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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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KAIZEN COSTING TECHNIQUE – A LITERATURE REVIEW

MANMEET KAUR
ASST. PROFESSOR
DEPARTMENT OF COMMERCE
GOVERNMENT GIRLS COLLEGE
GURGAON

RAVINDER KAUR
ASST. PROFESSOR
DEPARTMENT OF COMMERCE
N. G. S. M. COLLEGE
SOHNA

ABSTRACT

Competition in global market and continuously changing demands of customers has proven the drivers of continuous improvement. Kaizen costing is a cost management technique and it is used by many manufacturing firms since 1960s. Concept of kaizen costing is simple but the implementation of kaizen costing needs an extensive cooperation from both inside and outside of the organization. This paper presents a review of related literature on this important concept; kaizen costing by examining 18 English articles published from 1991-2012. The paper aims to briefly discuss the contents of different research article that have been published to show what has been done and what is actually the kaizen costing as a technique of cost reduction.

KEYWORDS

Kaizen costing technique, cost management techniques.

INTRODUCTION

Today the main objective of manufacturing companies is to increase productivity by using modern cost management techniques like kaizen costing. Mostly manufacturing companies are trying to respond the speedily changing customer needs and requirements. For manufacturing companies to remain competitive, to survive and to retain their market share in market, continuous improvement in the manufacturing process or cost reduction has become essential. Kaizen costing is a Japanese word and it was originated by Japanese car maker company Toyota and now it has become familiar in many western companies. Kaizen costing was originated as cost management practice in Japanese companies after World War II. Kaizen costing is known “Genkakaizen” in Japanese companies. Kaizen costing method is used in manufacturing stage of the existing products as cost reduction process. Kaizen costing focuses on continuous improvement in all processes, customers’ satisfaction and on involvement of all employees of company. Kaizen costing is derived by Japanese automobile companies. In 1960 Toyota established the cost management technique namely kaizen costing (Toyota Motor Corporation 1987). Guilding et al. (2000) stated that kaizen costing is a strategic management accounting practice which is forward-looking and closely aligned to a quest for competitive advantage. The strong point of kaizen costing comes from its close connection with the profit planning process of the company; hence company can examine its progress towards the long-term goals. Kaizen costing activities involve continual small incremental product cost improvements in the manufacturing phase of the product in contrast improvements in the design and development phase. Kennedy & Widener (2008) described the term kaizen costing as continuous improvement and time improvement by eliminating waste and reduction of costs. Kaizen costing is concerned with reducing the costs of existing products and processes (Hansen & Mowen 2003).

A rising and developing literature on kaizen costing was published after 1990. This paper presents a review of literature on kaizen costing and attempts to identify the relevant and useful knowledge about this subject. This paper includes reviews of the kaizen costing literature from 1991-2012. There are 18 articles and published works which are reviewed for the coverage of this study. The first part gives some general knowledge about the kaizen costing concept. The second part of the paper explains the contents of each research article and presents them according to their year of publication.

REVIEW OF LITERATURE ON KAIZEN COSTING

The philosophy of kaizen costing presented by some researchers and also researchers are taking considerable interest in this costing method because kaizen costing reduces costs of product, increases productivity and also helps to produce good quality products of the company. Several researchers have discussed the concept of kaizen costing method.

Monden & Hamada (1991) described the system of total cost management used by Japanese companies. Authors stated that this system includes target costing and kaizen costing as two main pillars and the first pillar target costing is used to reduce the cost of new products in the design and development stage while kaizen costing is used by the Japanese companies for the cost reduction of existing products in the manufacturing stage and through these two methods Japanese companies control the overall cost of product during the whole life cycle of product. In the paper authors explained the link between these methods and stated that management accounting is functioning well with these two methods in Japanese companies. They discussed the system of target costing, its various properties and said value engineering is very important in target costing though there is difference between value engineering and value analysis they stated that value engineering is used for new product development stage while value analysis is vital for existing products manufacturing stage. They stated that kaizen costing is not implemented like standard costing in Japanese companies. They showed the example of kaizen cost committee for cost reduction. They said the main part of cost is covered by variable cost like material, labour and other direct costs thus in kaizen costing target of kaizen cost is determined for variable cost only not for fixed cost in the Japanese companies. They stated that kaizen cost targets are achieved by kaizen activities and kaizen cost targets are decomposed among different departments on the basis of management by objectives. They pointed out the necessity of the involvement of all level employees for the implementation of target and kaizen costing and incentives for their motivation.

