



# Lean Accounting Summit

## The State of Lean & The Challenge of Lean Accounting

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# My Metrics & Accounting Education

Clark Avenue Cadillac Plant – circa 1980

- Three clear physical metrics:
  - ✓ Up time for the assembly line (yield).
  - ✓ Defects, on sales organization audit (quality).
  - ✓ Ship to sales dept. promise date (delivery)
- One clear financial indicator:
  - ✓ Net margin (transfer price minus costs).

Clark Avenue was an outstanding plant!





# My Metrics & Accounting Education

- What I looked at instead:
  - ✓ The work to be done – value or muda?
  - ✓ The unevenness and haste – mura and muri.
- Specifically:
  - ✓ Assemblers were looking for parts, tools, and help.
  - ✓ Yield was the most important performance metric but the line kept stopping.
  - ✓ Everyone was scrambling to catch up.
  - ✓ The rework area had as many employees as the assembly area.

Clark Avenue was a catastrophe waiting to happen!





## My Conclusion

- Metrics & financial indicators are important – the managers & team members at Clark Avenue were working hard to meet their goals.
- The wrong metrics & financial indicators can make managers & team members do the wrong thing.
- The right metrics & financial indicators can help managers & team members do the right thing.
- But only...if they can see what the right thing is.
- Hence, my obsession with teaching everyone to see and do the right, lean thing.





# What's The Right, Lean Thing?

- Value
- Value Stream
- Flow
- Pull
- Perfection





# What's the Right, Lean Thing?

A Reduced Form Equation:

Lean = Purpose + Process + People

Purpose = solving customer problem while provider prospers.

Process = 3 primary value streams and many support processes, some involving customers.

People = engaging everyone touching every value stream to operate and improve it steadily (kaizen) and dramatically (kaikaku).





# What's a Lean Process?

A series of steps/actions taken correctly in the right sequence at the right time along a product value stream in which:

- Value is correctly specified from the standpoint of the customer.





# What's a Lean Process?

Every step in the value stream is:

- Valuable
- Capable
- Available
- Adequate
- Flexible

And the steps are linked by:

- Flow
- Pull
- Leveling





# What Are the Key Processes?

## Primary:

- Customer to concept to launch (design)
- Order to delivery (make/provide)
- Delivery to recycling, through life cycle (use)

## Secondary (support):

- Hiring.
- Training.
- Identifying suppliers.
- Developing suppliers.
- Accounting!
- Problem solving (where metrics can be useful)!
- Etc.







## What Do We Need Now?

- Good financial indicators – but for decision making about opportunities to pursue, not for operations management.
- Good physical metrics – to help everyone solve problems.
- This is the work of the lean accounting and lean metrics movement.
- Define the problem, create hypotheses for better metrics and run experiments, reflect on the results, adjust indicators and measures.
- Do PDCA again and again and...
- Tell everyone what you've found that works (and doesn't) at events like this!





## Where Does Lean Stand?

The lean movement has a strong tail wind:

- Toyota marches from victory to victory.
- Easier approaches to improvement have largely failed.

Remember that managers will try anything easy that doesn't work before they will try anything hard that does work!

Or, as Taiichi Ohno noted about the Toyota Production System, people only try it when they are desperate.

- Lean knowledge is steadily spreading across industries and across the world.





# Why Aren't We Going Faster?

The mass production system was a bundle of interlocking methods:

- Product development system.
- Production system.
- Supplier management system.
- Customer management system.
- Enterprise management system grounded in managerial accounting and control.

Each had an accompanying academic discipline: Mechanical/electronics engineering, industrial and manufacturing engineering, purchasing, marketing & sales, general management.





## Why Aren't We Going Faster?

- Every element of the system has to be reworked in accord with lean principles.
- This requires a lot of kaikaku and kaizen!
- Many assets are at risk and all of us naturally defend our own assets.
- We started with the easiest process – production within factories – because it's the easiest to see and the least defended by the professions.
- We've actually made a lot of progress in winning the war of ideas in the factory – hardly anyone managing production wants to argue with lean as an intellectual proposition.







# What Do We Need to Do Now?

Apply lean thinking to the other elements of the enterprise:

- Product development.
- Purchasing.
- Customer management.
- Policy deployment.

And...to:

- Education systems that make employees muda heads before they ever arrive!

(Note to the Lean Accounting Community: Please interact with Lean Education Academic Network!)





## What Do We Need to Do Now?

Transform management accounting, as an enabler:

- Take a value stream approach.
- Examine the whole & each step in every process.
- Determine real need for metrics & measures.
- Eliminate reports/measures that create no value.
- Map the value stream for reports/measures that do create value.
- Remove the waste from each value stream while introducing capability, availability, flow, pull, etc.
- Observe how much your accountants learn about lean thinking as they do this!





# What Do We Do Next?

Start thinking about the entire value stream, running across departments and firms to the end customer:

- How do we create end-to-end (b to b to c) metrics and financial indicators so we can see the whole?





# Finally...Just for Fun

Because you are interested in accounting:

- How about looking at our national accounts?
- We measure Gross National Product and celebrate its growth.
- Everything that consumes resources and is sold is recorded as product!:
  - ✓ Help lines (the "failure industry")
  - ✓ Recalls
  - ✓ Warehousing for needless inventory
  - ✓ Waiting rooms to warehouse people
  - ✓ Unnecessary transport
  - ✓ All seven of Ohno's wastes!





## Just for Fun

Why not create a different set of accounts?

Gross National Value (maybe 10%?!)

+

Gross National Waste (maybe 90%?!)

=

Gross National Product

Then we will be in a position – with proper, lean national accounts -- to see the magnitude of the problem and the size of the opportunity and.... to spur efforts to maximize value while minimizing waste!

