



# Putting Accountants on a “Lean” Diet

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Are people in your finance department spending too much time doing “what they’ve always done” without questioning its value? Is it difficult to schedule vacations in your department because everyone has specialized skills that prohibit them from filling in for one another? Do people in your department react defensively to new management ideas? If you answered “yes” to these questions, you’re not alone. Many finance organizations with the best of intentions often struggle to empower their employees to think outside their functional silos, to challenge the merits of current practices, and to develop new and improved ways of serving internal customers.

Do you have the desire to transform your finance department into a world-class performer but feel you lack the road map to reach your destination? In this article, we describe how Candler Industrial Products (CIP) (a fictional name to preserve confidentiality), a \$6.5 billion company with 48,000 employees and 100,000 customers, used lean thinking to transform the finance department in its Reading, Pa., manufacturing facility into a world-class performer.

Though we’ll provide you with the roadmap to execute a similar transformation in your organization, it bears emphasizing that the thrust of this article differs from prior lean accounting articles published in *Strategic Finance*. Those articles focused on the important topic of how accounting departments can revise the information they provide to operations managers to better support lean manufacturing. This article focuses on how management accountants and other financial professionals can apply lean principles to better manage *themselves*.

CIP’s lean transformation in accounting came about for three reasons: First, the entire company was just starting its lean journey in manufacturing, so the “language of lean” was beginning to permeate the fabric of the organization. Second, the plant controller was a firm believer in the principles of lean thinking and team-based management methods. Third, the Reading plant was failing to meet the five-day close mandated by corporate headquarters. Thus the controller decided to adopt lean thinking to achieve the five-day close and, more broadly speaking, to dramatically improve his department’s overall efficiency and effectiveness.

## Motivating Employees to Buy In

The first step in the finance department’s lean transformation was to reaffirm CIP’s cultural commitment to open communication grounded in mutual trust. The controller began holding weekly meetings for the 15



**Table 1: Ground Rules for Team Behavior**

1. Participate and ask questions.
2. Don't interrupt.
3. Don't dominate.
4. Attack problems, not people.
5. Record ideas accurately.
6. Use the three-knock rule (if the discussion goes off topic, any person can knock on the table three times, signaling the need to get back on topic).
7. Use the 100-mile rule (don't answer your phone or leave a meeting unless you're willing to walk 100 miles to do it—it had better be important).
8. Use the parking lot (if a good idea arises that's outside the scope of the meeting, it's written on a separate sheet of paper and explored later—in the parking lot or some other convenient, quiet area).
9. Be on time.
10. Have fun.

employees in his department, guiding each meeting by the 10 ground rules for team behavior shown in Table 1. All employees took turns leading the meetings, taking minutes, and acting as a timekeeper. This format gave everyone an opportunity to share a feeling of empowerment and to have their voices heard. All meetings started with each attendee offering a *positive share* (for example, any piece of good news that brightened their life, such as the birth of a grandchild).

The meetings ended with the attendees identifying pluses (something that had worked well) and deltas (something they would like to change). In round-robin fashion, each attendee was asked to mention something

that had worked well or was a positive addition to the meeting. Pluses included comments such as “John provided good insight into the challenges in shipping” or “Sally ran the meeting well—good agenda, good use of time.” Next, again in round-robin fashion, everyone mentioned something that *didn’t* work well during the meeting. Deltas, therefore, included comments such as “the room was too cold” or “there wasn’t enough data available for us to finish today.” The meetings concluded with an acknowledgment or resolution related to each plus and delta, such as when the controller said to John, “Thank you for joining us and adding worthwhile insights into our shipping challenges. Let’s commit to addressing your concerns going forward.”

For the first couple of months, people were reluctant to share their ideas freely during these meetings. As time progressed, however, everyone began to realize three things: (1) The meetings genuinely embodied CIP’s core cultural values of integrity, employee empowerment, and innovation; (2) CIP and its controller were committed to embracing their ideas on how to improve the department; and (3) there was truly no hidden agenda related to staff reductions. Thus, the weekly meetings became fun opportunities to apply the company’s deeply engrained process performance improvement (PPI) methods to fix problems and eliminate nonvalue-added work. The spirit

of empowerment motivated everyone to explore the cause-and-effect relationships underlying a problem and find and eliminate the problems’ root causes by asking *why* five times (the “5 Whys” strategy). This powerful mode of thinking held the key to improving everyone’s quality of life (less overtime), enriching their work environment (fewer unfulfilling tasks), and enabling them to provide the best possible product in the least amount of time (more satisfied internal customers).

