



1042-2587
© 2008 by
Baylor University

Ed's Dilemma: Succession Planning at Niagara Paving¹

Pramodita Sharma
Brian Smith

Ed Merski, the founder of Niagara Paving, a successful asphalt company, must decide whether and on what terms to invite his youngest child Nancy to rejoin the family business. Nancy has worked in a number of jobs in and outside Niagara Paving and soon will graduate from a master of business administration program. Ed is concerned about how her entry will affect not only the operations of the business, but also relations among employees, including his son, Luke, who has worked for the company for the past 20 years.

In spring 2004, Edward (Ed) Merski stepped out of his office in Buffalo, New York, and surveyed the asphalt plant, fleet of trucks, and assorted equipment that were the mainstays of his paving business. He felt pride in Niagara Paving, the business he founded in 1977. Over the years, the business had employed many local people, including a number of Ed's siblings, in-laws, and children. His longest-serving employee was his son, Luke, who had worked alongside Ed at Niagara Paving for over 20 years. David Jones, his sales manager, had served the company for over 10 years, as had office manager Judy Holt. With these managers in place, Ed thought of retiring from the day-to-day operations of Niagara Paving on his 60th birthday in 2 years time. He was concerned, however, that the company still revolved too much around him, and thought that he needed to plan carefully for a successful transfer of management and ownership. Without continued strong leadership, the company's future would be at risk—and with it the bulk of Ed's wealth, his retirement income, and the livelihoods of his employees.

A recent discussion with his youngest child, Nancy, 27, had caused Ed to rethink his plans to have Luke take over the business. Nancy had worked at Niagara Paving for 2 years following her university undergraduate studies and at one of the company's suppliers for another 2 years. After these experiences, she returned to school for a master of business administration (MBA). She would graduate in a couple of months. On her most recent visit home, Nancy had asked Ed if she could rejoin Niagara. She suggested that she could help the firm by bringing new ideas and managerial skills.

The question of whether to hire his daughter posed a dilemma for Ed. He was proud of Nancy's accomplishments, as she was the first family member to graduate from

Please send correspondence to: Pramodita Sharma, tel.: 514-848-2424; e-mail: psharma@jmsb.concordia.ca.

1. We are extremely grateful for the helpful guidance provided by the three reviewers and Bill Sandberg. All events and individuals in the case are real. To honor the desire for privacy of the family involved in this case, we changed the location, industry, and all names used.

university. However, it was unclear to him which roles and responsibilities she could assume at a company that he believed had been successful because of his hands-on approach to management and his stable team of dedicated employees. He was also apprehensive of her past tendency to move from job to job and wondered about her commitment to Niagara. He thought that the business required one person to have the ultimate decision authority and wondered about the longer term issues of succession of leadership and ownership. Given Nancy's suggestion that she would eventually like to have a much larger equity stake in the company, these ambitions would be of concern to Luke and a number of nonfamily employees. He wondered if she would be sufficiently determined and capable of leading the business. This was an important consideration as Niagara would need to generate enough funds to compensate Nancy and Luke as managers, as well as repay Ed his invested capital in order to fund his retirement. Ed believed that if a succession plan were going to work, it had to be done with a realistic view of the conditions of the industry and the company.

Industry Overview

The paving industry was shaped by several factors, such as government expenditures on roads and private sector construction. Road building and construction in the Buffalo area had been bolstered in recent years by the increase in Canadian–U.S. trade. Buffalo was the gateway for a significant portion of that trade, as well as a preferred shopping destination for Canadians.

The past year had been a strong one for paving in the Buffalo area. The prospects for 2004 were even brighter, as the State of New York had committed additional funds to highway resurfacing. Based on a survey of industry leaders, an equipment finance company estimated that the area's nonresidential construction would grow by 5% over 2003. However, given past industry cycles, Ed anticipated that the current boom in paving would be followed by a slowdown and possible contraction. During past slowdowns in road building, he had buffered Niagara by offering a variety of services and adjusting between new paving and repair services. His belief in using bank debt sparingly also helped to protect Niagara from the industry's swings.

