

SUCCESSION PLANNING: SURVIVING THE NEXT GENERATION

Kimberley Howard and Ilan Alon 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 late May 2009, Albert Bohemier, CEO of Survival Systems Limited (SSL), located in Dartmouth, Nova Scotia, paced the deck of the training pool at Survival Training Simulation Theatre, wondering how best to transition the company to new leadership. During the past five years, attempts at succession planning had been unsuccessful. As the leader of the company for more than 25 years, Bohemier was ready to retire, but there were many aspects of succession planning to consider. Bohemier's personal criteria for incoming leadership were threefold: it had to be good for existing Survival Systems' clients, a positive move for the company as a whole and good for the current team.

Bohemier had spent considerable time trying to identify the appropriate succession strategy for the company. Options for succession included selling, managing through an external team, or hiring a replacement externally. Internal options for succession included employee buyout, or grooming a family successor, internal successor or group of internal successors. However, operating a highly specialized medium-sized business in the international marketplace complicated the succession issue for Survival Systems.

SURVIVAL SYSTEMS

Bohemier and a partner founded Survival Systems in 1982. Trained as a SeaKing helicopter pilot with the Canadian Armed Forces, Bohemier left the military after 10 years to fly commercially. In June 1981, while flying in Labrador, Bohemier's helicopter crashed due to mechanical problems. Bohemier was able to extract himself, extinguish four fires in the fuselage, and survive a day in the wilderness before being rescued.

Attributing his ability to survive the crash to the survival training he received in the military, Bohemier recognized a market for safety and survival training existed. Months later, Survival Systems was created. Survival Systems' purpose is "to enhance and preserve workers' lives through safety education, training technologies and applied research and development." The company's strategic intent is: "To create, set,

and maintain the global standard or measurement by which all workers who may have to react, escape, egress, effect a rescue, or survive a life-threatening situation over water, air, or land will be trained.”

Bohemier exhibited the passion, drive and vision typical of entrepreneurs. His ability to lead the company resulted in several personal and company awards throughout the years, including Petroleum Pioneer Award (2008), Canadian American Business Council Award of Merit (2003 — co-recipient with American Systems Corporation), Canada Export Awards (2000, 1995), Brazil’s National Safety Association’s Medal and Diploma of the Order of Preventionist Merit (1999), Ernst & Young’s Entrepreneur of the Year Award (1995), and Nova Scotia Export Awards (2005, 1995, 1994, 1993).

The early days for Survival Systems were difficult. Starting a business during an economically challenging period in a province that typically was economically depressed was not easy. Initially, Survival Systems’ target market was the Canadian military and oil and gas companies operating offshore in the North Atlantic Ocean. Although safety and survival training was recognized as a good idea, potential clients were often not willing to go beyond verbal support.

Then in February 1982, the Ocean Ranger, the world’s largest semi-submersible oil rig at the time, sank and all 84 crew members perished. During a storm with waves up to 65 feet and winds of up to 190 kilometres per hour, a rogue wave broke a porthole which allowed water into the ballast control room. The rig began to list and was eventually evacuated before sinking. Crew members who were eventually recovered had drowned after succumbing to hypothermia.

This disaster resulted in renewed interest in and commitment to providing safety training and equipment from both the oil and gas industry and the Canadian government. An analysis of the accident by the Canadian Royal Commission addressed three questions: “Why did the Ocean Ranger capsize and sink?,” “Why was none of the crew saved?,” and “How can other similar disasters be avoided?”¹ A total of 66 recommendations were made by the Royal Commission in the areas of rig design, evacuation, search and rescue, and training and regulation.²

Through the years, Survival Systems steadily increased the number of courses it offered and began to manufacture and design safety and survival training devices. Bohemier and his partner sold the company in 1989 for Cdn\$1 million to an Australian buyer. The company went bankrupt under the new ownership, and Bohemier and his partner bought it back a year later for Cdn\$124,000. In 1992, Bohemier bought out his partner and became the sole owner of Survival Systems. The company increasingly sold its products worldwide, and recognizing the potential of the military market in the United States, opened Survival Systems USA (SSU), in Groton, Connecticut, in 1998.

