

# LEAN PROGRESS

Ideas for helping your company transition to lean effective and rapidly.

LEAN LEARNING CENTER

LEAN PROGRESS  
ISSUE 1, MAY 2004

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## HAVE YOU USED THE FOUR LEAN RULES?

- ◆ Structure every activity
- ◆ Clearly connect every customer and supplier
- ◆ Simplify and specify every flow path
- ◆ Improve through experimentation

## Lean Accounting Principles

Lean accounting is a topic that has received a great deal of attention lately and for good reasons. Accounting can play a very active role in either enabling or hampering your lean efforts. Operating chiefs starting their lean journeys ask “who should I bring along during my education at your Lean Experience program?” The answer I have given for many years is “your CFO or controller.” They must learn to participate in the lean journey because their current systems often get in the way of progress. They will have a major role in redefining measurements and even the role that measurement plays in the organization.



ARE YOU GETTING THE FINANCIAL RESULTS YOU NEED FROM LEAN?

Once enlightened to the power of lean, financial executives ask the next logical question – “how does this apply to my world?” Despite claims by some that they have “the answer” and the current flurry of activity in books and seminars, I believe that as a community we are not very far along the learning curve of lean accounting. In fact, we are probably as far along the knowledge curve as we were in lean manufacturing in 1985. This means that we are far from conclusions and far from consensus. This results in several important conclusions. First, no one should accept anything as “the gospel” in this field, including this article. Second, we have a long and steep learning curve ahead of us, and those that apply ingenuity and hard work to traveling that curve will be well ahead of the competition and appropriately rewarded for their efforts.

### A Very Brief History Lesson

In 1987, Tom Johnson and Robert Kaplan wrote the groundbreaking book *Relevance Lost*. As its title efficiency points out, accounting reports and data had lost their relevance to what was actually happening and had become so ineffective as a management tool that they often lead to wrong decisions. Since that time, very little has changed. Accounting today is more automated, become increasingly complex and of course, has become subject to more frequent and more obscene manipulation. Those are not the kinds of changes that Johnson and Kaplan had envisioned. Despite the lack of progress, today’s financial executive is

surprisingly inactive in doing something about it. A survey by Ernst & Young and the Institute of Management Accountants reported that 98 percent of senior financial executives believe the cost information they receive is inaccurate, but only 20 percent have any plans to do something about it.

In a parallel path, lean has focused the manufacturing world on changing its way of thinking and working since the early 1980’s. Taiichi Ohno, a founding father of the Toyota Production System, said that “the Toyota Production System is not just a production system.” Most companies (and authors) missed that point and lean became lean manufacturing leaving most other functions in its wake. Eventually, enough

people realized that lean was about more than manufacturing and other functions from product development to sales felt the impact. On a final note before focusing on finance and accounting, that both product development and sales and marketing are even further back on the lean learning curve.

#### *Lean Accounting Guide*

Some practices and concepts do exist in lean accounting, but few are so well defined and refined that they are universally applicable and they do not provide much guidance for next steps. Instead, what I want to provide you with are a set of five guiding Lean Accounting Principles. First, these will very likely change over the next five years as we continue our journey of learning. Second, there already exist five overarching lean principles, which are:

- Directly observe work as activities, connections and flows
- Systematic problem solving
- Systematic waste elimination
- Establish high agreement of both what and how
- Create a learning organization

Lean Accounting Principles do not replace these core lean principles but instead are manifestations of those core lean principles, just as visual management and one-piece flow are manifestations in manufacturing.

#### **LEAN ACCOUNTING PRINCIPLE #1: Accounting is a process, not just a profession**

A profession is one where skill in that field is applied to produce a result. Certainly, better skilled accountants are a good thing. But a much greater determinant in the performance of your accounting department in

the process and work design itself. Just like manufacturing, accounting has inputs, outputs, and in between, the better the process flow the more efficient and effective the results will be.

Every operation is measurable on safety, quality, delivery and cost. How many accounting departments can tell you the performance metrics of each one of their processes as easily as they can for manufacturing? Even safety can be applied. While overtime is not a cost for most salaried personnel, it certainly can affect the physical and mental health of accounting professionals. This is something I see today as almost an epidemic. The overburden on accounting departments may be blamed on new reporting requirements or personnel shortages, but the real culprit is wasteful processes.

