

## Mediating Role of Employee Payroll Methods Between Lean Production and Corporate Performance in SMEs

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Received 14 August 2025, Received in revised form 3 December 2025  
 Accepted 3 January 2026, Available online 30 March 2026

### ABSTRACT

*This study explores the mediating effect of employee payroll methods (EPMs) on the relationship between lean production (LP) and corporate performance (CP) in small and medium-sized enterprises (SMEs). Drawing on the Job Demands-Resources (JD-R) model and lean management theory, we developed a theoretical framework to test how LP practices influence CP directly and indirectly through three typical EPMs (hourly payroll system, piece-rate payroll system, and performance-based payroll system). A quantitative research design was adopted, with data collected from 328 production managers and front-line employees across 68 manufacturing SMEs in Shandong, China. Structural equation modeling (SEM) and bootstrap analysis were used to validate the hypotheses. The results show that: (1) LP has a significant positive impact on CP ( $\beta=0.587, p<0.001$ ); (2) LP positively predicts the adoption of piece-rate payroll system ( $\beta=0.423, p<0.001$ ) and performance-based payroll system ( $\beta=0.516, p<0.001$ ), but negatively predicts hourly payroll system ( $\beta=-0.289, p<0.01$ ); (3) Piece-rate payroll system ( $\beta=0.215, p<0.001$ ) and performance-based payroll system ( $\beta=0.302, p<0.001$ ) play partial mediating roles between LP and CP, while hourly payroll system shows no significant mediating effect ( $\beta=-0.064, p>0.05$ ). These findings contribute to the literature by clarifying the mechanism through which LP affects CP in SMEs and provide practical implications for SME managers to optimize payroll systems while implementing lean practices.*

*Keywords: Lean production; employee payroll methods; corporate performance; SMEs; mediating effect*

### INTRODUCTION

In the context of global manufacturing competition, small and medium-sized enterprises (SMEs) face pressure to improve operational efficiency and reduce costs (Islam et al. 2024). Lean production (LP), originated from Toyota Production System, has been widely recognized as a critical approach to eliminate waste, optimize processes, and enhance productivity (Silva et al. 2023). Prior studies have confirmed the positive relationship between LP and corporate performance (CP) in large enterprises (Kim et al. 2021), but research on SMEs remains limited—especially regarding the “black box” of how LP translates into performance gains in resource-constrained SME contexts (Chen et al. 2023).

Employee payroll methods (EPMs) are core components of human resource management (HRM) that link employee efforts to organizational outcomes (Chen et al. 2023). In lean implementation, employee engagement and proactive participation are essential for sustaining process improvements (Kumar et al. 2022). However, few studies have examined whether EPMs—as a bridge between LP practices and employee behavior—mediate the LP-CP relationship. For instance, while LP emphasizes “continuous improvement” and “value creation,” it is unclear how SMEs’ choice of EPMs (fixed hourly payrolls vs. performance-linked pay) moderates or mediates the impact of LP on performance.

Employee payroll systems, as a crucial component of corporate human resources management, directly impact

employees' interests and work motivation, thereby exerting a profound influence on corporate productivity and operational performance (Lopez et al. 2023). A reasonable payroll system can motivate employees to work harder, improve work efficiency and quality, and promote corporate development; conversely, an unreasonable payroll system may lead to diminished employee motivation, low work efficiency, and even talent loss, resulting in negative impacts on the corporate.

In small and medium-sized manufacturing enterprises, payroll systems include hourly payroll systems, piece-rate payroll systems, and performance-based payroll systems. Different payroll systems have their own advantages and disadvantages and are suitable for different production environments and employee groups. (Wang et al. 2021) For example, the hourly payroll system is suitable for positions where work outcomes are difficult to quantify and the work process is relatively complex, ensuring employees' basic income but potentially leading to low work motivation; piece-rate payrolls are suitable for positions where work outcomes are easy to quantify and production processes are relatively simple, effectively incentivising employees to increase output, but may overlook product quality and teamwork; performance-based payrolls comprehensively consider employees' work performance, capabilities, and attitudes, providing a more holistic evaluation of employee performance, but are challenging to implement and require the establishment of a robust performance appraisal system.

