



Pannel Discussion on Kaizen and the role of public sector support in strengthening the SMEs

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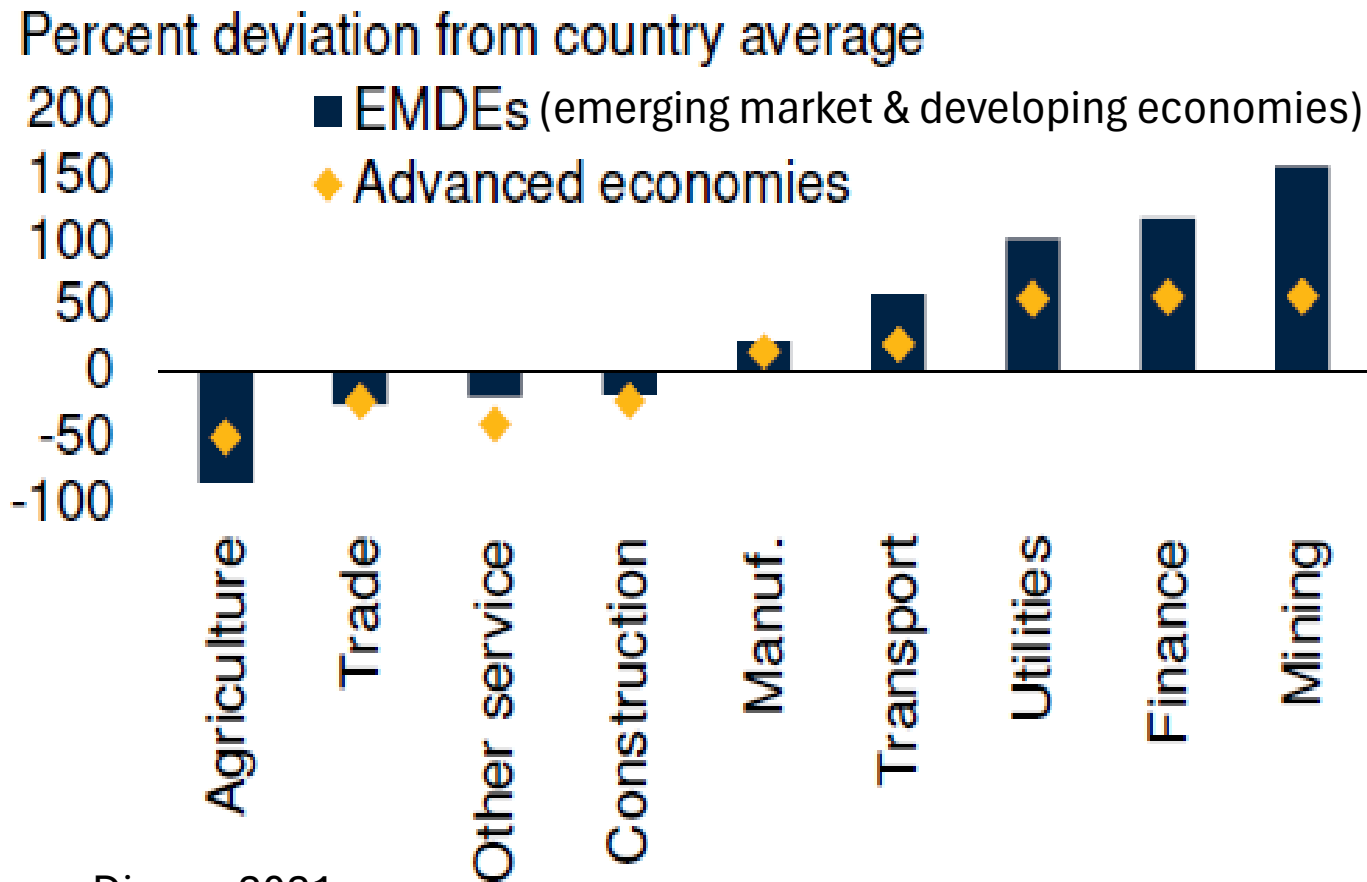
Key questions to be answered

- a) What are the key challenges that SMEs face in improving their productivity, among issues related to investment, technology, marketing, human resources, vulnerability to external factors, etc.?
- b) How can target SMEs (customers) be effectively communicated with, and what criteria should be used to select them?
- c) How can the effectiveness and efficiency of Kaizen service delivery for SMEs be improved, for example through the enhancement of technical skills, communication skills, synergies with infrastructure and funding, the promotion of mutual learning among firms, etc.?