Most financial departments within companies today spend a vast amount of their resources on transactional processes. Controllers act just as plant managers do in companies that are not yet lean, running around putting out fires created by a broken process. Take the rules and principles of lean, and even some of the tools, and make these processes more effective and more efficient. Use a kaizen workshop, or just go observe work and eliminate waste yourself. If it takes four weeks to close your books, use lean to get it to four days; and if it takes four days, get it to one. Eliminate the errors with error proofing and surface problems quickly through visual management.

The point of this principle is that you can't run a process effectively by just putting good people and information technology into it. You must design the work ~ the activities, connections and flows ~ to produce the desired and required results and continuously improve from there. By starting here, you will gain both understanding and resources to help you in the other four lean accounting principles.



**“LEAN IS NOT BORN  
FROM WHAT YOU  
SEE. LEAN IS BORN  
FROM HOW WE  
THINK.”  
LEAN LEARNING  
CENTER**



**LEAN ACCOUNTING AFFECTS  
HOW GROUPS MAKE DECISIONS.**

### LEAN ACCOUNTING PRINCIPLE #2: Go beyond the numbers

This principle is linked directly to the core lean principle of *directly observe work as activities, connections and flows*. Before you jump to false conclusions, this does not mean throw the numbers away. It does mean don't use them as your primary tool for understanding your current state. Numbers are only an abstract view of reality. They are not reality itself. To seek understanding, the truest goal of accounting, we must dig deeper than the numbers.

Let me share a brief story that demonstrates how easily problems are caused by not applying this principle. One CFO was challenging his plant manager on overtime costs which were apparently running out of control. The plant manager was fighting back, claiming to need even more overtime. The CFO's numbers indicated that order sizes had increased which compounded the frustration, since we all "know" that larger batches are cheaper than one. Frustrated, the CFO went to the plant (finally) to see what was really happening. The plant manager showed him that the order size on one part had exceeded its normal percentage within the product mix. The machine had a turntable so that operators could load in parts on one side while the machine was doing work on parts on the other side. To improve flow, they would often put different tools on each side of the turntable with a flexible program so that they could get various parts out at the same time. Because the volume of this particular part had increased, there weren't enough other parts in the mix to rotate back and forth. As a result, their machining turntable sat idle while they exchanged the parts in the fixture before sending it back into the machine. Once seeing this, the problem became clear (although the solution was a bit more difficult). Instead of focusing on argument and investigation they could now focus on decision making and problem solving. The lesson: you can not see with reports what you need to see with your own eyes. Dwight Eisenhower had this lesson in

mind when he said "Farming looks mighty easy when your plow is a pencil and you're a thousand miles from the corn field."

This story is likely playing itself out in your company every day. Financial and accounting departments are still uniquely qualified to better understand the cost drivers of the business. But the numbers are not their best ally in this effort; only going beyond the numbers to what is actually happening will this knowledge be put to effective use.

### LEAN ACCOUNTING PRINCIPLE #3: Transition from cost cop to coach

The traditional role of the controller, and even the genesis of the title, is to control people's actions from spending more money than they should for the sake of the business. The fundamental assumption is that without this personal watchdog, each individual will seek to do what is best or easiest for them which might be what is wrong for the company. The fundamental relationship then becomes one based on mistrust, deception, misinformation and gaming the system. Instead of the enemy being a common enemy of waste, bad processes or poor customer service, the enemy is internal to the company; someone on the same team.

The reasons for this pattern are rooted in the past, not the reality of the present. Understanding the numbers was once a very narrowly distributed capability, and many functions within the company were not filled with educated and knowledgeable people. Almost all decision making was highly centralized, not distributed as you would see in many lean organizations. And so, accounting served very few internal customers.

Given today's desired culture and operating patterns, whether a lean company or far from it, the controller must go beyond the role of cost cop and instead become a true partner, advisor and coach to the operating managers.




