Diseconomies of scale essay

Economics

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Diseconomies of scale occur when a firm increases its output and the cost of the long run production of this output also increases. Diseconomies of scale occur when a firm is very big to bring about coordination problems and increasing input costs. This occurs because of two main reasons: coordination problems and the increasing input costs. Coordination problems can be broken down to several issues. And this problem is usually due to the number of employees in a firm. One of the issues with coordination iscommunication.

Upon increasing the number of employees in a firm for the purpose of increasing output, the channels for communication (i. e. telephone lines, cost of having internet connection for further information dissemination, etc) also increases. This is so since ratio of the number of employees and the communication channels is not 1: 1. This means an increase in cost. So in the long run, having more people becomes not viable already since it now causes coordination problem through communication cost, thus increasing in production cost in general. Another issue with having a lot of people in a firm is that the firm's response time becomes slower. This can also be connected to the communication problem that I discussed above.

This is so since, having a lot of people implies the need for bureaucracy. With bureaucracy, come standard operating procedures, policies to be followed, roles and division of responsibilities, and hierarchies. Consider a policy which reduces the company's daily cost from 1000USD to 500USD. Before it can be approved, it has to go through a lot, thus causing a slower response time for a very urgent need. Because of the bureaucracy that is needed for coordinating a large number of people, the longer the delay of approving this policy; and the longer the company delays producing twice the output for the same input cost.

Increasing input costs can also be broken down to several issues. One issue with the increasing input costs is that when the firm gets so big, one department might be working with the same projects as with other departments. This means that the firm is producing or profiting from a single project and is paying for twice the number of employees who can actually finish the job. Another issue with increasing input costs is that having a lot of people to do the job needs managers to coordinate them.

Having more managers means paying more for employees who does not actually contribute to the production and is only there to supervise the people. So let’s say that there are five employees, paid 10USD, that need one manager, paid 20USD, to supervise them. The manager is getting 28. 6% of the over-all salary, but the company which pays for 70USD over all is only producing 83. 3% since only 5 out of 6 people are actually working. So, having a lot of people means getting a lot of managers which leaves lesser people who actually does the production.