Cheser & Tanner (1993) indicated the use of kaizen costing within a given framework and with the involvement of groups. They stated that after the estimation of investment working groups which are working with that issue are informed about these estimates to make them understand about the earlier stage of the challenges and this also provides a clarification about the problem issues and cost rationalization to the working groups. They said usually the operators develop the ideas then designers apply the changes and the consumers give the purchase price. They stated that in kaizen costing every activity is managed by a work team and these teams share the outcome by establishing new ideas. They said that knowledge is developed by groups about the different ways to reduce costs.

Monden & Lee (1993) presented a case study of Daihatsu motor company of Osaka, Japan a mini car manufacturer on kaizen costing practice and this company was the partner of Toyota. They said that target costing is an effective system to manage the costs of new products in the design and development stage while kaizen costing is used to reduce the cost in the manufacturing stage of product and both target costing and kaizen costing helps Japanese companies to reduce the overall cost of a product and both techniques are used by Japanese companies to achieve the goal of total cost management. They pointed out six plans for

implementation of kaizen costing: (1) production, distribution and sales plan (2) projected parts and material costs (3) plant rationalization plan (4) personnel plan (5) facility investment plan and (6) fixed expense plan. They said that actual cost of the previous year is used as cost standards for next year in the company and variable cost is the main component of kaizen costing and for fixed cost target of cost reduction is generally not set by the company and these rates revised by the company in mid of the year mainly when there is a need of change in the quality of product or to adjust the expectations of customers. They stated that target cost reduction rate is determined for each cost element on the basis of last year performance of the element and target cost reduction rate is almost not changed. The overall cost reduction target are decomposed into different cost elements. They added that to evaluate the performance of each department actual cost reduction is compared to target cost reduction and find out the variance to know the favorable and unfavorable variance of the department. Authors explained that kaizen costing has aim to reduce the actual cost below cost standards while standard costing aim is to meet the standard cost only thus kaizen costing and standard costing are different methods and kaizen costing is superior method than standard costing.

Cheser (1994) demonstrated that kaizen costing creates a situation for those companies whose assignment is to cut those costs which are not adding any value in the product. The author said that investment in terms of resource and in costs of product can be estimated because the basis of estimation is determined in advance. The author said that it is basically a matter of entering the relevant values of product through the active members who are implementing kaizen costing in the organization. The author stated that kaizen costing is appropriate method for the survival of a firm. The author highlighted that long term competence development of firm is engaged in the activities and the value added activities develop the ability of firm to survive in the short period.

Lee & Monden (1996) reported the comparison of some manufacturing friendly management systems considered in the U.S.A and Japan. Authors focused on the comparison of activity based costing with new cost management systems target costing and kaizen costing. They expressed these two systems are popular on international level and they showed comparison of these systems on the basis of advantages in cost management, control and operational improvement. Authors presented a field study of a Japanese automaker and an analysis of cost management through past studies. They also pointed out most wanted characteristics of cost management systems that can solve the problems of many manufacturing firms under the speedily changing international market conditions.