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**KNOWING HOW  
MUCH IT COSTS IS  
NOT THE SAME AS  
KNOWING HOW TO  
MAKE IT BETTER.**

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**DO PEOPLE KNOW WHERE  
TO LOOK FOR THE RIGHT  
OPPORTUNITIES?**

This means taking on the following non-traditional roles:

- Designer / architect of operational, not just financial, measurement systems to be used by everyone from front-line employees to CEOs
- Design, implement and manage the process by which managers use data and measurement for daily assessment and decision making
- Coach managers on how to combine direct observation of the system with understanding of the cost drivers and how to put that understanding to effective use (see principle #2)

Operational measures are those measures that help a work group, whether a department or on the front line, that help the team manage their process. Measures are often like looking in the rearview mirror. They only tell you where you were, not where you're going. Measures instead need to be predictive. For example, if a team has developed a sound safety audit, a good score on the safety audit will reduce injuries. If my score drops, I can predict that I will have more injuries. Most teams measure simply lost-time injuries. We already know we had them, so this metric doesn't help us manage the process. The financial organization must design operational measurement systems that are predictive, actionable, owned and timely for line management.

All of this will turn the controller into an operating partner instead of an adversary. How do you begin to establish this connection? Turn financial staffs at every level into vacation replacements for line management – corporate controllers for operating VPs, plant controllers for plant managers all the way to young financial analysts for front-line supervision. Through understanding and a common language a bridge can be built across the chasm.

#### LEAN ACCOUNTING PRINCIPLE #4: The first filter is value and the customer

A popular statement of ours about a lean culture is the perspective of “the customer pays all of our salaries.” This means that the first filter you should take decisions and process design through is the lens of the customer and of value. Instead, most companies manage the customer while they make decisions based on internal filters, how it will be perceived and against short-term gains. Almost all long-term successful firms have a “customer-first” view point (even those that espouse “employee first” fundamentally assume that happy employees will do better at serving and creating happy customers).

What different actions and behaviors will this entail? It means processes and financial decisions should be made only after asking “what does the customer value and how is this decision able to help or hurt that value?”

To provide a common example in lean transformation, by streamlining processes, less inventory is required prompting a thorough review of what is actually on hand. This review will often reveal a plethora of obsolete and unnecessary inventory. Now the question – do we ditch it all and write it off or slowly try to manage it out of the system? The financial executive almost always wants to slowly siphon it off so it won't negatively impact any particular quarters' financial statement (note: this is not just the pattern in public companies but private as well). Yet the right thing to do for the process, for the customer AND for the business is to dispose of this waste immediately. It ties up floor space (\$), requires extra work and resources (\$) to manage around and no matter how careful you are, always runs the risk of getting mixed with current product (\$). Whether this is a failure to understand the negative impact or a failure to use a customer / value filter doesn't matter. The point is, we make bad decisions for the business based on the numbers and perception alone.



#### THE JOB OF A CONTROLLER IS TO COACH.



MEASUREMENTS SHOULD GIVE PEOPLE DIRECTION, NOT JUST TELL THEM THE WHERE THEY'VE BEEN.

Another example is the annual budget process. Most budget processes reflect some combination of tweaking last year's budget and other constraints or wishes, whether internal or external. Rarely does it start with a clear image and articulation of what customers' want, what they don't and challenging piece-by-piece what is not adding value for those customers. Essentially, do we build a budget and then work to meet it or do we figure out what needs to be done and build a budget around that? Only the latter will reflect the customers' needs and a lens towards continual improvement.

**LEAN ACCOUNTING PRINCIPLE #5:  
Make it accessible for your customer**

Your customer is not just the organizations on the outside that require information. Your customer is all the people inside the company that make decisions that affect, whether significantly or not, the performance of the organization. Accessible does not mean giving everyone a link and a password to the accounting database. There are two basic tenants of this principle. One is making financial reports easier to understand, more relevant, more actionable and timelier. The second is being a teacher to the organization to generate awareness and understanding of that information at EVERY level of the organization.

The basis for all financial reports is external reporting, and therefore usability for internal resources has always been a secondary concern. These reports compile and aggregate data for the outside world to have a comparable view of the company against past performance and against other companies. This compiling of raw data does not come in a form closely related to the organization's daily tasks or easily drives clear actions to be taken. What we need is a new or different way to present this data to those inside the company. The options to achieve this may range from simply renaming the current categories on the income and balance sheets into plain English to a completely different way of categorizing the

data. Either way, this information must be presented in a way that individuals at EVERY level may understand and USE it.

