Life Cycles and Strategy of a Canadian Company
Dominion Textile: 1873 – 1983

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ABSTRACT

Life Cycles and Strategy of a Canadian Company
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This is a longitudinal and empirical study of Dominion Textile, a Canadian-based multi-national whose 110 year history reflects many important features of the evolving Canadian business environment. The study compares and relates this to the work of Alfred Chandler, on American and European firms. The Chandlerian hypotheses were used to examine the development of Dominion Textile, and became the basic outline for the study of the company.

The history of the company falls into several distinct periods:

<u>Period 1.</u> The Origins of Dominion Textile, 1873 - 1904.

<u>Period 2.</u> Formation and Rationalization, 1905 - 1919.

<u>Period 3.</u> Structure and Purpose, 1920 - 1939.

<u>Period 4.</u> Stagnation and Decline, 1939 - 1953.

<u>Period 5.</u> Developing a Growth Path, 1953 - 1975.

<u>Period 6.</u> The Multi-National Corporation, 1975 - 1983.

The data tends to support Chandler's hypothesis, but finds variations in the Canadian pattern attibutable to the nature of the Canadian economy. The study finds the evolution of management culture to be at the core of the development of professional managerial hierarchies.

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CHAPTER ONE

BUSINESS POLICY RESEARCH ON A CANADIAN COMPANY

1.1 INTRODUCTION

The study and analysis of the histories of companies and of business history have received considerable attention in the United States and Europe over the past twenty years. These studies, notably Alfred Chandler's Strategy and Structure[1], have provided empirical data that sparked an interest in theories of organizational development at the firm and industry level.

This work presents a longitudinal, empirical, and analytical study of Dominion Textile, Inc., a Canadian-based multinational company whose 110 year history reflects many important features of the evolving Canadian business environment. The development of Dominion Textile, and the results of the study are compared and related to the work done by Alfred D. Chandler on American and European firms.

The effect of Chandler's research has been wide-ranging. His definitions and hypotheses - particularly the proposal that "strategy determines structure", have become part of the core paradigms of business policy. In Industrial Organization theory, his contribution that structure drives conduct, which in turn determines performance, has expanded the scope of that discipline from traditional economic theory concerned with public policy, to a position where it shares many common premises with the field of business policy.

In Canada there have been few empirical, longitudinal research studies of national firms relating life cycles or strategy formation over an extended period of time. As the Royal Commission on Corporate Concentration observed: "It did not take long before we realized that there was a lack in Canada of objective analytical histories of the development of individual Canadian businesses." [2] Before they could begin their studies, the Royal Commission found it necessary to commission several such works.

Historians generally have not provided the type of data on business organizations upon which business policy researchers can base generalizations or hypotheses concerning the evolution of Canadian business enterprises. The written histories of Canadian firms generally have not specifically addressed the issues of concern to business policy researchers such as structure, strategy, technological innovation or management policy.

Theories on the formulation and evolution of Canadian management policy, and resulting business structures, have not been fully developed. There is a shortage of empirical data to analyze how the Canadian experience has been similar to, or differs from, the growth model proposed by Chandler. In-depth, longitudinal policy studies of Canadian firms are needed in order to understand the ways Canadian firms have developed, as compared to the findings of the U.S. studies. This study is directed towards filling the gap.

Dominion Textile Inc., a long established Canadian company, is an ideal study. Its history and development reflect changing Canadian business practices since it has survived nearly a century, with the same corporate name. Other Montreal-based companies are Dominion Bridge, Thomas Pringle & Sons, Ogilvie's Flour, Northern Electric, Canadian Pacific, Sun Life and Standard Life, Molson's, the Royal Bank and the Bank of Montreal, St. Lawrence Sugar, Canada Steamship, and The Gazette .

Dominion Textile is the largest and oldest manufacturing operation that is still a major independent Canadian concern. Membership on Dominion Textile's Board of Directors has been held by leading figures of the Canadian business scene. Early directors (and owners) encompassed the spectrum of Canadian business of the time, with Directors' backgrounds including the major banks, railway and steamship companies, flour milling, stockbrokers and leading figures in municipal, provincial and federal governments. Similar symbiotic relationships exist today.

Mintzberg and Waters [3] have documented how present practices are influenced by solutions found useful at various times in the past. An important aspect of the Dominion Textile case is how successive generations of managers have built upon prior decisions, overcome inertia, effected change and developed strategies in order to deal with current problems and issues, and to provide for the growth and survival of the firm.

Dominion Textile was cited by the Financial Post in 1981 as one of the ten best managed companies in Canada. Its modern management team has evolved from the rudimentary structures of the nineteenth century, when Directors were the major shareholders, the President the largest shareholder, and the only salaried officers were the General Manager and the Secretary-Treasurer. Its development was evolutionary and sporadic. In successive eras it has been dominated at various times by manufacturing, marketing, and financial managers, each of whom influenced and contributed to its development.

Dominion Textile has extensive documentation of the company's activities back to the 1870s. The records are so extensive that often the week by week problems, and decisions made are recorded. The officers of the company were supportive, and assisted with interviews and other data collection.

The main purposes of this research are:

[A] to compare and contrast the development of Dominion Textile with Chandler's model of the development and evolution of U.S. firms;

[B] to examine the role of management culture in the formulation and development of corporate strategy;

[C] to relate the corporate life cycle growth of Dominion

Textile to modern life cycle theory; and

[D] to propose hypotheses relating to Canadian corporate growth and strategic development, based upon Dominion Textile.

How this study was undertaken, the methodology employed, and the major conclusions are reported in the sections which follow.

1.2 LITERATURE SURVEY

Chandler's work, Strategy and Structure (1962), marked a turning point in business policy research. Chandler presented empirical evidence substantiating the contention that no longer do all firms react to Adam Smith's invisible market forces. Managerial activity has changed the nature of these forces. Chandler described management activity as the visible hand.

Chandler intended Strategy and Structure to be a history of the development of corporate change, particularly changes in strategy and structure. He expected his work to be a comparative study of how different organizations carried out similar activities, with particular emphasis on innovative developments in organizational forms, methods, and processes. The choices made by an individual firm would be linked to the overall economy, and state-of-the-art business administration practices. His sample of nearly one hundred enterprises was chosen for its longevity and size. The emphasis is on successful innovations, and not on normatively representative practices.

In his sample, Chandler found a common pattern of strategic development, in which a particular strategy articulated by managers of a firm led the firm to change to another structural form.

Chandler found the following "chapters" or common phases of strategy in organizational life cycles, and a correspondingly similar pattern of structural changes:

Strategy	Structure
1. Accumulating Resources, Expansion of Volume	single-unit, single-function, single-location, changed by expansion, mergers, or consolidations
2. Rationalization of resources, geographic dispersion	local offices and a central administrative office, definition of lines of authority and communication
3. Contrived Growth through Vertical Integration	departmental offices and headquarters in the same industry, but with new functions
4. Rationalizing Use of Resources, Product Diversification	multi-divisional product divisions to apply resources to changing markets

The structure of an organization appears to follow its growth strategy. In order to deploy resources more efficiently, organizations change their growth strategy. Administrative problems are resolved by restructuring the organization's structure to fit the new strategy. If this adjustment does not take place, the organization will be less efficient and effective.

At the core of Strategy and Structure are two key definitions. This study uses Chandler's definitions of strategy and structure.

> "Strategy can be defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action, and the allocation of resources necessary for carrying out these goals". [4]

> "Structure can be defined as the design of organization through which the enterprise is administered". [5]

The relationship between these variables that Chandler proposed, has become an enduring paradigm of organization theory - strategy determines structure.

The impetus for strategic change came from the changing needs of the population, brought about by the market economy. In Chandler's findings it has rarely come from government action. Firms changed only if they perceived external changes. Chandler was not explicit as to what these market changes were.

The three main features of Chandler's paradigm are:

1. Structure is a result of the growth strategy followed by a firm.
2. U.S. firms have followed a pattern of stages of structural development, from a single-function, to functional, to a multi-divisional structure.
3. These changes, from stage to stage, are made in reaction to perceived changes in the market.

The two steps in these administrative changes are: "the creation of the organizational structure after the enterprises' first major growth or corporate rebirth", and "its reorganization to meet the needs arising from the strategies of further expansion." [6]

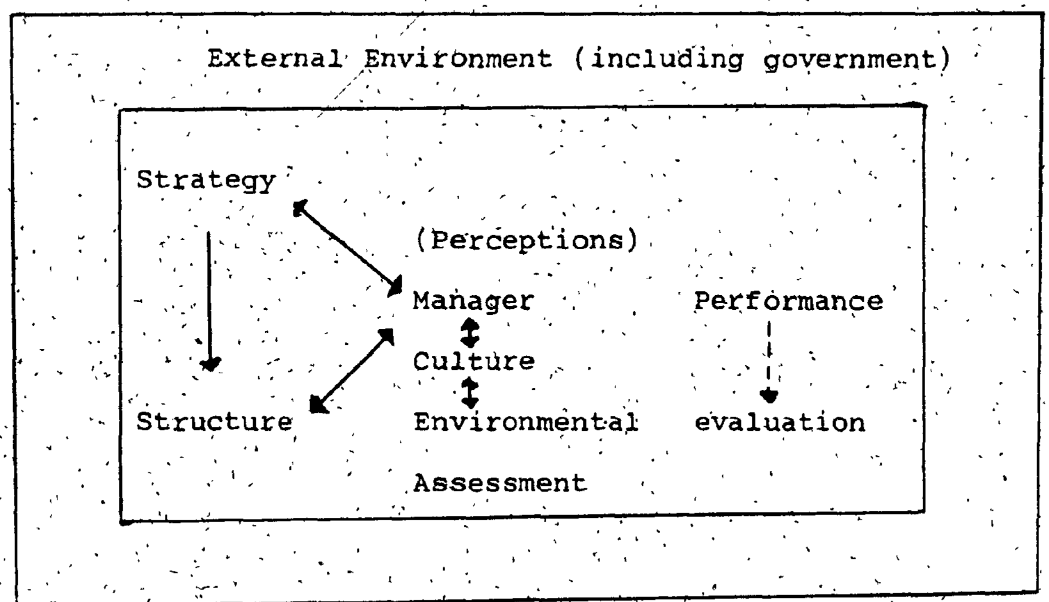
The research findings support Chandler's basic relationship of:

STRATEGY ⟶ STRUCTURE ⟶ PERFORMANCE

The findings of this research, however, suggest the relationship is more complex. Prominence must also be given to the actions of managers, which are in turn strongly affected by the mandgement culture in which they are operating, and by the assessement they make of environmental conditions. Their behavior, decisions, and actions are influenced by the particular environmental conditions in which the enterprise is operating. The theoretical model which is employed throughout the text is shown in Exhibit 1 - 1. The model illustrates that the manager is an active agent between strategy and structure. This position is supported by Chandler in <u>The Visible Hand</u>. The manager influences, and is influenced by, the total environment in which he functions and the perception of that environment.

