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2019 Lean Accounting & Management Summit

Date: September 12-13, 2019

Workshops: September 11, 2019

Location: Austin, TX

Fee: \$1895

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MUDA IN THE BUSINESS CASE:

Lean practitioners can benefit from a streamlined business casing process that captures value, aligns with strategy, and articulates financial gains.

TRANSLATING LEAN INTO SAVINGS AND AVOIDANCE

GARY KAPANOWSKI AND BENJAMIN B. BENSON

To really capture the current scenario in the lean community, we turn to this age-old maxim: To be of use is useful; to show yourself to be of use is doubly useful.

Lean practitioners are useful without a doubt, but when it comes to articulating things, such as the alignment to strategy, the quantification of operational gains in financial terms, or the value of the improved state versus previous levels, they struggle to truly show themselves “being of use.” Lean practitioners can greatly benefit from a streamlined business casing process that accurately and clearly captures value, aligns with strategy, and articulates financial gains.

While many people are currently sold on the operational gains of lean, practi-

tioners often still struggle with translating those operational gains into financial ones. Furthermore, lean endeavors should align to the *hoshin* of a given organization, business unit, or corporate entity, and as we know, not all lean actions clearly align with business strategy goals.

This article describes the actions lean practitioners can and should take to verify a clear and crisp alignment of lean work with the business strategy and with the appropriate levers of organizational improvement. These improvements must be well articulated into the levers that comprise a classic business case so that they are defensible and their inherent value is all the more apparent. Likewise, the business case process itself needs to be streamlined and robust.

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EXHIBIT 1 Aligning Lean with Strategy Flowchart

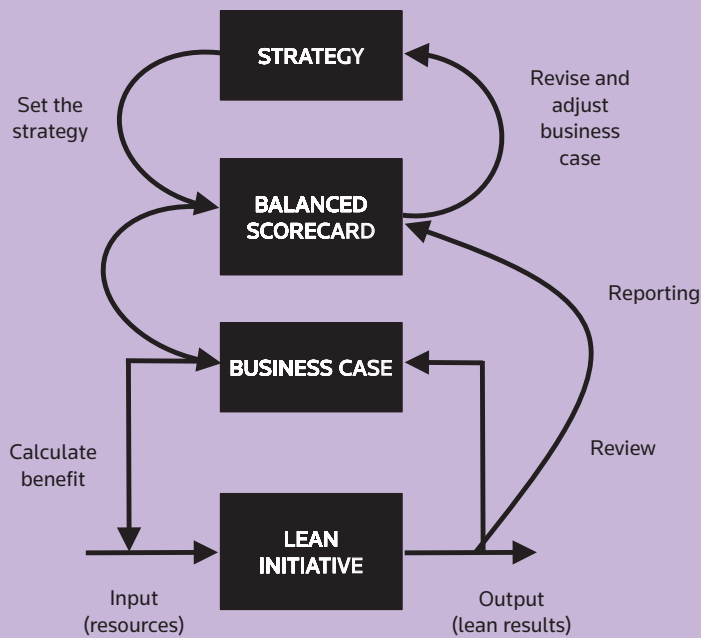
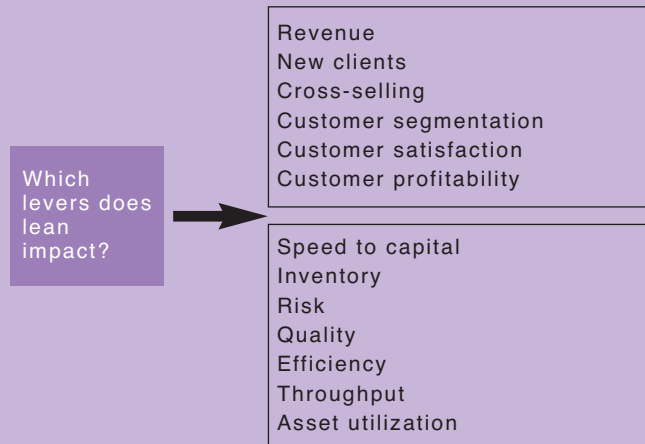


EXHIBIT 2 Value Levers That Impact Lean



This article discusses business case outcomes that are rapid in preparation, obvious in value, and clear in their ease to calculate, track, and refresh.