Williamson (1997) explained the concepts of the manufacturing techniques, target costing and kaizen costing which developed in Japanese companies and stated that these two methods provide the base for total cost management. The author discussed that in a highly competitive market situation a firm can survive better with the implementation of these two techniques. The author said that target costing is a process to design products in such manner that products can be produced at low cost, the company can sell them at cheap price and still make a fair profit while kaizen costing focuses on the manufacturing phase of product to generate the value and profitability by the production of new and existing products. The author observed that the main aim of target costing and kaizen costing is to produce a product that can meet the customer's requirement by the functions and qualities of product and also can increase the profits of firm by profitable price and they said that cost reduction is vital to do this. The author opined that kaizen costing activities should be involved in the process of business improvement constantly with focus on the improvements in quality and product functionality. The author stated that targets and kaizen activities may differ on the basis of the type of cost and combination of target costing and kaizen costing provides a root of the total life cost management or the way to manage cost throughout the product life cycle. The author concluded that the increasing profit and value of products both are important but customer satisfaction is preferable for companies.

Bayou & Reinstein (1998) explained three routes of target cost management and all three routes have their own ways and goals. They included total cost management, cost cutting and cost shifting as three routes of target cost management. The author explained that the first route is total cost management which includes general target costing with kaizen costing methods for different stages of product and they used cost reduction or cost improvement only for this route. They stated that this route uses different strategies to achieve goals or to reduce costs. If firm can not apply strategies properly then they move to second or third routes which are cost cutting and cost shifting. They said cost cutting refers to decreasing avoidable inefficiencies and it is just moving downside on the same cost line means the resources used by the company are reduced to decrease costs like reduce raw material, less no of workers and other while cost shifting refers to movement from one alternative to other alternatives of costs or resources but it does not reduce quantity of resources instead it uses low or sub standard resources like low grade material, local suppliers and other. They concluded that first route is beneficial for companies than other two routes.

Monden & Hamada (2000) revealed the practices of target costing in Japanese car manufacturers and stated that only target costing in not final cost management the concept of final cost management also includes kaizen costing. They said that target costing is used in the developing and designing phases of product and kaizen costing is used in the manufacturing stage of both new products and existing products. They stated that kaizen costing always focuses on excellence by continuous small improvements in process and product with the involvement of all working levels in the company.

Cooper & Slagmulder (2004) presented a case study of Olympus Optical Company in Tokyo, Japan and discussed that cost can be reduced throughout the life cycle of product and the way a company manages costs across the product life cycle of consumer product. They explained five major cost-management techniques: (1) target costing, (2) product-specific kaizen costing, (3) general kaizen costing, (4) functional group management and (5) product costing in integrated manner that can be used across a product's life cycle. They demonstrated that costs can be forcefully managed not only in design phase of product but throughout the product life cycle. They found Olympus Optical Company was able to manage costs throughout a product's life cycle. They explained all five techniques have their own objectives, focus and application as: (1) Target costing technique is used in product design phase, cost reduction is its objective, it focuses on product design and it has systematic application, (2) Product-specific kaizen costing technique is used to redesign a new product during the early stages of manufacturing stage to correct any cost overruns after target costing, and when target cost is not achieved then this technique is used in manufacturing phase, cost reduction is its objective, it focuses on product design and it has ad-hoc or temporary or requirement base application, (3) General kaizen costing technique is used in manufacturing phase, cost reduction is its objective, it focuses on production process and it has systematic application, (4) Functional group management technique breaks the production process into autonomous groups and (5) Product costing technique helps to coordinate the efforts of above stated four techniques by providing them up to-date information and last two techniques are used almost in same situation of general kaizen costing. They concluded that target costing is used during design phase and other four are used during manufacturing phase and cost reduction is not important only in design stage but also important in manufacturing phase. They suggested that company should use multiple cost management techniques or integrated cost management techniques because it can provide benefits to the organization and also long life products have more possibility of cost reduction during manufacturing phase.

Feil et al. (2004) described that target costing is being used worldwide and previous studies had explained specific aspects of target costing they said there was some misconceptions about Japanese target costing therefore they presented the origin of target costing. They said before World War II it was used under the name of value engineering later it became target costing. They stated that target costing evolved slowly. They said this is useful for new product having complex and extensive process. The authors also showed that target costing is associated with kaizen costing and explained that both are different in application, have different attributes and used for different aspects still target costing and kaizen costing cannot be separated. They said both are basic elements of cost management and these are known as Japanese cost management system. They concluded that top management leadership, team-orientation, commitment to work, mutual trust and information network are the pillar of target costing implementation.

