009, then deteriorated to about 97% in August, and then seemed to have settled at 98% in October 2009. In 2010, attendance seems to have stabilised at better than 98%.

As the MBUs are getting under way, the morale of staff is better. Being deeply committed in a programme such as the WPC and 'working for yourself' (owning a share of the company) provides a big boost for morale and work satisfaction. In April 2009, BPM had 106 employees (58 permanent and 48 labour hire) compared with 116 in April 2010, amounting to a 9% increase. The general level of morale is medium to high.





## 8.3 CONCLUSION

A well-known productivity motto is 'What you measure you can improve'.

Since BPM started measuring quality, cost, delivery, safety and morale, the company has made major strides in improving performance on these indicators by implementing some of the 20 Keys, and by following the project management/continuous improvement lead from the Plant Level Committee.



09

# PRODUCTIVITY SKILLS AND COMPETENCIES





## 9.1 THE INCORPORATION OF PRODUCTIVITY CONCEPTS AND VALUES IN THE NATIONAL CURRICULUM STATEMENT

Productivity SA and the Department of Education (DoE) have entered into a long-term partnership to incorporate productivity concepts and values into the education system through the National Curriculum Statements (NCS). The partnership was the result of a joint team effort by both organisations that collaborated to develop a detailed framework with guidelines about infusing productivity concepts and values in the General Education and Training (GET) band. This annual event started during the 2005/06 financial year and a total of 1 908 teachers have since been trained on productivity concepts and values.

Teacher Training Workshops were conducted from 1 to 3 April 2009 in North West province, 10 to 12 November 2009 in Gauteng province and 2 to 4 February 2010 in Mpumalanga province. The interaction with teachers over the years and the review sessions held with the provincial Departments of Education has assisted in the refining of the programme content and fine-tuning of the delivery system to teachers and learners in schools. This resulted in the change in strategy in delivering the programme, to instead train DoE officials so that they in turn train teachers and monitor the implementation of the programme on the ground. Productivity SA then developed a train-the-trainer training programme and

evaluation system as a mechanism to address and meet customer demands.

## 9.2 OBJECTIVE

The programme's vision is to build the productive capacity of foundation-phase teachers by incorporating productivity values into lesson plans, in order to inculcate productivity values to learners. Adapting the training delivery to include DoE officials will not only help in the smooth delivery of the programme on the ground, but will also serve as a long-term investment in maximising outreach by increasing the number of facilitators on the ground. Productivity SA will still be entrusted with the responsibility of training the trainers and quality assurance of the officials. The total number of officials and teachers trained was 238.

## 9.3 EXPERIENCES

Officials from the provincial Departments of Education gave a positive response on the training conducted but recommended strongly that the material will have to be reviewed in line with the current changes made to the curriculum by the DoE. The task teams were nominated from both Productivity SA and the DoE in order to facilitate the changes to the training materials and incorporate relevant teachers' examples.

## 9.4 EVALUATIVE COMMENT FROM TEACHERS

- The knowledge is going to improve the lives of many people, eg myself, educators, learners and the community at large.
- If productivity values are incorporated in the lessons, it will produce responsible citizens.
- I pray that these values will become a fact and a way of life for everyone.
- If the information can reach the teachers and learners, our country can be changed.
- I hope and wish that all South Africans can be part of a workshop like this.
- Not only the foundation-phase learners, but the whole school would benefit.

## 9.5 WORKERS TRAINED ON FUTURE FORUM AND EARLY WARNING SYSTEM

Productivity Organisational Solutions has rendered services to the Turnaround Solutions programme by training workers in cooperatives and small enterprises. The aim of the Social Plan technical support facility originates from the Presidential Jobs Summit (October 1998) which aims to avoid job losses and employment decline.

- The objective of the training is to facilitate the development of Future Forums and help to promote ongoing discussion between worker representatives and employers about the future of the organisation.
- Assist Future Forums to anticipate problems, challenges and possible solutions and to develop turnaround and/or redeployment strategies that could help reduce job losses.

The total number of workers trained was 705. The outcome of the implementation of this project resulted in an overwhelming success and the results of the training are illustrated in the evaluative comments below.

### 9.6 EVALUATIVE COMMENTS

- This is a good course, which can improve our communication skills.
- The trainer was excellent and clear on everything.
- It will help our company to solve problems encountered on the shop floor.
- Thank you Productivity SA, I can already see the turnaround in my company!
- Training must first start with the managers, then the employees.

### 9.7 ACCREDITATION

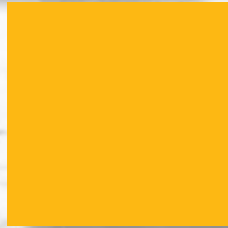
The objective of the accreditation system is to fulfil a requirement by the Services Seta to comply with SAQA requirements to deliver unit standard-based courses in order for the organisation to acquire full accreditation status as a training institution.

The Learner Management System, the application of assessors with the Services Seta to become constituent assessors, the training of learners on a unit standard-based course called Identify and Measure the Factors that Influence Productivity, and the certification policy were activities undertaken in order to comply with the requirement of the Seta to acquire full accreditation status.

The status quo is such that constituent assessors are now accredited. We are awaiting final approval of the certification policy, accreditation of and on-site inspection from the Services Seta.



10



PRODUCTIVITY TRAINING



### 10.1 TRAINING OF SKILLS-DEVELOPMENT FACILITATORS (SDFs)

One of the mandates of the programme is to train the SDFs in order to leverage our service provision to the various Setas. We conducted the training and development of 138 SDFs from the Bank Seta against a target of 200 on the Identify and Measure the Factors that Influence Productivity (ID) course. Negotiations are ongoing with the Insurance Sector Education and Training Authority (InSeta); Tourism, Hospitality and Sport Education and Training Authority (Theta); Health and Welfare Sector Education and Training Authority (HW Seta); Energy Sector Education and Training Authority (ESeta); and Local Government Sector Education and Training Authority (LGSeta).

On completion of the training, delegates will achieve the following outcomes:

- Demonstrate an understanding of what productivity is.
- Measure single-factor productivity and assess the causes of current levels of single-factor productivity.
- Measure total-factor productivity.
- Measure the quantitative factors that influence productivity and establish their influence on productivity and profitability.
- Identify the qualitative factors that influence productivity and establish their influence on productivity.

The practical assignments facilitated the embedding of productivity-specific values on delegates. These values include, but are not limited to, the following:

- Continuously seeking better ways of doing things.
- Efficient and effective resource usage.

- Waste reduction and elimination.
- Time management.
- Completing tasks correctly first time and all the time.

### 10.2 PRODUCTIVITY IMPROVEMENT TRAINING IN GOVERNMENT AND STATE-OWNED ENTERPRISES (SOEs)

Our programme promoted and accelerated quality training for managers in government and state-owned enterprises (SOEs). The outcomes of this intervention include the following competencies:

- Measure the current levels of single-factor productivity and identify the factors that influence productivity levels within the organisational unit.
- Formulate an activity plan to improve productivity within the organisational unit.



- Optimise productivity within the organisational unit by coordinating the implementation of plans and evaluating the outcomes.

We have built the productive capacity of 144 managers against a target of 100 managers in partnerships with Umzinyathi District Municipality, Japan International Cooperation Agency, and Intersite (Intersite Property Management Services is a wholly owned subsidiary of the Passenger Rail Agency of South Africa [PRASA], managing the property portfolio of PRASA).

