

Workers, Managers, Productivity Kaizen in Developing Countries

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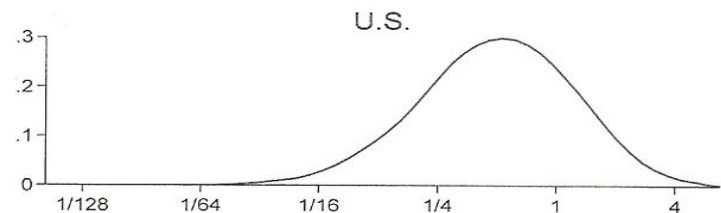
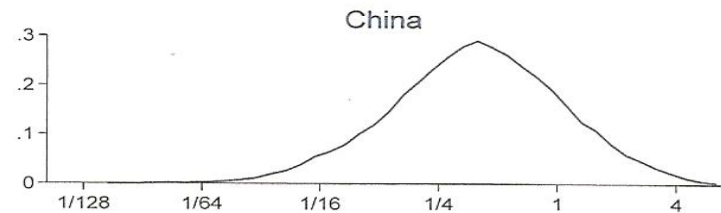
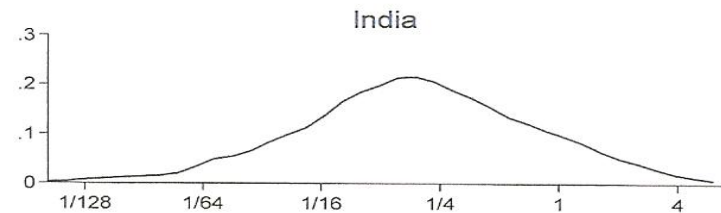
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Productivity, Quality and Competitiveness

- Productivity and quality are critical to success in international markets.
 - In particular, to entering global value chains.
- We still do not fully understand how to improve productivity and quality in developing countries.
- Kaizen is a widely adopted practice developed in Japan to improve productivity and quality.
 - Empirical studies analyzing its effectiveness—especially in low-income Africa and South East Asia—are limited.
- This book addresses that knowledge gap.
 - In short, we ask can Kaizen make lower-income countries more globally competitive?

Why Productivity Matters

- Some “new” stylized facts about firms:
 - TFP levels vary more across firms in the same industry in poor countries than in high income countries.
 - In many poorer countries there is a long left-hand tail in the TFP distribution.
 - Average TFP levels among firms in the same industry are lower in poor countries than in high income countries.
- If we could raise productivity in developing country firms we could close the income gap.
- Training interventions – like Kaizen -- are a form of industrial policy designed to shift the distribution to the right.



Defining Kaizen

- *Kaizen is an inclusive and participatory approach to the continuous improvement of quality and productivity.*
 - It involves the whole firm including a high level of worker participation.
 - It is based on a distinctive philosophy – an inclusive and participatory approach.
 - It encourages teamwork, communication, and learning.
- *During half a century of development in Japan, Kaizen has developed distinctive tools and methods*
 - Quality control circles and just-in-time inventory management are Kaizen tools and methods.
 - So too is the “Toyota Production System.”

Defining Kaizen

- Kaizen operates in two dimensions
 - Productivity
 - Quality
- Productivity is a “cost shifter”
 - Elimination of *Muda* (waste), *Muri* (overloading), and *Mura* (inconsistency)
 - Kaizen does not emphasize capital investment
 - Thus, it is a low-cost approach to raising productivity in smaller firms
- Quality is a “demand shifter”
 - Better quality raises the demand at all price levels.
 - It is essential to entering GVCs.
 - More effective quality control not only improves quality; it increases productivity.