In 1999, Bohemier sold the Canadian training division (Survival Systems Training) to a senior manager. Survival Systems Training (SST) focused on training military and offshore personnel while Survival Systems Limited focused on the research, development, manufacture and sales of safety training devices and services. The companies shared adjacent properties in Dartmouth, Nova Scotia, and together employed more than 40 full-time personnel. Survival Systems Limited was structured by function and typically attracted extremely passionate and loyal employees. The company offered competitive salaries to its top management team. See Exhibit 1 for Survival Systems Limited’s organizational chart. See Exhibit 2 for a

¹ *Royal Commission on the Ocean Ranger Marine Disaster Report One: The Loss of the Semisubmersible Drill Rig Ocean Ranger and its Crew.* Minister of Supply and Services Canada, 1984.

² *Summary of Action Taken by the Government of Canada in relation to the Recommendations of the Royal Commission on the Ocean Ranger Marine Disaster,* Energy, Mines and Resources Canada, Government of Canada, April 1985.

combined income statement for Survival Systems Limited and Survival Systems USA. See Exhibit 3 for a combined balance sheet for Survival Systems Limited and Survival Systems USA.

In 2006, Survival Systems opened its first Survival Training Simulation Theatre (STST), featuring state-of-the-art simulation training equipment. Designing fail-safe technologies for a fully integrated system (aircraft ditching simulator with accompanying gantry hoist) was a significant goal in the late 2000s and resulted in the design and manufacture of several gantry hoist systems rated to lift people with no single point of failure.

Survival Systems USA was chosen to provide aircraft ditching training to the United States Marine Corps (USMC). This contract resulted in the construction of four facilities used exclusively to train USMC personnel. Three of the USMC training centres were located in the United States, and one in Okinawa, Japan. Survival Systems supplied the equipment, and operated and staffed the training centres; the USMC owned the equipment and facility. In 2008, a state-of-the-art Survival Training Simulation Theatre was constructed in Kentucky to train U.S. army personnel in aircraft ditching training. This facility was designed, staffed and operated by Survival Systems, and owned by the U.S. army. Collectively, these training centres employed approximately 100 Survival Systems personnel.

PRODUCTS AND SERVICES

Survival Systems provided Helicopter Underwater Escape Training (HUET), manufactured several safety training devices, and conducted applied research and development. Survival Systems' products and services were based on the premise that the training environment should simulate the survival situation as much as possible. When Bohemier first started the company, the training devices available for HUET were less than ideal. This led to the design and manufacture of the Modular Egress Training Simulator (METS) in 1987. The METS simulates an aircraft ditching scenario in a training environment. Helicopters experience one ditching for every 100,000 hours of flying and crews usually only have 15 to 60 seconds of warning before a ditching.

The success of the METS was based on a number of factors. The interior of the fuselage could be configured and exits installed based on specific aircraft types. The METS could replicate any helicopter and some fixed-wing aircrafts using interchangeable exits. Clients specified the type of aircraft trainees who would be flying so the interior and exits on the METS could be configured accordingly. More than 175 exits had been manufactured to date. Another advantage of the METS was its ability to disorient trainees. Disorientation was a significant factor in HUET, and many other aircraft ditching training devices did not disorient.

Throughout the years, the design was refined and modified to simulate different types of fixed- and rotary-wing aircraft. The METS could also be configured as a Fast Rescue Craft, Apache, Little Bird (H-6), High Mobility Multi-Purpose Wheeled Vehicle (HMMWV), and an Amphibious Assault Vehicle (AAV). The training environment allowed for several options such as night simulation, smoke exercises, and training with Emergency Breathing Systems (EBS). For a list of METS Models 1-40, see Exhibit 4. To view a video of the METS in action, visit www.youtube.com/watch?v=1ikn3_xsbSc.