Niagara Paving faced stiff and increasing competition. Given that it had the most distribution capacity in the Buffalo area, as measured by number of trucks and pavers, the company was able to compete on the basis of service rather than on price alone. However, several competitors, including two multinational, vertically integrated companies, had nearly as much local capacity as Niagara. In addition, these companies were able to build on their economies of scale in equipment purchase and contract negotiations, while effectively competing on service quality.

Among the independent paving firms, Niagara had the longest standing in the Buffalo area. The smaller independents tended to compete on the basis of price alone. Attracted by the strong construction market, a number of them had entered the local market in recent years and were bidding aggressively on work. There were few barriers to entry.

Company Overview

Niagara Paving was among the largest manufacturers and distributors of asphalt in western New York State. The company held a 15% market share and was the area's only provider of a full range of paving services: basic paving, repair, seal coating, hot crack

sealing, and striping. Ed believed Niagara's "one-stop shopping" approach to customer service was a major factor in the company's growth.

Operations

Asphalt was a cost effective paving material for roads and parking lots. Often compared to "baking a cake," making asphalt involved mixing 95% aggregates (which could be stone, sand, or gravel) and 5% asphalt cement to bind the mix. The binder was a refined petroleum product that acted to glue the aggregates together. The mixture could be adjusted with chemical additives and customized to meet a wide range of applications beyond paving, such as manufacturing roof shingles.

The company's plant had sufficient capacity to handle peak loads. There were few major disruptions to its operation and few complaints about the quality of the asphalt mix it produced. The biggest challenge lay in the scheduling of the delivery fleet, where decisions had to be made on the basis of customer priority and driver availability. The latter depended on union rules that dictated the hours and conditions of employment. Luke was in charge of the day-to-day operations: managing the manufacturing, delivery, employees, and the unions. He consulted with Ed on major capital expenditures or issues that involved significant potential liabilities.

Like most commodities, asphalt was very price sensitive and many jobs were won on price alone. However, asphalt had to be produced carefully with high-quality materials, delivered in a timely manner, and poured by an experienced worker. Niagara built its reputation on consistent delivery of a top-quality product with high levels of service. Because of its reputation, the company was often able to charge higher prices than competitors and consequently to earn a gross profit margin higher by about 4% (of sales) than the industry average.

Customer Relations

Strong customer relations were based on an ability to respond to customer orders and deliver product quickly. While it would be ideal for the company to receive orders a day in advance of delivery, many customers demanded same-day delivery. If Niagara could not promise quick delivery, the customer contacted the next producer. Last-minute requests for delivery were partly a consequence of the vulnerability to the weather of asphalt pouring. Asphalt should not be poured under conditions of high wind, full sun, or rain. Delivery requests tended to peak after periods of poor weather. Prices and terms were negotiated depending on the customer and the job. Higher-volume customers had greater bargaining power and normally received better discounts. Niagara's pricing varied considerably depending on the services offered. Working closely with his sales manager David, Ed negotiated the contracts with suppliers and customers.

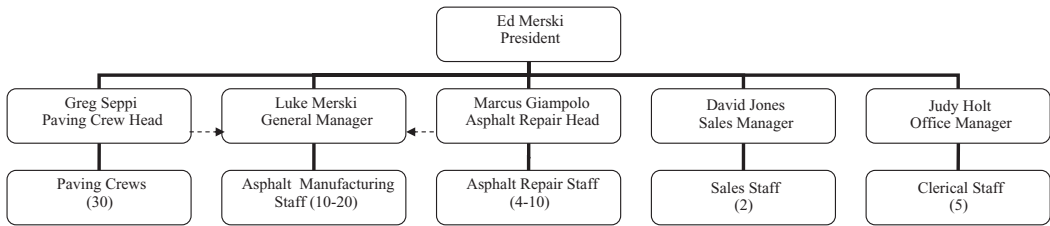
Management

Since its founding, all parts of Niagara had reported to Ed (Figure 1). He knew all the employees and believed that his aggressive approach to management was an important reason underlying his company's success. Ed set high expectations and did not give praise easily. He applied this stern approach to his employees as well as to his children.