Intersite started as a property division of the then South Africa Rail Commuter Corporation (SARCC) in 1991, and in 1992 was established as a separate entity to manage and develop the property portfolio of SARCC, which it will continue to do under PRASA and the Mpumalanga Department of Economic Development, Environment and Tourism.

## 10.2.1 CASE STUDY: JOHANNESBURG'S METROPOLITAN POLICE DEPARTMENT (JMPD)

Productivity SA was requested by the City of Johannesburg to conduct a survey within JMPD with the following objectives:

- To determine departmental factors that contribute to low morale and low productivity among employees within JMPD.
- To unearth the factors that cause strained relations between the various employment levels within JMPD.
- To recommend and facilitate the implementation of interventions to improve relations.

The target-market sector at JMPD consisted of 2 893 members of staff at various employment levels, sections, races and gender as well as branches. Because of the various categories and

demographics of the population, a proportional stratified sampling frame was employed to ensure that most variables in the target-market sector were represented in the sample.

The total list of JMPD employees was received on 8 September 2009 and a proportional stratified sample was completed and sent to JMPD on 23 September 2009. Agreement was reached that the sample would be based on the lists provided by the various units within JMPD and would comprise 400 representatives. The eventual number interviewed was 299.

The information collected was collated and analysed into a report which included recommendations and a project plan to implement the recommendations. The report was well received by management at the City of Johannesburg.

11

# SMALL AND MICRO ENTERPRISE DEVELOPMENT







Productivity SA developed the Business Performance Improvement Workshops (BPIW), an action learning solution to assist small and micro enterprises (SMEs) and cooperatives to implement systems and procedures that will result in:

- Wastage elimination
- Increased sales
- Reduced operational costs through speed and quality improvement
- Maximised profits
- An early warning system (EWS) to detect distress prior to its arrival

The objectives of the BPIW are to improve profitability, growth and employment creation within these sectors.

Partnerships were established between Productivity SA and the following organisations for the training of small enterprises and cooperatives:

- Soweto Local Economic Development
- South African Women Enterprise Networks (Sawen)
- Tshwane Local Economic Development

- Tourism, Hospitality and Sport Education and Training Authority (Theta)
- Free State Department of Arts and Culture
- Mpumalanga Department of Economic Development, Environment and Tourism

A TOTAL OF 2 103 SMALL ENTERPRISES AND COOPERATIVES WERE TRAINED ON THE BPIW AGAINST A TARGET OF 2 000 SMES.

Key result area	Measure/indicator	Results
Emerging entrepreneurs trained	2 000	2 103
Workers trained on productivity improvement	500	705
Government and SOE managers	100	144
Teachers/educators trained in productivity concepts	500	238
Skills-development facilitators trained	200	138
Productivity improvement in government	One	Three (Umzinyathi District Municipality, Johannesburg City Council, Intersite)
Accreditation system	31 March 2010	<ul style="list-style-type: none"> <li>• MS Access application installed for the Learner Management System, training 10 December 2009</li> <li>• Certification policy for security purposes approved</li> <li>• Capturing of data on LMS ongoing</li> <li>• Awaiting final approval of certification policy and in-loco inspection from Services Seta</li> <li>• Four registered constituent assessors</li> </ul>

12

HUMAN RESOURCES





The strategic intent of Human Resources within Productivity SA is to create a world-class performance culture that makes Productivity SA an employer of choice, where the best talent would be attracted, managed, developed and retained.

## 12.1 EMPLOYMENT EQUITY PROFILE

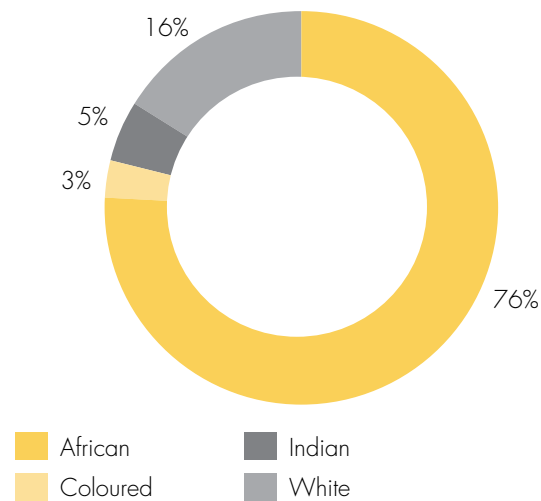
BELOW IS A GRAPHIC ILLUSTRATION OF THE PRODUCTIVITY SA WORKFORCE PROFILE:

Level	African		Coloured		Indian		White		Total females	Total males	Grand total	% Gender		% Race HDI
	F	M	F	M	F	M	F	M				F	M	
1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2	2	4	0	0	0	0	0	0	2	4	6	33	100	
3	0	1	0	0	0	0	0	0	0	1	1	0	100	
4	6	7	0	0	1	1	0	6	7	14	21	33	71	
5	8	12	1	0	2	0	1	3	12	15	27	44	85	
6	5	5	1	0	1	0	2	0	9	5	14	64	86	
7	8	0	1	0	0	0	3	0	12	0	12	100	75	
8	2	5	0	0	0	0	0	0	2	5	7	29	100	
9	3	0	0	0	0	0	0	0	3	0	3	100	100	
Grand total	34	34	3	0	4	1	6	9	47	44	91	52	84	

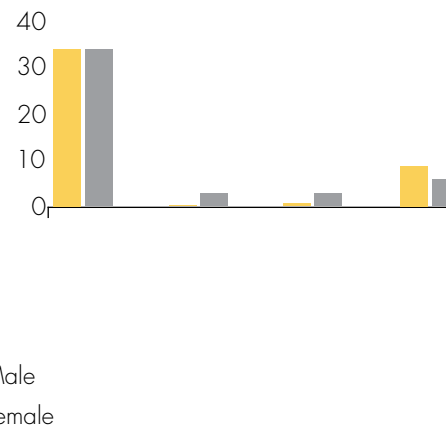
### 12.1.1 REMUNERATION BREAKDOWN

The annual salary cost for the year was R28 771 159 which was split as follows:

#### RACIAL BREAKDOWN



#### GENDER BREAKDOWN



### 12.2 TRAINING AND DEVELOPMENT

This section highlights the efforts of Productivity SA with regard to skills development.

#### 12.2.1 SKILLS DEVELOPMENT PLAN

The Skills Development Plan of the organisation is prepared based on the individual development plans of all Productivity SA employees which are reviewed annually. Productivity SA has complied with the Skills Development Act by submitting its Workplace Skills Plan and Annual Training Report to the Services Seta in July 2009.

ProductivitySA has partnered with the Asian Productivity Organisation (APO) and Japanese Productivity Centre for Socio-Economic Development (JPC SED) to ensure that our employees acquire cutting-edge productivity knowledge and skills.

Race	Female (R)	Male (R)	Grand total (R)	% of total
African	9 378 935	11 271 957	20 650 892	72
Coloured	353 195	0	353 195	1
Indian	1 241 800	409 609	1 651 409	6
White	1 488 969	4 626 694	6 115 663	21
Grand total	12 462 899	16 308 260	28 771 159	100

\*Consolidated packages are used to calculate the annual salary cost



During the period under review, 14 Productivity SA employees acquired key competencies required for productivity practitioners as trainers, consultants and promoters of productivity and quality improvement. These competencies will be used to enhance national productivity and competitiveness of South Africa.