The extension of this principle is to become a teacher and coach to the organization to develop an effective cost understanding of the business. This starts with being a student – a student of lean, the profession, the business and the industry. The financial staff must become teachers to every level of the organization. This will help the organization avoid what we refer to as “kaizen the striping of the parking lot.” This is when the organization focuses on improvement efforts that will have little impact on the performance of the company. This will not be achieved through reports, authoritative structures, sign-offs or rules. It will only happen through the effective and constant transfer of knowledge while doing the work.

*Next Steps*

I will repeat my earlier claim – despite continued learning and experimentation for many years, we are still at the beginning stages of uncovering what true lean accounting and performance management should look like. I put these ideas forward to encourage everyone to push the envelope and to continue to experiment. Ideas need to be surfaced and shared with unusual freedom and openness in order to allow each individual and company to stand on the shoulders of those who took the first steps. This is not the time to close our doors and be protective. Perhaps we forget that most lean efforts got started or encouraged through other companies opening their doors and sharing what they learned, including Toyota themselves.

If you'd like to learn more through reading and study, there are some books available at various levels of depth and quality. All of these books are fairly simple which is both good and bad; while lean accounting strives for simplicity, the conversion from traditional to lean accounting is very complex and chal-



**PEOPLE CAN NOT  
MAKE EFFECTIVE  
DECISIONS IF THEY  
DON'T UNDERSTAND  
THE  
CONSEQUENCES OF  
THOSE DECISIONS.**



**DON'T GET STUCK IN THE  
CONFERENCE ROOM. TAK-  
ING ACTION IS THE BEST  
METHOD TO LEARN.**



lenging. The effort I most enjoy is called *Real Numbers* written by Jean Cunningham and Orest Fiume. There are two reasons I recommend this book. First, the authors are both financial executives in their respective companies and both companies are at some more-advanced stage of their lean journeys. The second reason is that it paints a much broader picture or vision about what lean accounting should be and do for the company across multiple dimensions. It explores topics from delivery of plain-English financial reports to managing the budget process. Two other books worth reading are *Who's Counting?* by Jerrold Solomon and *Practical Lean Accounting* by Brian Maskell and Bruce Baggaley. *Who's Counting?* is a business novel about lean transformation through the CFO's eyes. *Practical Lean Accounting* is more focused on the how-to of lean accounting through a value stream perspective. Other books are available that focus often more on tools such as *Target Costing and Value Engineering* by Robin Coope and Regine Slagmulder.

So remember the five Lean Accounting Principles:

1. Accounting is a process, not just a profession
2. Go beyond the numbers
3. Transition from cost cop to coach
4. The first filter is value and the customer
5. Make it accessible for your customer

And put together an action plan (don't study too much) and get started. Progress will generate more learning and understanding allowing you to take your second steps more successfully. The journey will not be done in a year, but it will take even longer if you don't start taking action now.

*Jamie Flinchbaugh, Partner, Lean Learning Center*

## 2004 Lean Learning Center Program Schedule

The Lean Learning Center's core curriculum has continued to develop leaders and learners for lean transformation. These programs have continued to be refined to incorporate not only feedback but the latest ideas and most successful refinements of the key lessons. The Lean Experience, the 5-day deep immersion into lean rules and principles, has been sold out in March and May and is already sold out in August. We have added dates so that people can have access to this powerful learning process. New Lean Experience programs are available July 19th, September 20th, October 18th and December 6th.

The Lean Leadership program is a 2-day process of uncovering the roles, principles, skills and challenges that a leader will face in leading a lean transformation. Programs start September 13th and November 15th.

The Lean Kaizen Boot Camp will teach you how to facilitate this powerful lean improvement tool. You will learn by participating and even helping to lead a real kaizen at a local manufacturer. The next program starts September 27th.

The Lean Value Stream program will teach you how to put this tool to use in your own organization to chart a course for improvement. This two-day program starts November 17th.

Remember—the journey of understanding and learning lean never ends.



**“ANYONE WHO  
STOPS LEARNING IS  
OLD, WHETHER AT  
TWENTY OR  
EIGHTY.”  
HENRY FORD**



**VISIT US AT OUR WORLD-  
CLASS LEARNING FACILITY  
IN NOVI, MICHIGAN.**

## Participate in Research on Lean

Lean Learning Center co-founder and partner Dennis Pawley has been helping the undergraduate and graduate students of Oakland University learn about lean. As part of that effort, a research effort has been started to learn more about what makes lean effective. The purpose of this project is to assess how companies have implemented lean and identify successful variables for lean transformation. To participate in the research project, you will need about 15 minutes to fill out the survey which can be found here:

[www.oakland.edu/lean/](http://www.oakland.edu/lean/)

Results will be shared with participating companies.

