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### It Doesn't Have to be Lonely at the Top – Advisory Boards Can Help You Make Effective Decisions

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## **It Doesn't Have to be Lonely at the Top – Advisory Boards Can Help You Make Effective Decisions**

### **Abstract**

This is the first in a series of articles on developing professional and personal advisory networks.

One of the most effective business transition processes (from a “Now Gen”eration to the “Next Gen”eration) that I have observed in my career involved the owners’ creation and effective use of an advisory board to help the current husband-wife owners consider and make the most informed business transition decisions to assure a bright future for their enterprises and their family. They started both over forty years prior. While this was a family business succession transition, robust advisory boards have the potential to make significant contributions to any business ownership structure planning process.

### **Disciplines**

Business

### **Comments**

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# Shoe Retailing NSRA.ORG TODAY

March/April 2021

IT DOESN'T HAVE TO BE LONELY AT THE TOP –



ADVISORY BOARDS CAN HELP YOU  
MAKE EFFECTIVE DECISIONS



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# It Doesn't Have to be Lonely at the Top – Advisory Boards Can Help You Make Effective Decisions

CAROL WITTMAYER, ED.D.

This is the first in a series of articles on developing professional and personal advisory networks.

One of the most effective business transition processes (from a “Now Gen”eration to the “Next Gen”eration) that I have observed in my career involved the owners’ creation and effective use of an advisory board to help the current husband-wife owners consider and make the most informed business transition decisions to assure a bright future for their enterprises and their family. They started both over forty years prior. While this was a family business succession transition, robust advisory boards have the potential to make significant contributions to any business ownership structure planning process.

Each advisor brought something to the table of this manufacturing firm – experts outside the enterprise included a management expert who understood the dynamics of the leadership team and families, a marketing and manufacturing/logistics expert who understood the industry (past, present and future), and those closer to home – the couple’s long-time, trusted legal and accounting advisors. Company executives such as the CFO – while not on the board – were involved in the planning and discussions.

After watching the many types of transitions that the 2020 COVID pandemic created for businesses and having the privilege of working with NSRA for nearly a decade now, I wondered how prevalent the use of advisory boards are to

members, especially as they negotiate transition planning, particularly during the COVID pandemic, which significantly



Dr. Carol Wittmeyer

changed the landscape of retail business. (Given the typical NSRA member/owners’ age, it seems likely that succession/transition planning was already on the agenda before COVID distracted that process.)

Many NSRA firms have struggled with the COVID-induced transition involving stores closing face-to-face shopping to devoted customers and employees. Most of those were the first time the business was not open in decades of existence. While there were many challenges, opportunities opened up along the way. Some owners had developed an online retail strategy and were able to develop a stronger online brand presence and open up new opportunities for existing and new customers. Along the way, curbside pick-up was allowed in some states.

## Boards – Fiduciary or Advisory

Many U.S. businesses may have a board that is required by their legal entity structure, known as a **Fiduciary Board**. They’re held to a high legal standard to always do what is best for the long term of the enterprise. Whatever the fiduciary board decides, the business is required to comply. This article focuses on an optional **Advisory Board**, where the advice given is just that. Owners can use it or not. That said, some businesses have both. For example, the Fiduciary Board may be the owners and the Advisory Board a group with relevant expertise. Many of the topics discussed in this article, such as members being “outsiders” or “insiders”, is relevant to both.

## NSRA NextGen Advisory Board Reflections

To better understand how NSRA members use advisory boards and knowing the extensive NSRA NextGen program, I reached out to a few NextGens to inquire about their boards and their thinking about how to use them for business planning and their own personal development planning (to be discussed in the next article). I learned that their boards ranged from one member who had a fiduciary board – including only owners who meet annually to review year-end reports and significant decisions needing shareholder approval, to the majority of the NextGens, who had advisory boards – including the owner(s) and up to several advisors typically from outside of

the business who meet regularly, and even for emergency planning. (Employed managers are periodically invited to meetings for specific topics.)

I also learned that the NextGens value the idea of boards in general and why to have them: to hold the owners accountable. They cited examples of advisors asking themselves or their parent NowGens hard questions that no one else might not ask for a variety of reasons. When decisions were made for future action, advisors followed up to see how the owners made progress on what they said they would do. The NextGens also described the need to pivot the board when change was needed. For example, by using two-year term limits, one firm changes the membership based on the enterprise's expertise needs and a desire to have a more diverse board membership.

During COVID, one added a few emergency board calls to discuss the rapidly changing environment and proposed actions for consideration.

One NextGen reflected on his advisory board contribution as "When I talked to our outside advisors who understood our customer base, they challenged me to take a hard and broad look at who our competitors are (beyond the other nearby brick-and-mortar store) and what they do differently. They had wildly different opinions than I did about our customers, competitors and our opportunities. I made better business decisions because of their perspective and input."

Perhaps the most important value-add advisory boards can give goes back to the article title – it's lonely at the top. The NextGens stated that having advisors who were competent, cared about them and were committed to accountability made them feel connected, as well as increased their likelihood of success. They valued the ability to call advisors when needed. They wanted the relationships to continue and, in some cases, expanded.