The company also built Shallow Water Egress Trainers (SWET Chairs), one-person familiarization devices for trainees who were not ready to progress to the METS. Other examples of training devices included the FirePan, developed for firefighting training, and the Mobile Industrial Rescue Trainer (M.I.R.T.), used in confined space training.

Survival Systems was one of a handful of worldwide players in the highly specialized aircraft ditching training business. Companies tended to differentiate themselves by price and the quality of their products and training. Some aircraft ditching training companies designed their own simulators. Little information about competitors was publically available. By May 2009, Survival Systems had manufactured and sold 75 METS in 24 countries. Survival Systems owned and operated the only two METS in Canada. For a list of METS clients worldwide, see Exhibit 5.

SUCCESSION STRATEGIES

Bohemier would soon turn 60 and was ready to pass on the leadership to someone else. The nature of the business demanded that he travel approximately 200 days a year and work 14-hour days including weekends. Bohemier felt physically and mentally worn out from the effort of running the business and wanted to pass it to someone who would be a good steward of the company, clients and staff. At one point, he had attended a presentation about entrepreneurs, which statistically showed that although entrepreneurs are incredibly capable of starting a company, their success at running the company tends to decline after 25 years. He had watched other entrepreneurs who had waited too long to find a successor and did not wish to be in the same situation.

Bohemier had observed significant issues for other business owners who chose family successors. He believed that mixing his business with his family would create problems between him and his children. He therefore did not consider a family successor as an option. His three adult children had neither been encouraged to nor expressed an interest in taking over the business; all three had chosen other careers.

To date, Bohemier had hired personnel at the functional and executive levels to succeed him. Twice (once in 2004 and once in 2006) presidents were recruited externally to lead the company. This strategy had not been successful, as each time the person hired had either not been accepted by the existing management team or had not demonstrated the level of expertise and ability required to lead the company. When a new president was hired, the staff were generally very accepting of the new leadership initially, but withdrew their support when the incumbent leader failed to earn their respect as a leader.

Each candidate failed for specific reasons, but generally a combination of the following was present: an inability to make the difficult, complex business decisions needed in the company; an inability to make the right decisions for the company the majority of the time; lack or loss of credibility with clients and staff; an inability to negotiate in complex international environments; an unwillingness to dedicate the time and effort needed for running the business; and an unwillingness to assume the financial risk associated with the responsibility of running the company.

Survival Systems' staff had previously commented that Bohemier had not allowed candidates the leeway a leader needed and that he remained too involved with the candidates for them to make a difference. Consequently, in the last succession attempt, Bohemier outlined only one criterion in which he would intervene: if the company was running out of cash under the incumbent leader.

In 2006, Bohemier negotiated the sale of Survival Systems Limited and Survival Systems USA to a European buyer for approximately Cdn\$28 million. However, two days into negotiations, the buyer determined that Survival Systems USA, which concentrated on training, was a better fit for it than Survival Systems Limited, which concentrated on R&D, design and manufacturing. The buyer offered Bohemier Cdn\$17.6 million for the American company but at the last minute the deal did not go through when the U.S. company unexpectedly lost a major contract with the U.S. army.

The American military was one of Survival Systems' largest clients and the buyer questioned buying a business which depended so heavily on one organization for revenue. (Typically, the U.S. company provided training and the Canadian company manufactured METS systems.) Additionally, both parties recognized that there would be significant human resources issues as the company transitioned to new leadership. Although the deal fell through, Bohemier still maintained a positive relationship with the senior management of the European company.

Internal candidates had occasionally shown interest in leading the company, but typically were not willing to accept the associated financial risk. Bohemier had been given assurance of funding for Cdn\$1.5 million for a management buyout that would lend the business the funds for the management team to take majority ownership. The company would pay back the loan, but the new owners would have to sign for the debt and its repayment. None of the management team was willing to sign without the assurance of a successor who could ably lead the business. One member of the top management team had been with the company for more than 10 years, while the other three had been with the company for less than five years.