Exhibit 1 - 1

<u>Strategy, Structure and Managerial Culture</u>



Between strategy and structure is the manager. Chandler could assume a similarity of response because of the common managerial culture, and environmental conditions managers faced in the U.S. . Managerial perceptions of the external environment are however strongly influenced by the business culture in which managers operate. Culture largely determines the assessment managers make of the environment, and help define the constraints on possible configurations of strategy and structure managers adopt for their enterprise.

This study of a Canadian firm revealed the influence of a somewhat different managerial culture, business environment, and national business conditions. Variations in the strategy-structure-performance model as proposed by Chandler were observed in the study of Dominion Textile. These variations or differences, as will be examined later in the thesis, could only be explained by factors attributable to managerial cultural differences.

The Chandler model proposes that structure becomes a mediating variable. What happens if the firm fails to change its structure? According to Chandler, it may survive; but "growth without structural adjustment can lead only to economic inefficiency."[7] Changes in structure are necessary if changes in distribution, marketing, technology, and financing are to be met effectively. Major structural changes are designed to reflect a fundamental change in strategy. Thus changes in structure are necessary to facilitate new tactics in areas such as marketing and distribution. An example of this is the change to a divisional structure introduced by Alfred Sloan at General Motors in 1923. Divisionalization allowed the company to follow its new strategy of producing a line of automobiles which competed in the entire price range of the industry.

What forces bring about these changes? In his American studies Chandler does not directly address the causes. His intention in Strategy and Structure and The Visible Hand was to record and analyze the changes. He ascribes the causes to socio-technical factors. Since all the companies were American, Chandler did not need to elaborate on these forces, since they would be similar for all companies.

The study of Dominion Textile lends to the observation that different forces operated in the Canadian environment, and that managers made decisions based upon different criteria and values. Although one could assume common motivations among American managers, the managers at Dominion Textile, especially in the early years managed with different sets of values, goals, and perceptions. The mediating influence of managers upon the characteristics and types of structures has been noted to test the Chandlerian thesis in non-American environments.

In later comparative studies of strategic and structural changes in European firms, results showed wider variation in the developmental model of managerial hierarchies. These comparative studies have found "cultural and economic reasons" for the persistence of transitional forms of organization in Europe, even after they had been superseded in the United States."[10] Chandler and his associates have had to consider changing cultural values, and the characteristics of national business climates, to account for the differing patterns they found in Europe. This emphasis is supported by the Dominion Textile findings. The implication for this research on Canadian firms is that studies must be directed not only to strategic and structural changes, but also the social and economic environment in which strategic decisions are made, and the role of managers.

Chandler found that the evolution of strategy and structure was accompanied by the development of managerial professionalism in American business enterprises. The Visible Hand[9] traces this development of managerial professionalism. The analysis and description focuses on the period 1850 to 1920, by which time Chandler feels, the transformations in the economy, organizations, and the managerial profession were virtually complete.

From the study, Chandler distilled eight subsidiary propositions or hypotheses:

1. When administrative coordination produced lower costs, higher profits, and greater productivity than coordination by market mechanisms, the multi-unit enterprise replaced the small, single-function enterprise.
2. Activities carried out by the market could not be internalized until a managerial hierarchy was created.
3. Modern business enterprises developed when the volume of activity was great enough to make internal control more efficient and profitable than leaving it to external market mechanisms.
4. Once established, a managerial hierarchy became a source of permanence, power, and continued growth.
5. Managers became increasingly technical and professional.
6. Managers became increasingly professional as an

organization's management was separated from its ownership.

7. Career managers increasingly prefer decisions which emphasize long-term growth and stability over maximization of current profits.
8. Large enterprises have changed the basic structure of major sectors of the economy, and of the economy as a whole.

The growth of the managerial class, and of their enterprises, is a response to complex technological and social changes in the national economy. That is, organizations change their strategy and structure when they are compelled to do so by inefficient operations in the market.

Chandler's work has provided the empirical data on which a wide range of research has been based. Wrigley sums up the scope of Chandler's achievement: "His influence was not just a proposition ("structure follows strategy"), nor a model ("stages of corporate growth and development"), nor a methodology (case studies in a framework provided by 70 large enterprises), but all three, which at once provided policy research with both respectability and an example." [10]

<u>Commentaries on Chandler's Theory of Structural Development</u>

Chandler concluded <u>Strategy and Structure</u> with the modest prediction: "If it does nothing else, this exploratory study should provide the student of business history and business administration as well as other scholars with some suggestions for significant areas of investigation." [11]

Chandler's conclusions, backed as they were by thorough empirical research, won general acceptance in the business policy field. In particular, many researchers have seized upon Chandler's progression of strategic and structural changes as the basis for life cycle theories of the firm. Chandler labelled his four stages "chapters". He did not suggest that they represented a life cycle theory of the firm, nor did he use his developmental theory to predict patterns in organizational life cycles.

But to Scott (1971, 1973), Chandler's work "suggested a developmental model of the firm." [12] Using data collected by the Industrial Development and Public Policy program at Harvard, Scott reinterpreted Chandler's strategic chapters in terms of product line. His evolutionary model has three stages: Stage I: Single-product or Single-line; Stage II: Single-product line; Stage III: Multiple product lines.

Scott was more specific than Chandler in ascribing causation to these changes. He proposed that the degree of competition in the market place was responsible for strategic, and therefore structural change: "So long as competitive pressures are low or moderate, a strategy of diversification can be managed in a variety of ways. At an extreme, if there were not competition at all, any form of management structure would be adequate for operations of any degree of diversity. However, the divisional structure appears to be the most effective way to manage the strategy of diversification under highly competitive conditions."[13]

Salter[14] analyzed Scott's model and found two anomolies. He observed that the multidivisional form can be reached from different structures - General Motors moved from a holding form to divisional, while Du Pont moved from functional to divisional. Salter also felt the multi-product stage should be separated into two types - the geographic form and the product form. Later researchers tried to overcome this problem by hinging the definition of a stage on the type of business, based on product line(s).

Wrigley[15], using a sample from <u>Fortune</u> 500, tested Chandler's chapters, and found four different strategies being used by large U.S. firms: Stage I: Single-product businesses; Stage II: Dominant-product businesses, which accounted for 10 to 95% of business; State III: Related products, over 30% of sales outside the main business; and Stage IV: Unrelated products, with over 30% of sales outside the main business.

Wrigley's results updated Chandler's research, revealing that during the 1960s there was an accelerating trend toward diversification. This was correlated in the move by companies toward related and unrelated businesses, and the increasing use of multi-divisional structures. These results support Chandler's strategy/structure thesis, particularly the idea that a strategy of diversification favors multi-divisional structures to administer the changed company.

Rumelt[16] also confirmed Chandler's strategy/structure paradigm, using a large sample of Fortune 500 companies, in a longitudinal study covering 1949, 1959, and 1969. He used Wrigley's four categories, but found within them nine sub-categories. Unlike Wrigley and Scott, Rumelt used business, and not product, designations. The categories were found to be linked to a specific structural form:

Strategy	Substrategy	Structure
1. Single-business		
2. Dominant	Dominant-vertical Dominant-constrained Dominant-linked Dominant-unrelated	Functional with Subsidiaries
3. Related business	Related linked Related constrained	Divisional
4. Unrelated business	Unrelated-passive Acquisitive-conglomerate	Divisional

Rumelt's work confirmed Wrigley's findings that multidivisional structures were a trend. His longitudinal results showed single businesses were declining in importance as businesses increasingly moved into product lines unrelated to their primary businesses. By the late 1970s the trend toward forming conglomerates was lessening as corportions found that conglomerates did less well than related businesses.

Stopford and Wells[17] reported on the work of the Harvard International Project, which monitors changing structures in U.S. multi-national and European business organizations. Using Fortune 500 firms, structural changes in U.S. firms were traced through the 1950s and 1960s. International strategies tended to be adapted by Scott's Stage II, Divisionalized firms. These firms generally followed similar structural changes when they went international. Initially, an international division was added to the existing product division structure. This gave way to a global form, depending on the growth strategy, involving the disbanding of the international division. Firms who expanded their entire product line internationally, established world-wide product divisions. Those firms who developed only their major products used geographic divisions. Again, this time on an international scale, product diversity required a multi-divisional structure.

Franko[18] tested Chandler's thesis for European firms, using the European Fortune 500. He found from 1961 data, that the majority of firms were using Chandler's Chapter II structure, which Franko called the mother-daughter form. On closer examination he found that these firms were using personal control by expatriates, whereas U.S. firms were using impersonal control methods. Franko's 1971 data showed the mother-daughter form was rapidly giving way to multidivisional structures, which Franko ascribed to the 1968 lowering of Common Market

Tariffs and to the entry of U.S. and Japanese firms not attuned to the rules-of-the-game. This change supports Scott's contention that competitive pressure hastens the trend to diversification.

Channon[19] studied British service industries, banks, hotels, and insurance companies. His results suggest that diversification is pursued only after the single business begins to decline. If prospects are good, no diversification occurs. When there is diversification however, greater success is achieved by going into related businesses as opposed to unrelated ones.

J.R. Galbraith[20] points out that Chandler's thesis is a contingency theory, although the terminology was not in use in 1962. His Boeing study notes that the change in strategy of introducing new products into existing competitive markets required the adoption of a divisionalized structure for implementation, and also confirmed Chandler's hypothesis.

In a study of structural development, derived from Chandler, Galbraith and Nathanson[21] have attempted a synthesis of growth models of U.S. national, multi-national, and European firms. Their model includes the holding form, not incorporated into earlier models. But while there are several alternative paths of structural changes, Galbraith and Nathanson found a dominant pattern of structural forms is followed by U.S. Global Multi-nationals, namely: 1. Simple, 2. Expansion, 3. Vertical, 4. Exploitation of economic scale, and

5. International expansion.

Galbraith and Nathanson see environmental factors as the cause of this similarity of states: "The particular scenario that emerged consisted of specific patterns of population growth, technological change, political changes, and world wars. Particular strategies resulting in particular structures proved to be profitable at various times. However, if a different scenario could have emerged, then a different dominant sequence would be observed. The point is that there is no set sequence; in all cases however, development was dominated by the particular pattern of organizational growth. Even though a pattern dominates, there are other routes taken by a minority of firms." [22]

Of the recent models, Galbraith and Nathanson's is most consistent with Chandler's observation that various routes may be taken; but that not all are equally successful. It is international and subject to the vagaries of history. Like Chandler's model it holds no claim to predictive power. The Galbraith/Nathanson model also accomodates and accounts for the different patterns found in European firms described by Chandler[23] resulting from his recent research.

