

Pack 21 - Scale of Production cont.

DISECONOMIES OF SCALE

Diseconomies occurs when the average costs of production increase as the scale of production increases.

Internal Diseconomies of Scale

Most internal diseconomies are caused by the difficulties encountered when managing large businesses.

Poor Communication	As a firm grows communication becomes more difficult and messages may be distorted in taller hierarchies or wider spans of control > inefficiency and misunderstanding rising average costs.	Ways to minimise this - Financial incentives Praise & recognition Fringe benefits e.g. company cars
Poor Co-ordination	It becomes more difficult to co-ordinate the actions of hundreds of employees working in different plants, possibly different countries > creates the need for more supervision, greater responsibility for some > possibly more mistakes, wastes & consequently rising average costs.	Ways to minimise this - Use technology Regular meetings New structure
Poor Motivation	As more workers join a growing workforce > may feel more insignificant or alienated > More difficult to satisfy the needs of all workers > the firm may have to employ more staff to cover for staff that are not working > be absent on any given day > output per worker will fall > labour costs per unit will rise.	Ways to minimise this - Decentralise > Decision making power throughout the firm > improvement > giving people extra power/responsibility
Technical diseconomies	E.g. the breakdown of a mass production line in a huge plant has more serious implications than if a number of smaller machines were used.	

External Diseconomies of Scale

These may occur from overcrowding in industrial areas

Traffic congestion	More likely slowing deliveries
Fierce competition	More difficult, more expensive to recruit best workers.
Prices of land for factories or raw materials & components are likely to increase	Causes increase in average costs of production