

LEAN THINKING

A special report published by:
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This special report is one of a series produced for faculty members. In each report we give a review of a topical theme within finance and management, offering both analysis of the relevant theory and a review of the practical application of appropriate management techniques.

If you have any comments or suggestions, please send them to Jennifer Chong.

The information contained in this and previous issues of this publication is available (to faculty members only) on the faculty website at icaew.com/fmfac

F&M SPECIAL REPORTS

... are produced on behalf of the faculty by Silverdart Publishing
www.silverdart.co.uk
Contact: Alex Murray
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ISBN 978-0-85760-638-9

FOREWORD

A LEAN VISION – DOING MORE WITH LESS

With the ever-changing demands on business leaders to identify competitive opportunities, many organisations have been using a wide range of methodologies to improve their business processes. Over the past couple of decades, one prevalent method has been the adoption of a lean philosophy.

Lean principles originated after the second world war from the innovative manufacturing methods of Japanese automobile maker, Toyota. Taiichi Ohno had developed Toyota's production system (TPS) to focus on achieving a totally waste-free environment while maximising customer value. The TPS principles became popular in the west when the term 'lean' was first coined in 1988 in an article 'Triumph of the Lean Production System' by John Krafcik, a quality engineer in the Toyota-General Motors New United Motor Manufacturing Inc joint venture. In 1990, following Krafcik's article, the term was introduced internationally in the book *The Machine that Changed the World*, co-authored by James Womack, Daniel Jones and Daniel Roos.

The primary aim of this report is to outline the major concepts and thought processes behind the lean philosophy. Daniel Jones provides an overview of the origins of lean thinking and addresses some critical issues to consider before commencing a lean journey. John Bicheno sets out a framework for lean and introduces the core TPS principles by outlining the key Japanese concepts to identify what your customers value. Bicheno also provides an essential toolbox to support the transformation process and emphasises the crucial role of leadership and management. Kevin Dilton-Hill describes practical applications of lean concepts in service organisations, where success is dependent on identifying customer demands, while John Seddon provides a critique of the use of Ohno's TPS principles within the service industry. In addition, there are articles on accounting in a lean environment, which is predominantly based on common sense, and also on lean applications in the finance function.

Before adopting a lean transformation process, there are some points to note:

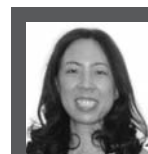
- lean is a mindset which requires a departure from traditional thinking and involves not only managing the visible wastes but more importantly the invisible factors;
- transformation is a long continuous journey and a lean organisation will not be achieved by just applying the tools and techniques alone; and
- sustainable on-going change requires management commitment and engagement of the right people from top to bottom, with clear communication and training to all staff to establish a lean culture.

If the lean approach is properly applied, your business should be in a robust position to focus on a continuous progression of improvement.

As you embark on your lean journey, we hope this report helps to provide you with an insight into the underlying methodology and key issues involved. Please let me know if you have any comments.



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