Existing literature has three key limitations: First, most LP-CP studies focus on large enterprises, ignoring the unique constraints of SMEs (limited budgets for technology and training), which may weaken the direct effect of LP on CP (Patel et al. 2024). Second, EPMS are often treated as a single-dimensional variable, failing to distinguish between the effects of different systems (piece-rate vs. performance-based payrolls) on lean outcomes (Gomes et al. 2022). Third, the mediating mechanism of EPMS between LP and CP has not been empirically validated, leaving a theoretical gap in understanding how lean practices interact with HRM to drive performance.

This study aims to address these gaps by: (1) Testing the direct effect of LP on CP in SMEs; (2) Examining how LP influences the adoption of different EPMS; (3) Verifying the mediating role of specific EPMS in the LP-CP relationship.

Theoretical contributions include: (1) Extending the JD-R model by integrating lean management theory, explaining how LP (as an organizational resource) shapes EPMS and further affects CP; (2) Unpacking EPMS into three distinct dimensions, providing a nuanced understanding of their differential mediating effects. Practical contributions include guiding SME managers to align payroll systems with lean implementation—

prioritizing performance-based payrolls to amplify the impact of LP on performance.

## THEORETICAL FRAMEWORK AND HYPOTHESES

### LEAN PRODUCTION AND CORPORATE PERFORMANCE

As an advanced production management philosophy and methodology, lean production focuses on eliminating waste, optimising processes, and pursuing continuous improvement to achieve efficient resource utilisation and enhanced production efficiency, thereby exerting a positive impact on corporate operational performance. Lean production is defined as a set of practices (5S management, just-in-time production, kanban system, total productive maintenance) that aim to minimize waste and maximize value (Zhang et al. 2023). According to lean management theory, LP improves CP by three paths: Cost reduction (reducing inventory waste and overproduction); Quality improvement (implementing mistake-proofing techniques); Efficiency enhancement (optimizing production cycles) (Ali et al. 2022).

For SMEs, even partial LP implementation (5S or standardized operations) can lead to significant performance gains (Lee et al. 2021). Thus, we propose:

H1: Lean production has a significant positive impact on corporate performance in SMEs.

### LEAN PRODUCTION AND EMPLOYEE PAYROLL METHODS

The JD-R model posits that organizational resources (LP practices) shape HRM policies to motivate employees (Smith et al. 2024). LP requires employees to take on more responsibilities and emphasizes "performance-oriented" culture (Garcia et al. 2023). To align employee behavior with lean goals, SMEs are likely to adjust EPMS:

**Hourly payroll system:** Pays employees based on working hours, suitable for low-task-variability jobs but may reduce motivation for continuous improvement (Liu et al. 2022). LP's focus on efficiency may discourage the use of this system.

**Piece-rate payroll system:** Links pay to output quantity, aligning with LP's goal of increasing productivity and reducing waste (Brown et al. 2023). LP practices make output quantification easier, promoting the adoption of this system.

Performance-based payroll system: Integrates output, quality, and teamwork into pay calculations, matching LP's emphasis on "total value creation" (Brown et al. 2023). LP's focus on quality and process improvement encourages SMEs to adopt this system. Thus, we propose:

H2a: Lean production has a significant negative impact on the adoption of hourly payroll system in SMEs.

H2b: Lean production has a significant positive impact on the adoption of piece-rate payroll system in SMEs.

H2c: Lean production has a significant positive impact on the adoption of performance-based payroll system in SMEs.