The controller believed that the keys to getting buy-in from his employees were building a culture of mutual respect, empowering all employees to lend a voice to the proceedings, and continuously framing organizational change in terms of how it would enrich the personal and professional lives of each employee. Once people had bought into the process, the frequency and duration of departmental meetings declined. In the interest of efficiency, the pluses and deltas portion of the meetings was dropped, as was the rotation of responsibilities. The controller or his second led the meetings going forward.

## Building Skills Through Cross-training

As the team started to buy into the company’s cultural values and the controller’s vision, it embraced the lean principle of strengthening the department through cross-

Figure 1: Cross-training Matrix

	MS Excel	MS Word	MS Access	MS PowerPoint	MS Visio	MS Project	MS Outlook	MS NetMeeting	AS400 Query	AS400 Data Transfer	Check Signer	Burster	P50 Printer	Insertor (mailroom)	Crystal Reports	Fixed-asset Software	COGNOS
Ellison, Kathy	N	B				N					B	B	N				
Ludwick, Christine	B	N		N		B		B	B			I					
Tinsely, Matt	B	I	N	B		I			B			N		N			
Brady, Eileen	B	N	N	N	N			I	I			B					
Jackson, Sheila	B	I	N	B	N	I				N	I	I	N				
Smithson, Tom	B	I				I		I	B			B	I	B			
Sandler, Joe	B	N		N		B		B	N		I	I	I	I			
Vickers, Jean	I	I		N		I	B	I	I			B	B	N		B	
Clark, Vince	I	I	N	I		I		N			I	I	I	I			
Austin, Jeff	I	I	B	E	I	E	I	B	I	I	B					B	B
Wellman, Ann	I	E	B	E	B	B	E	N	N		B	I	I	I	I	B	
Gordon, Lindsey	I	I	B	B			I		I	I		B	B	I	B	I	I

N = Novice B = Beginner I = Intermediate E = Expert

Note: All names have been changed to preserve confidentiality.

training. The department created the skills matrix shown in Figure 1 to document each employee's skill set and skill level (novice, beginner, intermediate, or expert) for 18 technology applications. For example, the skills matrix revealed that one employee, whom we'll call Lindsey Gordon, could leverage her intermediate knowledge to help others learn how to use the company's fixed-asset software, how to prepare Crystal reports, and how to perform AS400 data transfers. It also revealed that she had the opportunity to enrich her skills by learning from others how to use tools such as Microsoft Project, Publisher, and NetMeeting. The skills matrix showed each employee's expanded capabilities so that everyone could fill in more easily for one another when someone was on vacation. It also helped create a culture where all employees viewed themselves as leaders in their areas of expertise, followers in their areas of insufficient knowledge, and learners who needed to grow their skills to advance their careers and improve the performance of the department as a whole.

As with most change initiatives, the department had a few employees who were reluctant to be part of the team and who didn't immediately embrace change. The controller believed that this issue needed to be addressed quickly. One-on-one meetings, group activities, and team-building lunches all played a role in solidifying the team. After a reasonable amount of coaching and assistance from the controller and Human Resources, these people usually got on board. Once the team embraced change and growth, the process took a quantum leap forward in terms of building a positive culture and achieving breakthrough results. The team celebrated both small and large successes as well as the associates who led change or provided new ideas. Being recognized internally and externally became a huge motivator for all onsite employees.