The following interventions were undertaken with our employees:

- a) The Basic Course for Productivity Practitioners (BCPP) was held in Midrand, South Africa, during September and October 2009. Six Productivity SA employees attended.
- b) An Observational Study Mission to Japan on Lean Management for Management Consultants took place in November 2009. Three Productivity SA employees attended.
- c) The Advanced Course for Productivity Practitioners (ACPP) took place in January and February 2010 in Midrand, South Africa. Five Productivity SA employees attended.

## DEVELOPMENT PLAN LINKED TRAINING INITIATIVES:

Course	African		Coloured		Indian		White		Total female	Total male	Grand total
	F	M	F	M	F	M	F	M			
Research Methodology	1								1		1
Leading Through Uncertain Times Workshop	1								1		1
Course in Strategic Management	1								1		1
SETA Voice Conference 2009											5
Employee Engagement Seminar	1								1		1
Outcome-Based Monitoring and Evaluation	1								1		1
ACCPAC Training	1		1				1		3		3
New Companies Act and King III Seminar	1	1							1	1	2
Finance for Non-Financial Managers	11	3	1		3	1	3	1	18	5	23
Industrial Relations (Discipline and Dismissals)	7	7			1	1		6	8	14	22
Quality Management System Auditing	9	2							9	2	11
Records Management		1	1						1	1	2
Report Writing	9	3			2		2		13	3	16
SA Institute of Chartered Accountants Seminar		1							0	1	1
Stakeholder Reputation Workshop		1							0	1	1
Simply Tax Seminar	1								1		1
Talent Management Workshop	2				1				3		3
Time Management Seminar	1								1		1
Grand total	47	19	3		7	2	6	7	63	28	91

### 12.3 HUMAN RESOURCES POLICIES

The reviewing of policies and procedures to ensure compliance with legislative requirements and best practice is done on an ongoing basis through the Employment Equity Committee, the Human Resources and Remuneration Committee and the Bargaining Council.

During this period under review:

The following policies were approved:

- Disciplinary and Grievance Policy
- Recruitment and Selection Policy
- Training and Development Policy

The following new policies were developed:

- Communication Policy
- Certification Policy

The Subsistence and Travelling Allowances Policy is currently under review.

### 12.4 ORGANISATIONAL DEVELOPMENT

Organisational development is the practice of changing and developing an organisation to be more effective in accomplishing its goals.

Productivity SA underwent a number of changes and further changes are on the horizon.

In order to design the way forward, it was important to assess the current culture and climate of the organisation. A culture and climate survey was therefore conducted in April 2009 to benchmark how employees felt about various issues. The survey results were based on data obtained from nine questionnaires on culture. Based on the results, discussions were held with representative focus groups of employees and management. One of the key recommendations was to embark on a Culture Shift Journey to bring about organisational development and change at Productivity SA.

The following culture pillars have been recommended to bring about the desired culture:

#### Culture and Values Pillar

##### *Purpose:*

- To define the desired culture, values and associated behaviours to support a proposed performance-driven environment.

##### *Deliverables:*

- Defined culture
- Aligned values and associated behaviours
- Internal Culture Shift Journey branding and communication

#### Organisational Design Pillar

##### *Purpose:*

- To create a flexible organisational structure to enable career growth and to support a performance-driven culture.



## *Deliverables:*

- Redesigned organisational structure (including integrating mechanism, levels and roles)
- Reviewed job profiles

## Performance Management Pillar

### *Purpose:*

- Review and redesign the current performance-management system to reward and recognise performance excellence.
- Cascade the strategic priorities and goals to programme and individual key-performance indicators.

## *Deliverables:*

- Improved performance-management system (including appraisal system, goal-setting and performance review).

## Learning and Growth Pillar

### *Purpose:*

- To build internal capacity and to strengthen the leadership skills to achieve the strategic

objectives of the organisation.

- To attract, engage and retain key and leadership talent to enable the mission of becoming an employer of choice.

## *Deliverables:*

- Learning and development plans
- Talent-management strategy and plan
- Leadership and management development
- Talent pools (ie management and critical skills)

## Reward and Recognition Pillar

### *Purpose:*

- Conduct benchmarks of the remuneration system, process and practices to support the performance-driven culture.

## *Deliverables:*

- Market salary survey
- Reviewed remuneration system, process and practices (including incentive schemes and benefits)

## Leadership Pillar

### *Purpose:*

- Define leadership model (including approach, competencies, style, branding) to support the performance-driven culture.

## *Deliverables:*

- Defined leadership model (including approach competencies, style, branding)

During the period under review, we have achieved the following:

- Identified culture-shift champions and executive sponsors
- Defined the project charter
- Conducted orientation and capacity-building sessions with the respective champions
- Launched the Culture Shift Journey
- Defined the detailed project plans/charter for the primary pillars (ie culture and values, organisational design and performance management)
- Appointed service providers for review of

the culture change and values as well as performance-management system review

- Conducted culture-change and values workshops with both senior management and employees
- Developed organisation scorecard and business-unit scorecards
- Reviewed job profiles needed for the development of individual scorecards
- Provided feedback to executive management on culture change and values workshops results and recommendations

### 12.5 LEAVE UTILISATION FOR THE PERIOD 1 APRIL 2009 TO 31 MARCH 2010

Productivity SA recognises the need to carefully monitor sick and annual leave. The following tables provide an indication of the use of sick and annual leave:

#### SICK LEAVE

	Previous year	Current year
Days	398	451
Cost	R392 504	R456 852
Average days	4	4.7

The leading reason for sick leave was hospitalisation/surgery (125).

#### ANNUAL LEAVE

Productivity SA manages and monitors annual leave utilisation to prevent high levels of leave accrual. Leave balances for the three-year period show that annual leave is being utilised more effectively, resulting in lower levels of leave accrual:

	2007/08	2008/09	2009/10
Number of days	1 215	986	1 160

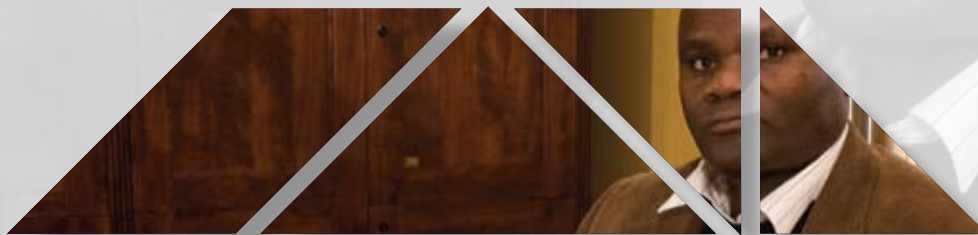
#### 12.6 TERMINATIONS

During the period under review, 13 employees left the organisation due to resignation, retirement or dismissal. The labour turnover in the organisation represents 14% of the permanent workforce.

Description	African		Coloured		Indian		White		Total females	Total males	Grand total	% Gender		% Race HDI
	F	M	F	M	F	M	F	M				F		
Death	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dismissal	1	0	0	0	0	0	0	0	1	0	1	100	100	100
Retirement	1	1	0	0	0	0	1	0	2	1	3	67	67	67
Resignation	4	4	0	0	0	0	0	1	4	5	9	44	89	89
Grand total	6	5	0	0	0	0	1	1	7	6	13	54	85	85



13



ANNUAL  
FINANCIAL  
STATEMENTS

The reports and statements set out below comprise the annual financial statements presented to members:

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#### APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements, which appear on pages 66 to 92, were approved by the board of directors on 22 July 2010 and signed on their behalf.



