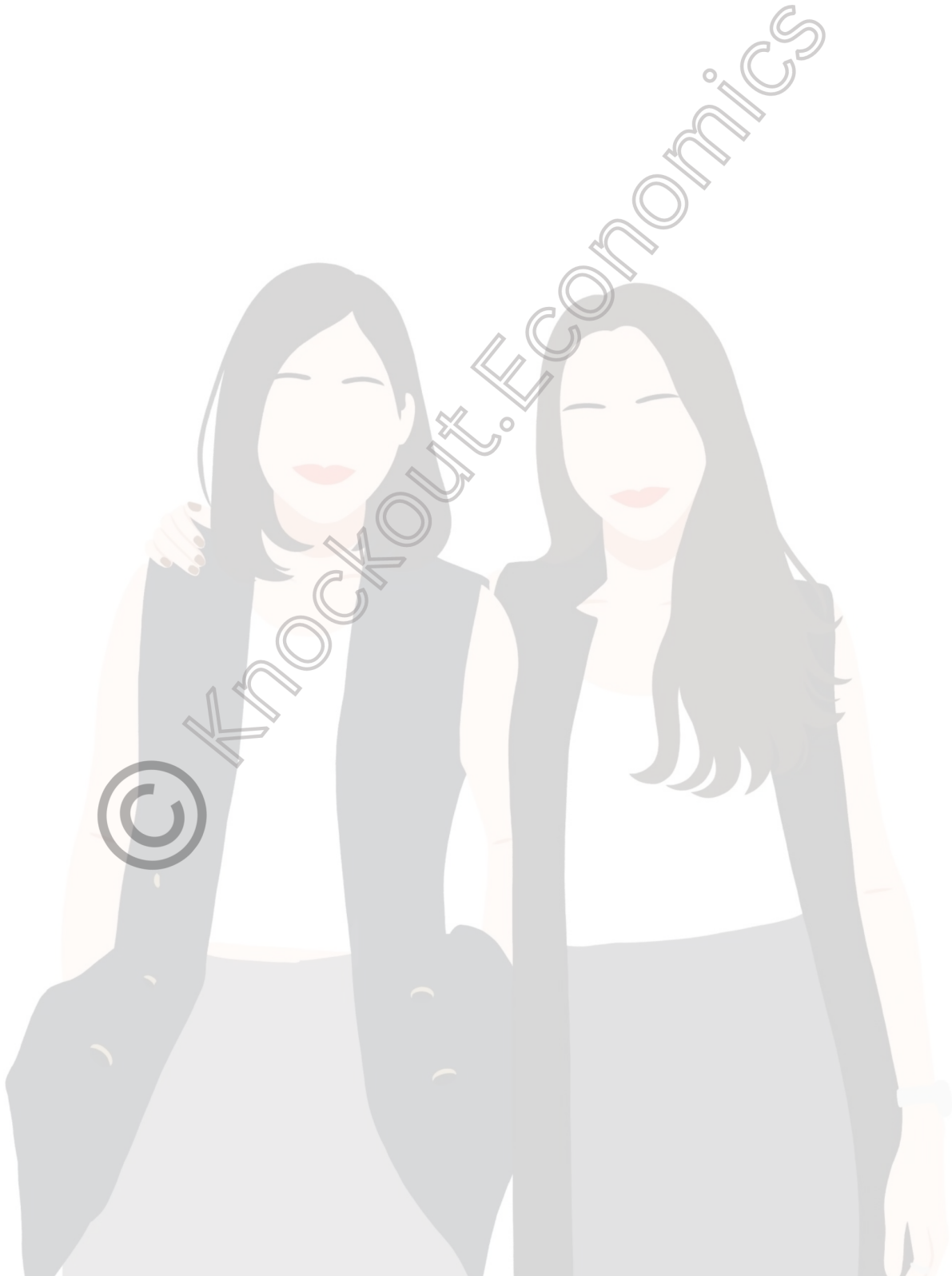


Chapter 8 Problems arising from growth

Key terms

1. Overtrading: a situation where a business does not have enough cash to support its production and sales, usually because it is growing too fast.



Problems of being large firms

1. Diseconomies of scale

1.1 Internal Diseconomies of scale (when production rises, it leads to higher average cost)

1. **Poor worker motivation** ⇒ large size firms employ many workers and each worker does only small part of the business. It might demotivate them to work.
2. **Poor communication** ⇒ large firms many layers it takes time for communication from top to down. It might make wrong communication and results in higher cost.
3. **Control and coordination** ⇒ to control and coordinate in large businesses require thousands of employees. Business has to employ large number of managers and supervisors to maintain adequate control, resulting in higher cost.
4. **Technical diseconomies** ⇒ large businesses may overuse plants, machinery and equipment, which can lead to inefficiency in the production.
5. **Bureaucracy** ⇒ It occurs when too much resources are used in administration e.g.paperwork.

1.2 External diseconomies of scale: Industry grows too big, it results in high average cost

2. Internal communication

- When business grows too big , channels of communication can get longer.

3. Overtrading

- If a business grows too fast, there is a danger that it might suffer from over trading. It results in runs out of cash.