

Institute of Management Accounting: Lean Fundamentals Report

The *Institute of Management Accountants* (IMA, Montvale NJ) is the premier association for the management accounting profession in the United States. The IMA publishes a series of monographs on topics of importance to management accountants. These monographs - currently more than 50 titles - collectively make up what the IMA call their **Statements on Management Accounting**¹ (SMA's).

The recently published SMA on *Implementing Lean Production Fundamentals* is an excellent introduction to the practical issues of lean thinking in manufacturing. Authored by the prolific Dr. C.J.McNair of Babson College, this well-written book:

- defines lean production
- explains why lean manufacturing is important
- provides a brief theoretical framework for lean production
- describes the phases of implementation
- discusses the obstacles many companies face when implementing.

The book concludes that "*lean production is the model of the future*" and that "*to be lean is to optimize the use of resources to create value for customers and stakeholders. It is a formula that is as old as it is new, as Western as it is Eastern*".

The Role of the Management Accountant

While much of the book covers familiar issues relating to lean manufacturing, it also address Lean Accounting . Dr. McNair states that "*the involvement of the finance professional spans the entire life of the lean production initiatives*", and lists the specific roles accountants need to take within a lean organization.

The table below shows the activities assigned to finance professional (left column) and the tools of Lean Accounting that fulfill this need (center column), and the reference to these tools in our book *Practical Lean Accounting*² (right column).

¹. Obtainable from: *Customer Order Dept, IMA, 10 Paragon Drive, Montvalue NJ 07645-1760*
Tel: 201 573 9000 x 278 Web: www.imanet.org

². *Practical Lean Accounting* by Brian Maskell & Bruce Baggaley, *Productivity Press, New York City 2004*

<i>SMA: Implementing Lean Production Fundamentals</i>	Lean Accounting Tools & Methods	Ref to <i>Practical Lean Accounting</i>
Defining the costs & benefits of lean production for the organization	<ul style="list-style-type: none"> • Calculation of financial benefits of lean improvement • Value stream costing • Value stream cost & capacity analysis • Box Score 	Ch. 4 Ch. 9 Ch. 21 Ch. 10
Developing metrics to evaluate the performance of each proposed implementation approach	<ul style="list-style-type: none"> • Cell performance measurement • Value stream performance measurements • Calculation of financial benefits of lean improvement • Box Score 	Ch. 3 Ch. 8 Ch. 4 Ch 10
Changing the existing cost and performance measurement systems to match the assumptions, flow, and nature of lean production	<ul style="list-style-type: none"> • Cell performance measurement • Value stream performance measurements • Value stream costing • Box Score 	Ch. 3 Ch. 8 Ch. 9 Ch. 10
Providing feedback on performance improvements gained	<ul style="list-style-type: none"> • Value stream costing • Box Score 	Ch. 9 Ch. 10
Creating a database of performance metrics for use in evaluating proposed product & processes changes in the lean system	<ul style="list-style-type: none"> • Cell performance measurement • Value stream performance measurements • Value stream costing • Calculation of financial benefits of lean improvement • Box Score 	Ch. 3 Ch. 8 Ch. 9 Ch. 4 Ch. 10
Supporting the decision-making process	<ul style="list-style-type: none"> • Value stream costing • Target costing 	Ch. 9 Ch. 16
Identifying areas where further improvements could have the greatest impact on product or process cost or performance	<ul style="list-style-type: none"> • Value stream performance measurements • Value stream costing • Target costing • Sales, Operations, & Financial Planning • Value stream cost & capacity analysis 	Ch. 8 Ch. 9 Ch. 16 Ch. 13 Ch. 21
Developing innovative methods for measuring and evaluating the impact of improvements	<ul style="list-style-type: none"> • Cell performance measurements • Value stream performance measurements • Value stream costing • Calculation of financial benefits • Value stream cost & capacity analysis • Elimination of financial transactions • Transaction elimination maturity path • Box score 	Ch. 3 Ch. 8 Ch. 9 Ch. 4 Ch. 21 Ch. 5 & 12 Ch. 20 Ch. 10
Identifying key bottlenecks and support efforts to determine the best way to manage or eliminate them	<ul style="list-style-type: none"> • Value stream cost & capacity analysis • Box score • Sales, operations, & financial analysis 	Ch. 21 Ch. 10 Ch. 13
Ensuring that improvement projects attain their pre-stated goals	<ul style="list-style-type: none"> • Value stream cost analysis • Box score • Transaction elimination maturity path 	Ch. 21 Ch. 10 Ch. 20

Conclusion

This publication from the Institute of Management Accountants is a valuable introduction to lean production methods and (as far as I know) the first substantive statement from the IMA on the issues of Lean Accounting. While falling short of formally endorsing the BMA Inc. Lean Accounting approach, the report addresses many of the elements of Lean Accounting and recommends to all management accountants the new roles they need to play to meet the challenges of a lean transformation.