## The Department Undergoes an Overhaul

An important part of the finance department's lean transformation was to adopt the 5S principle: Sort, Set in order, Shine, Standardize, and Sustain. As applied to the department's Mt. Everest of paperwork, this was a difficult concept for accountants to grasp because they were used to retaining all hard-copy documents indefinitely. To overcome this counterproductive mind-set, the department created and rigorously implemented file retention processes. All unnecessary files and file cabinets were removed. (It took several two-hour sessions just to get rid of the junk that was never used.) Excess office supplies were moved to a central location. Piles of reports and assorted printouts



### Tips for a Successful Lean Transition

1. Help employees understand how implementing change will make their lives better.
2. Recognize each employee's value to the organization, and remove threats (such as the threat of job loss) that can lead to resistance.
3. Give employees a voice in shaping the change process.
4. Provide each employee an opportunity to take the lead on achieving a team-based deliverable. In other words, build leadership skills during the change process.
5. Clearly define a vision of where the department is headed.
6. Clearly define a road map of intermediate steps that will help employees realize the vision.
7. Continually and visibly reaffirm the vision, and assess progress toward achieving it.
8. Celebrate successes, and learn from mistakes rather than blaming others.
9. Equip employees with the necessary tools. For example, Six Sigma training offers a nice complement to a lean transformation.
10. Seek candid feedback from internal customers regarding your finance department's performance.

were removed from the floor, desktops, tables, and chairs. Nothing was permitted to lie on top of anything else, and everything was put away at the end of the day. Supplies such as folders and staplers were standardized, and labels were applied to every desk drawer, file cabinet, office door, and piece of equipment. Anything that could be converted to digital storage was converted. Everything that everybody needed to do their jobs had to be within reach at all times. This eliminated the wasted time and stress of look-

ing for something that was buried someplace.

The department also adopted standardized work routines so that each employee had a list of tasks that needed to be completed by a designated time. Each employee's commitments were shared with others so that everyone knew who was going to do what and at what time. The transformation was so dramatic that employees outside the finance department not only noticed the change but asked if they could be trained as well!

## Ridding CIP of Seven Forms of Waste

A natural progression after the 5S initiative was to introduce the lean office concept and identify the seven forms of waste that inhibit efficient and effective operations. The 5S initiative had brought work to everyone's fingertips; now it was time to determine how much of that work was adding customer value and how much of it was waste. Though the seven forms of waste are often applied to the manufacturing floor, the controller also understood that these concepts could be readily applied to the finance function. Let's look at each type of waste along with an example of how it existed in the Reading plant's finance department.

**1. Overproduction.** This includes processing more than is required, processing things before they're required, and processing things faster than they're required. It's the first form of waste that never adds value to customers, whether they're internal or external. The finance department reviewed all regularly compiled reports and spoke with internal customers regarding how they used those reports. All reports that were never used and simply filed away within the accounting department or an internal customer's filing cabinet were treated as overproduction and discontinued.

**2. Inventory.** In the finance department, inventory may be a stack of invoices in an in-basket or a bunch of reports yet to be delivered to internal customers. The department realized that as many as five employees were storing hard copies of the same report—a waste of paper and storage space. They eliminated this excess inventory.

**3. Correction (or rework).** The finance department identified and, through proper training, eliminated the root causes of frequent labor reporting errors, purchase order errors, and invoicing errors.

**4. Moving materials.** Sometimes we get so bogged down in our old ways of doing things that we can't see the waste right in front of our eyes. CIP's finance department was no exception. For example, after reviewing its usual manner of disseminating information, the depart-

ment stopped hand-delivering hard copies of internal reports and started e-mailing them instead. This sped up delivery and saved money.

**5. Motion.** The finance department's 5S initiative helped move items such as files and in-baskets within arm's length to avoid excess walking, bending, and reaching. In addition to saving loads of time, the changes might've saved someone's back, too!

**6. Waiting.** The department defined its task dependencies so that everyone understood them, then sought to eliminate these dependencies whenever possible. For example, a task dependency would include one employee waiting to receive the inventory adjustment journal entry from someone else before being able to record the excess or obsolete inventory reserve journal entry.

**7. Unnecessary or inefficient processing.** The finance department tackled this form of waste by leveraging technology whenever possible. Automation enabled employees to shift their focus from gathering data to using it to support internal operations.

Once the department made substantial progress eliminating the seven forms of waste, it created free time that employees could use to cross-train, upgrade their technology skills, take on more complex and intrinsically satisfying tasks, and better serve the needs of internal customers. Overtime hours plummeted, which enabled people to focus more attention on living healthy, well-rounded lives. Employees began to regularly leave the office between 4 p.m. and 5 p.m. and worked overtime only if an explicit discussion concluded that the incremental value provided to the company justified taking valuable hours away from the family.

