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AS business

Lean Production

**Evaluate the importance and impact of lean production for businesses and their stakeholders (15)**

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| Examiner’s tip: In tackling this type of question it is best to consider the objective of the stakeholder, then discuss how one of the elements of lean production may help/hinder in the achievement of this objective.  Open with a clear outline of the topic ‘lean production’ and it’s elements |

Lean production aims to maximise the production output whilst minimising inputs.  This includes the use of just-in-time (JIT) stock control, kaizen, zero defects, time based management and simultaneous engineering.  This depends on a motivated and well trained workforce.

Businesses shareholders will aim to increase their dividend pay-outs.  Lean production aims to minimise production costs by aiming for zero defects.  In doing so, the input cost is reduced in relation to output revenue.  This will lead to an increase in the profit per item.  As dividends are paid as a percentage of profits, lean production will help in the achievement of increasing profits.  Therefore, lean production is important to shareholders in achieving their goal of higher dividends.

A manager's primary objective is the achievement of departmental objectives.  A production manager may be provided with the objective to increase productivity.  Cell production is part of a lean production philosophy which allows workers to work in small teams in order to complete targets.  As teamwork allows workers to share good practice and develop ideas this leads to productive efficiency gains.  In turn, the best performing teams may be identified and used as a benchmark in order to set targets for other teams.  As this can lead to productivity increases, lean production is vital to the development and achievement of departmental objectives for production managers.

Additionally, the use of cell production within the lean production philosophy will allow employees to work together to achieve targets quickly and efficiently.  In the Dr.Martins factory (R Griggs) cell production is used in order to set weekly production targets for the teams.  Efficient production and teamwork means that once that target has been achieved the team finish work for the week.  As a result, the employees often work effectively in teams with little supervision, low absenteeism and low labour turnover (all signs of a motivated workforce).  The benefit for teams is that, on average, pay rates per week have increased and staff often complete targets before the end of the week gaining more time at home with their families as an added bonus.  Therefore, as cell production seems to create a motivated workforce with clear goals, it appears to be an important element in developing a motivated, productive workforce.

JIT is a key element of lean production.  Suppliers will want reasonable prices and regular custom from businesses.  JIT is important to suppliers as the lack of buffer stock means manufacturers are reliant on regular supplies arriving on time.  In order to secure good quality suppliers firms may be willing to pay more than the minimum price for goods.  In this way suppliers will be able to operate at reasonable profit margins with regular customers.  However, this will put pressure on suppliers to ensure their business is ready to supply in order to meet manufacturer’s needs.  Should suppliers be unable to provide goods in time it may be that they lose customers.  As suppliers may have only a few large customers, the loss of a customer may put suppliers on the loss side of the break-even point.  Therefore, whilst lean production can be a benefit to suppliers, it may also be a threat.

Customers may see lean production as a benefit.  The philosophy of reducing inputs whilst maximising outputs will lead to a reduction in the average unit costs of products.  If the business decides to pass this cost saving directly on to the customer it will result in reduced prices for customers.  Alternatively, it may be that the business places the extra contribution into improving the quality of the product.  Either way, lean production can lead to the achievement of lower prices or higher quality of goods.  Therefore, lean production can be of great benefit to customers.

In relation to the local community, one of the key principles of lean production is the aim of zero waste.  The local community will benefit from this as this will lead to a more efficient use of resources.  With less waste being produced the outcome is likely to lead to a reduction of pollution for the environment.  Therefore, lean production will be of benefit to the local community.

However, as lean production means increasing efficiency, this may lead to redundancies at factories.  As less employment will occur, this decreases the benefit to the local community of having manufacturers in their area.  Therefore, it may mean that although the reduced pollution can be a benefit, the lack of employment opportunities may also raise problems.

In conclusion, it must be recognised that, in the short-term efficiency gains are likely to come at the cost of a reduced workforce.  Therefore, this can be detrimental to local communities, potential or existing employees and government targets.  Additionally, redundancies will have a cost to the company.

However, in the long-term it would appear that lean production can offer benefits to all of the aforementioned groups of stakeholders as the efficiency gain will lead to quality and efficiency gains.  Those remaining in employment are likely to benefit from more autonomy, higher wages and suitable team working arrangements.

Price elasticity could be an overriding factor of the level of importance lean production has to play.  As cost reductions can lead to the opportunity to lower prices, the customer’s response to lower prices could be the deciding factor when considering whether to deal with the short-term costs of lean production.