Modarress et al. (2005) presented a case study of kaizen costing implementation in Boeing Commercial Airplane Company's Interiors Responsibility Centre (IRC) division. They said that standard cost accounting and traditional cost management systems provide only cost related information and they cannot adequately evaluate the importance of non-financial measures such as quality and flexibility. They stated that kaizen costing activities focus on continual small product cost improvements in the manufacturing phase as opposed to improvements in the design and development phase. The authors mentioned that to face fierce competition US manufacturing companies adopted lean manufacturing philosophy. Many US manufacturing companies had used traditional standard costing systems to control costs during the manufacturing process but these systems were not sufficient in supporting lean manufacturing objectives. To remain in competition US manufacturing companies adopted kaizen costing as a new cost management tool and philosophy to support lean manufacturing. They described kaizen costing process and two key factors in successful implementation of kaizen costing which are: (1) after the establishment the cost-reduction targets, these cost reduction targets are displayed for information to everyone and then the work cell can be held accountable to these targets and (2) the kaizen process should be consistent and repeatable. They said that target setting for work cell is the most important step in the kaizen costing process and these

targets must be achievable and according to company's objectives. They recommended the use of value-added analysis on the shop floor level to facilitate work cells in reaching their kaizen targets. They said that the value added analysis is used to determine which activities in the manufacturing processes is value added and which one is not then work cells reduce non value added activities in the kaizen costing process. They compared the company's selected division condition before and after implementation of kaizen costing and found it was effective in cost reduction.

Granja et al. (2005) explained the concepts of target and kaizen costing in a construction company. They presented the framework to take these two matching concepts target and kaizen costing together approaches and stated that these two provides a basis for a total cost management system. The authors mentioned that there is the requirement of continuing series of kaizen activities to achieve product quality and reduce the cost. They pointed out that combination of target and kaizen costing is a commanding approach for the construction company to ensure value of product for the customer at a low cost with profitable price for company.

Ellram (2006) presented a case study of 11 organizations which were actively using the target costing method. The author stated that target costing process focuses on the voice of the customer, earlier supplier involvement, concurrent engineering and cross-functional teams. The author explained the target costing process for practices in the United States or for other Western firms with the popular theoretical model of target costing which can be fit in the current business environment and culture. The author highlighted the role of purchasing and supply chain management for successful application of target costing. The author said that to improve the cost and functionality outcomes of new product development process through target costing role of supply chain management is critical. The author mentioned that the new theoretical model of target costing is consistent with the existing theoretical framework explained in previous studies though there is very little difference among the old and modern theoretical framework of target costing process. The author stated that the last step of target costing process includes continuous improvement which is now referred as 'kaizen' in Japanese manufacturing practices. Therefore after target costing next kaizen costing picks up by the firm which focuses on improving the cost of product when product has introduced in the market and supply chain management also vital in this stage and this is the basic difference between old framework and modern target costing process. They concluded that supply chain management is vital throughout the new product development in target costing process and for continuous improvement efforts.

Hines et al. (2006) presented a case study of Australian canned pineapple industry to establish an alternative of traditional standard costing which was developed and implemented for non-engineered (agriculture and food) products. They used the approach holistic quality-based pricing for continuous improvement and change, which has similar features like target and kaizen costing but they studied the above said approach especially for agriculture and food products where this approach can be used well than target costing and kaizen costing however this approach has almost same criteria of use in food processor companies and for farmers. They said this approach also uses suppliers' development and highlighted six critical success factors for the implementation of this approach.