Comparative Studies in Strategy and Structure

Managerial Hierarchies, a group of essays edited by Chandler and Herman Daems, initiated comparative studies on the development of management in the United States, Britain, Germany and France. Daems concludes from these studies that: " ... except for the question of timing, Chandler's findings appear to be generally valid for business in Great Britain and on the continent."[24]

Generally, the modern corporate structure was found in Germany and the U.S. prior to World War I, in Britain by the 1920s, and not until after World War II in France. The growth of managerial hierarchies is partly dependent upon the nature of the industry. They first appeared in technologically advanced industries in the U.S. and Germany in the 1880s.

Different countries used different forms of organizational structures. The U.S. developed the incorporated enterprise, Germany the cartel; Britain the industry-wide holding company; and France, industrial groupings with financial links. By the 1970s, the U.S. form of the incorporated company was the general form in all four countries.

U.K. geography allowed founding families to continue in control until the 1930s. Hannah found that because of the smaller scale of the British economy, market mechanisms played a larger part than the visible hand of management. She is uncertain as to whether this was because the visible hand and invisible hands were balanced forces, or whether this was due to the innate conservatism of British institutions.

German enterprises preferred cartels. German facilities equal to those of the U.S. sold primarily to international buyers, encouraging co-operation among firms in an industry. Cartels also gave the powerful German financiers more control over their investments.

Jurgen Kocka found that: "similarities between the development of the corporation in Germany and its evolution in the United States are striking."[25] The largest manufacturing firms were in capital-intensive, technologically advanced industries, and these were also the most management-intensive and structurally diversified industries - thus supporting Chandler's hypothesis.

The rise of the German managerial hierarchies reflected a continually growing market. Organizational and managerial skills were transferred to business from the German government bureaucracy. Tariff barriers allowed diversification and backward integration. Latecomer status allowed imitation of the best industrial techniques.

French firms, hindered by the lack of a central capital market, followed industry leaders. The managerial elite, a mixture of family and grandes ecoles, lasted until World War II. Levy-Leboyer blames this managerial class for the erratic growth of French industry: " ... managers there had deprived themselves of the benefit of the best administrative practices and they could be held responsible for the apparent immaturity of the corporate sector."[26]

Since cultural factors restricted the recruitment of managers and bounded their motivation, German and U.S. firms entered the French market. Only the war broke the social forces maintaining the French business elite. Thus, the modernization of the large corporation after World War

II came as a break with the past.

Kocka concludes: " ... it is dangerous to treat Europe as a single entity for purposes of comparison with the United States, since differences among European economies were often more pronounced than those between any single European country and the United States."[27] By inference, just as the development of business organizations in the four major European countries studied in Managerial Hierarchies reflected their separate historical experiences. The Canadian experience in strategic and structural changes and the relationship between them might be different from that of the U.S.

Canadian history has benchmark events such as Confederation (1867), the National Policy (1879) which protected infant manufacturing industries, and the several preferential tariffs with Britain, which helped determine the country's industrial patterns. These watershed events are unique to Canada, and as the research will illustrate, produced industry characteristics different from those in the U.S.

The European examples have led Galbraith (1979) to a different conclusion, one which echoes Scott (1973): "Only under competitive conditions does a mismatch between strategy and structure lead to ineffective performance. If a firm has power over its environment ... it does not have to engage in the difficult task of restructuring to bring about efficient internal resource allocation."[28]

Another situation in which Galbraith feels that

Chandler's paradigm breaks down is when a decline in performance is dealt with by a "political-solution". If different groups in the organization favor self-serving outcomes, it is likely that the decision will be made politically. "The greater the ambiguity, the greater the influence of politics in determining the outcome and the greater the influence of the current distribution of power. Thus, structure will influence strategy." [29]

Business researchers are now exploring the question of whether there is a stage which follows the multinational form. Galbraith and Nathanson discuss the Market-Matrix System as a distinct stage. Miles and Snow [30] label the new form "simulataneous structures", while Mintzberg calls it "Divisionalized-Adhocracy." [31]

The Population Ecology Approach as interpreted by Aldrich [32] may prove to be particularly apt when discussing Canadian manufacturing enterprises. Aldrich argues that the ability of the firm to acquire resources from the environment is the major factor determining which organizations will survive. He views resources as everything needed by the firm. Environmental factors either facilitate or constrain the new firm, determining which ones survive, and which ones fail.

Aldrich sees three main factors exercising constraints on the creation of new organizations:

1. <u>Work Force Characteristics.</u> Employees of new organizations must learn new skills. Entrepreneurs may either try to hire people with similar skills if possible,

or must train new personnel. If the organization is a new departure, an employer cannot use generalized skills and must see that employees "learn new values, behaviors, and motivations".[33]

2. Market Characteristics and Economic Conditions. A new organization must overcome certain barriers-to-entry such as economies of scale, customer loyalty, and winning over market share.

3. Government Regulation. Laws may smooth the way for inter-firm collaboration of existing firms, or maintain industry profit ratios, especially in chartered public monopolies, making entry difficult for new firms. Once established these forms persist for a considerable time. Aldrich sees historical time periods as favoring certain forms - bureaucracies from 1900 to 1950, the multi-divisional forms from 1950 onward. Aldrich feels the state plays a crucial role in determining which types of organizations will be created. State support and protection give certain enterprises a strong competitive edge.

Chandler did not deal with declining industries. He observed successful companies, and recorded a development process which had been successful. Whether this success was due to appropriate choices made during development, or whether in ex post examination one attributes right decisions to present success which may be due to a multitude of factors cannot be determined.

Porter has noted that one does not respond simply to markets, but with different types of strategies. Porter's[34] model has had wide acceptance as a description of the strategies possible to firms in targeting their products. The Dominion Textile data should offer some insight into his model's applicability to a small market economy such as Canada.

Porter found three possible generic strategies in American business enterprises:

1. <u>Overall Cost Leadership</u> : similar to the BCG experience curve of low-cost, high-volume production.
2. <u>Differentiation</u> : the product or service is differentiated so it is seen industry-wide as unique.
3. <u>Focus</u> : the product is built around servicing a particular buyer group, segment of the product-line or geographic market to meet specialized needs.

A company not choosing one of these strategies faces being stuck-in-the-middle, with neither a differentiated product, nor an operational market share and profits. Strategy-making begins with an analysis of the industry to find a defensive competitive position against the forces driving the industry rivalry among existing firms: the bargaining power of suppliers; the threat of new entrants; the bargaining power of buyers; and the threat of substitute products or services. The choice as to which strategy to adopt is mainly determined by the characteristics of the industry. Porter describes five generic types of industry environments: Fragmented, Emerging, Maturity, Declining, and Global.

Porter assumes firms chose their strategies in a free market economy. In his model the influence of government is not felt directly by the firm, but is filtered through the firm's stakeholders (competitors, buyers, suppliers, subsitutes, and potential entrants). In a Canadian study, the direct influence of government on a firm cannot be left out.

Tariffs are a major form of involvement of the Canadian government in some industrial sectors. Porter comments that "tariffs and duties, ... have the same effect as transport costs in limiting achievement of economies in production."[35] In Canada, tariffs have a more penetrating effect on the firm. Porter does not discuss the reasons underlying tariff policies. Two studies of Canadian manufacturing industries by Caves (1976) and Protheroe (1980) have examined the question of how and by whom tariff rates are set.

Caves concluded that tariff rates are the result of a political bargaining process, whose levels can be explained by the strength of the contending bargainers, or other political forces.[36] Protheroe's study examined the process of setting tariffs, with emphasis on the 1970 Jean-Luc Pepin textile policy. Protheroe agrees with Caves that the tariff policy was a political solution. He terms this process "government politics" after the model popularized by Allison in <u>Essence of Decision</u>[37] Protheroe found that in tariff setting "decisions arise, not out of rational calculation, but out of bargaining and negotiation between actors which "represent" various dimensions of an issue, such as the producer, consumer, regional and other interest involved in trade problems. The result of this bargaining and conflict may be compromise, ambiguous outcomes, stalemates, or victory for one side."[38] The Canadian model is characterized by direct interaction between firms and the government, and not the arm's length relationship described by Porter.

Porter has also proposed that the global stage of organization structure follows a multinational structure, and that the two forms involve different strategies. By multinational, Porter means a diversified company which treats each of its different businesses scattered around the world as separate entities. But global companies, despite their industrial units spread around the world, sell relatively undiversified products and keep close supervision over the units. Components are produced worldwide, then assembled in the countries most favorable to manufacturing. According to Porter, firms have no choice between the two strategies. Competitive pressures force firms to adopt a global strategy. The cause of the pressure is usually a strategic change by one of the firm's major competitors in that industry. The move may involve exploiting cheaper labor costs, or finding new sources of raw materials, maximizing economies of scale, a worldwide change in consumer tastes toward homogeniety, or a change in trade barriers or transportation costs, Porter's pattern of evolution can be checked against the detail of the Dominion Textile data to provide a test case for the model to the Canadian pattern.

The Selection of an Analytical Model

The testing and evaluation of the Chandlerian hypothesis which were examined in the preceding section, have formed the orientation to methodology and analysis used in this research study. The work of Rumelt, Franko, and Herman Daems are examples of how one can blend case studies, behavioral and cultural factors, and statistical data. The testing of Chandler's hypotheses in non-American environments, and under different market conditions, has been undertaken by others. This approach has also been supported by other studies sucy as the Profit Impact on Market Share, and the Harvard International Project.

This research projects falls within this academic stream and research orientation for the following reasons:

(a) Chandler's hypotheses have been tested in different cultural and environmental circumstances. The results of prior research provided me with a way of evaluating and comparing the results of my own research.

(b) The methodology and techniques of analysis are already developed and tested. The models which have been used, based upon the Harvard Paradigm and synoptic rational theory of strategy, are flexible and adaptable enough to include cross cultural and behavioral variables.

(c) The research orientation is similar to that used at Concordia University for Canadian case studies, and expanded upon by Gram and Crawford.

The models and approaches used in this analysis and study were made after an evaluation of alternative methodologies for examining life cycles and development. Williamson [39] an economist, has focused his research on transaction costs between markets and firms. He argues that a firm moves to a multidivisional structure to become a miniature capital market, which is more effective than individual product units. The techniques and type of analysis assumes rational, calculating, profit maximizing behavior, which does not permit a full examination of cultural and environmental variables. The transaction model does not provide a useful framework for strategic analysis.

