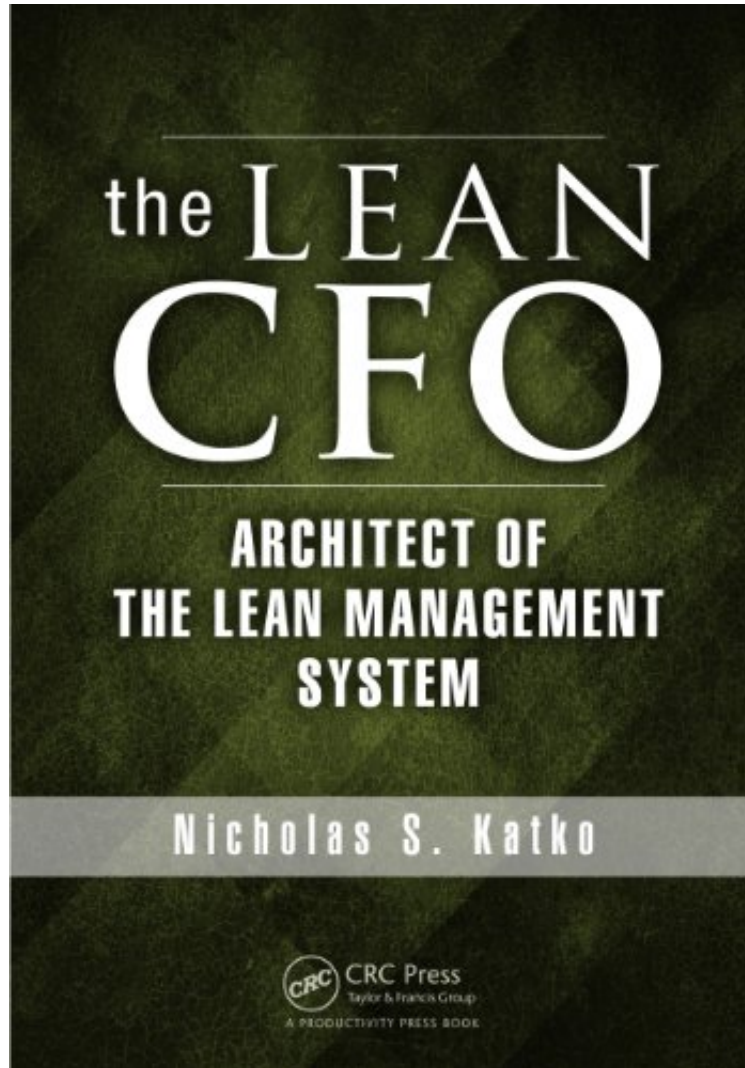


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## The Lean CFO: Architect of the Lean Management System

*Nicholas S. Katko*

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**Nicholas S. Katko : The Lean CFO: Architect of the Lean Management System** before purchasing it in order to gauge whether or not it would be worth my time, and all praised The Lean CFO: Architect of the Lean Management System:

3 of 3 people found the following review helpful. This book brought back me my motivation to discuss Lean with Controlling/Finance By Matti Varheenmaa This book was introduced to me by a young, at that time rather annoying controlling colleague of mine who bombarded me with continuous affirmations on how 20-30% of rework we witnessed in our operations at the time wasn't a big issue because of cost allocations, absorption, surcharges, inventory provisions and so on... Naturally, without formal training in accounting or finance I struggled to understand him, although our operation wasn't very complicated. As a result, every time we had one of these conversations I felt