Showing the value of lean and the importance of a business case

Unlike six sigma and other continuous improvement methods, lean does not require

a charter, business case, or synopsis of the cost of poor quality (COPQ) to be initiated. However, without these, lean’s value becomes somewhat of an oral narrative and certainly harder to translate into financial gains.

Concepts such as activity-based costing and the balanced scorecard suggest that each revenue gain or operational cost be documented to clearly show the profit profile and draw attention to any items that are

EXHIBIT 3 Business Case Questionnaire

Lever or area of business case consideration	Applies to business case? (Yes/No)	If yes, has been calculated and added to business case? (Yes/No)
1. How does the lean initiative align with strategy priorities?		
2. How is revenue affected?		
3. How can this lead to new clients?		
4. How can this lead to cross-selling?		
5. Will this effort enhance customer segmentation to gain new customer types?		
6. Will it aid in customer satisfaction?		
7. Will it enhance margin and profit?		
8. Will it speed up cash inflow or return on capital employed?		
9. Will it lower inventory, expediting, or material-carrying costs?		
10. Will it lower company risk levels? How? Which?		
11. Will product or service, or by-products, be improved to enhance quality? What is the financial benefit?		
12. Are there efficiency gains in steps removed or waste (<i>muda</i>) removed?		
13. Are there throughput gains in terms of yield, speed to market, acceptance rates, reduction of waste? Quantify hours and materials saved over volume.		
14. Can assets be removed from the delivery process or repurposed (freed up and reapplied) to make money? Which assets (e.g., fixed, direct, energy, floor, or human) and how much?		
15. Is the as-is operational and financial picture captured? Are there actual reports, statements, and pictures to validate?		
16. Has the root cause of the current state problem/waste been identified?		
17. Are costs captured in terms of loss, one-time expenditures (to produce improvement), as well as improved steady state? What is the net improvement?		
18. What is the internal rate of return, the net present value, and the depreciated cash flow? (Get finance help if needed.)		
19. Is the steady-state solution more automated and technology-enabled? What is the delta between the to-be state and the as-is state?		
20. What are the institutional costs to implement, if any? Have training, documentation, software updates, and lean project team costs been calculated?		
21. What is the staging, sequence of moves, differentiation, scope, and economic logic (in summary) of the to-be state?		

EXHIBIT 3 Business Case Questionnaire (continued)

Lever or area of business case consideration	Applies to business case? (Yes/No)	If yes, has been calculated and added to business case? (Yes/No)
22. Can the lean solution be extended to other processes or business lines?		
23. At what junctures will the business case be refreshed so that the solution can be compared to the original improvement projections?		
24. How does this lean project rank in relation to other lean projects regarding strategy fulfillment and value?		
25. What cognitive and affective gains (e.g., morale, brand reputation, ease to suppliers) are present in the lean solution, if any?		
26. Are there gains not covered in this list that should be addressed?		

suboptimized.¹ Yet, for most lean efforts, a cogent business case is not prepared. This may be due to the assumption that business cases primarily relate to projects in need of operational or capital expenditure, and lean is not traditionally capital-intensive and in need of seed money.² Still, the best way to secure buy-in for lean is to provide a clear snapshot of its costs and benefits as well as its alignment with strategy (see Exhibit 1).

Preparing a business case that aligns with strategy and value levers

Essentially, the business case will come down to a question of what levers are moving. Looking at the levers listed in Exhibit 2, remember that these are only broad categories (e.g., inventory may be further defined by turnover, expediting, work-in-process, outages, staging, or obsolescence), and dozens of specific subcategories exist for each lever.³ Also, additional levers may come into play in specialized situations, but those listed in Exhibit 2 make a good first start.

A pragmatic lean business case template

A hard and fast form may not exist to guide the business case narrative; for this reason, we provide Exhibit 3 as a template to use.