Luke Merski had worked at Niagara for more than 20 years. At various times, he had been a driver, batcher (operating equipment to load the trucks with asphalt), dispatcher

Figure 1

Organizational Chart for Niagara Paving



Note: The chart was prepared specially for the case by Nancy Martin, daughter of Ed Merski. The bracketed figures in the boxes report the number of staff in that area. The solid lines indicate direct lines of responsibility. The dashed line indicates that both the asphalt paving and repair heads also report to Luke Merski, who coordinates operations.

(coordinating shipments from the plant), and general troubleshooter. In his current position as the general manager, Luke oversaw the operations of Niagara's three strategic service-centered business units: asphalt manufacturing, paving, and repair. The paving division employed approximately 30 equipment operators and operated a modern fleet of seven brooming machines to clean a surface before pouring asphalt, seven distributor trucks to put down a tack coat to glue the new pavement to the existing surface, 10 trucks that carried hot mixed asphalt from the plant to job sites, seven pavers, and seven compactors. The manufacturing division employed between 10 and 20 people, while the repair division employed between four and 10 people. Employment fluctuated because of the seasonality of construction.

David Jones had joined Niagara in 1994 from previous employment as an auto salesman. Although he knew nothing about the asphalt business when he joined, David proved successful as the company's salesman, and Niagara's sales had increased steadily. According to Luke, "David is the kind of guy who can sell ice cubes in Alaska." David went to great lengths to meet customer needs; even voluntarily making himself available 24 hours a day, 7 days a week. However, his zeal in serving the customers had led to confrontations with other Niagara managers, including Luke, who found David to be too demanding.

Ed's wife, Lydia, was part-owner of the company. Family members referred to her as Niagara's "chief trust officer," because she often was a calming, mediating force within the family. She handled the bookkeeping in the company's formative years, but had passed this responsibility to Judy Holt, the office manager.

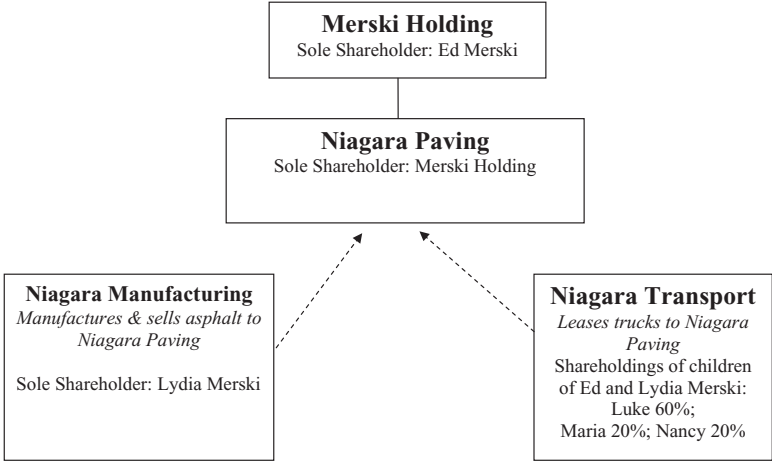
Corporate Structure and Ownership

As shown in Figure 2, Niagara Paving consisted of four separately incorporated companies. Ownership was spread across family members to minimize income taxes paid in aggregate by the corporate group and family members.

Niagara Transport owned the trucks and pavers. Niagara Manufacturing Inc. held Niagara's manufacturing assets and sold asphalt to Niagara Paving, which leased trucks and pavers from Niagara Transport and sold asphalt to customers. Niagara Paving Inc. was 100% owned by a holding company, Merski Holdings Inc., which in turn was owned

Figure 2

Ownership of Niagara Paving Group of Companies



Note: Arrows indicate the flow of services between the companies.

entirely by Ed.² Transfer pricing agreements were established between Niagara Paving Inc. and each of its related manufacturing and trucking companies. Since Niagara Paving Inc. was the only customer of Niagara Manufacturing and Niagara Transport, it was in a position to dictate the terms of the pricing and thus the profits flowing through these companies.³ Niagara Manufacturing paid a salary of approximately \$40,000 to its owner, Lydia Merski. While Niagara Transport generated income each year, it had paid no dividends or salary to Luke, Maria, or Nancy. All cash generated by operations had been reinvested in the company’s trucks.