extremely annoyed to the point that I told him to read *The Gold Mine* before talking to me again. He finished it, asked for the sequel and a few other books later he then came back to me saying I should read *Real Numbers* and then *The Lean CFO*. I had heard of *Real Numbers* because of all the Wiremold stories, but *Lean CFO* was new to me. I proceeded with reading and while Chapters 1-5 didn't give me anything new, from Chapter 6 onwards I started to become glued into the book as I suddenly felt like having discovered a totally new set of very valid discussion points supporting Lean as a winning business strategy. Without going too much into detail, the points about capacity, The Box Score, ERP, comparison of Standard Costing and Lean Accounting are pure gold. Chapters 8, 9 and 10 alone are worth the money and I can only tell you that I have read many pages of *Lean CFO and Accounting in Lean Enterprise* again and again with my colleague and many other people every since. I can only thank Nick for writing this great book. I have and will keep recommending this as a must read for anyone in this line of business. It is much easier to give up practicing Lean than keep doing it because it goes so strongly against human nature - this book gives good inspiration boost and helps to bridge the gap between lean and finance. It helped me and my controlling colleague to speak the same language and very quickly had built the Box Scores and he was suddenly able to see the operation same way as I did.

3 of 3 people found the following review helpful. Very good resource for how to account for Lean

By Jon Miller - Kaizen

This book speaks to the CFO or equivalent finance leader within a manufacturing-type of organization as the intended audience, but is very accessible to any reader with a basic understanding in finance or Lean. The book offers practical insights on how organizations can account properly for Lean. Chapters 6-10 are excellent primers for value stream costing, traditional vs. Lean perspective on capacity, pitfalls of standard costing for decision making, and how ERP should not be used. The explanations are concise and understandable to the non-accountant lean practitioner. The visuals and explanations of the value stream maps, box scores and value stream income statements are clear and easy to understand. At about 130 pages the book is the perfect size for the busy executive to digest in a couple of hours.

Areas for kaizen (improvement):

In chapter 4 *Show Me the Office Flow*, the author recommends "schedule to 80% capacity, whether it be for the entire process or its team members" because office work is highly variable by nature. While the premise is correct, this is a bad prescription. Not all office work can or should be scheduled, 80% of 8 hours. Based on personal experience, office workers engaged in highly repetitive transactional work can load to 90%+ while for senior managers, sales people, development teams with iterative work, 80% is far too high and unrealistic. Scheduling to capacity for an entire process (the whole team) versus its team members (individuals) are also very different games. The author is correct in explaining the general principles of leveling the schedule, loading to less than 100% (far less) and managing variability and interruptions by responding to andon signals and demand pull.

The book positions the CFO as the "architect of the lean management system" but this is overreaching. The lean management system as described in the book is the lean performance management system, more specifically a lean accounting system for manufacturing. There are many parts of "the Lean system" that are not addressed by the CFO or the contents of this book (lean people development, lean product development, lean supplier development, lean strategy deployment, etc.). While one could argue that setting up the right measurements will drive all of these areas to Lean, in practice someone other than the CFO must lead people to design and build the rest of the lean management system by applying tools and principles.

The definition of Lean used in the book is based on the so-called 5 Lean Principles of customer value, value streams, flow and pull, continuous improvement and engaged employees. The book deals mainly with the first four. The fifth principle, and the accounting for long-term investment in the development of people within a Lean enterprise, is not addressed. Investing in people is a challenging topic, a source of tension at many points on the Lean journey, and a key part of the Lean management system that requires enlightened CFOs to educate the rest of the organization.

Future editions of the book, or perhaps a workbook sequel, could follow a fictional company making decisions, mapping value streams, setting up box scores, etc. rather than using discrete sets of data without links to a story of a company. This would help provide context, help readers relate to the examples, particularly those who are not financial professionals.

Summary:

The *Lean CFO* is a very good resource and awareness-builder for the CEO / CFO / PL responsible executive supporting Lean. It is also a great primer in lean accounting for all Lean learners. Recommended for anyone serious about Lean.

