

## **KAIZEN COSTING METHOD AND ITS ROLE IN THE MANAGEMENT OF AN ENTITY<sup>34</sup>**

**Ph. D. Letiția Maria Rof**  
**University of Alba Iulia**  
**Faculty of Sciences, Alba Iulia, Romania**

**Abstract:** Currently, the economic environment in our country but also worldwide, is totally unpredictable and aggressive in terms of competition. Crisis conditions are increasingly difficult for an entity manager to implement a successful strategy or to adopt a techniques or method of calculation able to provide cost type information enhancing effectiveness. Despite this economic and financial turbulent environment of the Romanian economy, there are concerns for the initiation and implementation of management methods and techniques, likely to lead to the foundation of an operating system for tracking costs. The objective of this study is to present a valid and reasoned opinion on the adoption and implementation of a new strategy and costing method, called Kaizen Costing, that puts in the spotlight, not the product as a result of an activity, but the entire manufacturing process of a product.

**JEL classification: M40, M41.**

**Key words: kaisen, cost, quality, management strategy, method of calculation.**

### **1. Introduction**

The purpose of my article is to let the managers know about a costing method, which applied even in the current crisis, will not only lead to an avoidance of bankruptcy, but may lead to even make a profit by improving competitiveness and financial efficiency.

*Quality* means to continuously meet the customers' demands, *total quality* means to continuously meet the customers' demands in terms of minimum cost, and *total quality management* ensures to continuously meet the customers' demands in terms of minimum cost, involving all employees.

### **2. Objectives**

The main objective of this research is to identify a solution to permanent increase of production quality while reducing cost and time of selling. To achieve this goal, we conducted a theoretical fundamental research, through which I tried to transpose several features of Japanese management plan for a new costing method.

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### **3. Methodology**

With no intention to exhaust the limits of this subject matter, I made appeal in my scientific approach to a rigorous study of the literature and analyzed various points of view raised by specialists in this field. I made appeal to research methods such as documentation, analysis, synthesis. Assumptions, methodology approach and the results are my own contributions.

### **4. Analyses**

Maintenance and improvement are two inseparable concepts in Japanese management. Improvement is assessed by two terms: kaizen and innovation.

Kaizen is a Japanese management concept launched by Masaaki Imai, which proved to be the key to Japanese competitive success. The significance of this concept is: KAI = Change and ZEN = for better, and the translation is "continuous improvement", that means small improvements to the ongoing efforts. Unlike the Western conception, implying total change, at large intervals of time, using large amounts of resources and a high cost level, Kaizen Costing seeks daily, gradual, slow, but continuous improvements, which take place at minimal cost.

Kaizen Costing message strategy is that a single day should not pass without an improvement to intervene in the activity of each employee or each entity. The Japanese have shown that by applying this strategy, improvement is achieved with minimal expenditure. Specific characteristics that ensure successful approach of Kaizen activities are the following:

- disregards all ideas implemented so far in the organization of production;
- rejects the whole existent situation;
- it does not look for perfection, seeking a 40-50% improvement of the existent situation, but at an acceptable cost;
- allows any manager to use their knowledge and personal skills;
- the ideas produced by many people are better than the ideas of a single person;
- the improvements have no limits.

Cost is one of the basic synthetic indicators that characterize the effectiveness of an entity's activity. The importance of production cost is related to *“the functions it fulfills in the context of economic-financial mechanism, schematically presenting itself as follows: ensures the resumption of production, measures the means of production and labour, allows the calculation of some efficiency indicators and the real knowledge of activity quality, sizes the profitability of economic entities, etc.”*<sup>35</sup>

Kaizen Costing Management is focused on improving each process of a technological product sheet, the main goal being eliminating losses and minimizing costs. Process improvement ensures production efficiency, kaizen type activities ensuring maximization of product value corresponding to the requirements of the beneficiary, a qualitative differentiation of this. There are eliminated all those functions of the product which the customer has no interest in and which bring a cost increase without a correspondent in value.