Financial Performance

Since its founding in 1977, Niagara had proved its resilience to poor market conditions, such as during the recession of the early 1990s. Ed believed the resilience was a product of his persistence in identifying opportunities for expansion and of his management team’s experience. All key management positions were filled by veteran incumbents, with the “newest” member being hired in 1993. Their tenure had given Niagara a thorough knowledge of the market, the product, and the customers.

Table 1 presents the financial position of Niagara. As of 2003, Niagara Paving’s family of companies was virtually debt free (other than supplier payables), had \$2.5 million of marketable securities, and generated a net income after tax of approximately \$600,000. From a bank’s perspective, a private company’s loans from shareholders were considered a form of equity, because the shareholders normally agreed to subordinate their

2. One of the major benefits of holding companies is to shelter assets from creditors of the operating company in the event of financial distress. Most of the marketable securities shown on the consolidated statements were owned by the holding company and had been funded by dividends received from Niagara Paving Inc.

3. The transfer pricing agreements had to comply with the guidelines of the Internal Revenue Service.

Table 1

Niagara Paving's Financial Statements

Consolidated balance sheet as of December 31 (in \$millions)

Assets	2002	2003	Liabilities	2002	2003
Cash	\$0.20	\$0.10	Accounts payable	\$1.50	\$2.10
Marketable securities	2.40	2.50	Accrued bonus	<u>0.60</u>	<u>0.70</u>
Inventory	1.70	2.00	Current liabilities	\$2.10	\$2.80
Accounts receivable	<u>2.30</u>	<u>2.50</u>			
Current assets	\$6.60	\$7.10	Loan from shareholder	6.60	6.70
Plant and equipment	<u>7.00</u>	<u>7.90</u>	Shareholders' equity	<u>4.90</u>	<u>5.50</u>
Total assets	\$13.60	\$15.00	Total	\$13.60	\$15.00

Consolidated income statement for years ended December 31 (in \$millions)

	2001	2002	2003
Revenues	\$11.00	\$12.00	\$15.00
Cost of goods sold	<u>8.30</u>	<u>9.10</u>	<u>11.30</u>
Gross margin	\$2.70	\$2.90	\$3.70
Selling, general, and administration [†]	<u>2.40</u>	<u>2.50</u>	<u>2.90</u>
Income before tax	\$0.30	\$0.40	\$0.80
Income tax	<u>0.08</u>	<u>0.10</u>	<u>0.20</u>
Net income after tax	\$0.22	\$0.30	\$0.60

[†] The annual salaries and bonuses paid to Ed and Lydia Merski totaled \$400,000, \$500,000, and \$600,000 in 2001, 2002, and 2003, respectively.

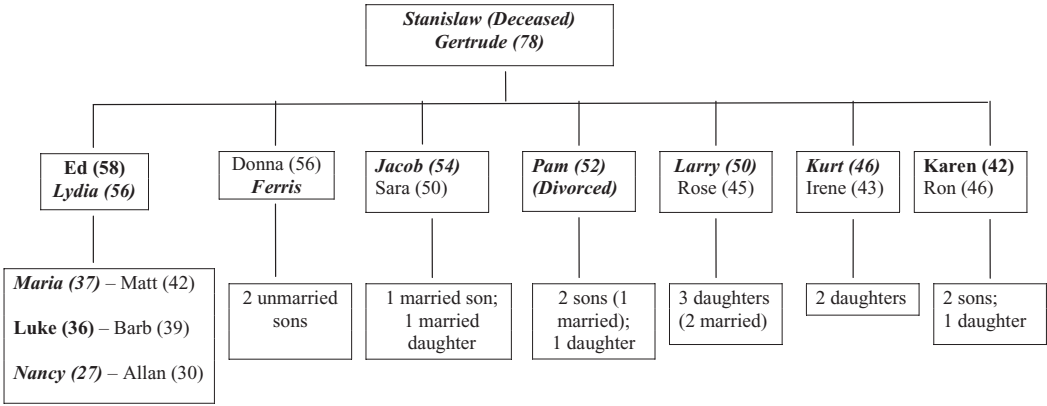
claims to that of the bank. The adjusted net worth (shareholders' equity plus the loan from a shareholder) of Niagara's companies exceeded \$10 million.

