LEAN COUNTING

Jim Womack, Senior Advisor, Lean Enterprise Institute
Who Am I?

• NOT an accountant or an expert on lean accounting!

• Superannuated Chair of the Lean Enterprise Institute and the Lean Global Network.

• Now just a Senior Advisor to LEI & LGN (speaking for myself, but working full time!)

• A frequent gemba walker (permitting me to be an author & persuader.)
Who Are You?

• Accountants?
• CEOs? CFOs? (CFOs become CEOs?)
• Treasurers/controllers/”finance people”?
• Business analysts/strategists/planners?
• Improvement team leaders or members?
• Experts on lean accounting?
Counting

• Why do we do it? (What’s the value?)
• What are the issues we are trying to understand by counting?
• What are the problems we are trying to solve by counting?
• What are the alternative means for managers to solve problems besides resort to detailed counting & accounting?
Four Counting Issues

• Gross Domestic Product & GDP Per Capita
• Value Added
• Total Cost of Ownership (TCO)
• Performance of an organization
Counting GDP

• Growing GDP is always said to be good and society counts it carefully.

• But what is “product”?  

• A combination of value and waste.

• So why do we think growing waste is good?

• Because we assume that GDP is all value and fail to see the waste.
Counting GDP

• What we need is to separate value from waste in our counting to help us all see.

• Can anyone – and why not accountants?! -- take the lead in calculating Gross Domestic Value and Gross Domestic Waste rather than GDP, so we can learn to maximize the value and minimize the waste?
Counting Value Added

• Managers count the “value added” by an organization.

• “Value added” is the cost of inputs from outside the organization subtracted from the selling price of an organization’s products.
Counting Value

• But much of the “value” being added is actually waste: Rework, excess handling, excess processing, inventories (to be picked up, put down, and stored), etc.

• We want to increase value and minimize waste, so what can managers and finance people do to count value and waste separately and more usefully?
Counting Value

• For a start, perhaps we can all start talking about “value created” -- the useful activities in organizations from the standpoint of their customers -- instead of “value added” -- which is the cost (including waste) plus margin added by the producer.
Counting Total Costs

• Suddenly everyone wants to count the total cost of ownership (TCO). (Harry Moser will lead a breakout to explain how.)

• This is the cost of obtaining supplies from around the world for incorporation in your products. (These supplies are the inputs that aren’t part of your “value added”.)

• What’s been missing is connectivity costs beyond factory gate prices & slow boats.
Counting Total Costs

• Counting TCO is good. It will make the world a better place. (And we’ve devoted considerable attention to total costs in the Second Edition of *Seeing the Whole*, available in October.)

• But there is a problem: TCO calculations only contain real numbers on the past. And the most important costs are often due to wage increases, currency shifts, and geo-political risks in the future.
Counting Total Costs

• Is counting today’s total costs enough?
• A better approach? Learn to see extended value streams together (crossing many companies) & configure them jointly to minimize cost/risk over the long term.
• The tool of choice is extended value stream mapping to envision the best future state configuration. But this can only work for firms creating value partnerships for extended periods of collaboration.
Counting Performance

• This is the most critical issue in counting.
• The fundamental problem is that all (ac)counting systems count results. (What else can they count?)
• So they are about the past & causes of performance are often indeterminate.
• Even worse, results are used to reward performance without regard to causes.
Counting Performance

• What managers need and want is a way to think about the future so a business can be managed and improved.

• This can only be done by creating, sustaining & improving better processes that engage the people actually creating value.

• “If the process is right, the results will be right.”
Counting Performance

• What type of counting can help managers envision and implement better processes that create more value and less waste?

✓ Physical measures of the current state to spur improvement?

✓ Changes in these physical measures in the future state – determined in the C step in PDCA – to confirm improvement?
A Radical Thought

• In most businesses, do managers contemplating improvement need to count at all?

• A gemba walk through an end-to-end value creating process is often sufficient to grasp the situation, identify the problem and the opportunities, and envision a better future state.
A Radical Thought

• Because no customer thinks there is value for them in counting, “lean counting” should mean:

✓ The least possible counting – mostly of physical measures.

✓ Summarizing the current state of value creating processes and measuring improvements in the future state due to specific changes in the process.
Not to Fear!

• The world will always want a lot of counting and accounting for reasons quite aside from improving organizational performance.

• There will be plenty of incidental work for accountants.
Counting in the Future

• Challenge for lean accounting movement:
  ✓ Work backwards from what managers need to know to steadily improve performance.
  ✓ Provide exactly what they need to know exactly when they need to know it.
  ✓ Remove all counting and accounting that get in the way.