## Start or Revise an Advisory Board?

NSRA owners are very busy. Even thinking about how to find the time to

develop an existing board or create a new one can be daunting. Let's consider a very important question owners have – *what value do boards add?*

Advisory boards business value-add can be considered by thinking about potential members and what they bring – collectively – to business decision-making processes. Advisors' desired backgrounds typically are based on pro-

## The NextGens stated that having advisors who were competent, cared about them and were committed to accountability made them feel connected, as well as increased their likelihood of success.

fessional expertise, such as e-commerce retail, manufacturing, finance or human resources. Everyone has advisors, you may be thinking, but getting them together and focused on your business is key. Think of it as the whole is greater than the sum of the parts. It is a synergistic, value-add process and structure that cannot be replicated by individual advisor conversations.

One way to think about advisors and how to determine ones you need is to think about them as "outsiders" or "insiders". There are opportunities and challenges with each and therefore having input from both may set the stage for the most balanced decision-making processes to lead to bold plans that are executable.

### Outside Advisors

"Outsiders" include those who are not part of the business or perhaps even the industry. The right outsiders can offer business owners thoughtful, high-level perspective to challenge business leaders' thinking, introduce thoughtful ideas perhaps not considered or even welcomed. They offer expertise such as commercial real estate leasing and e-commerce, and can offer introductions to important networks and diverse perspectives not available in the given business or even industry. They can help open up new customer niches, chan-

nels and business models. And they help owners stand back from day-to-day operations. That said, having outside advisors brings trade-offs, including that they may have limited knowledge of the business and may make suggestions that are not feasible. They may end up not being a great fit and then the issue of moving them along goes on an already long to-do list.

### Insider Advisors

"Insiders", those who know the business history, nuances, all the various stakeholders – from customers to bankers – and the business processes. Insiders give important perspectives on all business stakeholder relationships and understand inside issues that can take years of hands-on operational work. "Insider" advisors' trade-offs are that they might not see the big picture in terms of the overall competitive economy and how things are done in their own or other industries that may be relevant. Another trade-off may be that they may not see issues with current processes and finally, they may have the tendency for confirmation bias. That is – because "insiders" are typically very close, long-time employees, family members and/or paid trusted advisors (such as accountants and attorneys), they may knowingly or not, have a tendency to confirm the owners' thinking on things, rather than potentially risk sharing information that the owner may not want to hear.

### Compensation

Everyone knows that the boards of publicly traded firms are paid handsomely. There is less information on private firms. From the studies I have co-led, a minority but increasing number of private firms pay their boards. We did find a strong

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correlation in our research that those who paid their boards reported that their contributions to the business were significantly more than those that did not. That circles back to the NextGen discussion on accountability. It goes both ways – advisory boards need to hold owners accountable and owners need to hold advisors accountable. You get what you pay for.

### Questions to Consider for Your Advisory Board ROI:

So how would one move forward to think about their advisory boards? First, what works for one business may not work for another. It's important for owners to think about their needs, their stakeholders and put together a board that thrives and surely does no harm. So here are some proposed questions to provoke your custom-designed board:

#### 1. Is it lonely at the top?

- a. Who do I trust to talk to about important decisions (such as an advisory board)?
- b. Who holds me accountable?
- c. What industry organizations (such as NSRA) do I belong to that includes members that have walked in my shoes?
- d. What business owner organizations (such as the Chamber of Commerce) do I belong to that includes members that have very different businesses and experiences than I do?
- e. What peer groups have I joined? The NextGens talked about Vistage,

Young Presidents' Organization (YPO) and other groups they were members of or wanted to join.

#### 2. Who are my most significant advisors? Are they insiders or outsiders? Do I want and/or have a good enough balance?

- a. If I have family or employees who may take over the business, are my advisors appropriate for them? Do they need their own?
- b. Do my advisors avoid confirmation bias when appropriate – that is – avoid telling me what I already believe or want to hear when they may disagree with me?
- c. Are there advisors who know our industry and competitive landscape that we need to meet? How do we make that happen?

For those who have boards:

#### 3. Is my advisory board structure working for my business and myself now?

- a. Do they hold me accountable?
- b. What expertise do they bring?
  - i. Do they help me to understand the future and how it relates to the business?
- c. Do I have or need a balance of insiders or outsiders?
- d. Does my board membership reflect and understand the diversity of my current and future stakeholders?
- e. Do I have a term limit on advisor service to allow for membership changes?
- f. Do I hold them accountable?
  - i. Do I compensate my advisors (beyond paid attorneys, accountants, etc.)?

- ii. Do we talk about advisor expectations?
- g. How do they interact with my managers who are on or not on the board, especially those who may be part of business transition planning?

The 2020 COVID pandemic brought with it surprising challenges and opportunities. President Dwight Eisenhower said, "Plans are nothing, planning is everything". We all know the importance of scenario planning for a variety of possible outcomes. And just like in war when, one side can never surely know what the other side will do, business leaders can never know what the future will, in fact, bring. So, the act of regular, robust planning helps business leaders to be in shape for whatever might actually come their way. That's where advisory boards can add significant value to business leaders' ability to succeed.

For many NSRA members, there tends to be several businesses involved in the portfolio of the company – retail business, real estate and others. An advisory board can help in all areas.

There may never have been a time that having someone who has empathy for our situation, or even just curiosity about our world, has been more important to our success after negotiating the business and personal worlds during the 2020 COVID-period journey. ■

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