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GLOBAL REVIEW OF FINANCIAL THE RMOMETER PRACTICES: THE LEAN ACCOUNTING

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Abstract:

New accounting concepts has been designed to reflect the financial performance of lean enterprises in a better way. This paper is a systematic review of Lean Accounting articles that published since 2000 to 2020 around the globe. This review study on the literature of Lean accounting proceeds from the following search engine: i.e. Emerald insights and google scholar. Because modern era is providing a roadmap for finance managers while seeking to transit their organizations to Lean enterprises. Due to the significant financial impacts of lean practices a very little consideration was given to change the accounting systems which support the new production methods. Most of the companies introducing Lean thinking realize that their finance and accounting systems are very wasteful and ineffective. This review study aims to determine that howfactors influence the adoption of lean accounting by lean-manufacturing companies.

1. Introduction:

Lean is a multi-faceted concept that was identified to explain the success of "Japanese Way of Working" which increased their competitiveness at that time. In the response, companies have adopted lean philosophy in their manufacturing process, but continue to use traditional accounting (Jacobson & Johnson, 2006;Fullerton et al., 2014). Although in lean implementation, accountants clearly experienced and understand the worth of lean accounting for organization, but companies are slow to practically implement the lean accounting (Fullerton & Kennedy, 2009; Rao & Bargerstock, 2011). Lean accounting was developed by accountants to provide relevant accounting information that is beneficial for lean manufacturers. However, cost accounting standards do not provide required information and sometimes also dispense misleading information(Fullerton et al., 2014; Maskell et al., 2011). Although few lean manufacturing firms have adopt lean accounting but majority of them are not using it (Fullerton & Kennedy, 2009; Rao & Bargerstock, 2011; Zia ur Rehman, 2020).The existence of little empirical corroborating has shown on the usage of lean accounting by lean manufacturers (Fullerton & Kennedy, 2009; Rao & Bargerstock, 2011; Salamat et al., 2018). It is important for the propensity of lean manufacturing firms to understand the management accountant's behaviors concerning to lean accounting (LA). The main interest of lean accounting is that it improved the practices of financial management. According to Maskell et al., (2011)for organization's financial analysis, lean accounting has designed standard work by employing three basic principles: Firstly, any decision of financial impact is based on the consequences of value stream profit. Value stream are considered as core of lean enterprises profitability, however, at this stage all financial analysis would be performed. The "Cause and Effect relationship" dynamics are real between value stream operation's performance, profitability and capacity and it can be designed financially. Secondly, cost allocations means "Costing Your Money". Mostly, cost allocations have subjectivity level like cost of product in manufacturing firms. The elimination of cost allocations and understanding the relation among capacity, cost and operation performance is critical. It can only be easy when companies create that kind of environment where "root cause analysis" on operational solutions and cost behaviors can be conducted in order to achieve the required cost behavior. Lastly, elimination of wastes create time. The time spent on wastage is now usable for value creation (frequently described as "creating capacity"). Lean accounting incorporated with practices of financial management: no doubt time creation does not have financial effect but it can be impacted how that time utilizes by businesses. Lean companies could utilize it by selling more goods or services. In this manner, without increases in corresponding cost it increase the revenue of company which is shown as financial impact.For understanding the lean accounting, accountants need to change their perception and practicing the lean management accounting.

2. Background of Literature:

Lean Accounting: The Best Practices

There is a need to address how lean concepts and traditional accounting system fuse together and decompose into lean accounting. When Ohno and Monden introduced Toyota Production System, other scientists started criticize on it by comparing it with tradition system of manufacturing or production. Johnson & Kaplan., (1987) acknowledge that "the company's management accounting systems are inadequate for today's environments". With the regard to cost and financial management, Johnson & Kaplan., (1987) noted that most of the accounting practices were outdated and rather some were obsolete. It is the belief of Johnson & Kaplan., (1987) that the standardized system of cost accounting we employ is develop to support "external environment", so the overhead cost can be allocated in small amount to those products which based on touch labor. The design of traditional accounting supports older production process which is based on "mass production", however, lean explored that shifting from mass production to lean manufacturing methods of traditional accounting must be changed or adjusted according to requirements (Laura, 2010). Lean accounting is a new accounting approach that has emerged with the rise of business interest in embracing the culture of lean thinking. Lean accounting aims to quantify the monetary impacts of implementing the lean improvement projects in business processes (Woehrle & Abou-Shady, 2010). Following table-1 shows the pervious study on the emerging concept of Lean accounting:

TABLE-1: Pervious Study on the Emerging Concept of Lean Accounting:

