Introduction to Lean Accounting

Presented by: Nick Katko, BMA
Agenda: Introduction to Lean Accounting

- Lean Accounting Strategy
- Economics of Lean
- Practicing Lean in Accounting
- Lean Management Accounting
- Benefits of Lean Accounting
- Wrap Up & Questions
Lean Accounting Strategy
## Lean Accounting

### Lean Thinking
- Applied to accounting & finance processes and systems

### Value
- Deep understand of value to accounting’s customers

### Flow
- Value to all customers

### Pull
- Respond to customer pull
Service Excellence

Lean accounting

- Flow Value
- System Thinking
- Learning
- Deep understanding of relationships
Lean Accounting Practice Areas

Practicing Lean in Accounting
- improve accounting processes, create capacity, deliver value

Continuous Improvement
- business processes accounting is part of
  - integrate with operational improvement

Management Accounting
- deliver relevant and reliable information to users to improve decision making
## Lean Thinking in Accounting

<table>
<thead>
<tr>
<th>Customer-facing processes</th>
<th>• improve to deliver value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting processes</td>
<td>• eliminate waste, create capacity</td>
</tr>
<tr>
<td>Business processes</td>
<td>• participate in &amp; contribute to cross-functional kaizen events</td>
</tr>
<tr>
<td>Financial coaching</td>
<td>• integrate analytical skills into business processes</td>
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Economics of Lean
Lean is a People-Centric Learning Strategy

- Master work by Learning
- Find right problems
- Organization doing things tomorrow it can't do today
- Ability to analyze changing contexts
- Capabilities to solve problems
Lean Strategy: Financial Benefits are *not direct nor immediate*

Commitment to Lean Strategy

Sustainable Financial Success

Study, Learn & Solve Problems

Create economic value

Sustained improvements create capacity

Sustained improvements create capacity

Create economic value

Sustainable Financial Success

Study, Learn & Solve Problems

Commitment to Lean Strategy

*leanthink*

*The Lean Accounting Leaders*

*BMA*
Rate of Flow = Rate of Profitability

Low Cost Producer

Rate of Profitability

Long term, profitable growth
The Economics of Lean: Creating Economic Value

Demand
- Deliver value - create competitive advantage
- Revenue growth

Supply of Resources
- Continuous Improvement
- Cost reduction
- Increase margin
- Increase capacity
- Increase cash
Example of the Economics of Lean

• Your Value Stream currently sells 1000 units per month at a price of $200

<table>
<thead>
<tr>
<th>Revenue</th>
<th>$200,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materials</td>
<td>$120,000</td>
</tr>
<tr>
<td>Production</td>
<td>$60,000</td>
</tr>
<tr>
<td>Profit</td>
<td>$20,000 (10%)</td>
</tr>
</tbody>
</table>

• Using Lean you free up 20% more capacity & increase sales to 1200 units per month.

• What is the cost of the additional 200 units?

<table>
<thead>
<tr>
<th>Revenue</th>
<th>$240,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materials</td>
<td>$144,000</td>
</tr>
<tr>
<td>Production</td>
<td>$60,000</td>
</tr>
<tr>
<td>Profit</td>
<td>$36,000 (15%)</td>
</tr>
</tbody>
</table>

Revenue increases 20%
Profits & Cash increases 80%
Practicing Lean in Accounting
Lean Accounting Improvement Matrix

Customer perspective

Value Add

Cross-functional improvement

Create flow & improve quality, delivery, lead time

Non-Value Add

Eliminate the waste

Necessary

Unnecessary

Business perspective
Lean Accounting Improvement Matrix

Customer perspective

Value Add

• Procure to Pay
• Order to Cash

Non-Value Add

• Payables
• Receivables
• Month-end
• Budgeting

Muda

Muri

Mura

Business perspective

Necessary

Unnecessary
Improving Quality: Principles of Jidoka

- Detect Abnormality at Input
- Immediately Stop & Fix
- Shortest Feedback Loop Possible
- Self-monitoring

Quality at Source
Create and Manage Flow

The Flow time through any process is determined by the queue of work in the process.

The larger the queue, the longer the Flow time.

Manage the queue by limiting the work in the process.
Daily Lean Management Practices

- **Visual Board:** demand, status, defects
- **Daily Process Team Huddle**
- **Short-term Immediate Fixes**
- **Root Cause Analysis**
- **Long term problem solving**
Lean Management Accounting
Management Accounting System Waste

<table>
<thead>
<tr>
<th>Waste Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defects</td>
<td>Information not aligned with Lean &amp; often incorrect</td>
</tr>
<tr>
<td>Over-production</td>
<td>Unnecessary work steps</td>
</tr>
<tr>
<td>Waiting</td>
<td>Long feedback loops</td>
</tr>
<tr>
<td>Neglect of Talent</td>
<td>Not striving to improve to create value</td>
</tr>
<tr>
<td>Transportation</td>
<td>Movement of information</td>
</tr>
<tr>
<td>Inventory</td>
<td>Standard, rate or allocation setting processes</td>
</tr>
<tr>
<td>Motion</td>
<td>Meetings</td>
</tr>
<tr>
<td>Excess processing</td>
<td>Maintenance of systems</td>
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Lean Management Accounting System

Quality Decision Making

Relevance
- Timely information for predictive value

Reliability
- Verifiable and valid information

Standardized Work
- Plan – Do – Check -- Act
Lean Management Accounting Principles

Value
- relevant & reliable information to meet customers’ needs

Flow & Pull
- right information at the right place to the right people at the right time

Quality
- improve analysis & decision-making

Improvement
- continually improve system to better align with lean strategy
Deep understanding of relationships

Operating Performance

Financial Performance

Capacity Performance
Benefits of Lean Accounting
“Traditional” Accounting

Current state

Financial reporting

Isolated experts

Fix the numbers

Linear cause & effect
Traditional Financial Improvement

- Short-term financial improvement but not sustainable
- Finance driven & top-down; people not engaged
- Short-term projects with direct financial return
- Tighter controls, more audits & reviews

Plan - Do - Check - Act
Lean Accounting

- Flow Value
- Deep understanding of relationships
- System Thinking
- Learning
Lean Financial Improvement

- Improved standardized work in operations
- Relevant & reliable lean-focused measures
- Cross-functional continuous improvement
- Identify operational root causes of financial issues

PLAN

DO

CHECK

ACT
Lean Accounting Transformation Process

- **Create awareness**
  - training & education

- **Build desire**
  - current state & future state

- **Demonstrate**
  - conduct pilots

- **Sustain system**
  - standardized work, coaching, improvement
## Getting Started: Apply Lean Thinking

<table>
<thead>
<tr>
<th>Practice area?</th>
<th>- Lean in accounting or Lean management accounting</th>
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</thead>
<tbody>
<tr>
<td>Customer value</td>
<td>- what do you (internal) customers want?</td>
</tr>
<tr>
<td>A-3</td>
<td>- identify problems/issues and prioritize</td>
</tr>
<tr>
<td>Assessment</td>
<td>- BMA assessment forms</td>
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Wrap Up

Numbers drive thinking

Thinking drives behavior

Behavior drives decisions

Decisions drive the numbers
Learning Opportunities

www.maskell.com

- join mailing list for event announcements
- blogs, videos, recorded webinars
- free assessments

Lean Accounting Community Chat

Tuesdays 11:00 am Eastern time

Free, but please register:

https://www.eventbrite.com/e/101062201766

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