THE FUTURE

The U.S. company had negotiated an employee buyout of Survival Systems USA, which, although not lucrative, was viable. Bohemier had considered the same option for the Canadian company, however an external consultant's assessment of the current situation deemed the company unready for management buyout. The consultant stated that the team was "not cohesive" and that the company "is not set up for growth as capacity is constrained in sales and production." The consultant's report also indicated that an outside buyer would need to provide "leadership, sales expertise, effective organizational and people management skills, a passion for building a business, and money, or a plan for making the buyout work."

Bohemier had struggled with the dilemma of succession for several years. Trying to sell a niche market business externally had been challenging. If he opted to find a replacement for himself, the ideal candidate would have a unique mixture of complex, global negotiation and leadership skills, an in-depth knowledge of rotary-wing aircraft, marine environments, survival training knowledge, a background in either the military or oil and gas sectors, and experience dealing with these sectors worldwide. Grooming an internal successor or group of successors would require significant changes for the current team. Where would he find someone or a group of people with the combination of skills and knowledge required to successfully lead the company forward?

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Exhibit 1

SURVIVAL SYSTEMS LIMITED ORGANIZATIONAL CHART

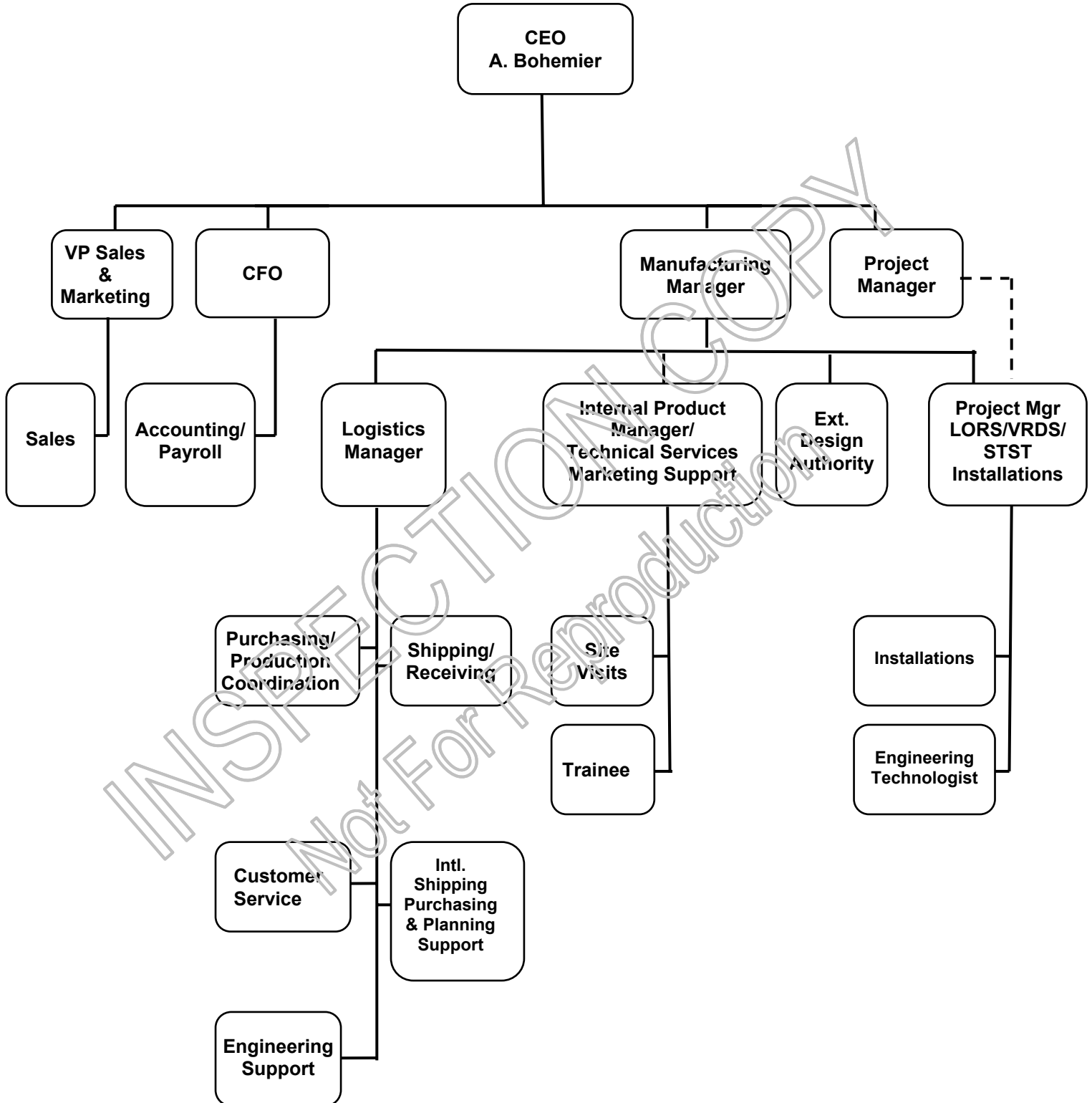


Exhibit 2

SURVIVAL SYSTEMS LIMITED AND SURVIVAL SYSTEMS USA COMBINED INCOME STATEMENT

In Canadian dollars Year end June 30	Actual 2003	Actual 2004	Actual 2005	Proforma 2006	Proforma 2007	Proforma 2008
Revenue	11,946,880	12,232,019	13,010,167	15,285,657	17,213,716	20,712,236
Cost of Goods Sold	3,335,776	2,068,507	1,895,497	2,982,448	3,652,843	4,357,362
Gross Profit	8,611,104	10,163,512	11,114,670	12,303,209	13,560,873	16,354,875