Its purpose is to be provocative to lean practitioners and their teams as well as to fiduciaries and executive sponsors.

The *muda* often faced in preparing the business case

Since lean is in every facet of the business — not just the core processes, but in each transaction and artifact as well — how can its presence (or absence) not be felt in the business case? The current state of business cases, in terms of alignment to lean projects and their general use and function, is sub-optimal to say the least.⁴ What, then, makes for a lean business case in terms of efficiency and effectiveness? Exhibit 4 shows some considerations for your organization in preparing business cases as seen through the lens of the common types of *muda*, or waste.

Business case improvement log

Collecting the information regarding business cases is important to understand your current successes, the possible future state of your business, and how to reach your desired future state. Exhibit 5 will assist with organizing the data.⁵ By learning from past business cases, the organization can improve the overall process and identify tasks that can derail successful business cases.

EXHIBIT 4 Common Types of Waste

Category	Type of waste present in business case
Defect	<ul style="list-style-type: none"> - No business case provided - Inaccurate business case - Incomplete business case - Based on ROI only - Not aligned with strategy - Cases are not ranked or quantitatively scored - Business case is not modified or refreshed during project tenure
Transportation	<ul style="list-style-type: none"> - Back and forth to field, floor, corporate, or plant - Trips to facilities, suppliers - Fly-ins not needed - Little use of virtual meetings
Inventory	<ul style="list-style-type: none"> - Backlog of business cases to review - Docket that is too full - Turnaround time reduces stated value
Motion	<ul style="list-style-type: none"> - Undo meetings and carbon copy on emails - Too many signatures - Too much time and effort goes into both self-evident cases and long-shot ones - Approval levels are too low
Wait time	<ul style="list-style-type: none"> - Deadlines missed - Too much time between meetings - Reviews are too tight or too lax in turnaround
Overproduction	<ul style="list-style-type: none"> - Preliminary and refined cases add complexity - Non-standard formats used - More cases generated than funding available
Overprocessing	<ul style="list-style-type: none"> - Unneeded research, meetings, review - Too many approval steps - Printouts and drafts too numerous - Too many members in meetings
Savings vs. avoidance	<ul style="list-style-type: none"> - True savings vs. cost avoidance not distinct
Depreciation and net present value	<ul style="list-style-type: none"> - Cost of capital not considered both positively and negatively as impact on case
Compound considerations	<ul style="list-style-type: none"> - Throughput savings after business case are not factored in - Areas where business case can be extended are not documented - Life cycle breakeven analysis not included - Internal rate of return threshold not met when compound costs are considered
One-time costs	<ul style="list-style-type: none"> - Team cost and analysis cost not documented in hours and materials and lost opportunity cost
Employment of capital (capital employed/return on capital employed)	<ul style="list-style-type: none"> - The cost of capital is not considered in scoring - Alignment with strategy (in terms of capital consumption) not considered in business case
Financial translation of operational metrics	<ul style="list-style-type: none"> - Full-time equivalent and part-time equivalent hours saved from task are not closely calculated
Associated costs	<ul style="list-style-type: none"> - Operation impacts, risks, and other associated costs are overlooked that are sympathetic costs or savings to business case

EXHIBIT 5 Business Case Improvement Log

Level#	Business Case Description	Before	After	Accuracy%	Reason
1	Customer association				
2	Success/failure				
3	Goal				
4	Connection to organization's goal (<i>hoshin</i>)				
5	Value stream				
6	Future work				
7	Financial impact				
8	Origin of business case concept (executive/managers/general)				
9	Business case creation date				
10	Business case submission date				
11	Acceptance/rejection date for business case				
12	Completion date for business case				
13	Projected start time for business case implementation				
14	Business case implementation date				
15	Duration of business case				
16	Business case complexity (hard/medium/easy)				
17	COPQ identified				
18	Waste was identified				
19	Waste was eliminated				
20	Charter signed				
21	Cost-benefit analysis results				
22	Lessons learned				

Exhibit 5 is an example of a log to help assess the business case process and areas for improvement. The Before column indicates that the business case passed the stage gate for implementation within the *organization*; the After column indicates the business case passed the stage gate for implementation in the *market*. When the accuracy rate is below optimal performance, a reason for the defect is presented for future improvement.