The Pawley Institute at Oakland University will share concepts and practices of "lean manufacturing" with university departments to create leaders and learners in the university and the corporate world. The Institute will meld together technology, business and human resources to teach lean manufacturing. The lean learning concept incorporates tools, techniques and management philosophies to streamline processes and eliminate waste.

Established by Dennis Pawley, OU Board of Trustee member and alumni, in 2002 with a \$1 million contribution, the Pawley Institute will benefit the automotive industry and Oakland students. As former executive vice president of manufacturing with Chrysler Corporation, Pawley developed the Chrysler Operating System in the early 1990s to restore productivity and streamline procedures.

## Lean Learning Laboratory

Lean Learning Laboratory (L3) methodology creates an environment designed to provide a framework for companies to learn, experiment with, and apply the rules, principles and tools of lean within a shop floor environment.

"The L3 concept is based on our experience that the application of lean within an organization can be accomplished faster and at less risk in a small group focused team," says Lean Learning Center Partner Jamie Flinchbaugh. "It can then serve as a catalyst for broader application throughout a plant or company."

Implementing L3 involves a combination of orientation meetings, on-site training, and post-training application and reflection. Training is modular and applicable to both production and administrative applications. Content includes Measurement Scoreboards, Seven Wastes, Five S's, Standardized Work Instructions, Product Process Mapping, Problem Solving, Visual Management, Set-up Reduction and Pull Systems.

Module training is provided by a Lean Learning Center staff coach, who comes on-site to conduct a series of 4-8 hour sessions, typically held 3-6 weeks apart. Following module training, L3 lab team members are given the opportunity to reflect upon its application. Further training is then provided by company management and, following that, team members begin applying what they've learned in their respective work areas. Subsequent phases include ongoing performance and assessment meetings as well as periodic progress reviews by management and L3lab team members.

"The Lean Learning Laboratory can be highly effective in an organization's overall lean strategy," said Lean Learning Center Partner Andy Carlino. "I have been directly involved in the implementation of many L3s in a variety of industries and have yet to find any other mechanism as effective or efficient at the institutionalization of lean in a part of the business."

To learn more, contact the Lean Learning Center.



**“LEADERSHIP AND  
LEARNING ARE  
INDISPENSABLE TO  
EACH OTHER.”**

**JOHN F. KENNEDY**



**LEARN BY DOING IN A LEAN  
LEARNING LABORATORY**

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[www.leanlearningcenter.com](http://www.leanlearningcenter.com)**

The Lean Learning Center was founded in 2001 by manufacturing and consulting industry veterans Andy Carlino, Jamie Flinchbaugh and Dennis Pawley to address the gaps and barriers that are holding back companies from successful lean transformation. In addition to the advanced curriculum, the Center has developed a learning environment designed specifically for adult learning, utilizing techniques that include discovery simulations, case studies, personal planning and journaling. Together, with affiliate Achievement Dynamics, founded by Andy Carlino in 1991, the companies offer a complete array of lean transformation services.

### Lean Links

There are many resources for learning more about lean on the internet. Here we will provide just a few. Of course, you can find out more about lean by reading the many articles at [www.leanlearningcenter.com](http://www.leanlearningcenter.com)

NWLEAN is perhaps the only true portal on lean. It includes free downloads, a message board / listserv and links to many organizations. Find out more at [www.nwlean.net](http://www.nwlean.net).

The Society of Manufacturing Engineers is a non-profit organization with a long history of helping those in

manufacturing. Their contributions to lean include online message boards, books, videos and other learning tools. Visit [www.sme.org](http://www.sme.org).

The Association for Manufacturing Excellence is a non-profit member-based organization that focuses on helping manufacturing organizations improve. Visit [www.ame.org](http://www.ame.org).

The Pawley Institute at Oakland University was founded by Lean Learning Center co-founder and partner Dennis Pawley. To learn more, visit <http://www2.oakland.edu/oakland/ouportal/index.asp?site=12>.

Share with us your favorite links.