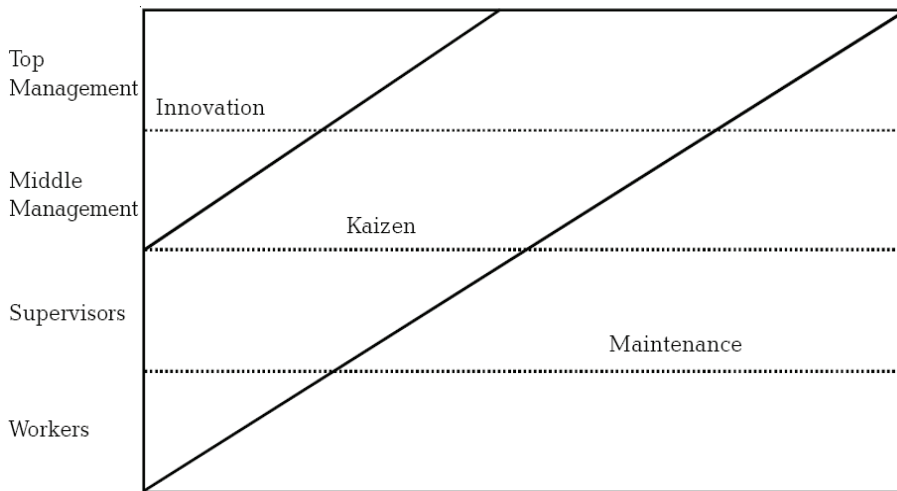
*„The KAIZEN principles presumes a practical approach and low costs of improvement. The Kaizen management system is based on the continuous loss reduction by means of methods that do not rely on investments, but on the improvement of the*

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<sup>35</sup> Briciu Sorin, Socol Adela, Mahammad Hadi Jaradat, Teiușan Ciprian Sorin, *Management through cost*, Risoprint Publishing House, Cluj-Napoca, 2003, p.214.

processes and the employees' performance. According to the Kaizen principles, we must be sure that, when we take an action, our action will go on in the best possible way and is not merely an intermediate action to generate a temporary result"<sup>36</sup>

Innovation is achieved by sudden changes and generates radical improvements, compared to the initial situation, which is due to significant investments in technology, performance and equipment. Figure no. 1 shows the distinction between innovation, kaizen and maintenance:



Source: Imai 1997

**Figure no. 1**

Therefore, “Imai (1997) describes that the improvement can be divided into Kaizen and innovation. Kaizen signifies small improvements as a result of ongoing efforts. Innovation involves a drastic improvement as a result of large investment of resources in new technology or equipment. The author also explains that in the context of Kaizen, management has two major functions: maintenance and improvement. Maintenance refers to activities directed towards maintaining current technologies, managerial and operating standards, and upholding such standards through training and discipline. Under its maintenance function, management performs its assigned tasks so that everybody can follow standard operating procedure.”<sup>37</sup>

Thomas M. Fischer and Jochen A. Schmitz K in "Control Measures for Kaizen Costing-Formulation and Practical Use of the Half-Life Model" considered that “Kaizen costing focuses on continuous reductions of costs, which should be realized for existing products in a company. For planning and control purposes, comprehensive and efficient tools for measuring performance are required”<sup>38</sup>.

<sup>36</sup> Mihail Aurel Titu, Constantin Oprean, Daniel Grecu, *Applying the Kaizen Method and the 5S Technique in the Activity of Post-Sale Services in the Knowledge-Based Organization*, Proceedings of the International MultiConference of Engineers and Computer Scientists 2010, Vol III, IMCS, Hong Kong, 2010.

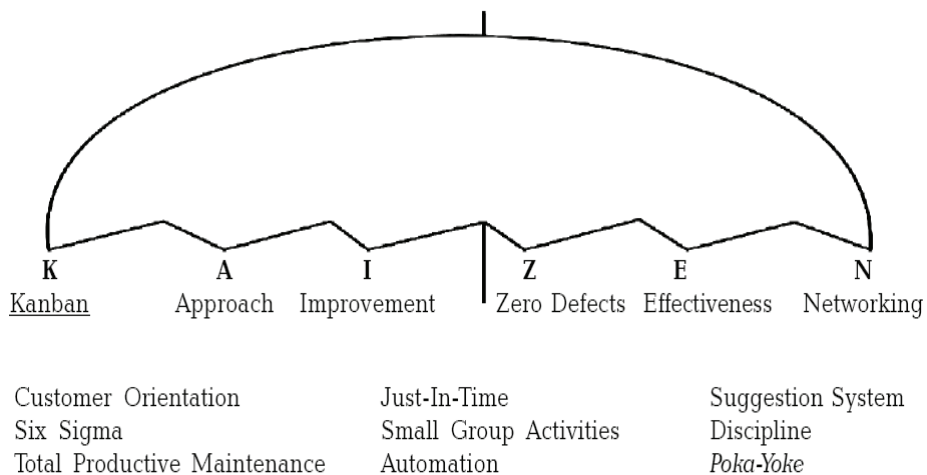
<sup>37</sup> Jagdeep Singh, Harwinder Singh, *Kaizen Philosophy: A Review of Literature*, The Icfai University Journal of Operations Management, Vol. VIII, No. 2, 2009, p. 55