*Mr A Nel*  
Chairperson



*Mr B Coka*  
Acting Chief Executive Officer



The directors submit that the company has adhered to recognised principles of corporate governance and that the directors have conducted the affairs of the entity with integrity and in accordance with generally accepted corporate practices.

### Accounting authority

The Board of Directors' fiduciary duties are outlined in the Companies Act, No 61 of 1973 (an amended) and Public Finance Management Act, No 01 of 1999 (as amended by Act 29 of 1999) (as the accounting authority of the entity). It meets at least quarterly, sets the strategic mission, and is responsible for the overall direction and control of Productivity SA. Major responsibilities of the board include the review of business plans and budgets, monitoring of performance, approval of major policy decisions and the appointment of the Executive Director. Directors in office during the financial year ended 31 March 2010 were:

- Mr A Nel (Appointed Non Executive Chairperson effective 01/02/2010)
- Mr S Morotoba
- Mr B Coka (Acting Chief Executive Officer since January 2009)
- Ms N Moodley (Appointed effective from 01/01/2010)
- Mr J Mosia (Appointed effective from 01/01/2010)
- Mr N Vermeulen (Appointed effective from 01/01/2010)
- Mr N Mbongwe (Appointed effective from 01/01/2010)
- Dr J Nyalunga (Appointed effective from 01/01/2010)
- Mr X Sicwebu (Appointed effective from 01/01/2010)
- Prof Kobus Laubscher (Non Executive Chairperson - Term of appointment expired 31/12/09)
- Mr MP Mdwaba (Term of appointment expired 31/12/09)
- Ms PA Masebe (Term of appointment expired 31/12/09)
- Mr L Reddy (Term of appointment expired 31/12/09)
- Ms Siwisa (Term of appointment expired 31/12/09)
- Ms V Seboni (Term of appointment expired 30/04/09)

### Audit and Finance Committee

The committee meets periodically with management, external auditors and internal auditors. The Audit and Finance Committee has a written charter approved by the Board of Directors. The committee does not have any operational or executive responsibilities. Its objectives are:

- Establishing a channel of communication between the Board of Directors, management, external auditors and internal auditors;
- Evaluating whether management creates and maintains an effective control environment to safeguard Productivity SA's assets, and that management demonstrates the necessary respect for the entity's internal control structure;
- Reviewing the scope and outcome of audits. This review includes an assessment of the effectiveness of the annual statutory audit and ensuring that sufficient emphasis is placed on issues which in the opinion of the committee, management or the auditors deserve special attention;
- Ensuring that the Board of Directors makes informed decisions and is aware of the implications of these decisions on accounting policies, practices and disclosure; and
- Safeguarding the directors' liability by informing the Board of Directors about issues that impact on the business and the status of financial reporting.

### Internal audit

GRM Consulting, which is an outsource firm responsible for Productivity SA's internal audit function, provides an independent appraisal function that is designed

to examine and evaluate Productivity SA's internal controls. In particular, GRM is charged with examining and evaluating the effectiveness of Productivity SA's operational activities, the attendant business risks and the system of internal, operational and financial controls. Any major weaknesses detected are brought to the attention of the Audit Committee, the external auditors and members of management for their consideration and remedial action. GRM meets with external auditors on a regular basis and discusses plans and results in respect of the audits carried out during the year.

### Risk management

Senior management, with the assistance of the outsourced internal audit function, are committed to assessing, on an ongoing basis, the major operational and business risks that Productivity SA faces. Risk management plans are drawn up and progress is monitored against these plans continually. The Audit Committee evaluates reports prepared by GRM to identify areas where further management attention may be required.

Productivity SA has performed the following as required by the Public Finance Management Act, 1999 (as amended):

- Risk assessment; and
- Implemented the fraud prevention plan

### Employment equity

Productivity SA applies employment policies that are considered appropriate to the



business and the market in which it operates. They are designed to attract, motivate and retain quality staff at all levels. Equal employment opportunities are offered without discrimination to all employees and specific affirmative action programmes are available to historically disadvantaged individuals.

Productivity SA complies with Section 21 of the Employment Equity Act of 1998.

### Code of ethics

Productivity SA subscribes to a code of ethics and endeavours to act with honesty, responsibility and integrity towards its stakeholders.

### Accounting authority's responsibilities

Financial statements are the responsibility of the accounting authority for each financial year, which fairly present the financial position of Productivity SA as at the end of the financial year, its financial performance and cash-flow information for the year then ended. The annual financial statements are prepared in accordance with statements of South African Generally Accepted Accounting Practice (SA GAAP) including any interpretations of such statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent statements of SA GAAP. In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed; and

- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that Productivity SA will continue in business in the near future.

The accounting authority is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of Productivity SA. The directors are also responsible for taking responsible steps for the prevention and detection of fraud and other irregularities.

As part of the system of internal control, internal audit conducts operational, financial and specific audits. The external auditors are responsible for reporting on the annual financial statements.

The accounting authority believes that the company will be a going concern in the year ahead, for this reason; they continue to adopt the going concern basis in preparing the annual financial statements.

The accounting authority also believes that the performance information against specific objectives is accurate and appropriately disclosed in the annual report as required in terms of the Public Finance Management Act No 1 of 1999 (as amended).

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

We have audited the annual financial statements of Productivity SA which comprise the report of the audit committee, report by the accounting authority, the statement of financial position as at 31 March 2010, statement of financial performance, statement of changes in net assets and cash-flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 66 to 91.

### Accounting authority's responsibility for the financial statements

The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with statements of South African Generally Accepted Accounting Practice (SA GAAP) including any interpretations of such statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent SA GAAP statements, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and

plan and perform the audit to obtain reasonable assurance that financial statements are not materially misstated. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Audit opinion

In our opinion:

- The financial statements fairly present, in all material respects, the financial position of the company at 31 March 2010 and the results of its operations and cash flows for the year then ended in accordance with SA GAAP including any interpretations of such statements issued by the Accounting Practices Board, with the prescribed Standards of GRAP issued by the Accounting Standards Board replacing the equivalent SA GAAP statements,



and in the manner required by Schedule 4 of the Companies Act, No 61 of 1973 (as amended);

- The annual financial statements of Productivity SA fairly present the financial position and the results obtained by Productivity SA in accordance with section 55 (1) (b) of the Public Finance Management, Act No 1 of 1999 (as amended) applied on a basis consistent with that of the preceding year; and
- The transactions of the entity, which were examined during the course of our audit, were made in accordance with the applicable laws and instructions and in all material respects are in accordance with the mandatory functions of Productivity SA, as determined by law or otherwise.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the Public Audit Act of South Africa and General Notice 1570 of 2009, issued in Government Gazette No 32758 of 27 November 2009, we include below our findings on the report on performance against predetermined objectives, compliance with laws and regulations and internal control.

### Report on performance information

We are required by the Auditor-General to undertake a limited assurance engagement on the performance information as set out on pages 16 to 56 of the report, in which the actual performance of the company for the year ended 31 March 2010 is compared with target key performance indicators (predetermined objectives) and report thereon to those charged with governance. In this report we are required to report our findings coming from our engagement relating to non-compliance with regulatory requirements, where the reported information was inadequately presented or not received timeously, and where we have evaluated reported information to be useful or reliable. We report that we have no significant findings.

