

## MID-STATE TRUCKING AND STORAGE

*Edmund Clark and John Friar wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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In early 2008, Mike Costas Jr., president of Mid-State Trucking and Storage and eldest son of the founders, met with the company accountants and was informed that the now third-generation business was beginning to struggle financially.

At the meeting, Mike Jr. accused his sister, Vanessa, vice president of the real estate division, of not being on top of the financial issues because she had not been doing her job.

The siblings' long simmering tensions erupted into open conflict when Mike Jr. accused Vanessa of trying to get revenge for a situation that had occurred two years earlier.

At that point Mike Jr. ended the meeting, threatening to fire the accountants and cut his sister's salary.

Vanessa was struggling with what she should do and whether she should leave the company.

### BACKGROUND

Mid-State Trucking and Storage was a successful 55-year-old third-generation company involved in the trash, waste, trucking and storage business.

Mike Costas Sr. had founded the business in 1953 as Mid-State Hauling Company, with one dump truck. He had loaded and hauled trash, construction debris and other junk anybody wanted removed. Mike Sr. was big man and a no-nonsense type of guy, and the company reflected his hardscrabble roots. His employees worked hard and were paid fairly.

In 1958, at the age of 31, Mike Sr. met 19-year-old Maureen, and after an unplanned pregnancy, they soon married. In 1959, Mike Jr., was born, followed by Robert and then Vanessa. Mike Sr. ran the hauling business while Maureen stayed at home and raised the children.

In September of 1976, Mike Jr. joined the business right out of high school at age 18. A big hard-working kid, he was like his father in many ways. He said that driving a truck was in his blood, and he loved the business right from the start. It was the only thing he ever wanted to do.

In September 1978, Robert came into the business, also straight out of high school but “he struggled to find his place,” noted Mike Sr. He was smaller and more reserved than his older brother and had always felt over-shadowed by Mike Jr.

With the two boys out of school and working in the hauling business for their father, Maureen had free time on her hands. She thought that she could take night school classes in bookkeeping and then she could save the company money by managing the books herself. In 1979, six months after she began taking courses, Maureen became the company bookkeeper.

When Vanessa graduated from high school in 1980, Mike Sr. encouraged his daughter to go to college. He told her that the hauling business was a man’s world and that she should find her own calling in life. Vanessa took her dad’s advice and went off to Mid-State University to study business. Following in her mother’s footsteps, she became an accountant.

## THE BUSINESS EXPANDS

In the early 1980s, Mid-State Hauling acquired a dumpster and waste-removal service.

Mike Sr. was very proud of his business. He loved to tell everybody how from humble beginnings he created something that, with Mike Jr.’s help, had really become something big.

After years of heavy lifting and hauling, Mike Jr. had become an imposing figure. He could be friendly and outgoing, but like his father, he was a tough and aggressive competitor. He always wanted to win and pushed the drivers hard. Mike Sr. pushed his son to be seen as the face of the business; he also told everybody that when he retired, his son would become company president.

Although Mike Sr. took the credit for the expansion of the family business, in reality, Maureen’s savvy acquisitions, negotiations and management was responsible for much of the growth.

In 1988, as the business grew more complex and Maureen needed help, she convinced Vanessa to leave her accounting job and join the family business. At the time, Vanessa was 27 years old and had five years of accounting experience. For the next 11 years, this dynamic mother and daughter duo made investments and managed the company’s money with savvy. Under their watch, Mid-State Hauling expanded into commercial real estate rental and added a delivery service and a moving and storage business.

This period of expansion provided Robert with new opportunities that better fit his personality, as he was good with both people and administration. He managed the delivery service and the moving and storage division, and he oversaw maintenance for the real estate holdings.

In 1992, Maureen changed the company name to Mid-State Trucking and Storage. Meanwhile, the Costas’ children married and had children of their own. Mike Jr. married Angela and had three children, Walter, Charles and Mary. Robert had two children, Robert Jr. and Katelyn. And, Vanessa married Mark and had two children, Mark Jr. and Jennifer.

## RETIREMENT AND SUCCESSION

Through the years, whenever the topic of retirement came up, Mike Sr. and Maureen disagreed. Mike Sr. wanted to retire, but Maureen did not. Maureen's frugal financial management allowed them to set aside enough money for a modest retirement; and after a great deal of persuasive discussion, Mike Sr. finally convinced Maureen to retire.

While the discussion of retirement often seemed unpleasant for Maureen, when it came to succession, the conversations seemed downright hostile. Maureen wanted the company to have an equal co-presidency among all three children, as she believed that each had contributed to the success of the business in different ways. Mike Sr., however, pushed for Mike Jr. to succeed him. He said that hauling was "a tough man's business" and that it required a strong singular voice. Asking for approval from two co-presidents would slow the business down and create conflict. The business needed one leader and it should be Mike Jr. He was the oldest, had been with the company the longest and had endured hard times.

Although the decision was a source of bitter disappointment for Maureen, she acquiesced to maintain marital harmony. They set up a succession plan that would make Mike Jr. president and Robert and Vanessa vice presidents. Mike Jr. would run the operations of the hauling business; Robert would be responsible for the storage business and the administrative aspects of all the companies; and Vanessa would manage the real estate business and the finances of all the businesses.

Maureen felt that this arrangement would give each child a realm of responsibility and authority by effectively creating three individual operating divisions. As part of the succession plan, Maureen had the company set up as a trust, stating that only blood relatives that worked in the company could be owners. Each child would receive a one-third ownership stake in the company and, to keep harmony among them, each would receive equal pay.