<sup>38</sup> Thomas M. Fischer and K Jochen A. Schmitz, “Control Measures for Kaizen Costing - Formulation and Practical Use of the Half-Life Model”, Katholische Universität Eichstätt-Ingolstadt, 1998, p.1

**Critical**

In implementing Kaizen Costing strategy, managers rely on other techniques, methods and tools such as: quality circles, suggestions system, kanban, total productive maintenance, action plans, etc. The success of this strategy is subject to a number of changes in the entity's culture and value system on which it is based.

Suggesting small steps strategy, Kaizen Costing is a concept of "umbrella" which treats the basic methods and concepts applied in quality management in Japan and whose value is recognized worldwide (Figure no. 2). The superiority of the concept stems from the fact that, by applying small steps strategy, the necessary resources are insignificant, while the strategies based on innovations involve huge investments, although the results are relatively the same. In addition, Kaizen brings in the forefront the employees of the entity, who are motivated to participate consciously and responsibly to achieve the objectives of the entity. In this process the most important dimension is the organizational one, the ability to communicate. Successful implementation of this approach is given by the technical and managerial knowledge, put together, and by the across application of some management tools (ABC, benchmarking).



Source: <http://afr.kaizen.com>; Imai (1986)

**Figure no. 2.**

The implementation of Kaizen Costing management system in economic organizations in our country would bring immediate gains by eliminating waste and losses, increasing labour productivity by 20-30%, reducing operating costs by 15-20%, reducing used areas, reducing the equipment needs and increasing the use of the remaining, increasing staff motivation. Kaizen Costing focuses the entity interest and attention on those places where you can reduce costs, this means on operating the production process and its development in the most efficient way. Unlike Target (used by design staff before the product is in production), Costing Kaizen Costing is used by production staff during product manufacture. Both follow the same target, but they differ in the method of settling the target: on perspective, Target Costing is based on customer considerations, while Kaizen Costing is based on profitability targets imposed by manager.

As a method of cost calculation and resizing, Kaizen Costing represents the expression of returning to the source, through the causes of performance and the roots of productivity, what is possible in a cross-viewing, and performing a process analysis under the ABC Method. “*Cost reduction approach results by comparing the target-cost to the estimated one, and is fulfilled in terms of value, through an iterative process of continuous improvement.*”<sup>39</sup>

Thus, Kaizen Costing is not interested in the product but in manufacturing process, which is more than just a cost method, but a global management tool. Obviously, there are factors that hinder implementation and obtaining good results in Romanian entities. Among them the most influential one is the mentality, or psychological profile of Romanians, which do not encourage the achievement requirements of such management, but there is great criticism concerning the stress staff has to deal with.

## **5. Conclusions**

In conclusion Kaizen Costing is the ideal management system to reduce costs. Through the application of this management style in managerial accounting, entities with limited resources could significantly mitigate the negative impact of current economic and financial crisis. As Masaaki Imai shows, “*Restructuring or reinventing your company can be destructive, expensive and often inoperable. Applying Kaizen in gemba (job, where the action occurs), significant improvement is achieved with low costs in core business processes - production and services - and can be obtained, as never before, major leaps in customer satisfaction, in quality, productivity and profitability.*”

For those who want to learn and apply this management system, I mention the following advantages: implementation costs are reduced, as Kaizen makes better use of existing resources and does not require large investments in improving technology, staff training costs are lower than for other methods, in Romania there are consulting firms in the field, entities that have implemented Kaizen have achieved remarkable results in labor productivity, in cost reduction and competitiveness increase.

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<sup>39</sup> Nadia Albu, Cătălin Albu, *Instrumente de management al performanței*, Vol I, Editura Economică, București, 2003, p.246.

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8. \*\*\*                      [http://www.contabilizat.ro/file/cursuri\\_de\\_perfectionare](http://www.contabilizat.ro/file/cursuri_de_perfectionare)