

Improving financial performance through lean manufacturing

Supply chain practices that can enhance the impact

The merits of lean manufacturing

Supply chain (SC) strategies are increasingly being viewed as rich source of competitive advantage for firms. It is argued that integration of different SC practices can help enhance their financial performance (FP).

Work exploring SC management has tended to focus on mainly behavioral rather than contingency approaches. In the first of these, the premise is largely that SC practices directly influence FP. But the second posits that impact is additionally influenced by other SC practices the company engages with. A significant assumption here is that FP can be enhanced through coordination between different SC practices.

Lean manufacturing is widely acknowledged as a crucial SC practice. Its various mechanisms drive the aim for efficiency, process consistency, reduced set up time and ongoing quality improvement. Waste elimination, management of material flows, inventory control and several just-in-time capabilities are among the most prominent practices. Strong emphasis on improvement also means that only activities which add value are included.

These and other practices are a fundamental part of why lean manufacturing retains its reputation as an effective instrument for improving the manufacturing process. Nonetheless, research exploring links to FP has generated mixed findings. At least some of this is attributed to variation in how the components of lean manufacturing are defined.

The effect of information sharing and strategic supplier partnership

Another key SC practice is information sharing (IS). In this context, the practice involves key tactical and strategic information being disseminated among SC members. Engaging in activities to share these different types of information respectively facilitates:

- Higher quality decisions as efficiency of management of decision-making activities increases; and
- Greater strategic impact from different SC partners and heightened competitiveness.

Monitoring is invariably a vital part of any process and it's no different where IS is concerned. It is particularly important for information closely associated with performance and operations such as delivery timescales, lead times and inventory.

Shrewd firms will ensure IS remains high priority as they can generate benefits that include:

- More productive relationships between SC partners;
- Key information being disseminated across the whole SC; and

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- Scope for members to use new information to act swiftly and appropriately.

Significantly, it has been noted in several studies that sharing of information with other companies is most important. It helps fuel levels of collaboration that subsequently have a positive effect on performance.

The critical importance of a collaborative association is illustrated by relevance attached to strategic supplier partnership (SSP). All SC members gain when links are forged with certain strategic suppliers and firms should use these relationships to:

- Create lasting integration between suppliers and buyers;
- Share benefits and risks between different parties involved; and
- Engage in mutual activities for planning and to find solutions.

Some evidence exists to indicate that a company's SSP benefits when lean manufacturing is embraced. However, it is claimed that desired supplier productivity outcomes become likelier when suppliers:

- Demonstrate strong commitment to lean practices;
- Utilize the most relevant lean tools;
- Secure buy-in from leaders and employees alike; and
- Place considerable emphasis on learning so that production capabilities can be enhanced.

Any notion that lean manufacturing can positively affect the FP of a firm is a logical one. After all, initiatives to improve quality and reduce set-up time help ensure positive outcomes for customers. And when clients are satisfied, the bottom line is often healthier too. Indeed, different studies have noted a direct impact on FP from various lean practices like cellular manufacturing and total quality management (TQM) among others.

The influence of lean manufacturing on FP can become stronger when IS is effective. Management of information increases SC integration and provides the foundation for positive working relationships among members to emerge. Sharing information helps to reduce costs and improve the lean activities and operations which can lead to enhanced financial outcomes.

Grounds exist for believing that SSP can positively affect FP and also function to mediate the lean manufacturing-FP connection. It is proposed that firms should:

- Share information and liaise closely with SC partners in order to benefit from supplier knowledge and experience; and
- Combine resources from external partners with the firm's own resources and capabilities.

Measures like the above can result in SSP playing a key role in delivering value that increases customer satisfaction levels and leads to better FP.

Scope for problems with integration is noted in the literature. One unwelcome consequence of this is a dilution of lean manufacturing's positive impact on performance. But a strategic partnership with suppliers can ensure:

- Respective capabilities are appropriately aligned;
- Uncertainty is reduced as mutual understanding of needs develops; and
- The SC can increase its flexibility and adapt its response to meet customer demands as they evolve.

It is claimed that SSP serves as a mediator when collaborative partnerships are based on solid foundations. Supplier history is one factor here, while discretion when exchanging sensitive business information matters too. Obviously, trust among partners is essential. These factors help facilitate strong relationships between SC members who then share information in the timely and efficient manner needed for just-in-time manufacturing to succeed. This aptly illustrates how SSP enables operational efficiency and thus indirectly influences FP.

Study findings from Kosovo

These relationships are further explored by [Islami \(2022\)](#) in a study of manufacturers in Kosovo, where such companies are considered to play a key strategic role. Integration of SC is deemed essential for survival given the degree of instability and uncertainty that prevails in the operating environment. The study was carried out in two stages with separate questionnaires initially being distributed to middle and top-level managers. At a later stage, financial managers were questioned about financial aspects.

Evidence was found to confirm most of the links discussed. The one exception is that IS does not appear to strengthen lean manufacturing's impact on FP. In the author's opinion, the importance of IS is not diminished by this discovery. A possible explanation is that the sharing of information with SC partners is already integral to application and impact of lean manufacturing practices.

Confirmation that SSP functions to mediate the lean manufacturing-FP relationship is seen as most significant. It also suggests that a contingency perspective best reveals how lean manufacturing is able to affect performance. Furthermore, inconsistent findings in earlier work might be attributed to the fact that the contingency role of other SC practices was not investigated.

A key conclusion from this research is that the ability of lean manufacturing to shape FP is limited when the firm depends solely on internal resources and capabilities. A stronger effect appears likely through integration with other SC practices, especially SSP.

In light of this, companies should make the necessary investment needed to develop and enhance relations with SC partners in order to generate a sustainable impact on performance. Firms are also urged to continue sharing information with other organizations to provide mutual benefits across the network and increase collaboration effectiveness. Another suggestion is to focus on appropriate lean principles in order better utilize SC practices. In this regard, activities which help to such as eliminate waste, shorten leads

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times, streamline administrative functions and continually improve quality are especially important.

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Lean manufacturing,
Information sharing,
Strategic supplier
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Financial performance

Comment

The review is based on: "Lean manufacturing and firms' financial performance: the role of strategic supplier partnership and information sharing" by Xhavit Islami, published in *Benchmarking: An International Journal*.

Reference

Islami, X. (2022), "Lean manufacturing and firms' financial performance: the role of strategic supplier partnership and information sharing", *Benchmarking: An International Journal*, doi: [10.1108/BIJ-02-2022-0084](https://doi.org/10.1108/BIJ-02-2022-0084), ISSN 1463-5771.

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