The Grenier [40] model of stages of organizational growth was also examined. Grenier proposes a metamorphoses of stages: creativity, direction, delegation, co-ordination, and collaboration. Stages of evolution and revolution are present in an organization's life. The management style affects the evolutionary stages, and dominant problems characterize the revolutionary stages. The model focuses upon behavioral and problem related issues, and does not provide a methodology for relating strategic and environmental concerns to management culture and structural issues. Although the model offered some useful insights into the dynamics and motivations for internal organizational change, it was rejected because of its limited focus.

The most recent model of orgnizational life cycle has been proposed by Henry Mintzberg. The model is based upon four stages: formation, development, maturity, and decline. These stages result from external influences upon an organization's internal coalitions. The Mintzberg model of organizational life cycles is related to the impact of the external environment and managerial perceptions upon strategy. Strategy is a result of past relationships, or patterns in a stream of decisions. The methodology of the Mintzberg analysis and approach would have required a different orientation of the data and type of analysis.

These life cycle theories, although they would have permitted an examination of managerial culture and perceptions, were less useful for examining competitive and environmental conditions, a review of the basis for decisions for future change, and the formation of new directions for the enterprise. These models focus upon past performance and behavior, while one of the dimensions of managerial culture is the planning and anticipation of future developments. The author believes that the Harvard Model, and the methodology previously used to examine and evaluate Chandler's hypotheses are most useful.

The research questions which guided the study and the methodology employed are examined in the sections which follow.

3. METHODOLOGY

The Hypotheses

The general hypotheses to be tested and which guided the research are as follows:

The model of corporate growth and development proposed by Alfred Chandler adequately describes the stages of development of Dominion Textile from 1873 - 1983. Furthermore, the development of the strategy - structure - performance relationships at Dominion Textile conformed to the eight hypotheses which Chandler proposed to explain the development.

The research sought not only to test the Chandler model, but also to examine subsidiary and inter-related hypotheses and research questions which may arise from the analysis and research. These sub-hypotheses are as follows:

(a) Although Dominion Textile may conform to the overall development hypoheses of Chandler, does it also conform to each of the eight subsidiary hypotheses? Were the same motivations and factors which influenced the development of U.S. firms also present in this Canadian firm?

(b) If the development of Dominion Textile does not conform precisely to the major Chandlerian hypotheses, but differs on one or more of the eight subsidiary hypotheses, how can one explain the variations? Other researchers have identified different cultural and environmental variables as influencing the stages of development. Do similar cultural and environmental variables exist in this Canadian company? What are the characteristics of these variables, and how did they influence the development?

(c) If a firm like Dominion Textile followed a pattern of development different than that proposed by Chandler, how could the variations be explained? Is there a basis for proposing a theory of Canadian corporate strategy development?

(d) What was the role and influence of the distinctive Canadian environment upon the development, growth, and strategy of Dominion Textile?

These hypotheses guided the research outline and led to the use of a methodology similar to others who have tested Chandler's theory in different cultural environments.

Chandler's niche is institutional history. Since 1800, the businessman has been at the centre of fundamental change in American life. This gives business historians a strategic perspective in describing this change. Chandler defines institutional history as more than the study of organizations - it also attempts to integrate organizations into practical social systems.

According to Chandler, in order to do this, the historian needs to make "the fullest use of existing generalizations, concepts and models, and by developing new ones for his own use."[41] These ideas can be adapted from economics, sociology, and organizational theory, as well as history. With models from these intellectual reserves, the institutional historian must "develop his own concepts and verbal models. A historian's task is not merely to borrow other people's theories or even to test their own theories for them. It is to use existing concepts and models to explore the data he has collected in order to answer his own particular questions and concerns."[42] Concepts may be adapted or discarded. The purpose in using them is to develop one's own analysis.

Chandler feels that most historians have neglected institutional history because they are biased against business. They prefer to study individual entrepreneurs rather than the institutions they created. He also finds the perspective of many economic historians to be outmoded because they continue to focus on small, single unit producers, governed by the invisible hand of economic "laws". They tend to see modern business enterprises and their managers as aberrations to be passed by because they do not fit their laws.

Historical Methodology

Chandler approaches his work with the traditional methods of the historian. As he notes in The Visible Hand (1977) (for which he won the Pulitzer Prize for history):

"The research and writing of this history was carried out in the traditional manner. It has been pieced together from reading business records and secondary works, and from countless discussions with students and colleagues."[43]

Barbara Tuchman, another Pulitzer Prize winner, has described this method of collecting and sifting data, and

and of leaving the interpretation of causality until the last. Like Chandler, she sees hypothesis formulation as the product of research, not its first step. "To find out what happened in history is enough at the outset without trying too soon to make sure of the "why". I believe it is safer to leave the "why" alone until after one has not only gathered the facts but arranged then in sequence."[44]

The skill in writing a history is condensing episodes in time through selection. Tuchman views selection as everything: "... it is the test of the historian. The end product, after all, consists of what the historian has chosen to put in, as well as chosen to leave out."[45]

The questions Chandler posed in selecting material for his work were very broad: "What made for change? Why did it come when it did, and in the way it did?"[46] The questions he left out are the ones typically associated with case study research. That is, whereas many case studies take a cross-sectional view of a firm, and therefore analyze current problems, Chandler, with his sweeping longitudinal surveys, sees major policy shifts. "This framework and these questions are, it should be emphasized, concerned only with fundamental changes and innovation in the business economy. They do not deal with the day-to-day activities to which businessmen must devote nearly all of their time. ... But an understanding of the continuous response and adjustment would seem to require first an awareness of the meaning of the more fundamental or "discontinuous changes."[47]

Longitudinal Studies

Chandler's historical methodology means that his findings are studied ipse post facto. Changes in strategy and structure are observed because empirical evidence of change remains. But documents do not always record the dilemmas facing managers, nor the decisions and outcomes. Even when documents are supplemented with interviews, the chances are that memories of the countervailing arguments have faded, their original importance dismissed by hindsight. Living memory cannot cover the 150 years of Chandler's research. Thus the historical method gives Chandler's findings an aura of inevitability which case studies, dealing with on-going problems, do not have.

Most organizational studies tend to be one-time, cross-sectional examinations, not dynamic longitudinal historical studies, but organizational snapshots. Researchers usually approach these studies with the normative structures already defined, and tend not to examine how they evolved.

There are compelling reasons for the predominance of static, cross-sectional studies. Researchers who report on an enterprise are only with it for a limited time in its history. Their reports, or case studies, have a tendency to be personal views cut off from the flow of change that has created what they report. And the training of business researchers in scientific methodology predisposes them to emphasize objective, verifiable information, and to avoid the haphazard order in which data reveals itself in a longitudinal study. Historical studies, with their partly intuitive and judgemental findings, and without a rigorous methodology, are not yet accorded complete legitimacy by some members of the profession, with the result that this type of study is avoided by some of their peers. As well, business researchers, frequently being academics, are under pressure to publish. The immediate reward system rarely favours time consuming longitudinal studies.

Yet only longitudinal studies can show how organizations learned and unlearned their norms and values, and how their myths and sagas developed. Miles and Randolph[48] feel an organization can only be understood through its history, especially the decisions made by the early leaders. "Without an appreciation for those early choices, it would be very difficult, if not foolhardy, to attempt to interpret the differences of the belief systems that existed in those organizations as they reached maturity."[49]

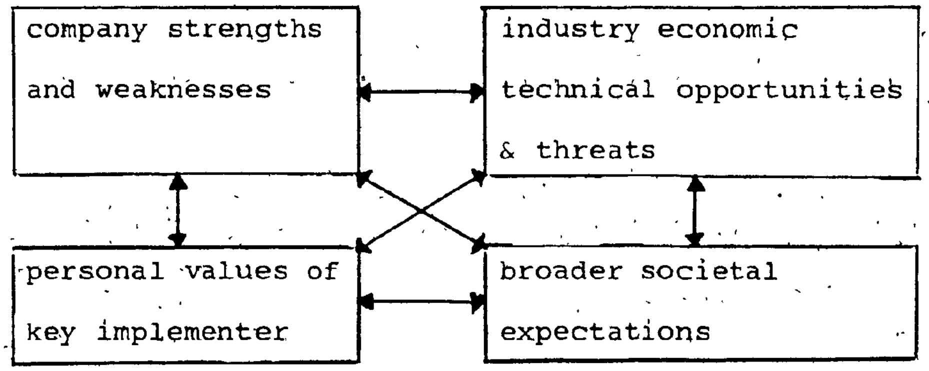
Business Policy Methodology

In business policy, the dominant models on which to base an analysis of a firm are the Harvard Paradigm, and the Industrial Organization Paradigm.

Briefly, the LCAG Model of Learned, Christensen, Andrews, and Guth, analyses the way a firm matches its internal strengths, weaknesses and values, with its external environment.

Exhibit 1-3

LCAG Harvard Paradigm



This model stresses the need for the firm to find policies which emphasize the consistency of these interactions. But what it lacks are guidelines for assessing the contents of the four key elements within the model. The Harvard Paradigm treats strategy as the conscious purpose of the organization and implies a time dimension reaching into the future. That is, the emphasis is on executive practices that begin with the determination of corporate purpose in economic, social, and human terms, in order to plan future actions.

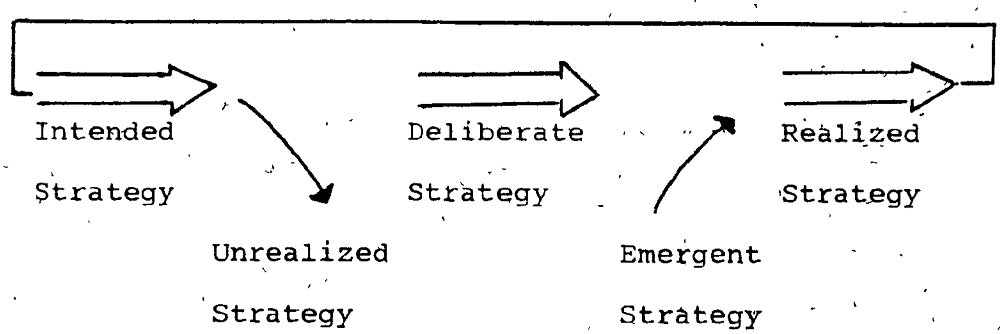
The Harvard LCAG paradigm has been described as a synoptic model which is characterized by establishing goals, monitoring the environment, assessing internal capabilities, searching for and evaluating alternative actions, and developing an integrated plan to achieve the goals. Synoptic models emphasize comprehensiveness, which attempts to exhaust the decision possibilities through activities analogous to the rational economic model.[50]

Chandler, because of his different methodology, determines the basic long-term goals and directions of the enterprise by examining decisions taken in the past. Chandler the historian, determines the important directions taken by a firm by studying their actions in retrospect, through the historical method of data collection and sifting. Andrews [51] views strategy as an untested overview of the pro-active actions which should be taken in the future. Chandler views strategy through the process of strategy implementation, discerned through the advantage of hindsight.