In February 1999, Mike Sr. and Maureen retired.

## THE THIRD GENERATION

In mid-2002, Mike Jr. hired his 18-year-old son, Walter, straight out of high school. Walter was very similar to his father; and, like his father, he swore that diesel fuel ran through his veins. Trucking was his life.

Mike Jr. was very proud of Walter and he was quick to tell everybody that Walter would one day become president of Mid-State Hauling. (Mike Jr. had continued to use the old name of the company even 10 years after the company's name had changed.) Hearing this had upset Vanessa. Despite her protests, Mike Jr. persisted in declaring his son would be company heir. She was convinced that the more he knew it bothered her, the more he said it.

Two years later, Mike Jr.'s second son, Charles, joined the business. Mike Jr. said his son would be Mid-State Hauling's first senior VP. This decision was also very annoying to Vanessa, but Mike Jr. just laughed and told her she was just being too sensitive.

## MEETING WITH THE ATTORNEY

In early 2005, at a routine business meeting with the company attorney, Mike Jr. unexpectedly pushed for a hefty pay increase to be commensurate with his title. Mike Jr. (referred to by family and friends as simply “Jr.”) said that, as president of the company, he felt that he had been grossly underpaid for years and he was tired of it. He said that he had worked hard to build the company with his father and it was time to be rewarded for his effort and success.

The attorney said that he thought that it would be reasonable to conduct a compensation evaluation and suggested that he could arrange for a compensation study by an independent consultant. Jr. agreed and told them to contact an independent consultant to also research pay rates for each of his sibling’s positions. He added that it seemed reasonable that their pay should be based on their positions. The remainder of the meeting with the attorney was extremely tense.

Within a week of that meeting, Jr. acquired a new luxury company car and gave both his sons new top-of-the-line pickup trucks. When Vanessa found out what Jr. had done, she called Robert to complain. Robert’s only comment was that he would like his own son to join the business. Vanessa was stunned that Robert had no opinion.

Vanessa then called Jr. to discuss his actions. The conversation did not go well. Jr. told her that if she didn’t like it, then maybe she should look for a position elsewhere. He also told her that she was grossly overpaid for an office worker and that he was tired of carrying everybody.

The independent compensation consultant concluded that, as a company president, Jr. was underpaid, and that both Robert and Vanessa were overpaid. He added that Vanessa’s salary far exceeded the norm for an administrative bookkeeper. The study also concluded that Mike Jr.’s two sons were also underpaid. Vanessa was infuriated that she was being compared to a bookkeeper. Jr. told her that “like always” she was just being too sensitive. According to him, she needed to realize how businesses and compensation worked. Vanessa stormed out of the meeting.

Within the week, Jr. and his two sons received sizable pay increases, and Robert’s son, Rob Jr., joined the storage business in an entry-level position. Jr. said that he didn’t think it would be fair to cut Robert’s and Vanessa’s salaries as they were family, but he would eventually bring them in line with industry standards.

This series of events had caused tension within the family for years. Vanessa barely spoke to Jr. and thought that Robert had acquiesced only to secure a job for his son. Tensions were always very high whenever Jr. and Vanessa were in the same room.

## MEETING WITH THE ACCOUNTANT

In early 2008, at a meeting with the company accountant, Vanessa raised concerns about the financial health of the company. Sales were down at two of the three divisions, and one division had become unprofitable. Vanessa called for a meeting of the siblings to discuss the situation. To avoid conflict, she had asked the accountant to present the information to her siblings.

The accountant started the presentation by stating that despite the company’s significant debt from real estate and expansions, Mid-State Trucking and Storage still had a fairly healthy balance sheet. However, the Income Statement had some issues. A recent economic downturn appeared to be affecting the business.

Within the past year, Robert's division was down 10 per cent, but was still profitable; and Vanessa's division revenues were down slightly, but still profitable; however, Mike Jr.'s division revenue was down 15 per cent and showed slightly negative profitability.

At that point, Jr. interrupted the presentation and commented that Vanessa should have been on top of the situation. In his opinion, being surprised by this news was unacceptable. He thought that she was clearly not doing her job. Vanessa managed to stay composed and asked the accountant to continue with the presentation.

The accountant pointed out that serious macroeconomic issues were affecting every business and industry. The only Mid-State company that had not yet been affected was the storage business, which was under Robert's watch. The accountant concluded that if the economic downturn continued, the company would need to cut costs.

Jr. looked at his sister and laughed:

I get it. It took you three years to get back at me, but I know where this is going. I know where we can start to cut costs. First off we'll cut your salary; that should have happened three years ago, and second we'll find a cheaper accounting company. You know, one that can stay on top of this type of thing and one that works for the company, not just you.

Jr. then turned to Robert and said, "Rob, I know that you and Rob Jr. are not a part of this and that you wouldn't go behind my back to screw me so this won't affect either of you." Jr. then walked out of the meeting.

Vanessa went home. She cried as she began to tell her husband, Mark, what had happened:

I can't believe what Jr. said. I want to leave the company, but that will end up hurting us. The value of the real estate holdings are down and the business is leveraged on personal notes. The company won't be able to buy them out right now, because the business is in a trust. If I leave now, I could end up getting nothing.

Mark replied:

What do you expect from that manipulative narcissist? He takes credit for everything and blames everybody else for every problem. And it makes me sick to watch him set up his two little entitled devil-spawned sons to take over. I wish you would leave.