

Kaizen Costing: A System of Cost Reduction Through Continuous Improvement

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Abstract: Kaizen is a Japanese term which means continuous improvement. Kaizen costing is the sustenance of existing cost levels for the products under the manufacturing process by way of collective efforts to attain the intended cost level. Kaizen costing aims to eliminate wastes and non-value added activities, just-in-time delivery, leveling load of production in amount and type, labour standardization and using appropriate equipment. This paper shows the meaning, advantage and disadvantage of kaizen costing. This paper also shows the principle of kaizen costing and how can organization implement kaizen costing in their business.

Keywords: Kaizen, Kaizen costing, Standardizing.

1. Introduction

Concept of kaizen costing originated in Japan. Japanese word kaizen comprises of two words kai and zen. where kai means changes and zen stands for improvement that is kaizen means small continuous changes for improvement. kaizen costing is a system of cost reduction through continuous improvement. It tries to maintain present cost levels for products currently being manufactured through systematic efforts to achieve the desired cost level. the word kaizen is a Japanese word meaning continuous improvement. It has two dimensions. One dimension considers product (narrow perspective) and another dimension covers assets and organization (broader perspective). Assets and organization specific costing activities planned according to the exigencies of each deal. However, product model specific costing activities carried out in special projects with added emphasis on value analysis. It is applied to products that are already in production phase. Prior to kaizen costing, when the products are under development Phase, target costing is applied. After targets have been set, they are continuously updated to display past improvements, and expected improvements. Adopting kaizen costing requires a change in the method of setting standards. Kaizen costing focuses on cost reduction rather than cost control.

2. Objective of the Study

The objective of this research paper is to know about kaizen costing and how organization implements kaizen costing methodology.

3. Research Methodology

The paper is based on secondary data. Which were collected from different websites.

A. Type of Kaizen costing

1. *Assets specific:* All activities of improvement which help to reduce the cost of one of assets is called assets specific kaizen costing.

2. *Product specific:* Activities of improvement that reduce the cost of product is product specific kaizen costing.

B. Principles of Kaizen costing

- Continuous improvements in the present situation, at an agreeable cost.
- No limits to improve level that has to be implemented.
- Advocates collective decision making and knowledge application.
- Concentrates on waste or loss elimination, system and productivity improvement.
- Establishing standards and then continually working and improving them.
- Participating all employees and covering every business area.

4. 5 S of Kaizen Costing

5 S is a productivity method whose name is derived from the five first letters of Japanese words: Seiri(Sorting), Seiton (strengthen), Seiso (shining), Seiketsu (Standardizing), Shitsuke (sustaining).

1. *Sorting:* All tools within the workplace by scan through all of them and evaluate their usefulness. Only the necessary tools should keep in the workplace, the useless items should be removed to save the space and enhance the working experience.

2. *Strengthen:* Strengthen is the concept that the tools material must keep in their own place with proper labels. The most frequently used item must place near us while less one should keep in the corner. It will save time for us to look for each specific item.

3. *Shining:* The workplace must be clean and tidy every day. All the tools are ready to use and space is available for new work. It will improve the productivity of the employee.

4. *Standardizing*: We must keep the workplace from getting back to the previous condition. There must be a sign, banners, or board to ensure everybody understands and practice as part of daily operation.

5. *Sustaining*: The last step is to inform all staff and departments to practice this culture every day. It is the continuous task that needs to maintain for long.

5. Kaizen Costing Process

- *Involve your employees*: The involvement of employees plays an important role in implementing any change. The participation of employees and their feedback helps in generating ideas and information.
- *Find problem*: The organization with its employee of all departments need to find out problems in the organization.
- *Find solution*: The next step is solving the identified problem; This step needs a lot of brainstorming approach manager from a team to find out a practical solution of each question.
- *Implement*: Implementing any change involves cost and risk simultaneously. The new idea must be testified on a small part of the organization.
- *Check*: The managers need to look after the proper implementation of the kaizen costing.
- *Standardize*: After being satisfied with the results, the organization need to set this change as a standard procedure for all the departments and across the whole organization.
- *Repeat*: A standardized procedure becomes the organizational culture when continuously practiced over a period.