The strong financial condition of his company had led Ed to consider the possibility of acquiring a competitor in order to gain a larger market share and optimize use of production and delivery capacity. To cover the estimated \$5 million price tag, Niagara could access \$2.5 million from its line of credit at 0.25% over the prime lending rate of 4.25%. The remaining balance, in accordance with management preference, would come from the liquidation of its marketable securities that currently earned 4% per annum. The acquisition would suit Ed's preference to grow the company faster than the industry and become more dominant. It would also generate about \$300,000 in annual profits before interest and taxes. Ed also considered the acquisition's timing. He thought that looming overcapacity of asphalt producers might force the seller to cut his asking price from book value to a more attractive 0.8 times book value.

At the same time, Ed questioned whether he would be wise to greatly expand the company so soon before he wanted to step down from day-to-day operations. On this point, Ed reflected on the challenges he had faced in building the company.

Figure 3

Merski Family Genealogy



Note: In each box, blood relatives are listed before an in-law. Relatives who currently work at Niagara Paving are shown in bold nonitalicized lettering whereas relatives who have worked at Niagara in the past are shown in bold italicized lettering. The figure in parentheses beside each name is the person’s age.

Ed’s Story in Building Niagara

Ed was the eldest of seven children (see Figure 3). At 12 years of age, he began working part time in his father Stanislaw’s construction and drainage business. By 1963, when he was 18 years old, Ed had dropped out of high school and was working full time for his father. That year he met Lydia; they married 2 years later. Their first two children, Maria and Luke, were born in 1966 and 1967.

In 1970, Ed became an equal partner in his father’s company, now renamed S. Merski & Sons. He intended eventually to buy out his father; to this end, he took on managerial tasks that included quoting prices and collecting receivables. These added responsibilities left little time to devote to his young family. Lydia took over the bookkeeping from her mother-in-law, Gertrude. Also working in the business was Ed’s brother Larry, an equipment operator and foreman.

In 1976, shortly after Nancy’s birth, Stanislaw decided to retire and sold his half of S. Merski & Sons to Larry. Ed and Larry then became partners. Based on Ed’s discussions with an asphalt salesman, the brothers decided to open an asphalt plant in Niagara Falls, New York. This idea led to the opening of Niagara Paving on Labor Day weekend in 1977. The agreement between the brothers was for Larry to continue to operate the construction business and Ed to operate the asphalt business.

The construction and asphalt businesses did well financially, but the relationship between the two brothers deteriorated. Larry felt that he was working much harder than his brother. The two businesses were then split: Ed became the sole owner of Niagara Paving and Larry owned the construction company. Niagara continued to grow in number of contracts and its capacity. Ed hired another brother, Jacob, as a batcher and yard manager.

In the late 1970s, Ed diversified into the tool and die business with a partner to form Total Tools. Shortly thereafter, interest rates skyrocketed and work was scarce. The bank called the loans and Total Tools was liquidated. Ed also was forced to sell the family home

in order to pay the bank, and his family moved to a much smaller house. Ed continued to work at a fierce pace even after the debts were repaid, vowing never again to put himself and his family in that dire situation. The economy improved and the struggling company returned to profitability. This turnaround coupled with the proceeds of a lucrative real estate deal with an outside partner brought Ed increased prosperity. By late 1989, Ed had built a luxurious house for himself, Lydia, and Nancy, their only child at home.

In the early 1990s, the city of Niagara Falls condemned the company's land and gave several years' notice to move out. By this time, most of Niagara's business was in the Buffalo area and so it seemed logical to relocate there. While looking at possible sites for the new plant, Ed learned that someone had purchased property near the interstate highway and planned a new asphalt plant. It did not take long for him to discover that the new property owners were his brothers Larry and Jacob, along with Niagara's salesman, Ross. Confronted by Ed, the brothers confirmed his suspicions. He told them, "If you're going to go, go now." They left. Ed was shocked, angered, and hurt as he suddenly lost two key employees—Jacob and Ross—and a number of key customers. The family was torn apart. It was not until the death of their father that the three brothers spoke again.

