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How Lean Transformations Affect Your Information Needs and What to Do: a Q & A with Jean Cunningham

Jean Cunningham learned lean thinking as the chief financial officer and vice president of company services at Lantech, whose lean transformation was described in [Lean Thinking](#) and Marshfield Door Systems, Inc.

In these posts, she pioneered the diffusion of lean principles from the manufacturing floor to back office functions, including finance, information systems, human resources, and telecommunications. She described these applications as co-author of two Shingo Research Prize winning books, [Real Numbers: Management Accounting in a Lean Organization](#) and [Easier, Simpler, Faster](#).



In her current role as principal, Jean Cunningham Consulting, she helps companies integrate business functions with lean operations. She also is a frequent speaker and keynoter at events such as the Lean Accounting Summit in the U.S. and the European Lean IT Summit. LEI recently asked her, “What questions do you hear most often from Lean Thinkers struggling with the information needs of a lean organization?” Here is what she said:

Q. Will I need a new Enterprise Resource Planning (ERP) system when I adopt lean?

A. Doubtful. But that does not mean that you will leave your ERP alone. You will still need a way to track orders, invoice customers, receive money, and keep track of inventory and spending. But, many of the ERP elements related to manufacturing: production planning, materials procurement, labor, and machine utilization tracking will either be eliminated or dramatically simplified. In fact, if you are contemplating a new ERP system, wait until you have improved and utilized lean thinking in all your business processes before you decide on a new ERP tool.

Q. How will I know if lean is having a positive impact on my financial results?

A. This is probably the most common question during the first year after implementing lean concepts. The primary reason positive financial impact is not obvious is that normal

accounting methods for manufacturing employs standard cost accounting. Standard cost accounting treats all costs as variable, merging them all together, and, thereby, losing all the valuable details concerning how different costs are changing. Additionally, as inventory reduces from lean implementation—especially WIP and then finished goods—GAAP accounting penalizes the current period income statement, even though cash flow is positive.

To pointedly see the positive impact of lean, adopt lean accounting. Standard cost accounting fits easily with GAAP or IFRS, but you can still conform to GAAP/IFRS when using lean accounting. With lean accounting, costs are simply presented and the accounting “requirements” isolated allowing the income statement to be a more useful tool to see the outcome of your lean efforts.

Q. If I am a division of a larger company that has not adopted lean thinking, how can I explain the impact of the investment I am making with lean?

A. Rarely do all divisions of larger companies adopt lean concurrently. Issues for the early adopter include lean terminology and concepts confusing those without lean knowledge, and the financial statement based on standard cost accounting isn't very helpful (see question #2 above).

For these reasons, it is very important to ensure the newly lean division has some good baseline metrics on working capital, costs, and profitability reported without the traditional and confusing accounting “tricks.”

Second, it is very important to launch a growth plan at the same time as launching lean so the freed up capacity created by lean successes can be utilized.

Third, put a stranglehold on hiring. Engage the HR function and get help ensuring that freed up people are moved out of areas where waste has been reduced, retrained if necessary, and then moved to areas where there are openings based on attrition or growth. Corollary to this and because of lean processes and standard work procedures, it becomes apparent who is being underutilized, who needs skill development, and who cannot “make the grade” and deal appropriately with that deficit.

Q. Sometime lean sounds like a religion and that you have to be a true believer. I am much more of a nuts-and-bolts person who wants to see tangible results. Is this part of lean, too?

A. Lean is first and foremost a business strategy. It is not touchy feely. Lean is hard work. But the payoff is amazing. A lean implementation can double the capacity of the company with the same number of people. Increase market share. Eliminate debt. Improve quality 10 fold.

But no one will get these results without specific feedback on performance and expectation. It might be important to have:

- Daily or even hourly monitoring of process performance.
- Daily huddles on improvement and performance.
- Constant updating of quality standards and expectations.
- Constant focus on customer demands.
- Use of strategic deployment planning with monthly status check and adjust.
- Clear easy to understand financial performance information that both the worker and management can utilize to evaluate outcomes and make adjustments.

In my experience, lean is MORE focused on real change and outcomes than any other management strategy.

Q. What is the role of the IT function in the lean business strategy?

There are three main areas of focus for the IT function within the lean organization.

A. First, understand the changes occurring within the organization. This means participating in the improvement activities in operations and business processes as full-time participants; not to make application changes, but to understand where the business is going. A side benefit is that often there is existing functionality that could be used that the non-IT personnel are not aware of!

Second, be available to support change quickly. Sometimes it will mean taking *out* functionality, and, often, supporting lots of pilots and trials. The IT function may see a large increase in smaller requests.

Third, use lean concepts within the IT function to increase capacity, reduce non-value add activities, and improve quality. Everything about lean that works on the shop floor also works in the office (non-operations) including IT. IT has the challenge of maintaining as well as creating. And without significant capacity improvement achieved by focusing on internal and external customer need, IT will become a cost anchor within the lean organization.

The lean world does not lead with technology. It does not look first for technology to create an ROI, but that does not mean that IT will not significantly enable many breakthroughs in the lean organization.

Next steps:

See the slide: [When to apply IT to lean improvements.](#)

Reach Jean Cunningham at [Jean Cunningham Consulting](#); jean.cunningham@leanjcc.com, or 224-688-3502. Articles, short stories, newsletter, training, and more.

[European Lean IT Summit](#), October 13-14, 2011, Paris. Lean Thinkers from around the

world will gather to discuss the application of lean principles to IT operations such as software, call centers, data centers, client services, systems administration, and support.

[Lean Accounting Summit](#), September 15-16, 2011, Orlando. Hundreds of accounting, finance, and operations professionals from service and industrial companies gather annually to share how-to information for applying lean concepts to finance and accounting.