Selling, General, Admin Expenses	7,008,853	9,333,516	9,034,698	9,426,184	10,086,416	12,059,750
EBITDA	1,602,251	829,996	2,079,973	2,877,025	3,474,457	4,295,124
Interest Expense	137,518	105,623	121,803	100,338	108,141	116,914
Amortization	464,673	440,222	362,951	346,775	376,108	386,427
Earnings Before Income Taxes	1,000,060	284,150	1,595,219	2,429,913	2,990,207	3,791,783

Exhibit 3

SURVIVAL SYSTEMS LIMITED AND SURVIVAL SYSTEMS USA COMBINED BALANCE SHEET

(in Canadian \$)	As at June 30,		
	Actual 2003	Actual 2004	Actual 2005
ASSETS			
Current Assets	2,847,764	3,282,260	3,781,325
Long Term Assets	3,899,075	3,175,612	2,493,646
TOTAL ASSETS	6,746,839	6,457,872	6,274,971
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current Liabilities	2,367,117	2,142,898	1,654,062
Long Term Liabilities	3,371,355	3,298,960	3,205,711
Total Liabilities	5,738,472	5,441,859	4,859,773
Shareholder's Equity	1,008,367	1,016,013	1,415,198
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	6,746,839	6,457,872	6,274,971

Exhibit 4

METS MODELS 1-40

	<p><u>METS Model 1</u></p> <ul style="list-style-type: none"> • Smallest METS Model available • Accommodates two interchangeable emergency escape exits • Available since 1999 • Three sold to date
	<p><u>METS Model 3</u></p> <ul style="list-style-type: none"> • Accommodates four interchangeable emergency escape exits • Available since 2004 • Three sold to date
	<p><u>METS Model 5</u></p> <ul style="list-style-type: none"> • Accommodates four interchangeable emergency escape exits • Available since 1998 • 16 sold to date
	<p><u>METS Model 30</u></p> <ul style="list-style-type: none"> • Original METS Model • Accommodates eight interchangeable emergency escape exits • Available since 1991 • 26 sold to date • Considered the offshore aircraft ditching standard benchmark model
	<p><u>METS Model 40</u></p> <ul style="list-style-type: none"> • Accommodates eight interchangeable emergency escape exits • Available since 1996 • 18 sold to date • Preferred model of military clients