Also in the early 1990s, Niagara experienced a slowdown as industry-wide demand for road building fell with the recession. Pricing became intensely competitive and Niagara's gross margins fell from the mid-20% range to the high tens. Niagara fared better than its competitors; meanwhile, Ed's brothers' new company barely survived.

In 1994, Niagara opened its Buffalo plant. Maria, already the company's bookkeeper, became the batcher/dispatcher for the Niagara Falls plant while Luke moved to the Buffalo location. The company operated both plants for a few years until the Niagara Falls plant was dismantled and sold. At that time, Maria reluctantly moved back into book-keeping.

In 1995, the State of New York was taking bids for major paving work on Interstate 90. With some help from its supplier, Standard Aggregates, Niagara got this lucrative contract. The state required its contractors to use unionized labor, and so Ed negotiated the company's first union contract.

As Niagara prospered during the mid and late 1990s, Ed increased his compensation. Furthermore, the hiring of managers such as David afforded Ed time away from the company. Unlike the years when Maria and Luke were growing up, Ed was able to devote considerable time and money to Nancy. He paid her tuition to a private high school and always attended her school pageants and dance recitals.

Perspectives of Ed's Children on the Family Business

In 2004, each family member had a different perspective on Niagara Paving and its future. As Ed contemplated the possible extent, mode, and level of Nancy's participation in the company, he considered these perspectives gathered from his conversations with the family and from third parties who had spoken to each of them. In this way he hoped to discern their true opinions.

Luke's Perspective

At the age of 12, Luke began working at Total Tools, generally sweeping up and painting. By age 16, he was working every weekend and had saved \$5,000 to buy his first car. At 18, the minimum age requirement, Luke learned to drive asphalt trucks. Shortly after completing high school, he began working full time at Niagara.

Luke worked long days. At 6:00 or 6:30 a.m., he would batch and load the first run. He drove and delivered as long as necessary, then came back in the office, sent the batcher (Jacob) home, and finished the day in the office. In Luke's opinion, he had made many sacrifices for the company, including his canceling a much anticipated trip with friends to California when his uncles left Niagara in 1992 to start their own company.

During his early years with the company, Luke was "the boss's son." The other workers isolated him for fear that he would report any suspected misbehavior to his father. Reflecting upon that period, in 2004, Luke recalled, "Work was great but social interactions remained limited." Only in 1995 did he develop a strong friendship with a fellow employee, Kris Archer, a local contractor who joined Niagara as a batcher.

Over the last few years Luke had assumed more management responsibilities in the company. Currently, he oversaw the manufacturing and scheduling of deliveries. He was particularly proud of the consistently high-quality asphalt produced in the plant. Luke also handled grievances under the union contract. He did not report day-to-day activities to Ed unless there was a problem that would likely lead to significant cost overruns.

As for the future of the company, Luke was content with its current size as he was concerned that an expansion would stretch Niagara's ability to deliver a quality product. Luke was generally supportive of Nancy's request to rejoin the company, but had some reservations. Asked how she could contribute to Niagara, he replied, "It would be great if Nancy could help Dad with investments and me with union issues." He was skeptical about her plans to improve the core areas of manufacturing and paving operations.

Maria's Perspective

Maria did not have many fond memories of her childhood. She recalled hating her odd jobs in her father's business. Ed worked 15–20 hours a day, but money was always tight and life seemed a struggle. She was 17 when Ed's business losses forced the family to cut back on comforts and move to a more affordable house in another town. Maria was in high school and rebelled against the move, threatening to move out if her parents did not allow her to graduate with her friends.

In 1992, at the age of 26, she started helping Judy in the office with the bookkeeping. Just a year later, when her uncle Jacob and the salesman left, she moved into batching. Maria fell in love with the job and continued in it until 1995. She moved to Buffalo when the Niagara Falls plant closed, but there was no room for her as a batcher as Kris and Luke were already handling that job. She went back to bookkeeping but hated this job. A few years later, out of frustration of not being able to batch, she quit the company. Niagara needed another batcher in 2003, but Maria preferred not to return to the company as she didn't want to "risk it." She enjoyed seeing her family at the Christmas parties and other social gatherings, but did not want to work at Niagara again.