**Background information
based on
the literature review on productivity arguments**

Productivity between Sectors

A. Productivity gap relative to cross-sector average, 2017



- Productivity of **agriculture** is lowest among the sectors.
- Productivity of **Manufacturing** is higher than trade and other service sectors.
- **Mining** is highest among others because of capital intensity.
- Productivity gaps between sectors are **larger in emerging market and developing economies** than them in advanced economies.

Productivity Growth

Aggregate physical **total factor productivity** (efficiency) growth can be decomposed into **three components or margins** (Cusolito & Maloney 2018)

- Reallocation of resources **from low-productivity firms to high-productivity firms**
- Increases in productivity **within existing firms** due to technology adoption, innovation, and better managerial skills (most important)
- **Entry** of high-productivity firms **and exit** of low productivity firms.

Key drivers of productivity growth are, (from **basic to advance / internal to external**)

- **Improvement of management system**
- **Skills development of labour**
- **Investment in physical capital**
- **Innovation in new technologies, new products and new organizational structures**
- **Competition** that creates incentive to improve productivity
- New business opportunities for **start-up and existing firms**

Quality and Productivity

- **Quality** is a **demand shifter**. **Productivity** is a **cost shifter** (Sutton 2012)
- Quality improvement brings direct benefit to customers but cost cut does not without market of **competitive pricing**. Price competition without quality improvement can be **a race to the bottom**.

Structural transformation and AfCFTA

As effects of **AfCFTA**, World Bank (2020) states three features.

- With **lower trade costs**, the competitiveness of local production will be increased.
- With **bigger market**, a share of **higher-productivity firms** will be increased.
- Faster productivity gains by taking **advantage of the economies of scale**.

MSME Productivity, Inclusive Growth and Decent Work Creation

by ILO-OECD (2022)

- While **MSMEs** are the main source of employment worldwide, they are **lagging behind larger companies in terms of labour productivity**.
- Productivity gaps by firm size have **widened over the last 10 years** in many OECD countries, possibly due to increased market concentration.