### Compliance with laws and regulations.

Our audit of the annual financial statements, described in our report on the financial statements, did not reveal any material non-compliance with applicable laws and regulations relating to financial matters, financial management and related matters as required by the Public Finance Management Act of South Africa (which includes the relevant National Treasury Regulations) and the Companies Act of South Africa.

### Internal control

We considered internal control relevant to our audit of the financial statements, and the report on performance against predetermined objectives and compliance with laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control. There are no significant findings which were noted. Our opinion on the financial statements, as expressed in our report on the financial statements, is unmodified.

*Sizwe Ntsaluba vsp*  
**Sizwe Ntsaluba vsp**  
**Partner: AW Mashifane**  
**Registered Auditor**  
**Johannesburg**  
**22 July 2010**

*Report of the Audit Committee in terms of regulations 27(1) (10) (b) and (c) of the Public Finance Management Act 1, of 1999 (as amended by Act 29 of 1999)*

### Membership

The members of this committee are:

- Ms B Brunette (Chairperson)
- Prof Kobus Laubscher (Non Executive Chairperson  
- Term of office expired 31/12/09)
- Ms Siwisa (Term of office expired 31/12/09)
- Mr J Mosia
- Mr N Vermeulen
- Dr J Nyalunga
- Mr X Sicwebu
- Mr B Coka (Acting Chief Executive Officer)

The following were in attendance at three meetings held during the year by invitation:

- Productivity SA Chief Financial Officer
- Representative from internal auditors
- Representative from external auditors

### Audit Committee responsibility

The Audit Committee reports that it has adopted appropriate formal terms of reference as its Audit Committee charter, and has regulated its affairs in compliance with this charter, and has discharged all of its responsibilities contained therein.

In the conduct of its duties, the Audit Committee has, inter alia, reviewed the following:

- The effectiveness of the internal control systems;

- The risk areas of the entity's operations covered in the scope of internal and external audits;
- The adequacy, reliability and accuracy of financial information provided by management and other users of such information;
- Accounting and auditing concerns identified as a result of internal and external audits;
- The entity's compliance with legal and regulatory provisions;
- The effectiveness of the internal audit function;
- The activities of the internal auditors, including its annual work programme, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations; and
- The independence of and objectivity of the external auditors.

### The effectiveness of internal controls

The Audit Committee is of the opinion, based on the information and explanations given by management and the company's internal auditors and discussions with the independent external auditors on the result of their audits, that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing financial statements, and accountability for assets and liabilities is maintained.

Nothing significant has come to the attention of the Audit Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the period under review.

### Evaluation of financial statements

The Audit Committee has:

- Evaluated the financial statements of Productivity SA for the year ended





31 March 2010 (including the external auditor's report) and, based on the information provided to the Audit Committee, considers that they comply, in all material respects, with the requirements of the Companies Act, 61 of 1973 (as amended), and statements of South African Generally Accepted Accounting Practice (SA GAAP) including any interpretations of such statements issued by the Accounting Practices Board with the prescribed Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent SA GAAP Statements;

- Reviewed the external auditor management letter and management's response thereto;
- Reviewed the appropriateness of the accounting policies and practices; and
- Reviewed all adjustments resulting from the audit.

The Audit Committee concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate and accepts the external auditor's conclusions thereon. The committee is of the opinion that the annual financial statements be accepted and read together with the report of the independent auditors.

*Bernice Brunette*  
*Chairperson*  
*22 July 2010*

The accounting authority of Productivity SA its report for the financial year ended 31 March 2010. This report forms part of the audited financial statements.

### 1. General review

The business and operations and the results thereof of the aggregated entity are clearly reflected in the attached financial statements. No material fact or circumstance has occurred between the accounting date and the date of this report.

### 2. Nature of business activities

- 2.1 Productivity SA is engaged principally in the development and enhancement of South Africa's productive capacity.
- 2.2 Productivity SA was appointed by the Department of Trade and Industry (dti) to manage the Workplace Challenge (WPC) and administer the funds available for this project.
- 2.3 The Minister of Labour appointed Productivity SA as the technical support facility for Turnaround Solutions (TS).

### 3. Aggregated results

The statement of financial performance for the year is set out on page 70. The proportions of revenue, excluding intragroup transactions attributable to the different aspects of the aggregated entity and the extent to which each of these activities contributed to the net (deficit)/surplus, are stated below.

#### Industrial analysis

	Revenue		Net (deficit)/surplus	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000
Consulting, investing productivity (Productivity SA)	35 136	53 458	7 003	8 421
Enhancing competitive capabilities (WPC)	11 530	8 660	(45)	1 663
Educational development monitoring job losses (TS)	29 996	25 329	(8 145)	(1 520)
<b>Total</b>	<b>76 662</b>	<b>87 447</b>	<b>(1 187)</b>	<b>8 564</b>

	Cash flows from operating activities		Cash flows from investing activities	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000
Consulting, investing and reporting on productivity (Productivity SA)	1 380	6 316	(601)	(623)
Enhancing competitive (WPC)	(4 303)	2 257	-	-
Monitoring job losses (TS)	(2 247)	3 326	-	-
<b>Total</b>	<b>(5 170)</b>	<b>11 899</b>	<b>(601)</b>	<b>(623)</b>



#### 4. Property and equipment

Investments in property and equipment in the current financial year amounted to R616 302 (2009: R623 915). There was no change in the nature of either the fixed assets or the policy relating to the use thereof in the current financial year.

#### 5. Business managed by a third party

The accounting authority managed the business of Productivity SA and there has been no third-party involvement.

#### 6. Events after reporting date

There were no events subsequent to reporting date to date of approval of the annual financial statements that would require adjustment or further disclosure in the financial statements.

#### 7. Auditors

Sizwe Ntsaluba vSP will continue in office in accordance with section 270(2) of the Companies Act, 1973 (as amended).

#### 8. 2010 Fifa World Cup South Africa™

No expenditure incurred for the 2010 Fifa World Cup South Africa™

	Note	2010 R'000	2009 R'000 Restated
<b>Revenue from non-exchange transactions</b>			
Grants received	2	71 002	75 127
Other income	3	5 446	12 033
Finance income	9	214	287
<b>Total revenue from non-exchange transactions</b>		<b>76 662</b>	<b>87 447</b>
<b>Expenditure</b>			
Administrative expenses	4	(2 408)	(3 453)
Staff expenses	5	(29 822)	(27 334)
Marketing expenses	6	(183)	(8 415)
Auditors remuneration	7	(496)	(370)
Other operating expenses	8	(44 892)	(38 818)
Finance expense	9	(48)	(493)
<b>Total expenditure</b>		<b>(77 849)</b>	<b>(78 883)</b>
<b>(Deficit)/surplus for the year</b>		<b>(1 187)</b>	<b>8 564</b>

# STATEMENT OF FINANCIAL POSITION

## As at 31 March 2010



	Note	2010 R'000	2009 R'000 Restated
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	10	943	953
<b>Current assets</b>			
Inventory	15	280	265
Trade and other accounts receivable	11	1 395	1 149
Cash and cash equivalents	12	3 534	9 305
<b>Total assets</b>		<b>6 152</b>	<b>11 672</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other accounts payable	13	3 513	8 122
Income received in advance	14	-	181
Provisions	16	2 395	1 938
<b>Total liabilities</b>		<b>5 908</b>	<b>10 241</b>
<b>Net assets</b>		<b>244</b>	<b>1 431</b>
<b>Represented by:</b>			
Accumulated surplus		244	1 431