Nancy's Perspective

Nancy realized that her comfortable life had been much different from those of her siblings. She was only 12 years old when they moved out of their family home. The company had been successful for as long as she could remember, and she had received great affection from her family. She recalled that Luke and Maria were fond of her, as they had taken care of their baby sister and "treated me like a real doll." Nancy had worked at Niagara during her summer vacations and for the first 2 years following her graduation with a bachelor of arts from the University of Buffalo. For those 2 years, Nancy held the position of junior bookkeeper and acted as what she called "the Girl Friday" who planned charity functions and Christmas parties.

Nancy subsequently left Niagara and moved to upstate New York to join her husband, who was attending chiropractic school. There she secured a position with Niagara's main supplier, Standard Aggregates, through a contact she established while working at Niagara. In 2 years, she was promoted several times and held four different jobs. One of them, in the newly established e-commerce division, brought several opportunities to travel through North America and Europe. In her last position at Standard Aggregates, Nancy was promoted to business process analyst, reporting directly to the senior vice president and earning \$48,000 annually.

Working for a large company eventually lost its luster for Nancy. She missed the agility of her much smaller family firm and longed to be back in Buffalo. When she approached Ed with the idea of her joining Niagara Paving, he was receptive but expressed reservations. She had changed jobs several times in the 5 years since graduation from university. He made it clear to her that if she came back, it would be as a permanent employee and with a firm commitment to the company.

At this time, Nancy decided to pursue her MBA to gain some formal managerial training. She believed this would be useful if one day she were to lead Niagara Paving. Nancy completed projects in two courses, in which she studied Niagara's challenges and discussed them with her father and brother. Nancy had the option of seeking employment outside her family business, just like many of her classmates. Based on their experiences, she believed she could find a position paying \$70,000, and over the course of 10 years, double her income.

Nancy believed that her business education and experience with the company's major supplier would enable her to help manage Niagara in ways that Luke could not. She envisioned herself assuming over time her father's current roles and responsibilities, including negotiating supplier contracts and dealing with the sales force. Within 5 years, she expected to have a significant voice in the company, collaborating with her father and Luke on major decisions. She and her brother would work closely with suppliers, customers, and other professionals to ensure that Niagara was well prepared for a smooth transition of control to the next generation, which she well knew from her readings was a challenging task for family firms.

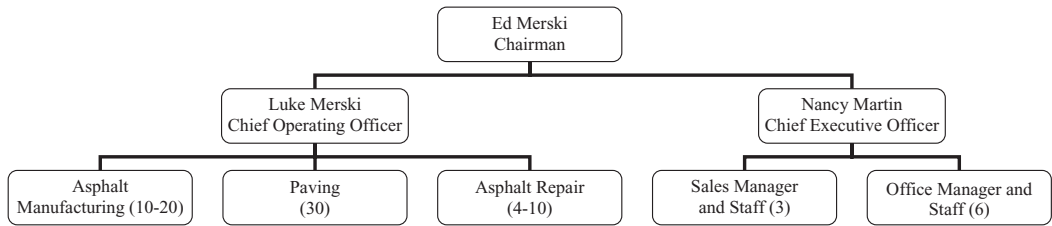
Although the shareholders' agreement contained no provision for the transfer of shares, Nancy expected to increase her ownership interest in Niagara Transport. Later, as her involvement with the business increased, she and her brother would take ownership in the other three companies. However, it was not the Merski family's practice to discuss matters of money, company ownership, or the contents of her parents' wills.

Nancy expected to lead the company within 10 years. She intended to continue its aggressive growth and acquire at least one local competitor. She hoped to make Niagara more profitable by implementing preventive maintenance programs for equipment and introducing information systems to better track the revenues and costs of individual jobs. She had plans to bridge the gaps between management and employees through union-approved incentive programs. Nancy stated that Niagara Paving under her management "would be a place where the staff is motivated, challenged, and satisfied and where union contracts serve as an operating framework and not a divider of management and labor."

Further, she believed that Niagara could become a leader in innovative and progressive environmental programs. She had read about a number of smaller, innovative companies that had made great strides through proactive environmental strategies. She was eager to conduct research to understand what "green" products Niagara could offer to appeal to more environmentally conscious customers. She dreamt of being well known in her community as a successful entrepreneur and philanthropist.