6. Importance of Kaizen Costing

- *Less waste*: Whenever we want to improve things. We start with removing the waste thereby optimizing the process. Waste can be the wastage of resource or manpower.
- *Productivity*: With the reduction of waste, productivity increase positively.
- *Quality*: With improvement in mind managers always strive for the optimum quality. Kaizen helps improve the quality of products and processes.
- *Result orientation*: Kaizen is a process which is result oriented. There is clear demarcation of where the organization is operating and where it wants to reach.
- *Accuracy*: Due to the focus on getting results productively and with high quality, process is found which are effective and accurate.
- *Cost advantage*: With everything working on high efficiency and productivity, there is a huge cost advantage to the firm because it gets more output with lesser input.
- *Competitive advantage*: Organisation following Kaizen gain a competitive advantage because they are continuously improving and they might take newer competitors as benchmarks learn new things and take their competitor down.
- *Better safety*: Improving safety on the work floor is a kaizen

advantage for business. Safety is improved when business implement ideas that clean up and organize workplace. By so doing, employees have better control of business process equipment. Employees are also encouraged to make suggestion to improve safety on the work floor. This helps to main minimize accidents and other injuries.

- *Improves employee satisfaction*: Another advantage of kaizen is that, it improves employee satisfaction. involves the employees when implementing changes for improvements. Employees can make suggestions and creative input for changes through a suggestion system like team meetings. When employees are involved in decision making, it gives team a sense of belonging and worth. They are eager to implement changes and think of new ways to improve the processes. By so doing, the employees are motivated and productivity increases.
- *Builds leadership skills*: Every kaizen team must have a team leader. The team leader is responsible for organizing the Kaizen team and coordinating implementation. The kaizen team leader makes sure that everyone is performing their roles successfully.
- *Happy workplace*: All of the above results in a happy workplace where ground level employees also known that they can create a difference in the organization.
- *Continuous improvement*: The best advantage of kaizen is that it is never over and there is continuous improvement providing many number of opportunities for the firm to improve.

7. Disadvantage of Kaizen Costing

- *Burden on lower level management*: It becomes confusing for the bottom level management to adopt the change in process.
- *Training requirement*: Kaizen methodology requires training staff and management to understand and adopt kaizen costing.
- *Change is difficult*: The greatest kaizen disadvantage is that people are always reluctant to change. Employees might not be ready to accept a different system from what they have been used to. On the other hand, management might be reluctant to implement kaizen because they feel it is expensive.

8. Companies that are Using Kaizen Costing

Many companies successfully use kaizen to inspire continuous improvement around the facility. Kaizen helps companies around the world to cut down on wastes. The most famous kaizen company that first implemented its practices is Toyota. Toyota has been using the kaizen philosophy for decades now and kaizen can be seen being practiced on many different levels within the organization. Kaizen is at the foundation of the Toyota production system, which is the heart of Toyota's processes. Another companies that use kaizen are the Ford Motor, Reliance industries, Asian paints, Bharat Heavy Electrical Limited, Godrej Consumer Products Limited, India oil corporation, Nestle, Unilever, Cadbury etc.

9. Kaizen is Different from Innovation

Kaizen and innovation are different. is a gradual process where as innovation can be considered as a more radical action. Kaizen costing focuses on small improvements that can be easily taken on a regular and consistent basis with the aim of delivering incremental improvement on a long term scale. Innovation on the other hand, focuses on large, improvements that require investment and planning with aim to deliver significant improvements in a relatively short time scale after implementation.

10. Conclusion

Above study shows the process, advantage and disadvantage of kaizen costing. We can say that kaizen costing may be difficult to implement but it is not impossible. A new business

can implement kaizen costing easier than those with already established management system. Kaizen costing in beneficial to a business, it is also beneficial to employee and customer as well. We can say that when business have a good understanding of kaizen costing's advantage and disadvantages, they can use them for their own benefit.

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