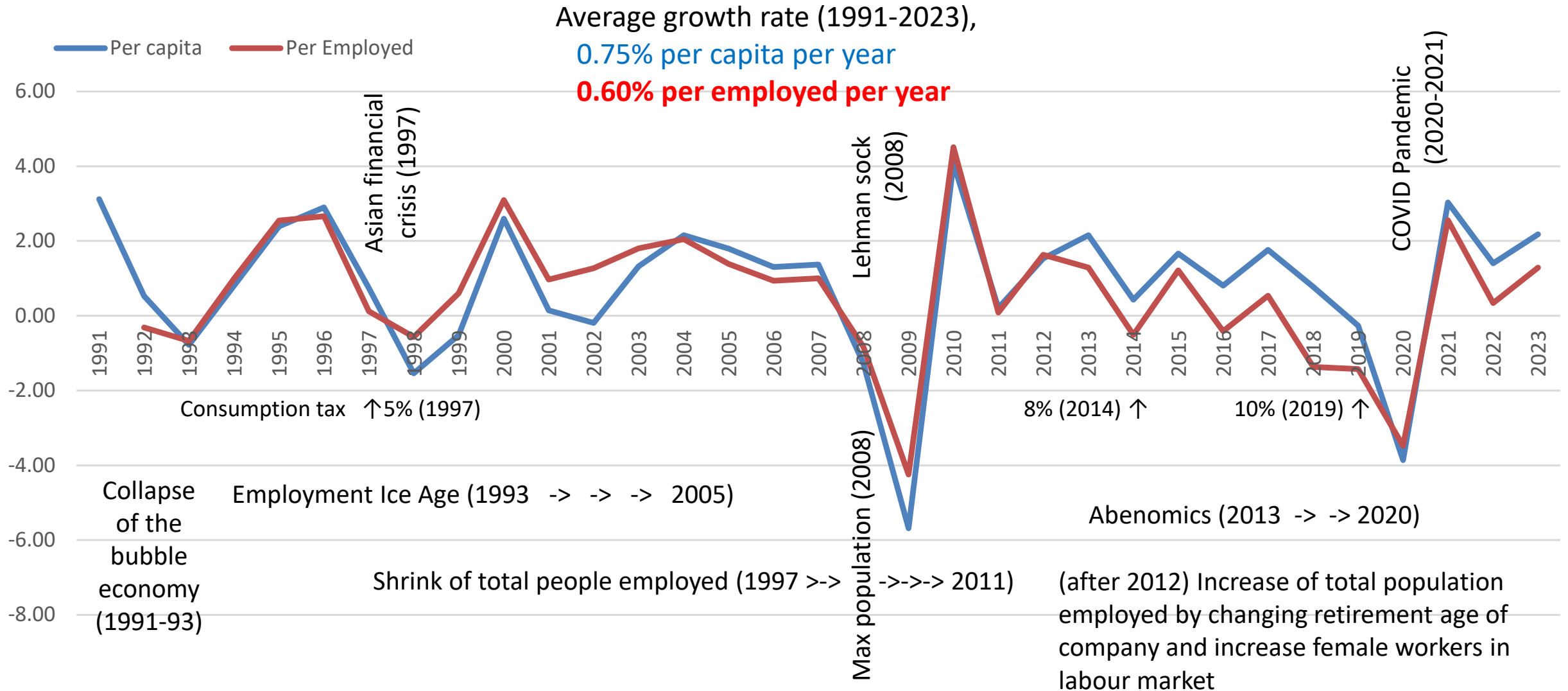
Countermeasures include;

- Introducing an **employment policy framework** that offers **adequate social protection and upskilling / reskilling opportunities** to workers in MSMEs.
- Developing **an integrated approach to workforce skills upgrading** that is tailored to industry needs and built upon consultation between employers' and workers' organisations.
- Encouraging **social dialogue with social partners** to ensure that MSME productivity policies are informed by and address the needs of employers and workers.
- Promoting **workplace-based cooperation mechanisms to ensure that workers understand and implement new productivity-enhancing practices** that trickle down into higher wages.

Productivity and Digital Technologies

- Modern, **tradable services**, such as ICT-based services, tourism, and transport and logistics, have the potential for **strong within-sector productivity change and contribute to raising productivity in other sectors** of the economy (Newfarmer et al. 2018).
- The changing **feasibility of manufacturing** subsectors can be assessed on the relative magnitude of **automation, export concentration, and services intensity**, conditional on the extent to which they are internationally traded (World Bank 2017).
- Recent development of **artificial intelligence (AI)** may further create strong impact on productivity.
- Technology is **reshaping the skills needed** for work. Job displacement and creation of new jobs through technological change are an integral part of economic progress.
- Policy and project should cover capability development of not only **Digital Consumers** but also **Digital Producers** who will create foundation for ICT4D (Heeks, 2018)

Japan's annual growth of GDP per capita and person employed (constant PPP\$) and related demographic and economic events



Japan's stagnation on Productivity

Japanese productivity is negatively affected by:

- 1) Demographic changes — **an aging population and low birth rate**, which create a population burden.
- 2) Industrial structure — the **dominance of small firms, limited entry and exit** of businesses, and a conservative decision-making system.
- 3) Post-bubble cost-cutting practices — reductions that targeted **ICT investment, human resource development (HRD)**, and **labour wages and welfare**.

Countermeasures are

- 1) Investment in **intangible asset (HR, organizational reform) and ICT software** can improve productivity in service sector,
- 2) Spending more effort on **quality improvement** and value addition instead of cost cut for productivity,
- 3) Improvement of **labour share and wage of younger generation** can stimulate purchasing power of consumer, then effective demand in market, and
- 4) More **female workers** can join in labour market that makes more people employed and economic growth.