Exhibit 5

METS CLIENTS WORLDWIDE



METS™ Model 1

- 1) Falck Nutec – Den Oever, Netherlands

METS™ Model 3

- 1) NASC – Darwin, Australia (Prototype)

METS™ Model 5

- 1) Falck Nutec – Esbjerg, Denmark
- 4) Shell – Louisiana, USA
- 7) GIS – Louisiana, USA
- 10) Shell – Alaska, USA
- 13) Falck Nutec – Vung Tau, Vietnam (NC)
- 16) Polish Navy – Pniewskiego

METS™ Model 30

- 1) Red Alert – West, Sale, Australia
- 4) LTS – Brunei
- 7) JOTC – Jakarta, Indonesia
- 10) MSTC – Louisiana, USA (2005)
- 13) Falck Nutec – Rotterdam, Netherlands
- 16) Megamas – Brunei
- 19) SS India – Mumbai
- 22) Falck Nutec – Esbjerg, Denmark
- 25) SMS – Louisiana, USA

METS™ Model 40

- 1) Survival Systems Training – Nova Scotia
- 4) US Air Force – Washington
- 7) German Navy – Nordholz, Germany
- 10) US Army – South Korea
- 13) Survival Systems Limited – Nova Scotia
- 17) US Navy – Jacksonville, Florida

Modular Amphibious Egress Trainer (MAET™) Model 40

- 1) US Marine Corps – Okinawa, Japan
- 4) US Marine Corps – North Carolina

Standalone Helicopter-Specific METS™

- 1) US Army – South Korea
- 4) US Army – Kentucky

Multi-Purpose Module METS™

- 1) US Marine Corps – Okinawa, Japan

- 2) CONSIST – Malaysia

- 2) CONSIST – Malaysia

- 2) Enertech Qatar – Doha
- 5) SSSI – Kristiansand, Norway
- 8) CSSI – Louisiana, USA
- 11) OSTI – Texas, USA
- 14) Falck Nutec – Texas, USA (NC)

- 2) Den Helder Training Center – Netherlands
- 3) PT Samson Tiara – Indonesia
- 5) RNLAf – Gilze Rijen, Netherlands
- 11) Falck Nutec – Stavanger, Norway
- 14) Falck Nutec – Aberdeen, Scotland
- 17) MSTs – Malaysia
- 20) Falck Nutec – Trondheim, Norway
- 23) Chilean Navy – Concon
- 26) Falck Nutec – Nigeria

- 2) Falck Nutec – Teesside, United Kingdom
- 5) US Navy – Pensacola, Florida
- 8) US Navy – Whidbey Island, Washington
- 11) US Navy – Cherry Point, North Carolina
- 14) US Army – Kentucky
- 17) US Navy – Lemoore, California (NC)

- 2) US Marine Corps – Hawaii

- 2) SS USA – Connecticut

- 3) Marins Pompiers – Marseilles, France

- 3) NSCC – Nova Scotia, Canada

- 3) OSTI – Louisiana, USA
- 6) LTC – Louisiana, USA
- 9) AAST&MT – Alexandria, Egypt
- 12) Falck Nutec – Thailand (NC)
- 15) Falck Nutec – Nigeria (NC)

- 3) Falck Nutec – Bergen, Norway
- 6) IFAP – Freemantle, Australia
- 9) MSTC – Louisiana, USA (1996)
- 12) ROKN – South Korea
- 15) ETC – Nigeria Air Force
- 18) Royal Australian Navy – Nowra
- 21) Falck Nutec – Oslo, Norway
- 24) Indonesian Air Force – Lakespra

- 3) SS USA – Connecticut
- 6) US Navy – Pax River, Maryland
- 9) Australian Army – Townsville
- 12) US Navy – Norfolk, Virginia
- 15) Spanish Navy – Rota (NC)
- 18) US Navy – Miramar, California

- 3) US Marine Corps – California

- 3) Survival Systems Limited – Nova Scotia