Guth[52], one of the originators of the Harvard Paradigm, feels that while this model explains what strategists do, it still lacks a deeper insight into why different organizations do things so differently : "... the present theory of corporate strategy needs to be transformed into a social system theory" because "strategic thinking is tied to the social system of the organization."[53] Guth is assuming the firms studied are American, and can thus assume the U.S. managerial and social systems that help create the social environment of a specific organization. When one studies a Canadian firm, a study of the general national business system must be included in order to understand the firm's social system, and to reach some understanding of its affect on its strategy.

Mintzberg's definition of strategy as "patterns in a stream of actions"[54]. He sees strategy as a process of strategic learning, rather than a precise and carefully controlled planning process. Mintzberg's[55] method of tracking strategy emphasizes the interplay between the outside environment, management and the internal environment.

Exhibit 1-4 <u>Mintzberg and Waters : Tracking Strategy</u>



Thus to Mintzberg and Waters: "strategies become consistencies in the behavior of organizations, which renders the concept operational for the researcher. The study of strategy making becomes the search for consistencies in decision making behavior, the investigation of their appearance and disappearance, and the analysis of the relationship between intended and realized strategies."[56] Mintzberg has found a methodology (tracking strategy) to group activities that reflect the firm's strategy. What the methodology does not recognize is that the actions may flow from a set of preconceptions which do not leave tangible acts to mark their existence. Mintzberg's methodology recognizes acts, and does not seek a pattern beyond these acts.

Now this is usually not what a business executive means when he talks about strategy. He is not thinking about the company's history, although his perception of what that is may well influence him. He is thinking of the overall game plan which influences his current actions, and his behavior, to direct the company's future. To the practitioner, strategy is a pro-active set of plans on how to proceed with future events.

Mintzberg has developed a well-defined methodology for organizing data. This research does not agree with the Mintzbergian definition of structure as another manifestation of strategy, but rather that structure is a tactic, the result of a strategic decision.

What Mintzberg has defined is a methodology to determine, _post hoc,_ what the strategy was. His steps of tracking strategy is a methodology which will be followed in this research. These steps are:

Step 1: Collection of basic data to develop chronologies of decisions, actions and related environmental events.

Step 2: Inference of patterns and periods, and the labelling of specific strategies.

Step 3: Intensive investigation of each period and the linking transition periods.

Step 4: Theory building.[57]

In their Steinberg study, Mintzberg and Waters found fifteen strategies, e.g. Quebec Food Outlets, Modernization, Department Store Outlets, Pharmacy Outlets, Real Estate, Finance, Organizational Structure, etc.

These are not "strategies" in the Chandlerian sense. To Chandler, structure is a manifestation of strategy, not a strategy in itself. The methodology used in this research is derived from Chandler, and relies upon the concept of strategy as the basis for plans, operating policies and procedures, and corporate strategic decision making. Although a historical review and examination are subject to limitations present in synoptic models, the need to examine causality, motivation, and origination outweighs these limitations. The strategy is a result derived and determined from an appraisal, examination, and evaluation of strategic decision making. Rather than simply identify a pattern in a stream of decisions (Mintzberg, Quinn), the author, following Chandler, has sought to identify causality, and the basis for strategic decisions. This has often meant drawing inferences from recorded decisions, comparing documents for consistency and comparability, and testing conclusions against personal values and managerial culture. The Mintzberg concept of strategy is viewed in the Chandlerian sense as a series of policies or specific strategic decisions.

The relationships between strategy and structure developed by Chandler were also examined by using the Caves-Porter model developed from industrial organization theory. The Caves-Porter model examines non-market factors in addition to market related variables, in influencing organizational development.

The Caves-Porter revised version of the Industrial Organization Paradigm proposes the following relationship between structure, conduct and performance:

Exhibit 1-5

Caves-Porter Industrial Organization Model

Industry Structure → Conduct (Strategy) → Performance

That is: "... that there are some fundamental structural parameters of an industry dictated by the basic product characteristics and technology, but that within these parameters industry evolution can take many paths, depending on such factors as the luck of the draw in terms of the identity of industry rivals and uncertain events, as well as strategic choices firm's actually make that follow their unique objective functions."[58] This model concludes that the correct strategic choice should improve a firm's performance, and that the organizational structure must be congruent with this strategy.

This research supports the contention of Gram and Crawford that Canadian firms are subject to a greater influence from government on their strategic plans than U.S. findings suggest. Gram and Crawford[59] refuted the generally accepted assumption that the firm should make adaptive decisions to non-market areas, and pro-active or strategic decisions in market areas. Illustrating their thesis with examples from Sun Life Insurance Co. and the Quebec pulp and paper industry, they propose that: "Non-market relations can be managed and strategic decisions can be made about non-market demands by environmentalists, consumer, racial, community, and similar groups and regulatory agencies in the same way, and with the same processes that the firm uses to conduct its relationships with market organizations and firms."[60]

It is not surprising that this proposal is derived from Canadian examples. Dominion Textile also deals with a multitude of non-market problems: federal tariff legislation, provincial language laws, water pollution regulations, and internationally with GATT regulations, currency transfer restrictions, and a wide variety of national governments. Indeed, Dominion Textile's largest shareholder, the Caisse de Depot, is the Quebec government pension fund investment agency. The Caisse is now seeking direct involvement in the management of several of the Canadian companies in which it has large investments, including Dominion Textile. As the thesis will document, Domtex has taken pre-emptive steps to deal with many of these forces, in the belief that to adapt to them would result in a decline in their commercial activity.

Government actions have, from the nineteenth century on, helped to determine the structure of the industry with their tariff policies. The federal government since the Second World War, has closely monitored the performance of the textile industry, and tailored its tariff policies in reaction to that performance.

The methodology used in the research is outlined in Exhibit 1-6, and illustrates the strategic variables which were examined. The Harvard Paradigm became a useful vehicle to examine strategic variables _ex post facto_, and to structure the investigation. Following this model, the strategy of the organization was developed from management's perception of the total environment including governmental, competitive, and social factors. These were examined by historical methodological techniques, including appraisal of documents, secondary sources, and characteristics of historical periods. Managerial _perceptions_ of the environment are based upon culture, values, prior experiences, and judgements. The extensive minutes of meetings, the oral history of the organization, and interviews with living former presidents became a basis for identifying managers' perceptions of competitive and environmental conditions.

The strategy of the firm is expressed in goals, statements of purpose, and in organizational structures and processes. These included the relationships and structure of the organization, manufacturing policies and technology, the organization and management of sales, and the method and type of financial policy. The lack of consistency and balance among these variables, as expressed by low performance, provided the impetus noted by Chandler to correct either strategy, or structure, or both. The performance of the organization became a means and way to test and evaluate the effectiveness of the strategy-structure relationships.

Exhibit 1 - 5 A Methodological Model of Strategy Development

Environment →	Perceptions →	Strategy →	Structure →	Performance
	Responses	(Conduct)		
	Incidents			
Industry	Responses	Goals	Over-all	present
Analysis	-adaptive		Structure	vs
factors	-reactive			past
opportunities		Managerial	Manufact-	
& threats	Perceptions	Culture	uring &	
		-beliefs	technology	
Societal-		-values		present
societal,	-cultural	-percep-		vs
government &	-moral	tions		expected
political	-managerial			
Competitor	Incidents		Production	
Analysis	-major		Sales &	
-foreign	-catastrophic		Finance	
-domestic				
Historical	Interviews	Historical &		Financial
Methodology	& Observations	Interviews		Analysis

The strategic synoptic model became a guide for fitting the data into a pattern. Managerial actions and strategic decision making results from managerial perceptions, culture, and goals. These were examined by interviews, documents, participant observation, and oral history. The term managerial culture means that system of beliefs and values which guide behavior, and which provides a framework of common reference among executives of a particular firm.

1.4 INFORMATION SOURCES

Qualitative Information Gathering Techniques

Morgan and Smircich[61] have urged social scientists to enter a system and study it from within. The techniques used should be selected according to their appropriateness to what is being studied. "For if one recognizes that the social world constitutes some form of open-ended process, any method that closes the subject of study within the confines of a laboratory, or merely contents itself with the production of narrow empirical snapshots of isolated phenomena at fixed points in time, does not do complete justice to the nature of the subject. The very nature of the phenomena under investigation challenges the utility of such methodological closure. Historical change, contextual fields of information and processes through which human beings engage in symbolic modes of discourse create their reality, and project themselves from the transcendental to more prosaic realms of experience, can be captured and measured only through means of static techniques and only in the most partial and limited of ways. Different approaches and methods are required for studying these phenomena and more often than not they focus on qualitative rather than quantitative features of the subject they study."[62]

Cross checking for internal consistency, or reliability, is termed triangulation.[63] Using multiple methods to study the same phenomenon improves the reliability of conclusions, offering convergent validation by examining different sources of data about the same problem. Jink explains how triangulation can also offer greater confidence in the validity of the findings. "It can also capture a more complete, holistic, and contextual portrayal of the unit(s) under study. That is, beyond the analysis of overlapping variance, the use of multiple measures may also uncover some unique variance which otherwise may have been neglected by single methods."[64]

Jinks points out the problem of replication in the triangulation method. While replication of research is uncommon in management research, it is a basic premise of scientific research. "Replicating a mixed-methods package, including ideosyncratic techniques is a nearly impossible task and not likely to become a popular exercise."[65] The scope of this research helps overcome this problem of replicability. The data in this 110 year study divided itself into five distinct periods of the company's development. In effect, the research questions are examined five times - in each of the distict periods. Thus the exceptional scope of the data, which concentrates on a specific enterprise, adds validity to the findings.

The specific methods used to gather information for this research include:

[1.] <u>Archival Research</u>

For the early period, the material to be studied must have been saved in the first place. Fortunately, Dominion Textile has preserved many of its early records going back to 1873, particularly the Shareholders', Directors', and Executive Committee Minute Books. In the early period, archival and historical sources must be relied upon exclusively. This method is twice subject to bias, first by the original recorder of the data, and secondly by the selection made by the researcher as to what is retained for data analysis, and what is discarded. The process is time consuming. In this case it took the researcher a year to read and take notes on Dominion Textile's archives.