## The Controller Creates a Lean Roadmap

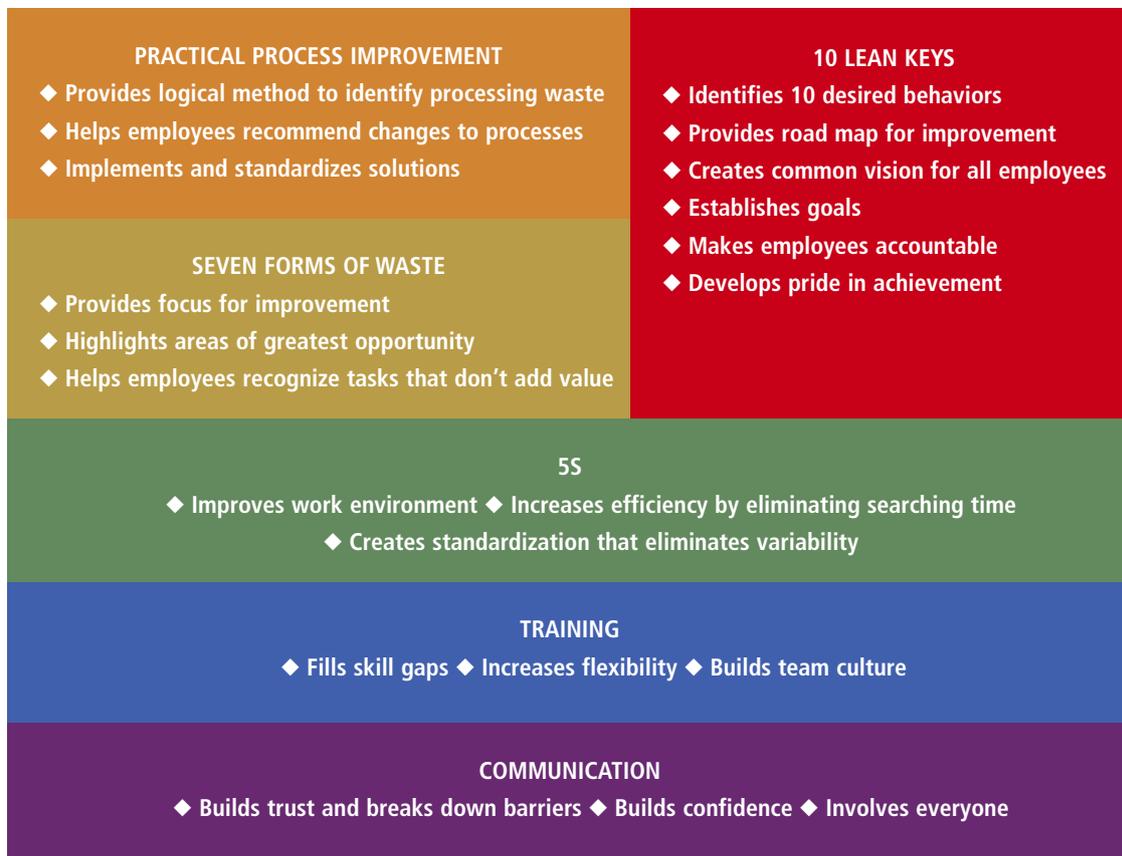
To further infuse lean thinking into the finance department, the controller broke down the department's responsibilities into 10 key performance attributes, or lean keys:

1. Housekeeping,
2. Management of Objectives,
3. Employee and Process Development,
4. Performance Measurement,
5. Developing Your Suppliers,
6. Safety/Health,
7. Customer Service,
8. Sarbanes-Oxley/GAAP Compliance,
9. Communication, and
10. Documentation/Standardized Work Tasks.