Value and effectiveness of Government Services

- In 2023, sub-Saharan African **government expenditure** amounted to about **21.42 % of the region's GDP**, and made up around **10% of total employment** and **34% of wage employment**.
- Current government systems of bureaucracy were developed under the second industrial revolution (from 1870) when the system had less information and longer time for decision, which is based on document-based, **vertically divided**, hierarchal, **compliance-based** organization.
- To improve government performance, **the New Public Management (NPM)** incorporated the model of economic markets that emphasise on market competition, business principles, managerial autonomy, customer choice, and performance standards. However, **overall progress** on building strong and effective state institutions has **stagnated since 2000s**.
- By using digital technologies, public administrative institutions can **improve communication with citizens, their participation, and receiving feedback** from them. The institutions can also improve **speed of decision making and service delivery**.

POLICY NOTE ON PRODUCTIVITY IMPROVEMENT IN AFRICA

Kimiaki Jin , QPI (Kaizen) Project, South Africa

SUMMARY

- *Productivity* is a vital concept. At national levels, improving productivity has many benefits, including higher earnings and more efficient use of time. However, efforts to enhance productivity should not be equated to job losses or automation, but rather seen as a means for job creation.
- The contrasting experiences of Japan, as a country, and Toyota, as one of its leading companies, offer valuable insights into sustainable productivity improvement initiatives.
- At a company level, the adoption of management systems such as Kaizen or Lean, that emphasise much on people development, contributes positively to productivity improvement.
- Industrial, productivity and innovation policies, as well as micro, small and medium enterprises (MSMEs) development policies are crucial in driving national development.
- Governments play a central role in enhancing national productivity through:
 - Effective implementation of industrial and productivity policies
 - Promotion of human resource development and management training for productivity
 - Efficient and effective utilisation of public resources in service delivery

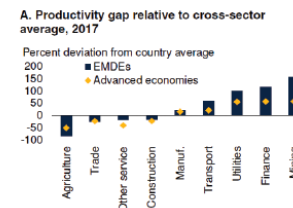
- 5) competition that incentivise improved productivity, and 6) new business opportunities for start-ups and existing firms.
2. Productivity improvement is observed under
 - 1) shift from low productivity sector to high productivity sector, 2) shift from low productivity firms to high productivity firms, and 3) productivity improvement within firms.
3. Structural transformation of production implies reallocation of labour across sectors, shifting resources from primary industry to secondary and tertiary industries through changing competitiveness of the industries combined with rural-to-urban migration.
4. By comparison, emerging markets and developing economies have the lowest levels of productivity in the agricultural sector, followed by trade, other services, construction, manufacturing, transport, utility, and finance, in that order. The highest productivity is in mining as a result of capital intensity¹ (see Figure 1). Productivity gaps between sectors are larger in emerging markets and developing economies than in advanced economies. However, the assumption that all rural labourers work full time in agriculture is an inaccurate. In reality, many rural workers spend part of their time doing other activities. Because of this, the actual amount of time spent on farming is less than what is assumed².

I. PRODUCTIVITY DRIVERS, HINDERANCES AND GAPS

I-1 Overview of Productivity Arguments

1. Productivity is determined by available technologies, or the know-how to organise and process resources into outputs, goods and services. The key drivers of productivity growth are, 1) improvement of management systems, 2) labour skills development, 3) physical capital investments, 4) innovating new technologies, products and organisational structures,

Figure 1



Source: Dieppe A. ed. 2021

¹Kimiaki Jin, Chief Advisor / QPI (Kaizen) Policy Formulation / System Development, Quality and Productivity Improvement (Kaizen) Project, jointly implemented in South Africa, by the Department of Trade, Industry and Competition (the dtic) and the Japan International Cooperation Agency (JICA).

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The views expressed in this policy note are those of the author and do not necessarily reflect those of the literature review team members, the dtic, or JICA.