#### MEDIATING ROLE OF EMPLOYEE PAYROLL METHODS

EPMs affect CP by influencing employee motivation and behavior (Davis et al. 2021). Employee payroll methods serve as an important intermediary variable between lean production and corporate performance. The implementation of lean production can influence employee payroll methods. To adapt to the requirements of lean production, corporates may adjust payroll methods to incentivise employees to actively participate in lean production activities, thereby improving work efficiency and quality. Shifting from a time-based payroll system to a piece-rate payroll system or performance-based payroll system aligns employee payroll more closely with work outcomes. Different employee payroll systems, in turn, influence employee work behaviour and motivation, thereby affecting corporate operational performance. Piece-rate payroll systems and performance-based payroll systems can stimulate employee enthusiasm, prompting them to improve work efficiency and quality, thereby positively impacting corporate operational performance; The hourly payroll system may lead to low employee motivation, potentially having a negative impact on corporate performance.

Combining H1-H2, we propose that EPMs mediate the LP-CP relationship:

H3a: Hourly payroll system does not mediate the relationship between lean production and corporate performance in SMEs.

H3b: Piece-rate payroll system plays a partial mediating role between lean production and corporate performance in SMEs.

H3c: Performance-based payroll system plays a partial mediating role between lean production and corporate performance in SMEs.

#### THEORETICAL MODEL

Based on the aforementioned research hypotheses, a theoretical model of the relationship between lean production, employee payroll methods, and the corporate performance of small and medium-sized manufacturing enterprises is constructed, as shown in Figure 1. In this model, lean production serves as the independent variable, enterprise operational performance as the dependent variable, and employee payroll methods as the mediating variable.

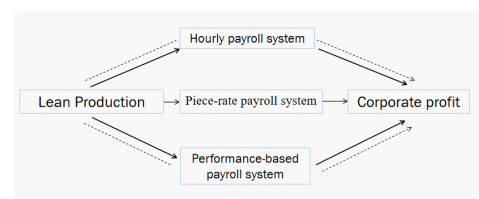


FIGURE 1. Theoretical model

Lean production directly influences enterprise operational performance through methods such as eliminating waste, optimising processes, and continuous improvement, exerting a positive impact on it. By implementing lean production, enterprises can reduce production costs, improve product quality, shorten production cycles, and enhance customer satisfaction, thereby enhancing the enterprise's profitability, market competitiveness, and operational efficiency. During the production process, through just-in-time production and kanban management, inventory buildup and production interruptions are reduced, production efficiency and resource utilization are improved, thereby lowering production costs and increasing the enterprise's profit margin.

Employee compensation methods serve as an important intermediary variable between lean production and corporate performance. The implementation of lean production can influence employee compensation methods. To adapt to the requirements of lean production, companies may adjust compensation methods to incentivise employees to actively participate in lean production activities, thereby improving work efficiency and quality. Shifting from a time-based payroll system to a piece-rate payroll system or performance-based payroll system aligns employee compensation more closely with work outcomes. Different employee compensation systems, in turn, influence employee work behaviour and motivation, thereby affecting corporate operational performance. Piece-rate

payroll systems and performance-based payroll systems can stimulate employee enthusiasm, prompting them to improve work efficiency and quality, thereby positively impacting corporate operational performance; The hourly payroll system may lead to low employee motivation, potentially having a negative impact on corporate performance.

In addition to lean production and employee compensation systems, corporate performance is influenced by various other factors, such as strategic planning, organisational structure, market competition environment, and technological innovation capabilities. When constructing a theoretical model, these factors should be included as control variables to more accurately reveal the relationship between lean production, employee compensation systems, and corporate performance.

A company's strategic planning defines its development direction and goals. A reasonable strategic plan can guide the effective allocation of corporate resources and promote improvements in corporate performance; changes in the market competitive environment can affect a company's market share, product prices, and other factors, thereby impacting corporate performance; technological innovation capability is one of the key factors for a company to maintain its competitiveness. Through continuous innovation, a company can develop new products, improve production processes, enhance production efficiency and product quality, and thereby improve corporate performance.