	Accumulated surplus/(deficit) R'000
Balance at 31 March 2008	(7 133)
Surplus for the year as restated	8 564
Balance at 31 March 2009	1 431
Deficit for the year	(1 187)
Balance at 31 March 2010	<u>244</u>

# CASH FLOW STATEMENT

## For the year ended 31 March 2010



Note	2010 R'000	2009 R'000 Restated
<b>Net cash (outflows)/inflows from operating activities</b>	<b>(5 170)</b>	<b>11 899</b>
Cash receipts from: government (grants and project funding)	71 002	75 127
Cash receipts from: customers	5 195	13 986
Cash paid to suppliers and employees	(81 533)	(77 008)
Cash/(utilised in)/generated by operations	(5 336)	12 105
Investment income received	214	287
Finance costs paid	(48)	(493)
<b>Net cash outflows from investing activities</b>	<b>(601)</b>	<b>(623)</b>
Purchases of property and equipment	(601)	(623)
<b>Net (decrease)/increase in cash and cash equivalents for the year</b>	<b>(5 771)</b>	<b>11 276</b>
Cash and cash equivalents at beginning of year	9 305	(1 971)
Cash and cash equivalents at end of year	<u>3 534</u>	<u>9 305</u>

## 1. ACCOUNTING POLICIES

The principal accounting bases that are followed by the company are set out below. These are in agreement with those followed in previous years except where otherwise indicated.

### 1.1 BASIS OF PRESENTATION

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

1. The cash flow statement can only be prepared in accordance with the direct method.
2. Specific information such as:
  - (a) Receivables from non-exchange transactions, including taxes and transfers;
  - (b) Taxes and transfers payable;
  - (c) Trade and other payables from non-exchange transactions; must be presented separately on the statement of financial position
3. The amount and nature of any restrictions on cash balances is required to be disclosed.

The financial statements of the company are presented on the historical cost basis.

### 1.2 CURRENCY

These financial statements are presented in South African rands since it is the currency in which the majority of the entity's transactions are denominated.





### 1.3 INVENTORY

Inventory, which comprises consumables, is stated at a lower of cost or net realisable value.

### 1.4 PROPERTY AND EQUIPMENT

Property and equipment are depreciated on a straight-line basis to reduce asset cost values to estimated residual values over their useful lives. The following useful lives were applied during the year:

Motor Vehicles	5 years
Furniture and Fittings	6 years
Library	3 years
Computer Equipment	3 years
Computer Software	2 years

The carrying amount of assets stated in the statement of financial position, other than inventories, are reviewed at each reporting date to determine whether or not there is any indication of impairment. If such indication exists, the recoverable amount of the assets is estimated as the higher of the net selling price and its value in use. An impairment loss is recognised in the statement of financial performance to the extent that the carrying amount of assets exceeds their recoverable amount.

Subsequent costs are recognised to the extent that future economic benefits associated with usage will flow to the company.

### 1.5 REVENUE

Revenue is recognised as follows:

#### 1.5.1 Government grants

Government grants are recognised when received in accordance with IAS 20 of SA GAAP.

#### 1.5.2 Other Income

Other income comprises mainly revenue from service rendered net of 'inter-group' transactions. The revenue is recognised when invoiced (inclusive of VAT as the company is VAT exempt in terms of the VAT Act).

#### 1.6 RETIREMENT BENEFITS

The company contributes to Productivity SA Pension Fund, which is a defined contribution plan. The actual expenditure for the year is R3 309 077. (2009: R2 923 283)

#### 1.7 PROVISIONS

Provisions are recognised when the entity has a present legal or constructive obligation as a result of a past event, when it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

If the effect is material, provisions are determined by discounting the expected future cash flow that reflect current market assessments of the time value of money and, where appropriate, the risk specific to the liability.

#### 1.8 LEASING

Rental payable under operating leases are charged to the surplus or deficit on a straight-line/('lease equalization principle') basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

#### 1.9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise balances with local banks and monies in call accounts.



### 1.10 FINANCIAL INSTRUMENTS

#### Recognition

Financial assets and financial liabilities are recognised on the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument.

Financial instruments carried on the statement of financial position include cash and cash equivalents, trade and other accounts receivable, prepayments and advances, provisions and trade and other accounts payable. Where relevant, the particular recognition methods are disclosed in the individual policy statements associated with each item.

#### Measurement

Financial instruments are initially measured at cost, which includes transactions costs. Subsequent to initial recognition these instruments are measured as set out below.

#### Financial assets

The company's principal financial assets are trade and other accounts receivable and cash and cash equivalents.

#### Trade and other accounts receivable

Trade and other accounts receivable are stated at their fair value, being their nominal value reduced by appropriate allowances for estimated irrecoverable amounts.

#### Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

#### Financial liabilities

The company's principal financial liabilities comprise provisions and trade and other accounts payable.

### Provisions

Provisions are stated as indicated in note 1.7 above.

### Trade and other accounts payable

Trade and other accounts payable are stated at their fair value, being their nominal value.

### Derecognition

A financial asset or a portion thereof is derecognised when the company realises the contractual rights to the benefits specified in the contract, the rights expire, the company surrenders those rights or otherwise loses control of the contractual rights that comprise the financial asset. On derecognition, the difference between the carrying amount of the financial asset and the sum of the proceeds receivable and any prior adjustment to reflect the fair value of the asset that had been reported in net assets is included in net surplus or deficit for the year.

## 1.11 TAXATION

The company is exempt from income tax in terms of section 10(1) (nC) of the Income Tax Act No 58 of 1962.

## 1.12 COMPARATIVE FIGURES

Where necessary comparative figures have been adjusted to conform with change in presentation in the current year.

## 2. REVENUE

Revenue comprise of the following:

Government grants

Projects funding - Workplace Challenge

- Turnaround Solution

	2010 R'000	2009 R'000
Government grants	29 476	41 138
Projects funding - Workplace Challenge	11 530	8 660
- Turnaround Solution	29 996	25 329
	<u>71 002</u>	<u>75 127</u>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## For the year ended 31 March 2010



	2010 R'000	2009 R'000
<b>3. OTHER INCOME</b>		
Services rendered	5 446	12 033
<b>4. ADMINISTRATIVE EXPENSES</b>		
General and administrative expenses	(734)	(1 339)
Insurance premiums	(223)	(50)
Recruitment costs	(300)	(559)
Bursary costs	(4)	(32)
Board members fees	(114)	(132)
Training workshops refreshments	(79)	(265)
Stationery and printing	(752)	(661)
Bank charges	(202)	(165)
Training and staff development	-	(250)
<b>Total</b>	<b><u>(2 408)</u></b>	<b><u>(3 453)</u></b>
<b>5. STAFF EXPENSES</b>		
Salaries	(29 592)	(27 187)
UIF	(230)	(147)
<b>Total</b>	<b><u>(29 822)</u></b>	<b><u>(27 334)</u></b>
<b>6. MARKETING EXPENSES</b>		
Promotions	(183)	(8 415)
<b>7. AUDITORS REMUNERATION</b>		
Provision for the year	(496)	(370)