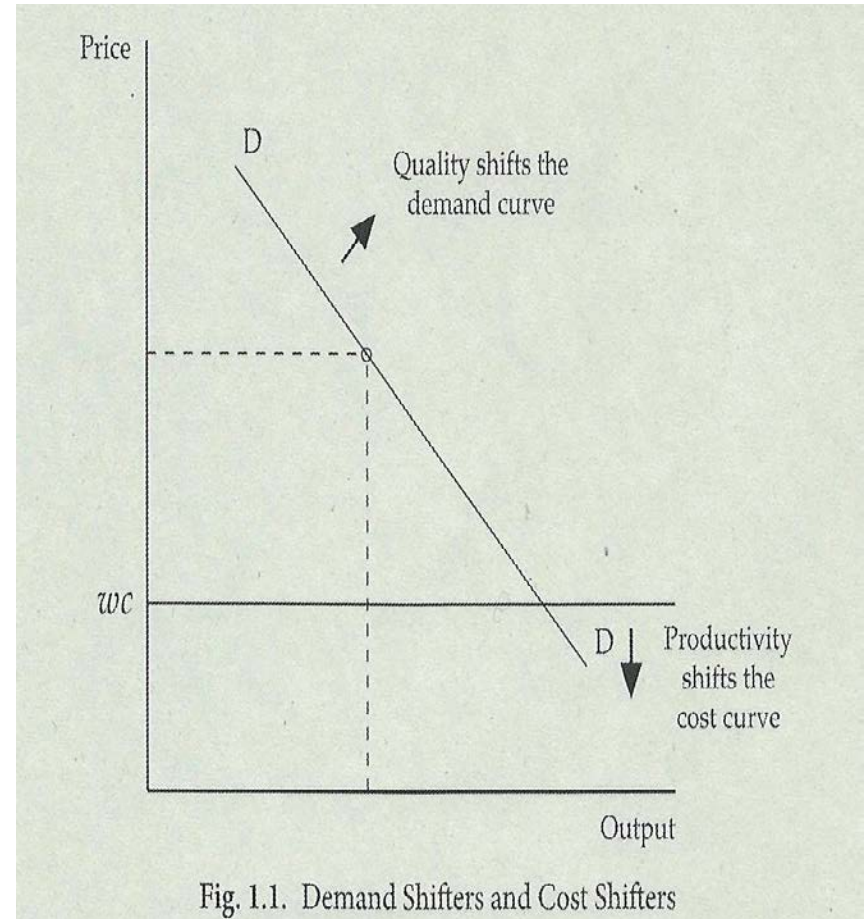


Fig. 1.1. Demand Shifters and Cost Shifters

Kaizen and Three Issues in Development

- Industrial policy, capabilities and the learning firm (Page).
- Kaizen and the learning society (Hosono).
- Kaizen and equitable growth (Shimada).

Kaizen and Capabilities

- Capabilities are the tacit knowledge and working practices needed for production and product quality
- They are linked more to people than equipment
 - Management is important but it is not the only thing that determines capabilities, the whole workforce of the firm is relevant.
- Kaizen is a promising and uniquely Japanese approach to capability building
 - It helps workers and managers to identify and resolve production and quality problems

The Learning Enterprise

- By including all members of the firm in the process of learning and problem solving, Kaizen promotes the exchange of information between workers and managers
- This helps to develop “learning organizations.”
- Some lessons from the case studies
 - In larger firms, leadership from top management is essential to keep workers and managers moving in the same direction.
 - Among MSMEs, smaller size may promote closer engagement, but worker's attitudes and discipline may limit impact.

Kaizen and the Learning Society

- Recently, new ideas have emerged on the role of learning societies in development (Stiglitz).
 - The capacity of firms and institutions to learn is a key aspect of development
- Hosono argues that Kaizen differs from other approaches to achieving better quality and productivity because of its distinctive focus on inclusive and participatory learning.
- Kaizen contributes to growth—and in particular to high-quality growth—by enhancing learning capacity in firms and institutions.
- In Ethiopia, for example, Kaizen enhanced teamwork, communication, and learning attitudes, building “core capacity.”
 - The ability to commit and engage, to identify needs and key issues, and to acquire knowledge and skills.

Kaizen and Equitable Growth

- Japan introduced Kaizen at a time when labor relations were very conflictive.
 - As a result, Kaizen was adapted to maximize long-term social return rather than short-term private return.
- Shimada argues that Kaizen was not solely a technological innovation. It is a social innovation that can contribute to achieving economic growth and equity.
 - Mainly by more equitable sharing of the gains from productivity growth.
- Because Kaizen requires the long-term commitment of both managers and workers to implement behavior change, it has the potential to improve labor-management relations.

Kaizen and Worker-Management Relations

- Our case studies of Ethiopia, Mexico, Philippines, South Africa and Vietnam give us mixed insights into how Kaizen impacts worker-management relations.
- Attitudes of managers and workers are critical to long run success.
- Japan's experience suggests that improving manager-worker relations takes a long time.
 - Vietnam, Ethiopia and South Africa show, the same pattern.

Introducing and Implementing Kaizen

- The main pathway of introducing Kaizen has been by training managers and employees and providing advice in the work place.
 - Both government and the private sector have contributed to introducing Kaizen.
- The country studies suggest that an active government role is important when:
 - Kaizen is not widely known.
 - FDI is limited.
 - Local companies do not participate in GVCs.
 - There is distrust between workers and employers regarding the distribution of benefits

Kaizen in Large Companies

- Two case studies of domestic firms attempting to upgrade in the GVC – Mexico and South Africa.
- An innovative approach to measuring productivity and Kaizen in Brazil.
- The results of these studies may disappoint Kaizen advocates.
- Small sample sizes and lack of counterfactual evidence limits what we can conclude from the Mexico and South Africa case studies.
 - Kaizen interventions were perceived by sponsoring managers and engineers as successful.
 - Firms that persisted in implementing Kaizen appear to have moved up the value chain.
- There was little evidence of improvements in productivity associated with Kaizen-like interventions in Brazil

Kaizen in Micro, Small and Medium Enterprises

- Micro, small and medium firms are the backbone of the manufacturing sector in low-income countries.
 - Evidence of impact is more persuasive with respect to micro, small and medium enterprises.
 - Kaizen improves productivity and quality in MSMEs.
- In Vietnam Kaizen training had spill-over effects to non-treated enterprises through social networks.
- Kaizen can be implemented effectively by local trainers.

Conclusions

- The country studies provide a fuller—but not a comprehensive—picture of Kaizen.
 - Kaizen has the potential to make an important contribution to efforts to raise productivity and quality in poorer economies, especially in MSMEs.
 - Case studies gave multiple examples of Kaizen’s role in promoting learning.
 - Kaizen tools are innovation inputs, enabling firms to experiment, adopt new technology and achieve innovation.
- Workers are critical to the success of Kaizen.
 - Pushes managers at all levels to listen to their suggestions
- The research underlines the need for an active state.

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