[2.] <u>Historical Research</u>

In addition to company sources, additional information is available in contemporary articles in newspapers, periodicals and trade journals, particularly <u>The Canadian Textile Journal</u>, once a weekly, whose archives go back to 1883. Government documents provide some comparative data on the industry-wide perspective. This research seeks the setting in which decisions were made - economic conditions, government policies and legislation, consumer trends, and world business cycles. Historical research combined with the company archives helps develop an analysis of recurring themes. Based on these themes, hypothesis will be formulated.

[3.] Interviews

Senior executive and retired personnel have been most willing to give interviews, and have been generous in the time given to questions. A problem with the one hundred and ten year scope of this study is that it extends beyond human memory. The reconstruction of events is best done when the researcher has ample documentation and access through interviews to the recollections of those events by key participants.

At best, interviews should be an iterative process. In initial interviews the problems of "what" happened tend to dominate. Once the data is assembled into a chronology of events the question of "why" can be scrutinized. The interviewees were given a report of the interviewer's conclusions so that the interpretation made by the inteviewer reflected what was truly meant. The manuscript of this research was made available to several of the key participants to comment on the way their ideas were presented. The individuals responded in various degrees. E.F. King, a former President, was interviewed several times over three years. His response to the first draft of the research was over 100 pages of comments. The iterations produced additional information which was incorporated into later drafts.

Making the manuscript available to the participants also brings to light conflicting reports of what happened and why. Oral history is not the same as actual historical documents. Cross validation of several oral histories were used and compared to documents in order to secure reliability. In the end however, after several versions of an event have been reported, it is the researcher who must choose the inflection to put on an event.

Interviews allow the development of empathy and understanding with the members of the company. The researcher develops a better understanding of what is going on, so as to determine the issues of concern to the managers. This method is subject to the bias of self-reporting by the interviewee and by the interviewer. It is expensive to the company, and requires considerable time in preparation, transcription, and interpretation.

Interviews must canvas a cross-section of company functions. There is a wide range of responses to identical questions, that reflect the formal position and the individual perceptions of the interviewees.

But the information gained through interviews must always be treated as the perception of events as seen by that individual. Two features of this perception stand out. One simply is that the interviewee frequently has lost the sense of chronology of events. Even the dates of important events that can be checked through documents, are remembered only vaguely. To the participant, it is the event that is remembered, not when it happened. The other noticeable feature is that interviewees forget, or relegate to unimportance, things that the documents show were of considerable importance at the time, before the outcome was known. Unsuccessful moves are not as easily recalled as successful ones. Even when these ventures are brought up by the interviewer, they are usually dismissed as minor and inevitable mistakes, or as half-hearted attempts that people "knew" were not mainstream events. Even mistakes are usually recalled in a positive light. Looking back, top managers are now glad they had the freedom of action that allowed them to make successful as well as unsuccessful moves. The mistakes are recalled as useful learning experiences.

[4.] Participant Observation

Mintzberg's[66] study of managerial work had a sample size of five. Yet his insights have been cited as having wide application. Unstructured observation of the participants in the social context in which activities occur can give the researcher a better understanding of the organization. In this case, Dominion Textile made office space on the executive floor available for two, four month periods over two years, so that confidential company records could be examined. This close nine-to-five contact, which also included company social events, gave the researcher an inside look at the functioning of head office that complimented the formal interviews with officers, and examination of documents.

How are causes inferred? The research will use critical events. The cause-effect relationships are distilled in tables at the beginning of each chapter. These tables record critical events, how the managers interpreted them, and the actions they took to deal with the perceived problems.

Whenever possible, all these techniques were used in order to cross-validate the material. The point is that research requires a careful study of as many contemporary documents and interviews to "triangulate" in on the reconstruction of events. The more information that is used, the better will be the resulting critique. But no matter how much information is collected and sifted, the end result can only be judgemental.

1.5. RESEARCH CONCLUSIONS AND DOMINION TEXTILE

Dominion Textile, throughout its history, has remained in one business - textiles. Textiles include many different Standard Industry Codes, a few of which (four digit) are:

- narrow fabric mills
- knit outerwear mills
- finishing plants - cotton
- tufted carpets and rugs
- yarn mills - except wool
- throwing and winding mills
- lace goods
- cordage and twine
- men and boys suits and coats
- men and boys dress suits and night wear
- men and boys neckwear

- men and boys separate trousers
- women and misses blouses and waists
- women and misses dresses
- women and misses suits and coats
- children's dresses and blouses
- children's coats and suits
- robes and dressing gowns
- apparel belts
- curtain and draperies
- canvas and related products

Dominion Textile has remained a manufacturer of textiles for at least 14 different 4 digit SIC industries. Its development and growth has partly been influenced by the changing industry structure of those which it supplies. Dominion Textile is an intermediary manufacturer between the raw material supplier and the manufacturer. This position has dominated the development of Domtex throughout its history.

The major thesis of Chandler that an organization moves along a development growth path so that strategy determines structure tends to be supported in the case of Dominion Textile. Chandler proposed that a corporation moved from a single unit to a multi-product structure, and from a single product to product diversification. Dominion Textile in its history has moved into different industry groups, although remaining in textiles.

The period from 1873 - 1904, when Dominion Textile was formed, was characterized by separate individual companies, who controlled and limited markets by collusive and co-operative agreements. Dominion Textile is a result of the merger of many of these companies, and after its formation moved through five stages which conform to those proposed by Chandler.

Stage 1: Formation and Development of Dominion Textile, 1905 - 1919. Development of a corporate entity and structure. Control of volume of output and structural rationalization. Many production units formed by merger into Dominion Textile.

Stage 2: Development of Structure and Purpose, 1920 - 1939. Rationalization of production behind tariff wall. Limited development of marketing. Close to monopoly position.

Stage 3: Stagnation and Decline, 1939 - 1953. Loss of protected markets. War deterioration. Foreign competition. Loss of market share and profits. General decline.

Stage 4: The Development of a Growth Path, 1953 - 1975. Move from production to marketing orientation. Effort to respond pro-actively to competition. Rise of modern management.

Stage 5: The Multinational Stage, 1975 - 1983. The development of a competitive strategy and formation of an appropriate multinational structure. Rise of modern managers. New managerial culture.

These stages in the history, strategy, and development of Dominion Textile generally conform to the hypotheses and thesis proposed by Alfred Chandler.

Some significant differences were noted with reference to the supporting sub-hypotheses proposed by Chandler. These are examined and reported upon below:

HYPOTHESIS 1. <u>"That modern multiunit business enterprise replaced small traditional enterprise when administrative coordination permitted greater productivity, lower costs, and higher profits than coordination by market mechanisms."</u>[67]

Canada had no small-scale, traditional, cotton processing industry. The textile industry was begun in Canada by merchants, notably in dry goods, and by bankers and financiers who had no experience in manufacturing textiles. These men were seeking to circumvent British control of the cotton trade in Canada by setting up domestic manufacturing facilities. This was not a case of the administrative co-ordination of existing processes. The personnel and machinery were imported from Britain. The Canadian founders of the early mills were seeking some control over manufacturing, until then controlled by the colonial mother country.

The early structures and manufacturing components of Domtex were treated as a total manufacturing component. The company was shielded from market influences by jobbers who purchased products twice a year, and proceeded to market what was available. Domtex was a manufacturing unit until the 1950s. Its role was predominately to purchase raw materials (mainly cotton), produce to orders received from jobbers, and attain manufacturing and production efficiencies.

This role and position was supported by the socio-political environment, the tariff wall, and clear and known competition - mainly British. This role did not require an extensive managerial hierarchy, since the emphasis was upon the co-ordination of production units, effectively managed as individual manufacturing enterprises. Marketing and response to consumer preferences was absorbed by the jobbers and specialized manufacturers who purchased products from Dominion Textile.

The modern multi-unit business enterprise represented by Dominion Textile did not come into existence until Dominion Textile's management, chose to adapt itself to changing conditions. This change took place as the role of the jobber and middleman changed. Consumer choice could be exercised by the availability of alternative sources of supply - mainly from the U.S.A. and Dominion Textile put in place a managerial culture which emphasized pro-active responses and growth, rather than manufacturing expertise.

The modern multi-unit business enterprise as a result, in the case of Dominion Textile, resulted from three major factors: (a) the rise of <u>consumer preference</u> and choice which replaced simple availability, and the means to exercise this choice through the existence of other competitors and suppliers in the market, mainly U.S. companies. (b) A changing <u>distribution system</u> through which jobbers were replaced by retailers, specialized industries, and a broader market. The rise of alternative industries using textiles broadened the market demand. Between 1973 and 1905 the companies preceding Dominion Textile could produce a limited product range - bleached, grey and sheeting materials. (c) A change in managerial culture which moved away from reaction to pre-determined orders, to a recognition that marketing is an indispensible part of corporate activity.

These three basic changes took over fifty years to be effected. The change, in Dominion Textile's case, was not as direct (small enterprise to modern corporation) as the hypothesis would imply. Other factors, including management culture, needed time to develop.

HYPOTHESIS 2. "That the advantages of internalizing the activities of many business units within a single enterprise could not be realized until a managerial hierarchy had been created".[68]

In Canada, or more precisely Montreal, where most of the founders of Canadian textile mills were located, formal managerial hierarchies were not as important as in the U.S. Here, separate companies, performing the different functions of production and marketing could combine informally, often by a personal agreement between individuals. Because of the small number of men composing the business community, the small size of many of the production facilities, and the small market, a typical businessman would be a director in several companies in the cotton industry. No one business required their complete attention. In this close environment, a "gentleman's agreement" was as good as a legal document. This lessened the degree of competitiveness, and allowed partnerships functioning with other partnerships. Companies remained autonomous units and yet had more binding ties than U.S. textile firms. The system of informal alliances was not legally enforceable and collapsed during down-swings in the economy. To overcome the problem of "shading" prices by hard-pressed cartel members, Dominion Textile was formed as a holding company. As in the U.S., the activities of the individual mills required the evolution from the holding form to a functional structure to be efficient.

In Canada, the alternative to a nuclear organization supported by a hierarchical structure, is a frame of reference and culture which supported a company in its domain and kept out other competitors. The existence of a corporate elite, noted by Clement [69] and popularized by Newman [70] - The Establishment, limited the need to create hierarchical structures. The predominant business and Montreal culture, in fact, hindered and retarded the development of hierarchical structure.

Dominion Textile moved to a hierarchical structure reluctantly, because of this culture. In fact, it took a person who was not part of the head office culture to recognize the need for internal competence to replace external support.