2 of 2 people found the following review helpful. Excellent Book from an Accomplished Professional

By Brian Maskell

I have worked closely with Nick Katko for several years now. This book - *The Lean CFO* - reflects not only what Nick knows but his own personal experience. I first met Nick when he was the CFO of a company in Kentucky that makes industrial safety clothing and helmets. His company had started on the lean journey and had some significant success. But Nick recognized that the accounting and measurement systems he was responsible for were no longer appropriate for the new lean strategy. Nick got in touch with me and we talked on the phone about Lean Accounting methods and - cutting a long story short - Nick systematically introduced his own approach to lean accounting into his company. This was a great success because their lean processes went from strength to strength - and the CFO became one of the primary drivers of lean throughout the company. I highly recommend this book because it is profound, practical, readable, and short!! But mostly because this comes out of Nick Katko's deep knowledge of what a CFO needs to do in a lean-focused organization.

This book is not about debits, credits, or accounting theory. Instead, it describes how a chief financial officer (CFO) becomes a Lean CFO by leading a company in developing and deploying a Lean management system. The finance team, business executives, and Lean leaders will all benefit from its forward-thinking improvement approach. Explaining why the CFO role is so critical for companies adopting a Lean business strategy, *The Lean CFO: Architect of the Lean Management System* illustrates the process of building and integrating a Lean management system into the overall Lean business strategy. It describes why CFOs should move their companies away from performance measures based on traditional manufacturing practices and into a Lean performance measurement system. In addition, it explains how to integrate a Lean management system with a Lean business strategy to drive financial success. Describes the logic behind why a Lean management system must replace a traditional management accounting system. Discusses how flow can drive the financial success of Lean. Demonstrates the need for constructing a value stream capacity measurement system. Explains how to break your company away from using standard costing to run your business. The book explains why you must move your company into value stream accounting, which reports your internal financial information by the real profit centers of your business, your value streams. It describes the strategic aspects of making money from a Lean business strategy and also details how to modify your enterprise resource planning system to support Lean rather than hinder it.

**About the Author** After a tour of duty in public accounting, Nick Katko began his Lean management system career as chief financial officer of Bullard, a privately held manufacturing company in Kentucky. In the mid-1990s Bullard made a commitment to a Lean business strategy and began hiring operations people with Lean experience. Nick worked with Lean leaders to establish a comprehensive Lean performance measurement system that was used to measure and manage the entire business. As inventory was dramatically reduced, Nick realized the irrelevance of the standard costing system to the business. Nick created and introduced value stream income statements to Bullard, and all business decision making was based upon a value stream financial analysis of decisions. Eventually, labor and overhead rates were set to zero and inventory valuation was made with a simple monthly journal entry capitalizing manufacturing costs. In 2000, Nick left Bullard and started Strategic Financial Solutions, Inc., with his wife Deanna. Strategic Financial Solutions provides contract CFO and controller services as well as bookkeeping and tax services to companies in the Lexington, Kentucky area. While on Bullard's Lean journey, Nick read *Making the Numbers Count* by Brian Maskell. He liked the book so much he wrote Brian and told him about his own work with a Lean Management System. Nick and Brian talked regularly and, in 2002, Brian asked Nick to join BMA, Inc., as a senior consultant. As a senior consultant with BMA, Nick uses his experience to assist clients in Lean management implementation by working closely with them to resolve the real-world issues they face in implementation. These issues include removing traditional cost-based performance measurement systems in favor of Lean performance measurement systems, migrating from a traditional income statement to a value stream costing income statement, creating a transaction elimination maturity path, and working with management to create new business decision-making models based on Lean accounting practices. Nick has worked with a wide range of businesses, from multinational public companies to family-owned businesses around the world. He is the co-author of *The Lean Business Management System: Lean Accounting Principles and Practices Toolkit* (2007) as well as the BMA Lean Accounting Webinar Series. He is a regular presenter at the Lean Accounting Summit and the Lean Enterprise China Summit. Nick, a native of Sayreville, New Jersey, resides in Lexington, Kentucky with his wife, Deanna, and family. He holds a BS in accounting and an MBA in finance, both from the University of Kentucky, and is a certified public accountant.