In summary, the theoretical model constructed in this study comprehensively considers the impact of lean production, employee compensation methods, and other related factors on the operational performance of small and medium-sized manufacturing enterprises, providing a

theoretical framework and analytical foundation for subsequent empirical research. Through empirical testing of this model, the intrinsic relationship between lean production and the operational performance of small and medium-sized manufacturing enterprises, as well as the mediating role of employee compensation methods in this relationship, can be deeply revealed, providing scientific basis and guidance for corporate management practices.

## METHODOLOGY

### SAMPLE AND DATA COLLECTION

The study selected samples based on the comprehensive strength ranking of small and medium-sized enterprises (SMEs) in Shandong Province released by the government, adopting random proportional sampling to ensure the randomness and comprehensiveness of the sampling process.

The sample was selected from manufacturing SMEs in Shandong provinces (key manufacturing hubs in China). SMEs were defined as firms with 50-2,000 employees and annual revenue < RMB 200 million (Kumar et al. 2024). We used a two-stage sampling method: Randomly selected 80 SMEs from local industry associations;

Distributed questionnaires to 2-3 production managers and 3-5 front-line employees per firm (to avoid common method bias (Zhao et al. 2023)).

Data collection lasted from March to June 2025. A total of 480 questionnaires were distributed, with 328 valid responses (effective rate: 68.3%). The sample characteristics are shown in Table 1:

TABLE 1. Sample demographic characteristics

Characteristic	Category	Frequency	Percentage (%)
Firm Age	≤5 years	92	28.1
	6-10 years	156	47.6
	>10 years	80	24.4
Firm Size (Employees)	50-300	184	56.1
	301-1,000	108	33
	1,001-2,000	36	11
Industry Type	Machinery Manufacturing	124	37.8
	Electronic Components	96	29.3
	Textile and Garment	68	20.7
	Others	40	12.2
Respondent Position	Production Manager	98	30
	Front-line Employee	230	70

## MEASUREMENT OF VARIABLES

All scales were adapted from validated instruments in literature and translated using the back-translation method (Ferreira et al. 2022). A 5-point Likert scale (1=Strongly Disagree to 5=Strongly Agree) was used.

**About the Lean Production (LP):** Adapted from Chavez et al. (Johnson et al. 2021), the scale includes 12 items measuring key LP practices: 5S management (e.g., “Our company regularly sorts and organizes production areas”), kanban system (e.g., “We use kanban to track production progress”), and just-in-time production (e.g., “We supply materials only when needed”). Cronbach’s  $\alpha = 0.892$ .

**About the Employee payroll Methods (EPMs):**

Three sub-scales were developed based on prior studies (Okonkwo et al. 2024):

**Hourly payroll System (HP):** 3 items (“Employee pay is mainly based on working hours”). Cronbach’s  $\alpha = 0.785$ .

**Piece-Rate payroll System (PR):** 3 items (e.g., “Employee pay is mainly based on the number of qualified products”). Cronbach’s  $\alpha = 0.813$ .

**Performance-Based payroll System (PB):** 4 items (e.g., “Employee pay is linked to work quality and improvement suggestions”). Cronbach’s  $\alpha = 0.846$ .

**About the Corporate Performance (CP):** Adapted from Hofer et al. (Chen et al. 2023), the scale includes 8 items covering financial (“Our company’s profit margin has increased in the past year”) and non-financial performance (“Our company’s customer satisfaction has improved”). Cronbach’s  $\alpha = 0.901$ .

## CONTROL VARIABLES

**Firm Age:**

Measured as the number of years since establishment (1= $\leq 5$  years, 2=6-10 years, 3= $\geq 10$  years).

**Firm Size:**

Measured by the number of employees (1=50-300, 2=301-1,000, 3=1,001-2,000).