Budugan & Georgescu (2009) reported integration of budgeting and kaizen costing during budget period for continuously improving the number of work hours and way of cost management to reduce costs. They said that target costing is the first step and after these employees of the firm are tried to attain the cost targets by eliminating certain activities and by the reduction of the costs through kaizen costing. They expressed that kaizen costing focuses on the production process not on the product and it considers organizational aspects and it is calculated according to the standard cost. They found that if company does not achieve the continuous improvement kaizen costing objectives then the number of work hours will exceed and it will increase the budget level and if company achieve kaizen costing objectives then it will lead to the reduction of the general variable costs during budget but target costing and kaizen costing continuous cost reduction methods are stressful for the staff. They concluded that to achieve the continuous cost reduction objectives there must be entire organization involvement and adequate cost management which include: (1) control over all stages of product life cycle (2) profitability of the product during its life cycle (3) establish all main elements of the supply chain (4) engineers must collaborate with the suppliers to reduce costs (5) mobilization and motivation of workforce. They stated that kaizen costing with budgeting results in the form of minor improvements.

Utari (2011) outlined a case study of PT. Coca-Cola Bottling Indonesia-Central, Sumatera, on the application of kaizen costing to reduce the problem of increasing the rejected product in the production process which affect the cost of production and profit of the company and also provide suggestions to overcome the problems of increasing rejected products in the production process. Author also compared the traditional costing and kaizen costing. In the paper he concluded that rejected product is a main factor that causes of increase the production cost and reduce the company's profit and to reduce rejected products and maintain quality of product the company used kaizen costing and the implementation of kaizen costing method improved the production costs. The author discussed two sub cycles of kaizen costing method PDCA (Plan, Do, Check, Act) and SDCA (Standardize, Do, Check, Act) to solve these problems and said through the implementation of kaizen costing the number of rejected products can be decreased to zero and company can produce a quality product based on the customer desires.

Sani & Allahverdzadeh (2012) explained the concept of cost management, traditional tools of cost management and modern tools of cost management. They included mainly overhead cost allocation, budgeting, value engineering and standard costing as traditional cost management tools while in modern cost management they included mainly target costing or target pricing, kaizen costing, activity based costing, total quality management and integrated strategic management accounting. They described the functioning of traditional costing system and difference among old and modern costing tools. In the paper they also included the process of target costing and the benefits of target costing.

Saleh et al. (2012) discussed three methods of cost management and they identified three essential criteria and effective indicators for each system. The selected three cost management methods were: (1) activity based costing, (2) target costing and (3) kaizen (quality) costing. They developed a model. They considered that the use of each method was different according to production and activities of organization. They explained different indexes or factors required for the use of each method and found these cost management methods were different on the basis of factors. However they studied common factors which were required budget, human resources, required time for settlement, software system, hardware system and integration system. They found the activity based costing method was more adopted than target costing and kaizen costing by the firms for cost management.

CONCLUSION

Kaizen costing is a cost management technique and it is used by many firms since 1960s. The successful implementation of kaizen costing needs a high level of cooperation from all departments or cross functional teams in the organization. However, awareness about the kaizen costing system among employees is required to use this system in the organisation. This paper discussed the relevant review of the literature on the kaizen costing technique from 1991-2012. The paper explained the main contents of each relevant article on kaizen costing. The literature also points out that Japanese companies used this method as an opportunity for cost reduction and it is mainly used by them for the management of costs of existing products. It is noted that many studies name kaizen costing as an important tool especially at manufacturing stage of product life cycle. From these studies it is commonly point out that kaizen costing implementation clears and improves the production processes for cost reduction during manufacturing stage of product life cycle. The kaizen costing method according to the most of previous studies have been used by manufacturing automobile companies. Value analysis tool is mainly used under kaizen costing for its successful implementation. Kaizen costing is also related with the famous Japanese costing technique namely target costing. The kaizen costing method is beneficial for cost reduction but it also increases the stress of employees. From the literature review, it can be concluded that there is limited literature available in English on kaizen costing, though after the review of literature it is noted that kaizen costing is an emerging costing technique for cost management of existing products and it is widely accepted as well as used by manufacturing companies.

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