## Figure 2: Lean Keys: Five Levels of Performance

1. HOUSEKEEPING	2. MANAGEMENT OF OBJECTIVES	3. EMPLOYEE AND PROCESS DEVELOPMENT	4. PERFORMANCE MEASUREMENT	5. DEVELOPING YOUR SUPPLIERS
<p><b>LEVEL 1</b> Paper, waste, dirt, and so on are scattered around the department. Desks have overflowing baskets/piles with folders that don't contain information that will be used in the current week. Boxes, files, and reports are stacked on desks, tables, and floor as storage.</p>	<p><b>LEVEL 1</b> Functional separation of workflow isn't present. Organizational chart isn't up to date. Workers are individualized and don't interact to achieve common goals. Personal objectives aren't in line with management objectives.</p>	<p><b>LEVEL 1</b> Employee records aren't maintained by direct supervisors. Training records indicate less than 100% training compliance. Maintaining the status quo is commonplace. The performance management development (PMD) process is in place but not considered effective and doesn't motivate employees to improve performance.</p>	<p><b>LEVEL 1</b> Performance measurements aren't standard. Few functions and objectives have performance measures. There is no quantitative basis for rewarding exceptional performance. Employees don't know where they stand on the performance hierarchy.</p>	<p><b>LEVEL 1</b> Incoming materials and data aren't monitored for accuracy. Cleansing is completed at the period-end cycle. Record accuracy isn't clearly known. External suppliers don't know what happens to the material or data they provide.</p>
<p><b>LEVEL 2</b> 5S event has taken place. Walkways, desks, and floors are clean and clear of clutter. Equipment is properly cleaned and put away when not in use. Unused equipment and articles are removed from the area. Organization of work into in/out baskets has begun. Housekeeping score improved in all areas.</p>	<p><b>LEVEL 2</b> Organization chart is present and posted. Functional tasks are clearly defined. Workflow interaction is clearly understood by all employees. Performance is measured as pass or fail against departmental timeline.</p>	<p><b>LEVEL 2</b> Employee records are maintained by direct supervisor. Training is approaching 100%. Process improvement activity is minor and is prompted by management. Participation level is less than 100%.</p>	<p><b>LEVEL 2</b> Some departmental measures are in place, and employees are aware of the performance measure. Internal and external customer focus is a key topic of discussion, but feedback measures aren't in place.</p>	<p><b>LEVEL 2</b> Data sources and uses are clearly defined. Both the supplier and the user are clear on the source and use of data within the systems. Internal feedback is by exception only. Data errors are being tracked.</p>
<p><b>LEVEL 3</b> A system has been developed and implemented in every office to ensure everything has a place. Walls and desks are clear of outdated posting or banners. Cleaning schedules are used to ensure that common areas are kept free of trash and clutter. 5S score is green for all areas.</p>	<p><b>LEVEL 3</b> Top-management objectives are clearly defined at all levels. Objectives are broken down to individual goals for the employees. Employee performance to goal is reviewed biannually.</p>	<p><b>LEVEL 3</b> Required training is 100% completed on an annual basis. Employees receive annual training to improve skill levels. Cross-training on every function is at 50%. Process improvement is prompted by employees and management. The PMD process is followed strictly and is considered a valuable part of employee development.</p>	<p><b>LEVEL 3</b> Performance measures are in place for 75% of the defined tasks. Critical tasks are measured, and successful completion is at 95%. All tasks have primary customer focus. Customer feedback is requested periodically.</p>	<p><b>LEVEL 3</b> Consistent, timely feedback is present in data collection processes. Weekly feedback sessions provide actionable items and training to support improved data accuracy. Internal experts are developed by the provider and the user groups. Documentation is present to answer procedural questions.</p>
<p><b>LEVEL 4</b> Everything has a place, everything is in its place, and the place is clearly labeled. File storage systems are routinely cleared of old files for outside storage or disposal.</p>	<p><b>LEVEL 4</b> Employees achieve personal and departmental objectives through process improvement and teamwork.</p>	<p><b>LEVEL 4</b> Employees are cross-trained on more than one functional task. Participation in developmental training is at 100%. Process improvement is constant. Regular review sessions are brief and actionable.</p>	<p><b>LEVEL 4</b> Customer focus is clear. Commitments to due dates are supported by a performance measure. Follow-up meetings review performance for continuous improvement.</p>	<p><b>LEVEL 4</b> Consistent internal audits provide timely feedback to users and providers. Accuracy is at 95%. User documentation is readily available as a reference in the user and provider work areas.</p>
<p><b>LEVEL 5</b> All desks are clear at the end of the day. Local files represent only usable materials. Routine inspections are performed by department employees to ensure that housekeeping is maintained.</p>	<p><b>LEVEL 5</b> Employees create departmental objectives that surpass corporate objectives.</p>	<p><b>LEVEL 5</b> Employees are enthusiastic about development opportunities and process improvement. Internal and external interaction is common.</p>	<p><b>LEVEL 5</b> Performance measures are used to support continuous improvement on all critical tasks. Customer satisfaction surveys ensure proper focus. The team works as a unit toward 100% compliance.</p>	<p><b>LEVEL 5</b> Data accuracy is 98%. Users and providers meet regularly to review performance and discuss process improvement.</p>