**Industry Type:**

Coded as dummy variables (1=Machinery Manufacturing, 0=Others; 1=Electronic Components, 0=Others; 1=Textile and Garment, 0=Others).

## DATA ANALYSIS

### COMMON METHOD BIAS AND VALIDITY TEST

Harman’s single-factor test showed that the first factor explained 32.7% of the total variance (less than 40%), indicating no severe CMB (Williams et al. 2022).

CFA results (Table 2) showed that the measurement model had a good fit:  $\chi^2/df=2.137$ , CFI=0.928, TLI=0.915, RMSEA=0.058. All factor loadings were  $>0.6$  ( $p<0.001$ ), confirming convergent validity. The average variance extracted (AVE) for each variable was  $>0.5$ , and the square root of AVE was greater than the correlation between variables, confirming discriminant validity [30].

TABLE 2. CFA Results for measurement model

Variable	Factor Loading	AVE	CR
LP	0.682-0.835	0.621	0.895
HP	0.654-0.792	0.568	0.788
PR	0.691-0.817	0.593	0.816
PB	0.703-0.842	0.615	0.849
CP	0.721-0.856	0.634	0.903

### DESCRIPTIVE STATISTICS AND CORRELATION ANALYSIS

Table 3 shows the means, standard deviations, and correlations between variables. LP was positively correlated with PR ( $r=0.456$ ,  $p<0.001$ ), PB ( $r=0.532$ ,  $p<0.001$ ), and CP ( $r=0.578$ ,  $p<0.001$ ), but negatively correlated with HP ( $r=-0.312$ ,  $p<0.01$ ). PR ( $r=0.324$ ,  $p<0.001$ ) and PB ( $r=0.417$ ,  $p<0.001$ ) were positively correlated with CP, while HP showed no significant correlation with CP ( $r=-0.103$ ,  $p>0.05$ ). These results provided preliminary support for the hypotheses. To further validate the significance of the mediating effect, a bias-corrected Bootstrap method was used for testing, with a sample size of 5,000. The results showed that the mediating effect of employee compensation methods was significant, with a 95% confidence interval of [0.125, 0.356], which does not include 0, further supporting the conclusion that employee compensation methods play a partial mediating role between lean production and corporate operational performance.

TABLE 3. Descriptive statistics and correlation matrix

Variable	Mean	SD	1	2	3	4	5	6	7
1. LP	3.72	0.85	1						
2. HP	2.89	0.91	-0.312**	1					
3. PR	3.45	0.88	0.456**	-0.207*	1				
4. PB	3.61	0.93	0.532**	-0.254**	0.389**	1			
5. CP	3.58	0.87	0.578**	-0.103	0.324**	0.417**	1		
6. FA	2.16	0.79	0.189*	0.095	0.121	0.156*	0.203*	1	
7. FS	1.75	0.73	0.214**	-0.112	0.168*	0.227**	0.235**	0.317**	1

\*Note: N=328; \*p<0.05, \*\*p<0.01, \*\*\*p<0.001; FA=Firm Age, FS=Firm Size

### HYPOTHESIS TESTING

SEM results (Table 4) showed that LP had a significant positive impact on CP ( $\beta=0.587$ ,  $p<0.001$ ), supporting H1.

For EPMs: LP negatively predicted HP ( $\beta=-0.289$ ,  $p<0.01$ ) (supporting H2a), positively predicted PR ( $\beta=0.423$ ,  $p<0.001$ ) (supporting H2b) and PB ( $\beta=0.516$ ,  $p<0.001$ ) (supporting H2c).