HYPOTHESIS 3. <u>"That modern business enterprise appeared for the first time in history when the volume of economic</u>

activities reached a level that made administrative coordination more efficient and more profitable than market coordination." 71

Chandler attributed the cause of this increased volume in activity to new technology and expanding markets. Chandler is concerned with high through-put industries such as oil and steel, and not with labor intensive industries such as textiles.[72] In Canada, the early main impetus behind the formation of the cotton textile manufacturing companies was federal government policy. The majority of Canadian textile mills were built in reponse to the protected market created by the Macdonald government's 1878 National Policy. Later, several mills were built to produce grey cloth for the China trade - a connection only made possible when the government built the Canadian Pacific Railway to the west coast. It must be added that the Montreal business community had strong representation in the federal government. The Boards of Directors of these companies invariably had one or more Senators or Members of Parliament on the Board.

In the case of Dominion Textile, the modern business unit did not appear until the organization decided to respond and pro-act with the market. The modern business structure of Domtex reflects the nature and type of response which the company elected to take to its market areas. Dominion Textile adopted its modern structure as it was abandoned by the federal government, betrayed by its intermediaries, and no longer protected by the old boy cultural network.

HYPOTHESIS 4. " That once a managerial hierarchy had been formed and had successfully carried out its function of administrative coordination, the hierarchy itself became a source of permanence, power, and continued growth".73

This hypothesis appears to be partially substantiated. The founders of the early mills that preceeded the 1905 merger were also involved in partnerships in other enterprises, that dissolved with a partner's death. The managerial hierarchy of Dominion Textile took on a permanence beyond that of any individual. In the 1930s, when the company operated at a loss for seven years, it continued to produce goods, even at below cost, so workers and the towns the mills were located, would have at least some income. Again, in the early 1950s, the company had operating losses for five years. Individual differences had to be settled so the organization could continue. This tendency for self-preservation has also had its negative side in the form of internal pressures to maintain the status quo. In order to adapt to a changing environment there have been periods in the firm's history when powerful individuals within the organization have battled this tendency toward stasis in order to reshape the firm.

Until the 1950s, the form this permanence assumed resembled Hannah's description of British firms more than Chandler's U.S. examples. Family remained a powerful force. Despite its being a widely-held company, between 1907 and

1965, Domtex had only four Presidents, the latter two being the sons of the first two men. A sense of family still pervades top management, both because of the successive generations who have worked for the company, and because managers have been brought along from early in their careers as son-like protegees.

Chandler's focus on the bureaucratic structure of organizations as a force which assures permanence, is not substantiated in the case of Dominion Textile. As a company, Dominion Textile ~~is~~ tied together by personal loyalty and association, familial relationships, and a company culture. These relationships are further supported by the environment (~~cultural milieu~~) ~~in which~~ the company functions.

The modern corporation (Dominion Textile post-1950), only emerged as the culture and values permitted the emergence of a managerial hierarchy. In Dominion Textile this took until after 1950 before a managerial hierarchy could in fact emerge. Prior to 1950, the hierarchy consisted of an allocation of function, and mutual responsibility.

HYPOTHESIS 5. "That the careers of salaried managers who directed these hierarchies became increasingly technical and professional." [74]

What is different in the Canadian case is the extent of the borrowings from other countries of the standards of managerial conduct. In the early years, a considerable number of personnel, particularly technicians, were recruited from Lancastershire. This continued into the 1950s. After both wars, in response to a perceived need for rejuvenation, Domtex brought in "southern troops" from the U.S. But in terms of managers, the company has always had to look into itself to find candidates. Domtex has been the company to which other Canadian textile firms have looked when recruiting new managers. Domtex itself has generally had to groom its own managers. There is not a pool of talent in Canada similar to that in the U.S. textile industry, and the company cannot always attract American managers. This has meant that strategic and structural changes must proceed slowly. Before the company can make changes, it must give its managers experience in their expanded roles.

In the last five years, as an international company, this policy has not changed. Canadian-born and trained managers have been sent to administer operations in Europe and the Far East. That is, the company is now successfully exporting its managerial expertise. This situation is not expected to continue. As operations become increasingly decentralized, the company expects this use of expatriates to decline, as it brings nationals of the countries they operate in into the organization. This has already happened in its U.S. operations. The Canadian managers are welcomed in foreign countries because of the North American business expertise they bring to overseas operations.

The salaried managers who directed Dominion Textile in its early years were technical and professional, but their career development tended to be personally and culturally determined. They were promoted to senior managerial positions based upon their participation and sharing the predominant internal and external culture.

HYPOTHESIS 6. "That as the multinational business enterprise grew in size and diversity and as its managers became more professional, the management of the enterprise became separate from its ownership".[75]

Chandler defines "financial capitalism" in the U.S. as being characterized by having ownership and management separate. Financial institutions who supplied funds, placed members on the Board of Directors to act as a check. In Canada, with the smaller scale of business activity, and the smaller number of chartered banks, these distinctions are blurred. Domtex was founded in 1905 by financiers and bankers. Connections with the banks continued to be close. Charles Gordon, President from 1908 to 1929, and again from 1933 to 1939, was after 1928, also President of the Bank of Montreal. Sir Hurbert Holt, Vice-President from 1908 to 1941, was also President of the Royal Bank of Canada.

As to the actual ownership of shares, no single person held any large block, including Gordon and Holt. From 1905 onward, the stock of Domtex was widely dispersed, a factor the company considers important, as it allowed the professional managers greater freedom in decision-making. Only recently is the composition of the ownership of shares changing. The largest single block is now held by the

Caisse de Depot, the Quebec government pension fund agency. The Caisse is also the largest shareholder in several other national corporations - C.P.R., Alcan, Domtar and Provigo. In most of these cases the Caisse has requested seats on the boards of directors. These requests have until now been refused. Canada is witnessing a new phenomena, that of a provincial government with social welfare goals, trying to become involved in the management of national and international corporations with long-standing commercial goals.

HYPOTHESIS 7. "That in making administrative decisions, career managers preferred policies that favored the long-term stability and growth of their enterprise to those that maximized current profits." [76]

In the nineteenth century, the textile companies which formed the antecedents of Dominion Textile ran their firms with the goal of maximizing short-term profits. When the protective tariff was lowered, and these mills faced increased foreign, as well as domestic competition, this policy resulted in the near bankruptcy of all mills, and hence the willingness of their shareholders to sell out to the Syndicate in 1905.

Since 1905, Dominion Textile has been administered by salaried managers. A distinction however needs to be made between the "old guard" prior to the 1950s, and the modern professional managers of the past thirty years. The "old guard" was distinguished by its personal, rather than corporate intervention into social and business affairs.

The "old guard" defined its business very narrowly. When they did expand the business, it was as individuals. Charles Gordon was President of Penman's a woolen fabric operation at the same time he was President of Dominion Textile. It was not until the 1960s that Domtex management redefined their business in less narrow terms and acquired the Penman's operation.

From the 1960s onward, the drive for long-term survival has been characterized by greater risk-taking. In the 1960s it was the acquisition of small firms in new and possibly lucrative applications in textiles. In the 1970s, the international acquisitions reflected a drive for growth, which was a goal of the top executives.

HYPOTHESIS 8. <u>"That as the large enterprises grew and dominated major sectors of the economy, they altered the basic structure of these sectors and of the economy as a whole".</u>[77]

Chandler found that in the U.S., managers took over from the market "coordination and integration of the flow of goods and services from the production of the raw materials through the several processes of production of the raw materials to the sale to the ultimate customer."[78] While similar events happened in Canada, Canadian managers have always had to deal with non-market constraints, as well as those imposed by market forces.

No matter how concentrated the industry became, the selling price of cotton textiles in Canada is basically determined by the rate at which the government sets customs duties on textile imports. As a result, Domtex, and its Canadian competitors have expended much effort, throughout their histories, in explaining and justifying their operations to the federal government. The government in turn, has initiated numerous commissions over the years to analyze the textile and clothing industry before making its recommendations.

In the past thirty years the Canadian textile industry has had no more than 50% of the domestic market - a figure determined by government tariffs. In contrast, their U.S. counterparts have 90% of the American market. The Canadian textile industry is less able than the U.S. companies to control their industry sector. In the U.S., with many firms involved, many of the textile firms specialize in certain market niches. As the leading Canadian producer, Domtex for many years, felt obliged to compete in almost all lines, in order to hold its market share.

One finds almost no reference to domestic competitors in Dominion Textile's company records. When it was formed in 1905, Domtex was the largest cotton textile producer in Canada. Their main competition has always been foreign, first from Lancastershire, then the U.S. South, then Japan and India; and lately from a large number of developing countries. When their competitors were uninterested in the Canadian market, because of boom times in their own economy, or because of the dislocations caused by wars, the Canadian textile industry could sell as much as it could produce. When their international competitors had a surplus, and the entry of foreign goods was not hindered by customs duties, the Canadian firms lost market share, and sometimes sold at below production costs, just to stay in operation.

The Chandler hypotheses, which have formed the basis of Rumelt, Scott, and others in terms of life cycle theories, are inadequate to describe the development of Dominion Textile into a modern organization. The Canadian environment, is unique and different.

The Report of the Royal Commission on Corporate Concentration has summarized the unique aspects of the Canadian economy: "The Canadian economy is made up of small markets dispersed over a wide geographic area. Canada has a relatively small domestic market and is one of the few countries in the world whose industries do not have access to a large free trade area. Canada's small, dispersed markets often prevent Canadian producers from realizing economies of scale. ... Canadian domestic producers in many areas cannot achieve the productivity enjoyed by firms in more populous and geographically concentrated markets. ... We are a high-wage country, facing increasing international competition both from low-wage countries and from developed countries whose industries can realize economies of scale in production and in research and development through access to large markets."[79]

The specific Canadian variables which have influenced and affected strategy making in the Canadian environment are as follows:

[A] Dominion Textile developed within a cultural milieu which has a corporate rather than an entrepreneurial orientation. As noted by Harold Innes[80], Canada emphasized good order and tradition. The Canadian model is the Northwest Mounted Police, the Hudson Bay Company, the Company of 100 Associates, rather than the Texas Ranger. Corporate development took place within a culture in which business was dominated by a close linkage between government and industry, rather than competition. An organization's domain was protected by culture, supported by interlocking directorships, mutual support and tradition. Government was viewed as a supporter of business by means of grants (C.P.R.), ownership (C.N.R.), and policies such as the protective tariff.

[B] Dominion Textile only began to develop as a modern corporation after 1950, when it realized that it could not expect continued government tariff protection, the distribution network had disappeared, retailers became responsive to markets, and consumers had alternative choices. The modern corporation, as noted by Chandler, only begins when external supporting cultural and distribution arrangements are disturbed or changed, so that the corporation needs to rely upon its managerial ability and capacities for survival.