### 8. OTHER OPERATING EXPENSES

	2010 R'000	2009 R'000
Consultants, contractors and special services	(32 513)	(28 043)
Seminars presented	(105)	-
Skills development levy	(229)	(218)
Maintenance machinery and equipment	(159)	(175)
Maintenance non-machinery and equipment	(210)	(43)
Depreciation	(621)	(748)
Travel and subsistence	(3 802)	(3 143)
Loss on sale of asset	-	(9)
Communication costs	(1 802)	(1 341)
Rent – building	(5 451)	(5 098)
<b>Total</b>	<b>(44 892)</b>	<b>(38 818)</b>

### 9. NET FINANCE INCOME/(EXPENSE)

Finance income	214	287
Finance cost	(48)	(493)
<b>Net finance income/(expense)</b>	<b>166</b>	<b>(206)</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## For the year ended 31 March 2010



### 10. PROPERTY AND EQUIPMENT

	2010 R'000	2009 R'000
Library	-	-
Opening net carrying amount	178	178
Gross carrying amount	(178)	(178)
Accumulated depreciation		
Net carrying amount at end of the year	<u>-</u>	<u>-</u>
Motor vehicles		-
Opening net carrying amount	84	116
Gross carrying amount	158	158
Accumulated depreciation	(74)	(42)
Additions		-
Depreciation charge	(31)	(32)
Net carrying amount at end of the year	<u>53</u>	<u>84</u>
Computer hardware		
Opening net carrying amount	448	632
Gross carrying amount	4 271	4 045
Accumulated depreciation	(3 823)	(3 413)
Additions	419	275
Disposal	(6)	(9)
Depreciation charge	(339)	(450)
Net carrying amount at end of the year	<u>522</u>	<u>448</u>

	2010 R'000	2009 R'000
<b>Computer software</b>		
Opening net carrying amount	258	145
Gross carrying amount	1 633	1 408
Accumulated depreciation	(1 375)	(1 263)
Additions	20	324
Depreciation charge	(181)	(211)
<b>Net carrying amount at end of the year</b>	<b>97</b>	<b>258</b>
<b>Furniture and fittings</b>		
Opening net carrying amount	163	194
Gross carrying amount	3 904	3 880
Accumulated depreciation	(3 741)	(3 686)
Additions	177	24
Disposal	(99)	-
Depreciation charge on disposal	100	-
Depreciation charge	(70)	(55)
<b>Net carrying amount at end of the year</b>	<b>(271)</b>	<b>163</b>
<b>Total property, plant and equipment</b>		
Opening net carrying amount	953	1 087
Gross carrying amount	10 144	9 669
Accumulated depreciation	(9 191)	(8 582)
Additions	616	623
Disposal	(105)	(9)
Depreciation charge on disposal	100	-
Depreciation charge	(621)	(748)
<b>Net carrying amount at end of the year</b>	<b>943</b>	<b>953</b>



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## For the year ended 31 March 2010



	2010 R'000	2009 R'000
<b>11. TRADE AND OTHER ACCOUNTS RECEIVABLE</b>		
Trade receivable	1 180	940
Other receivables	158	208
Advances	57	1
<b>Total</b>	<u><u>1 395</u></u>	<u><u>1 149</u></u>
<b>12. CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances with the bank	3 534	9 305
There are no restrictions that have been placed on cash balances		
<b>13. TRADE AND OTHER ACCOUNTS PAYABLE</b>		
Trade payables	(1 362)	(2 031)
Accruals	(1 777)	(5 700)
Operating lease liability	(292)	(351)
Other payables	(82)	(40)
<b>Total</b>	<u><u>(3 513)</u></u>	<u><u>(8 122)</u></u>
<b>14. INCOME RECEIVED IN ADVANCE</b>		
Deferred income in respect of projects	-	(181)
<b>15. INVENTORY</b>		
Consumables	280	265

Consumables comprise stationery and printing items

**16. PROVISIONS****Salary and related expense provision**

	2010 R'000	2009 R'000
Opening balance	(1 323)	(1 568)
Utilisation of provision during the year	1 201	2 037
Provisions made during the year	(1 337)	(1 792)
<b>Closing balance</b>	<b>(1 459)</b>	<b>(1 323)</b>

**Auditors remuneration**

Opening balance	(453)	(435)
Utilisation of provision during the year	343	350
Provisions made during the year	(416)	(368)
<b>Closing balance</b>	<b>(526)</b>	<b>(453)</b>

**Deferred salary payments**

Opening balance	(162)	(345)
Utilisation of provision during the year	1 401	1 442
Provisions made during the year	(1 649)	(1 259)
<b>Closing balance</b>	<b>(410)</b>	<b>(162)</b>

**Total provisions**

Opening balance	(1 938)	(2 348)
Utilisation of provision during the year	2 945	3 829
Provisions made during the year	(3 402)	(3 419)
<b>Closing balance</b>	<b>(2 395)</b>	<b>(1 938)</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## For the year ended 31 March 2010



### 17. RECONCILIATION OF (DEFICIT)/SURPLUS FOR THE YEAR TO CASH (UTILISED IN)/GENERATED BY OPERATIONS

	2010 R'000	2009 R'000
(Deficit)/surplus for the year	(1 187)	8 564
Adjusted for:		
- Depreciation	621	748
- Investment income	(214)	(287)
- Finance cost paid	48	493
- (Gain)/loss on sale of property, plant and equipment	(15)	9
- Movement in provisions	457	(410)
Operating (deficit)/surplus before working capital changes	(290)	9 117
Working capital changes	(5 046)	2 988
Increase in inventories	(15)	(6)
(Decrease)/increase in accounts receivable	(246)	1 953
(Decrease)/increase in accounts payable	(4 785)	1 041
Cash (utilised in)/generated by operations	(5 336)	12 105

### 18. CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of furniture and equipment	(177)	(24)
Purchases of computer hardware	(419)	(275)
Purchases of computer software	(20)	(324)
Proceeds on disposal of plant and equipment	15	-
	<u>(601)</u>	<u>(623)</u>

## 19. CONTINGENT LIABILITIES

### CANCELLATION CONTRACT COST CLAIM

To assist with meeting annual targets, Productivity SA sometimes engages various service providers with specialised expertise to assist with the implementation of its projects. These services providers, however, are subjected to high performance standards, where quality is never compromised.

In this financial year, the services of a marketing and communications company were enlisted, to assist with the implementation of a marketing and communication strategy for Productivity SA. Due to poor and unsatisfactory delivery of agreed outputs, Productivity SA terminated the agreement with the service provider in the second month of the agreement. Prior to the termination of the agreement, numerous efforts and interventions were undertaken to ensure that the agreed outputs were met by the service provider. To prevent projected or anticipated wasteful expenditure, Productivity SA took a decision to terminate this agreement.

Contingent liability relating to this event is R980 000. The claim is being contested and the amount of the claim exceeds the contracted amount.

## 20. TAXATION

No provision was made for taxation in the current financial year. Productivity SA as an association not for gain of a public character qualifies for exemption in terms of section 10 (1) (cN) of the Income Tax Act No 58 of, 1962, being a 'public benefit organisation' as defined.

Productivity SA was granted exemption for VAT effective from July 2005 as its activities no longer comply with the definition of 'enterprise' in section 1 of the VAT Act, and the requirement for VAT registration in terms of section 23 of the same Act. Productivity SA is now included in the amended definition of 'public authority' in terms of section 1 of the VAT Act.