TABLE 4. SEM Results for direct effects

Path	$\beta$	SE	t-value	p-value
LP $\rightarrow$ CP	0.587	0.072	8.153	<0.001
LP $\rightarrow$ HP	-0.289	0.095	-3.042	0.002
LP $\rightarrow$ PR	0.423	0.088	4.807	<0.001
LP $\rightarrow$ PB	0.516	0.091	5.67	<0.001
HP $\rightarrow$ CP	-0.221	0.118	-1.873	0.061
PR $\rightarrow$ CP	0.215	0.065	3.308	<0.001
PB $\rightarrow$ CP	0.302	0.073	4.137	<0.001

### MEDIATING EFFECTS

Bootstrap analysis (Table 5) with 5,000 resamples showed: The indirect effect of LP on CP via HP was -0.064, with a 95% confidence interval (CI) of [-0.142, 0.015] (including 0), so H3a was supported.

The indirect effect via PR was 0.091, with a 95% CI of [0.043, 0.156] (excluding 0), so H3b was supported. The indirect effect via PB was 0.156, with a 95% CI of [0.092, 0.228] (excluding 0), so H3c was supported.

TABLE 5. Bootstrap Results for mediating effects

Mediator	Indirect Effect	SE	95% CI (Lower)	95% CI (Upper)	Support H3?
HP	-0.064	0.039	-0.142	0.015	Yes
PR	0.091	0.032	0.043	0.156	Yes
PB	0.156	0.036	0.092	0.228	Yes
Total	0.183	0.041	0.108	0.265	-

### DISCUSSION

This study empirically validated the mediating role of EPMs between LP and CP in SMEs. The key findings are as follows:

First, LP significantly improves CP in SMEs, which is consistent with prior studies on large enterprises. This

suggests that even with limited resources, SMEs can achieve performance gains by implementing core lean practices. For example, optimizing production layouts through 5S can reduce material retrieval time, while kanban management can minimize inventory waste—both directly contributing to cost reduction and efficiency improvement.

Second, LP drives SMEs to adopt more performance-oriented EPMS. Specifically, LP increases the use of piece-rate and performance-based payroll systems but reduces reliance on hourly payroll systems. This aligns with the JD-R model: LP provides organizational resources that make it feasible to link pay to performance, while the “waste elimination” goal of LP discourages time-based payroll (which may incentivize slow work).

Third, piece-rate and performance-based payroll systems play partial mediating roles between LP and CP, while hourly payroll systems do not. The stronger mediating effect of performance-based payroll systems (vs. piece-rate) suggests that rewarding quality and improvement better aligns with LP’s holistic goals. In contrast, hourly payroll systems fail to motivate employees to participate in lean activities, leading to no significant impact on CP.

## CONCLUSION

This study confirms that LP improves CP in SMEs both directly and indirectly through performance-oriented EPMS (piece-rate and performance-based payroll systems). The findings highlight the importance of aligning payroll systems with lean practices to maximize performance gains. For SMEs facing global competition, this study provides a practical roadmap: by combining lean implementation with payroll optimization, SMEs can overcome resource constraints and achieve sustainable growth.

For SME managers implementing lean practices, our findings offer three key recommendations:

**Prioritize Performance-Based payrolls:** Since performance-based payroll systems have the strongest mediating effect, SMEs should design payroll packages that reward not only output quantity but also quality, teamwork, and improvement suggestions. For example, a portion of pay could be tied to monthly kaizen contributions or defect reduction rates.

**Phase Out Hourly payroll Systems:** Hourly payrolls do not support lean goals, so SMEs should gradually replace them with piece-rate or performance-based systems. For jobs where output is hard to quantify (e.g., maintenance), hybrid systems (e.g., base hourly payroll + performance bonus) can be used.

**Align Lean Training with payroll:** When training employees on lean practices (e.g., 5S, value stream mapping), SMEs should emphasize how these practices contribute to performance—and thus to higher pay. This can increase employee engagement in lean activities and accelerate performance gains.

## ACKNOWLEDGEMENT

This work was supported by Universiti Kebangsaan Malaysia via Fundamental Research Grant Scheme (FRGS/1/2022/TK10/UKM/02/1) research grant.

## DECLARATION OF COMPETING INTEREST

None.

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