



DEFINING A NEW ROLE FOR ACCOUNTING IN SUPPORTING YOUR LEAN TRANSFORMATION

In too many organizations, accounting teeters on the brink of irrelevancy.

Accounting departments produce information that arrives late and is often misleading. Few managers fully understand the columns of numbers and variances presented in these reports. Instead, they have learned to accept that most accounting is impenetrable. Lack of clarity, however, creates an atmosphere of distrust. That same distrust further isolates the accountant, who has become marginalized, operating behind a veil of mystery.

Is it any wonder we don't trust our financial executives? Beyond the fact that a few major corporations have used accounting's veil of complication to defraud their investors, we know that it is difficult to trust what we cannot understand.

Back in 1987, Thomas Johnson and Robert Kaplan wrote in *Relevance Lost*, "Corporate management accounting systems are inadequate for today's environment." Things have not improved substantially since then. The business world has only increased the speed and pressure.

With this in mind, consider the unlucky accountants; they studied the numbers and theories, spent money on schools to learn an honorable profession, only to be viewed as hapless bean counters—dull individuals chasing debits and credits with no better knowledge of the larger business than any other employee. They chase transactions; have heart attacks over stray invoices. This is not why they went to college.

The ingrained habits of most businesses have even reinforced the situation. The chief financial officer who tries to embrace change, using technology to handle the more mundane jobs and freeing himself to become a better business partner and advisor, often encounters resistance. Financial executives are frustrated. And their businesses are not getting what they need.

In the meantime, improvement programs have offered businesses new paths. Over the past two decades, the lean movement in manufacturing—emphasizing waste elimination and one-piece flow in all processes—has illustrated the potential for significant positive change. Lean, just-in-time or continuous improvement—all variations on the same idea—has been credited with the enormous leap in productivity that fueled the economic boom of the 1990s. Accounting, however, has largely been left in the cold. Worse yet, accounting has become a road-block to further improvement in many cases.



There have been new ideas, new theories, to come along in accounting such as Activity-Based Costing. But ABC only added complexity to the accounting function, creating new tasks and reports instead of simplifying the process. Even now, MBA programs are filled with hopeful students who are there to “try and understand the numbers.” For us, the idea that financial reports require an advanced degree to comprehend is a clear sign that change is needed.

The problem with ideas like ABC is one of narrow vision: they are based on old accounting concepts and a greater sense of the limits of accounting than real creative thought. We believe that the natural evolution of the lean movement is toward stream-lining and simplicity, and that accounting systems can and should become simple and even elegant.

Drawing from the lean initiatives, we will offer methods to bring clarity to accounting, a simplicity that will help account-ants move from chasing transaction to becoming true analysts and valued business partners.

Lean concepts apply to the entire organization and should be integral to accounting. In fact, we believe that accountants must become a fundamental part of the team-based improvement efforts at the core of a lean transformation. When accountants are excluded from team-based improvements, they become barriers to change because they cannot approve what they do not understand. If accountants are not involved in change, they remain mired in the old culture, along with batch processing and standard cost accounting. Once involved, however, they use their skills to help accelerate change throughout the organization.

The above is an excerpt from the book, *Real Numbers: Management Accounting in a Lean Organization*, written by Orest Fiume, retired vice president of finance and administration and director of The Wiremold Company and Jean Cunningham, founder of Jean Cunningham Consulting and former chief financial officer of Lantech. The book was published in 2003 by Managing Times Press and in 2004; Real Numbers was awarded the Shingo Prize, an honor which Business Week had described as the “Nobel Prize of Manufacturing.”

To get a copy of this book or attend the TBM Lean Management Accounting workshop taught by both authors, [click here](#).