Starting with a customer focus, we identify our customer and validate the performance of the business case process. By focusing on the customer, the business case can be developed to make the process better, easier, faster, safer, and cheaper for the customer.⁶ Success or failure is associated with the overall business case implementation. The goal is to identify what the business case is trying to solve.

The business case should relate to the organization's overall focus and goals (*hoshin*). As we review the business case, we identify the value stream with which it relates to see how it is categorized and pri-

oritized within the organization, based on its *hoshin* reference. Future work potential is identified to determine if there will be any cascading effects from the case's success. Specifying the financial impact will provide scale and accuracy to the proposal. Total dollar amounts and percentages will verify that the organization is assisting both large and small programs for future successes. Identifying the origin of the business case will also gauge the levels of lean throughout the organization. Over time, all levels of the organization — from the executive to the ground level — will contribute ideas for future growth.

The creation date and submission date of the business case indicate how long it takes to complete the business case process. Reducing this time will improve the time to market (and therefore improve focus on the customer). The acceptance and rejection dates indicate how long the process takes, and if a promised date is assigned, promised-date tracking indicates how well the process is working (i.e., variance indicates waste). The completion date for the business case

will provide the earliest time for implementation, which then determines the time to market for the customer. The overall duration can be used to assign a metric of understanding to the amount of time to market by calculating the amount of time from business case creation to implementation.

Acknowledging the complexity of the business case will provide the proper categorization and allow for appropriate comparison and analytics for future improvements. As the business case process is followed and completed, the identification and elimination of waste is important for continuous improvement and adding value for the customer. Identifying waste enables process improvement, as well as COPQ calculations. As we review the approved business case, utilizing a signed charter and cost-benefit analysis will show how well the process performs under best practices. Finally, lessons learned are recorded in the log to assist with future business case success.

Conclusion

It comes down to approaching business value with a clear sense of change in mind and a mechanism to track the current problem and optimal solution.⁷ Indeed, a key part of lean is the *hoshin kanri* alignment that declares the value of each tactical move.⁸ Leading

organizations do a great job quantifying lean savings, and often it is the business case that helps articulate the value.

The next time your operation, quality, functional, or even financial counterparts engage in a lean endeavor, ask them, “Can I see the business case that goes with this?” If one is not available, you can be doubly useful to your organization by leading the charge with a cogent, standardized, and lean business case. ■

NOTES

- ¹ Kaplan, R.S. and Norton, D.P., Using the balanced scorecard as a strategic management system, *Harvard Business Review* (July/Aug 2007): 96–109.
- ² Benson, B.B., Change management as an accelerator of the lean transition, *Cost Management* 32, no. 1 (2018): 1–5.
- ³ Benson, B.B., Lean: Adapting to changing strategies and market conditions, *Cost Management* 31, no. 1 (2017): 6–10.
- ⁴ Benson, B.B., *Hoshin kanri*: The fundamental starting point for lean success, *Cost Management* 30, no. 1 (2016): 15–18.
- ⁵ Kapanowski, G., Continuous improvement project log, *Cost Management* 30, no. 2 (2016): 6–9.
- ⁶ Womack, J.P. and Jones, D.T., *Lean Thinking: Banish Waste and Create Wealth in Your Corporation*. (New York: Free Press, 1996).
- ⁷ Benson, B. and Popis, K., “Change management’s role in reengineering,” *In Action Series: Leading Organizational Change*. Phillips, J.J. and Holton, E. (Eds.), (Alexandria, V.A.: American Society for Training and Development, 1997).
- ⁸ Benson, B. and Endres, A., “Organizational development and change,” *Managing Human Resources in the 21st Century: From Core Concepts to Strategic Choice*. Kossek, E.E. and Block, R.N. (Eds.), (Cincinnati, O.H.: South-Western College Publishing, 2000).



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