

Silver Advantage Consulting Alert

The Importance and Relevance of the Organization Chart

By Steve Handler, CPA - Partner

March 2015 -- An organization chart is a graphic depiction of a company's structures, functions, relationships, and relative ranking of positions. One of the earliest known uses of the organization chart can be found in Ancient Egypt. According to *ushistory.org*, it was referred to as a "social pyramid." In 1962, Alfred Chandler, in *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*, credits early use of the modern business organization chart to Daniel C. McCallum, a supervisor for the Erie Railroad in New York in 1855 and, shortly thereafter in the 1870s, to meat packer Gustavus Swift, who founded Swift & Company. The chart wasn't just a depiction of the structure that existed, but was actually a tool used to determine the best structure.

Many companies today would increase their effectiveness by creating an organization chart. *[Ask five employees of the same company to explain their organization's structure, and you'll receive five different answers; the organization chart either doesn't exist or it hasn't been properly communicated.]*

There are numerous advantages to having and disseminating an organization chart, including:

- Effective communication of organizational information, including positions and functions; relative ranking of positions; responsibilities; titles; lines of authority
- Planning and budgeting activities
- Personnel matters
- Interoffice communications
- New employee orientation
- Evaluation of mergers and acquisitions

Organization charts are not without disadvantages, such as:

- Not showing the degree of a relationship
- Ignoring an organization's informal structure
- Employees feeling less or overly important

There are several types of organizations charts:

- **Vertical charts** are the most common and the most rigid. Like an Ancient Egyptian pyramid, the power structure is greatest at the top. Each employee reports to the person above them, and duties and responsibilities are well-defined. Manufacturing companies are more likely to use this type of structure.
- **Horizontal charts** are less rigid. Employees work in teams, sometimes have similar duties and responsibilities, and may report to various supervisors. High tech and project-oriented companies are more likely to use a horizontal structure.

- **Circular charts** are also designed for a team approach. However, they are rarely used and awkward as far as incorporating administrative functions. They show people with the highest authority in the middle of the circle.

While an organization with just one person is the ultimate simple organization and needs no chart, as the number of people in the company increases, the need for a defined structure and formal organization chart also increases, and often becomes a requirement in order for the company to continue operating efficiently.

In terms of relevancy, the organization chart has become even more important to operational efficiency, particularly in light of the rapid pace of change in the business world. Progressive management philosophies that encourage and reward “thinking outside the box,” however, does not mean that authority, responsibility, and communication should be ignored. Companies focused on implementing positive change must create structures that will help encourage the identification and implementation of value creation and new ideas [*Apple is just one example of an innovative and rapidly-changing company that has achieved success through a well-organized organizational structure*].

Companies must also ensure that they operating effectively within an increasingly global society/economic marketplace, where intense competition can be encountered both inside and outside national borders. Add to this the equally-pressing requirement for companies to address and improve the level of sophistication of their information technologies. Last, but certainly not least, the challenges associated with attracting talented human capital is also a key consideration. How to attract and retain the best candidates from a limited talent pool requires companies to create efficient organizational structures, with well-defined responsibilities, efficient channels of communication, and clearly-documented opportunities for growth and advancement. The organization chart is one very important tool that can help a company framework and achieve these important key goals.

Michael Silver & Company CPAs assists clients to define, design, and improve their organization's structures, as well as with documenting results, through the use of an appropriate organization chart. Please contact me at 847.213.2107 to arrange a complimentary consultation focused on addressing your company's specific organizational issues and concerns.

Steve Handler has been a Partner with Michael Silver & Company CPAs since 1997. His prior experience includes 15 years as a Partner in another CPA firm, and over a decade of management experience as an industry executive. In addition to assisting international companies with their U.S. operations, and extensive experience in real estate, Steve is a Certified Management Consultant with expertise in mergers & acquisitions, long-range planning for closely-held businesses, compensation planning, and commercial lease negotiations.

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