Figure 4

Potential Future Organization Chart Prepared by Nancy Martin



Note: The bracketed figures in the boxes report the number of staff currently in that area.

While Nancy was excited about working with her father and brother, she knew the three of them would need to develop an organizational structure to clarify their roles and responsibilities. She had a structure in mind (see Figure 4), but had not yet shared it with Ed because she was concerned about how her brother and father would react to it and to her other ideas. Nancy worried greatly about losing her good relations with both Ed and Luke if their views on the company's directions differed from hers, and was particularly concerned about being drawn into disputes between the two men. One of their frequent disagreements concerned David. Both men saw David as a valued asset, but Luke found him at times to be overly aggressive, demanding, and unorganized, while David was exactly what Ed wanted in an employee. At family dinners, the two Merski men would get into alcohol-induced arguments about David.

Nancy believed her goals for Niagara were challenging but attainable. She expected to be underpaid, overworked, and underappreciated while working in her family firm. Nancy thought that an MBA would mean nothing in Niagara Paving—hard work was the only thing that merited advancement or pay increases. Over 20 years, her brother's salary had increased from \$15,000 to \$70,000, with a bonus of \$7,000; David was probably making close to \$85,000 in salary and commission income. While she did not expect to earn as much as she would in a larger company, Nancy did expect regular raises as appropriate every year or two. She was certain that until she controlled the company, these raises would not bring her to the salary levels she could command elsewhere.

Offsetting this drawback, however, she expected to benefit in several ways from working in Niagara. Most important, she expected that in the long term, she would receive a larger percentage of the company's equity if she were an active part of Niagara. In addition, she believed a family firm would be much more conducive to a flexible work schedule. A cell phone, auto expenses, attendance at charity balls and political events, and other perquisites would also come with her job.

Ed's Thoughts on Succession

If Nancy were to join the company, one responsibility that Ed believed she could assume would be to help him better manage the company's marketable securities. He believed that Niagara's funds could be more profitably invested. For example, there were opportunities to get involved in financing some of its clients' projects. If she focused on investments, Nancy would report to him and not have much direct contact with other employees.

Ed also thought his daughter's education and experience could be useful in examining ways to improve Niagara's profitability through selective cost cutting in areas such as purchasing. Her experience outside Niagara could also be useful in improving management's relations with the union and in evaluating a potential acquisition. Ed was concerned, however, that some of her ideas about employee empowerment and environmental projects were idealistic and would reduce profits.

If Nancy were to remain with the company, Ed saw her assuming a broader managerial role in a few years. As such, he believed that she needed to work more closely with Luke and learn more about the operations of Niagara by taking shifts as a batcher and dispatcher. She could also learn more about the company's sales activities and perhaps assist David in bringing on another salesperson. If Nancy proved up to the task, Ed would like to see David report to her rather than to him. Hoping that Nancy would eventually gain the respect of employees, Ed thought she might relieve him of some responsibilities. Over time, he wanted to eliminate the prevailing feeling of David and other employees that they should call upon him when they were unhappy either with policies set by other managers or day-to-day operations.

Ed anticipated that within 5 years, he would appoint Luke president of the company with Nancy reporting to Luke. However, this expectation was not set in stone. He commented on the issue of succession:

At this time, we are considering all options. It is unclear if a succession would really be successful. This business requires one person to have ultimate decision making. To share that responsibility likely wouldn't work and I'm not sure that Luke could handle Nancy taking a more active role. Also, the market is not doing so well. This will decide which direction we take.

Given the low success rate in effective generational leadership transition in family firms, Ed could not take lightly a decision to invite Nancy to join the company. What raised the stakes further was that Niagara was prosperous, stable, and well respected in the community. Clearly, he thought, some family members and employees worried that her entry and eventual accession to power could cause turmoil and risk the company's good fortune.

Pramodita Sharma is a Professor of Management at the John Molson School of Business, Concordia University, Montreal, Canada.

Brian Smith is a Professor of Finance at the School of Business and Economics, Wilfrid Laurier University.