Year	Journal Name	Authors
2002	Cost Management in Supply Chains	(Hines & Silvi, 2002)
2006	Association for Manufacturing Excellence's Target Magazine	(Maskell & Baggaley, 2006)
	Journal of cost management	(Johnson, 2006)
	International Scientific Days	(Stojanovic & Radojevic, 2006)
	Journal of Corporate Accounting & Finance	(Kennedy & Brewer, 2006)
2007	Journal of Corporate Accounting & Finance	(Maskell & Kennedy, 2007)
	Strategic Finance	(Anton Van Der Merwe & Thomson, 2007)
2008	Management Accounting Research	(Kennedy & Widener, 2008)
	Cost Accounting	(ANTON Van der Merwe, 2008)
	Encyclopedia of Statistics in Quality and Reliability	(Grayeski & Stavish, 2008)
	II International Conference on Industrial Engineering and Industrial Management	(Arbulo López & Basurto Uraga, 2008)
	Financial Management	(Maynard, 2008)
2009	International Conference on Management and Service Science	(Wang & Yuan, 2009)
	Superfactory newsletter	(Maskell, 2009)
	Zeszyty Teoretyczne Rachunkowości	(Michalak, 2009)
	Management Accounting Quarterly	(Hutchinson & Liao, 2009)
	Journal of the Comptroller General's Department	(Rajchamaha, 2009)
	American Journal of Business Education	(Haskin, 2010)
	Industry Week	(Cable, 2009)
2010	Journal of Industrial Engineering and Management	(de Arbulo-López & Fortuny-Santos, 2010)
	Ovidius University Annals, Economic Sciences Series	(Laura, 2010)
	Jurnal Akutansi Fakultas Ekonomi Universitas Udayana	(Sisdyani, 2010)
2011	Industrial engineer	(Yu-Lee, 2011)
2012	Journal of Corporate Accounting & Finance	(DeBusk, 2012)

	Lean Accounting: Best Practices for sustainable Integration	(Fiume, 2012)
2013	International Journal of Marketing, Financial Services & Management Research	(Chopra, 2013)
	Tourism & Management Studies	(Rosa & Machado, 2013)
	International journal of economics, finance and management	(Enoch, 2013)
	Advances in Management Accounting	(Harris & Cassidy, 2014)
2014	Annals of Industrial Engineering 2012	(Monroy et al., 2014)
	Journal of Operations Management	(R. R. Fullerton et al., 2014)
	Proceedings of The 18th IAMB Conference, September	(Cesaroni & Sentuti, 2014)
2015	International Journal of Business and Social Science	(Kocamiş, 2015)
	Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu	(Kowalewski, 2015)
	Mediterranean Journal of Social Sciences	(Elsukova, 2015)
2017	IUP Journal of Accounting Research & Audit Practices	(Arora & Soral, 2017)
2018	Advances in Research	(Daferighe et al., 2018)
	Journal of Accounting & Finance (2158-3625)	(Fliedner, 2018)
2019	Journal of Engineering and Applied Sciences	(Amusawi et al., 2019)
	Polish Journal of Management Studies	(Allawi et al., 2019)
2020	Economic Themes	(Čečević & Đorđević, 2020)
	Inžinerinė ekonomika	(Stončiuvienė et al., 2020)
	İşletme Araştırmaları Dergisi	(Kaldırım, 2020)

3. Conclusion:

This review study clearly explains that many manufacturing companies have come to terms with the myths of mass production. They are making the transition to lean thinking. However, accountants continue to embrace the myths of traditional accounting and drive employee compensation using counterproductive measures. Meanwhile, the existing accounting system is inadequate for lean environment. Different studies (Kaldırım, 2020; Stončiuvienė et al., 2020; Amusawi et al., 2019;Zia ur Rehman, 2020;Mohsin et al., 2019;Rosa & Machado, 2013)concluded that many accountants, managers and financial executives spend time doing non-value added activities to record unnecessary information and produce unneeded data and duplicate things. Even the value added work they do may arrive late (the reports) so it became obsolete and outdated. There is no systematic method to produce on time reports to help track the root causes of issues. But there are some restraints that hinder while shifting from outdated to new system. The transition of company's traditional operations and accounting to lean operations or lean accounting can be seen as best continuous process. The transition of outdated organization structure to new can be considered as lengthy and difficult (Amka, 2020). Lean shows best to the business (Čečević & Đorđević, 2020). Womack et al., (2007) and others (Schonberger, 2008; Mohsin et al., 2020a; Naseem et al., 2019; Tranfield et al., 2003) provided several examples on lean and traditional manufacturing differences and concluded that the aim of lean is to reduce wastage from organization. Generally, main goal of lean is to produce high quality product or service by using low cost and shortest lead time (Van Goubergen & Van Dijk, 2011; Salamat et al., 2018) Companies have to understand that for lean implementation the support of whole organization is required (Cunningem & Fiume, 2003;Sarfraz et al., 2021;Mohsin et al., 2021; Fullerton et al., 2014). In practices two concepts "accounting for lean and lean accounting" have been used interchangeably Solomon & Fullerton., (2007); however, both concepts have a clear distinction (Timm., 2015). Lean accounting "uses lean tools to eliminate waste in the accounting function" Cunningem & Fiume., (2003);Solomon & Fullerton., (2007) although accounting for lean "is the process that captures the financial benefits of a lean implementation" (Solomon & Fullerton, 2007). Generally, main goal of lean is to produce high quality product or service by using low cost and shortest lead time (Van Goubergen & Van Dijk, 2011; Naseem et al., 2020). Companies have to understand that for lean implementation the support of whole organization is required (Cunningem & Fiume, 2003;Mohsin et al., 2020b; Fullerton et al., 2014). Although few lean manufacturing firms have adopt lean accounting but majority of them are not using it (Fullerton & Kennedy, 2009; Rao & Bargerstock, 2011). The study of Maskell & Baggaley, (2006) concluded that those companies which are using lean accounting must have better information to make decision and understand financial changes due to lean accounting, it helps the organization to generate more cash flow by cutting extra cost and increasing in profit margins. Meanwhile replacing traditional accounting with lean accounting two types of issues raised; one is it takes a lot time to reduce cost and get financial benefits and other is that it undermines the profitability and revenue of company (Maskell & Kennedy, 2007). Lean accounting shows a new direction to companies by adopting non-financial measures too in reporting (Laura, 2010).

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