**Figure 3: Lean Transformation: Putting It All Together**



He also tied each employee's performance reviews to one or more of them. Figure 2 expands on five of the 10 lean keys to demonstrate how the controller supported all keys with a five-level road map that defined the stages of progression from a current "nonlean" state (level 1) to a future state of world-class performance (level 5). Levels 2 through 4 define the progressive stages of improvement that teams need to achieve to make the transition successfully. In short, this map helped employees develop a common vision of what truly outstanding performance looks like.

Various employees volunteered to become champions for each of the 10 lean keys. The champions formed small teams that defined the changes necessary to evolve to a higher level of proficiency. Each team created a PPI plan, assigned tasks to team members, and held weekly meetings to keep the projects on track. The controller also scheduled monthly lean key audits. The audits grew into exciting events as teams made presentations to justify why they deserved to be promoted to the next level of competency in their quest for world-class status. Within a cou-

ple of months, the lean keys were a constant source of productive conversation.

### **Taming the Month-end Closing Process**

The one improvement that was most instrumental in changing the department culture was achieving and eventually surpassing the goal of a five-day close. The project came about to eliminate excessive overtime hours. The team began by listing all tasks that needed to be completed to achieve the month-end close. They organized the tasks by employee, amount of time required, and the day performed. This process analysis revealed hidden tasks, unnecessary tasks that had been done for years, unbalanced workloads, and dependencies across employees. The team used a plan-do-study-act framework coupled with Microsoft Project and PERT (Program Evaluation and Review Technique) charts to determine what was preventing the site from closing the books in five days.

Team members performed detailed process reviews of the month-end-close activities that took the greatest

amount of time. They used PPI tools to identify and eliminate the root causes of delays, thereby shortening the closing process. Then they moved some tasks to earlier in the closing cycle to further compress time. Each employee worked off a defined task list that he or she agreed to complete in a specified time period. The team held daily meetings during the closing process to review the status of all tasks. If a task wasn't completed on time, the goal wasn't to blame someone but to identify the root cause of the delay. The team used the opportunity to refine tasks, trade roles, reduce dependencies, and, most importantly, eliminate work. The daily meetings brought the group closer together and dramatically improved

everyone's work-life balance. Within four months, fewer daily meetings were being held, and, more importantly, 25% of the department's work was labeled as nonvalue-added and eliminated.

The month-end-close initiative was so successful that other plant sites within the company began to embrace the goal of beating a five-day close. One site reduced the hours committed to the closing cycle by 50% and shrank the process to three days with no overtime. Another site reduced the hours required to close by 20%, or 114 hours. Eventually this site performed a four-day month-end close.

### Further Reading

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### Putting It All Together

The key aspects of CIP's lean transformation are summarized in Figure 3. They highlight the importance of building a proper foundation based on open and trustworthy communication, expanded employee skill sets, 5S principles, and empowered employees willing to take ownership of their department's success. With this foundation in place, CIP introduced additional technical aspects of lean improvement, including identifying the seven forms of waste and using the PPI methodology to eliminate them. It also created lean keys that provided all employees with a roadmap to guide and positively reinforce their pursuit of exceptional performance.

Finance departments need effective leaders who can define a vision of a world-class future, motivate their employees to embrace the vision, and then equip them with the maps and tools needed to make the vision a reality. The first step to being an effective financial leader is to recognize that your employees want to be valued, challenged to learn and grow, and respected and recognized for their efforts. We've described one company's experiences in this regard. We hope its successes can help you in your efforts to continuously improve the finance function in your organization. **SF**

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