## 21. RELATED PARTIES

The company has not disclosed related parties transactions and balances with other state-controlled entities as required in terms of IAS 24 of SA GAAP. The company is exempt due to its 'non-profit oriented organisation' status.

## 22. OPERATING LEASE COMMITMENTS

The company leases offices and photocopiers under non-cancellable lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease rental expenditure charge to the statement of financial performance during the year is disclosed in Note 8.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2010 R'000	2009 R'000
Payable within 1 year	3 556	4 786
Payable after 1 year and thereafter	839	3 864
	<u>4 395</u>	<u>8 650</u>

## 23. CORRECTION OF FUNDAMENTAL ERROR

Transactions between Productivity SA and Turnaround Solutions have been double accounted for in the prior year financial statements leading to overstatement in revenue from services and accounts receivables balances.

	2009
Effect in the statement of financial performance	
Decrease in services revenue	3 656
Effect in the statement of financial position	
Decrease in accounts receivable	(3 656)

**24. DIRECTORS EMOLUMENTS**

The following payments were made to the executive management and directors of Productivity SA during the year:

	2010 R'000	2009 R'000
Executive director	975	1 132
Non-executive directors	114	132
<b>Total</b>	<b>1 089</b>	<b>1 264</b>

**25. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS PRONOUNCEMENTS**

The company is required to include in its annual financial statements disclosure about the future impact of standards and interpretations issued but not yet effective at the issue date.

At the date of authorisation of the financial statements of the company for the year ended 31 March 2010, the following standards and interpretations were in issue but not yet effective. These accounting standards and interpretations include the following that may have an impact on the financial statements in the future:

GRAP 18	Segment reporting	1 April 2010
GRAP 21	Impairment on non-cash generating assets	1 April 2010
GRAP 23	Revenue from non-exchange transactions	1 April 2010
GRAP 24	Presentation of budget information in the financial statements	1 April 2010
GRAP 25	Employee benefits	1 April 2010
GRAP 104	Financial instruments	1 April 2010

An entity shall apply standards of GRAP for annual financial statements covering periods beginning on or after a date determined by the Minister of Finance in a regulation to be published in accordance with section 91 (1)(b) of the PFMA. This date was yet to be published at the date of approval of these financial statements.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## For the year ended 31 March 2010



Management has assessed the impact of the above new standards of GRAP and believe that these are not expected to materially impact the financial statements of the company.

### 26. CRITICAL MANAGEMENT ASSUMPTIONS AND JUDGEMENTS

The company makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the review of useful lives, residual values and impairment as highlighted in accounting policy 1.4 above. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimate are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both the current and future periods.

### 27. RECONCILIATION OF BUDGET SURPLUS/DEFICIT WITH THE NET CASH GENERATED FROM OPERATING, INVESTING AND FINANCING ACTIVITIES

	Operating	Financing	Investing	Total
Actual amount as presented in the budget statement	6 000	-	(704)	5 296.
Basis difference				
Timing difference	(11 170)	-	103	(11 067)
Actual amount in the cash flow statement	<u>(5 170)</u>	<u>-</u>	<u>(601)</u>	<u>(5 771)</u>

**28. FINANCIAL INSTRUMENTS**

In the course of Productivity SA operations it is exposed to interest rate, credit, liquidity and market risk. Productivity SA has developed a comprehensive risk strategy in order to monitor and control these risks. The risk management process relating to each of these risks is discussed below:

**28.1 INTEREST RATE RISK**

Productivity SA manages its interest rate risk by fixing rates on surplus cash funds using short-term fixed deposits. Productivity SA's exposure to interest rate risk and the effective interest rates on financial instruments at reporting date are as follows:

	Floating rate R'000	Fixed rate R'000	Non-interest bearing R'000	Total R'000
Year ended 31 March 2010				
<b>Assets</b>				
Cash and cash equivalent	2 752	782	-	3 534
Other receivables	-	-	1 395	1 395
<b>Total financial assets</b>	<b>2 752</b>	<b>782</b>	<b>1 395</b>	<b>4 929</b>
<b>Liabilities</b>				
Trade and other payables	-	-	3 513	3 513
Total liabilities	-	-	3 513	3 513
<b>Net financial assets</b>	<b>2 752</b>	<b>782</b>	<b>2 118</b>	<b>1 416</b>

Year ended 31 March 2009

Assets



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## For the year ended 31 March 2010



	Floating rate	Fixed rate	Non-interest bearing	Total
	R'000	R'000	R'000	R'000
Cash and cash equivalent	6 223	3 082	-	9 305
Other receivables	-	-	1 149	1 149
<b>Total financial assets</b>	<b>6 223</b>	<b>3 082</b>	<b>1 149</b>	<b>10 454</b>
<b>Liabilities</b>				
Trade and other payables	-	-	8 122	8 122
Total liabilities	-	-	8 122	8 122
<b>Net financial assets</b>	<b>6 223</b>	<b>3 082</b>	<b>6 973</b>	<b>2 332</b>

### 28.2 CREDIT RISK

Financial assets which potentially subject Productivity SA to the risk of non-performance by counter-parties and thereby subject to credit concentrations of credit risk consist mainly of cash and cash equivalents and receivables from exchange transfers. There were no impairments.

	31 March 2010	31 March 2009
	R'000	R'000
Not past due	422	893
Past due 0-30 days	338	21
Past due 31-60 days	45	74
Past due 61-90 days	33	112
Over 90 days	557	49
<b>Total</b>	<b>1 395</b>	<b>1 149</b>

Productivity SA manages/limits its treasury counter-party exposure by only dealing with well-established financial institutions approved by the National Treasury through the approval of their investment policy in terms of Treasury Regulations.

### 28.3 LIQUIDITY RISK

Productivity SA manages liquidity risk through proper management of working capital, capital expenditure and actual vs forecast cash flows and its cash management policy. Adequate reserves and liquid resources are also maintained.

31 March 2010				
		Carrying amount	Contractual cash flows	6 months or less
Trade and other payables		3 513	3 513	3 513

31 March 2009				
		Carrying amount	Contractual cash flows	6 months or less
Trade and other payables		8 122	8 122	8 122

### 28.4 MARKET RISK

Productivity SA is exposed to fluctuations in the employment market, for example, sudden increases in unemployment and changes in the wage rates. No significant events occurred during the year that Productivity SA is aware of.



## 28.5 FAIR VALUES

Productivity SA financial instruments consist mainly of cash and cash equivalents, no financial instrument was carried at an amount in excess of its fair value and fair values could be reliably measured for all financial instruments. The following methods and assumptions are used to determine the fair value of each class of financial instruments:

### CASH AND CASH EQUIVALENTS

The carrying amount of cash and cash equivalents approximates fair value due to the relatively short to medium-term maturity of these financial assets.

### OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

The carrying amount of other receivables from exchange transactions approximates fair value due to relatively short-term maturity of these financial assets.

## 29. CONTINGENCIES

### ACCUMULATED SURPLUSES

As at 30 June 2010, Productivity SA had not received a response from the National Treasury with respect to their request to retain the accumulated surplus to cover future expenditure. Productivity SA assumes that approval will be granted to retain its surplus funds and has therefore not made any provision for the repayment of surplus of R244 thousands or any portion thereof to National Treasury. Productivity SA has committed these funds for initiatives aimed at saving jobs and creating competitiveness.

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