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Accounting for value: Financial lessons from Lean

Written by [Jacob Stoller](#) Volume: 18 Issue: 9

In a 2011 white paper published by the Internal Federation of Accountants (IFAC), *Competent and Versatile: How Professional Accountants in Business Drive Sustainable Organizational Success*, the authors present a vision of the professional accountant as an active partner in the creation, enabling, preserving and recording of sustainable value.

While the vision is clear, the practical side of identifying, measuring and, ultimately, accounting for sustainable value is in an early stage of evolution. As the profession seeks new tools to exercise this expanded role, some answers may come from lean, a management system pioneered by Toyota in the latter half of the 20th century that has subsequently spread to many other industries including healthcare and government services. Of particular interest is a lean technique called Value Stream Mapping.

While lean is well known as a suite of shop floor quality tools, few are aware that it is a comprehensive system for managing an enterprise from both an operational and financial perspective. Significantly, lean places a great deal of emphasis on optimizing value.

Value stream mapping (VSM) is used to create strategic plans for separating and consequently removing non-value elements from work processes. VSM looks at entire systems, as opposed to components, and the process typically involves multiple departments. In the mapping exercise, a cross functional team collaborates to create a detailed, flowchart-like representation of the end-to-end chain of events and materials, called the Value Stream, whose output is the product or service that an external customer has sought from the organization. The teams then identify the value and non-value components, and develop plans to incrementally eliminate the latter.

Value is strictly defined here as customer value, or outcomes that a customer would willingly pay for. In healthcare, people will gladly pay for a caregiver to spend time with patients, but would not want to see that caregiver spending a large part of the working day on paperwork. These non-value elements, called waste in a lean context, are widespread in most organizations, and as such represent a substantial opportunity to reduce costs, speed processes, and improve quality and the customer experience without significant investment.

Not all waste, however, can be eliminated, and VSM divides non-value components into two categories: elements that can be removed without affecting the quality or delivery of the final product, and those which are necessary for the organization to function.

The latter category includes internal functions such as management, HR and accounting. In lean organizations, employees in these areas, including financial professionals, see their role as enablers of customer value, and wherever possible, integrate their work into the value streams. This is markedly different from the strictly fiduciary role that financial professionals tend to assume in organizations.

Here are a few areas where financial professionals can gain valuable insights from studying value streams:

Seeing the big picture: Value streams allow financial professionals to see costs within the context of overall outcomes, as opposed to individual components. This approach exposes disconnects between local efficiencies and the bottom line.

Customer value: While customer value is mere talk in many organizations, VSM provides a method for identifying and quantifying it in real dollars. "Customer value doesn't show up in traditional accounting systems," says Brian Maskell of consulting firm BMA. "They are specifically set up for us to understand shareholder value."

Future potential: Larry Coté, CEO of Lean Advisors, a lean consultancy that has utilized VSM to assist in the valuation of companies, finds that the process is an excellent window into the future. "When implemented comprehensively, the process can reveal where current operators are missing huge opportunities," he says. "Value stream maps that show where and to what degree customer value can be increased tell accountants a lot about the potential value in a company."

Green initiatives: In the process of identifying waste, value stream maps pinpoint unnecessary use of raw materials, electrical power, space, fuel and other resources whose reduction can improve a company's environmental footprint.

VSM is not an exercise that can be conducted in isolation by a few financial analysts; this requires senior management buy-in and a significant commitment to put cross-functional teams together. Furthermore, sustained benefits can only be achieved through a comprehensive lean transformation.

However, by learning the technique, and studying how it is used in lean organizations, financial professionals can gain valuable insights on how they might become, as the IFAC document suggests, active partners in the creation, enabling, preserving, and reporting of sustainable value.

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