[C] The dynamic component to make this change appears to be the managerial perspective, and a change in management culture. Chandler says little about the management culture of the firms he researched. He records the effects of an evolving managerial culture, but leaves its values implicit in his findings - perhaps because such values were generally shared by the U.S. business community. Culture is used here in terms of Guth's (1976) definition as shared values and frames of reference. Product change reflects a different orientation of management away from mere availability to growth and survival.

The managerial perspective and cultural change has several aspects:

(1) A moving away from a strategy which assured survival by maintaining one's role, position and domain. Staying in most lines of business is a strategy which dominated Dominion Textile until 1950. This meant manufacturing and control over costs and resources.

(2) The adoption of a pro-active response where one's growth and development is related to organizational competence and ability. Only then does an organization create the structures and processes to utilize these capacities.

(3) The acceptance of a market rather than production oriented strategy. These dimensions, because of the breadth of the American market and values, could be assumed away by Chandler. The change from a corporate culture to an entrepreneurial culture is a significant dimension in the history of Dominion Textile.

(4) Organizations may expand and grow without

diversification. Expansion and diversification is related to products and geographical expansion, not necessarily diversification. The development of an MNE depends upon comparative advantage, as well as markets. Without comparative advantage in one of several products there can be little expansion.

1.6 SUMMARY

The research concludes that the development of Dominion Textile conforms to the Chandlerian hypothesis of corporate growth and development. The eight subsidiary hypotheses proposed by Chandler to explain the development of U.S. firms differ in the Canadian environment, most notably in three areas:

(a) Dominion Textile was able to develop only when it developed a corporate culture which has been variously described as entrepreneurial rather than corporate; marketing rather than production oriented; and corporate directed rather than socially reflective.

(b) Dominion Textile was no longer able to rely on government tariffs and policy to protect its market, assure its survival, and provide profitability.

(c) Dominion Textile developed when managers adopted an entrepreneurial orientation and viewed the corporation as a vehicle of expansion and development.

These differences and variables are examined in the detailed report of the research, which is structured about the model proposed in this chapter.

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CHAPTER TWO

PERIOD 1: THE ORIGINS OF DOMINION TEXTILE: 1873 - 1905

MAJOR STRATEGIC-STRUCTURAL COMMITTMENTS:

- Establishment of indigenous mills to supplant imports.
- Creation of industry as a dominant coalition, (i) through dominant individuals, and (ii) through industry associations and agreements - the industry predecessor of the dominant firm.
- Breakdown of cartel leads to efforts to concentrate industry structure under aegis of dominant organizations via mergers and acquisitions.

Critical External Events	Company Actions	Effects of Change
1873 Canadian dry goods distribution dominated by U.K.	Canadian dry goods distributors form cotton textile mills most sell output to D. Morrice.	Small, Canadian-owned operations. Distribution cartel through D. Morrice.
1879 Canadian government: Protective Tariff on cotton, high demand.	A. Gault: multiple presidencies expansion & formation of new firms.	high industry profits
1883 world depression breakdown of D. Morrice distribution system	price cutting Dominion Cotton Manufacturers' Assoc.- informal industry cartel to replace Morrice's	restrict productions, stabilizing effect

1885 completion of C.P.R. to Pacific	sales to China expansion of Canadian facilities	increased output and sales
late 1880s world depression, demand decreases U.K. and U.S. syndicates seek Canadian cartel	Mergers: Dominion Cotton (1890), Canadian Coloured Cotton (1893)	stabilized industry limits over-production, price setting
1897 tariff on imported cotton lowered 1900 loss of China trade	industry cartel split between Gault and Morrice - end of informal pricing pricing & production cartel; companies internal Selling Departments.	increased competition, price wars, Bankruptcies of marginal operations extension of product lines by each company
1903 market depressed; death of A.F. Gault	Merger: Dominion Cotton, Merchants, Montmorency & Colonial into Dominion Textile - 1905	stabilization through rationalization of merged companies

2.1 The Early Textile Industry, 1873 - 1905

The early history of Dominion Textile was an effort to create a manufacturing complex in a new country to supplement and supplant the market domination of British textiles. The period between 1879 to 1897 was characterized by diverse manufacturing companies, fostered by the 1879 Protective Tariff of the Conservative government which endeavored to create a manufacturing capability. The Canadian textile industry, as a result, moved from being a distributor of textiles made elsewhere, to being self-sufficient in the coarser lines of cotton textile products. In 1897, the Liberals under Laurier formed the federal government. The Liberal's formal platform emphasized trade reciprocity with the United States. Although reciprocity was not achieved, the Liberal policy was reflected in a lowering of the protective duty on imported cotton goods. This less benign government attitude toward manufacturing, combined with a depression throughout the industrialized world in the 1890s, meant hard times for the Canadian cotton manufacturing companies. By 1904 many of these companies were on the verge of bankruptcy.

The early textile industry in Canada was dominated by two men - Andrew F. Gault, and David Morrice - to an extent not found in the American or British experience. These men were conceded wide powers by the Montreal business community, which at that time dominated Canadian economic life. Their efforts and goals resulted in a stabilization of the cotton industry in Canada.

A.F. Gault, known as "The Cotton King of Canada", by 1892 dominated the cotton manufacturing industry from his position as president of ten cotton textile companies, including the three largest firms, and as organizer and president of the Canadian Cotton Manufacturers' Association. David Morrice, during the 1880s and early 1890s, as Commission Agent for over forty cotton and woolen mills, had a virtual monopoly of the distribution of domestically produced cotton goods.

Gault and Morrice arranged informal, and later formal cartels that helped to stabilize the industry during the 1880s and early 1890s. By 1900, a falling out between these two industry leaders, combined with a severe world-wide depression, opened the domestic cotton industry to price competition which proved ruinous to the participants.

The period of stability was followed by a crisis arising from economic problems. The direction and stability of the industry was lost with the death of A.F. Gault in 1903.

The early development of Canadian cotton textiles was characterized by several factors:

[A] The structures and processes adopted were copies of American, British, and other countries. Naylor remarks in The History of Canadian Business on the hybrid socio-economic structure in which the new industry developed: "Canada's social structure and therefore the proclavities of its entrepreneurial class, reflected and reinforced its innate colonialism."[1] The history of the cotton industry's development illustrates the combination of British, American and colonial practices that gave the Canadian cotton industry somewhat different patterns than happened in either Britain or the United States.

[B] The breadth of the market was such that availability was more important than the type of product. The Canadian industry concentrated on unbleached grey cloth, which was in high demand. Companies tended to specialize in either cotton or wool. There was little overlap across materials. Distribution mechanisms were separate from the mills. Large jobbers and wholesalers purchased the output of the mills and distributed the product to other types of manufacturers.

[C] The development of textile manufacturing was supported by government tariff and national industrial policy.

[D] The textile business was concentrated in Montreal where there was a clear division between manufacturing, distribution, and textile processing. This was supported by traditional and cultural values, and gentlemens' agreements.

[E] Cyclical shocks influenced and affected the industry. These arose from several factors: (i) Depression and prosperity within the country. Business cycles, particularly the recessions in the early 1880s, and the early 1890s were major causes of cyclical shocks. (ii) The concentration in grey cloth and unbleached cotton (undifferentiable between mills because of similar technologies and production processes) meant that cotton goods were viewed as commodities, influenced by demand and supply conditions. Commodity price support was directed towards controlling supply. (iii) Output conditions and world demand influenced British exports to Canada. British exports to Canada interferred with domestic supply activities.

[F] The equiping and organizing of the mills used a mixture of British and American techniques. British machinery was used partly because it was considered to be better, but also because British textile machinery manufacturers aggressively promoted their products in Canada. In the case of Montreal Cotton, the British textile machinery manufacturing company was its earliest large shareholder. Without that support it is probable the first Montreal Cotton mill of 1873, the largest mill in Canada to that date, would not have been built. With the exception of this early British investment, foreign capital was generally absent, and foreign markets (with the exception of some exports to China) did not provide an outlet for production. The similarity of technology prevented any differentiation between domestically produced and British imported products.

Industry Models of the Cotton Textile Industry

In the 1870s, when the large Canadian mills were established, there were two generally established ways of organizing the cotton textile industry from which the Canadians could choose. In Britain the cotton industry was divided vertically into firms performing one of the three major operations - spinning, weaving, and finishing (bleaching, dyeing, and printing.) In the U.S., cotton manufacturing companies generally integrated two, and sometimes all three, of the operations.

The Canadian mills were formed on the American model, as integrated operations, combining spinning and weaving. The industry was new to the country. Thus the mills were designed to manufacture raw cotton into a consumer product without the need for additional middlemen. The basic product of these mills was greige or grey cloth - unbleached cotton. The bulk of Canadian-produced cotton was sold as greige. Only the larger mills later added finishing facilities to bleach, and then dye or print the cloth.

In general the common organizational model for Britain, the U.S., and Canada was - the greater the total output of a nations' cotton industry, the more production was separated vertically by function into separate companies. Canada, with a small output, had companies with a high degree of integration.

In Canada, the machinery used to manufacture cotton textiles was British, while the layout and operation of the mills followed the American model of integrated operations.

British mills had generally started off as integrated operations. "In the early decades of the industrial revolution, vertical integration of marketing with various levels of production (including in many cases machine-making) had been a necessity if pioneering cotton textile firms were to ensure themselves adequate supplies of inputs for their factories as well as sufficient outlets for their products."[2] In the 1860s, the British cotton industry tended toward specialized, rather than integrated operations. The move was hastened during the American Civil War when the shortage of raw cotton made it more difficult to supply foreign markets. After the Civil War, when the demand from the export market was greatly increased, the British manufacturers produced a complete range of goods sold world-wide. Companies tended to move from integrated to specialized operations.

Ray Church in The Dynamics of Victorian Business, explained the advantages and disadvantages of integration versus specialization: "Most integrated textile firms are found to produce a narrow range of commodity. The need to integrate processes calls for the more careful management of the production line than is the case in specialization and a larger-scale operation. It may seem, therefore, that the advantages of integration lay in stability and cost minimization, while the attractions of specialization lay in the flexibility of operation within a specific sector."[3]

The large and varied productive capacity of the British cotton industry affected the output of the Canadian industry. Until the mid-1880s, the Canadian cotton industry concentrated on unbleached grey cloth, while Britain continued to supply specialized finer cloths. The integrated firm was a more efficient method for producing this basic line, and thus was favoured in Canada.

In Britain, during the Great Depresssion of the 1880s and 1890s, huge cartels such as the Calico Printers, the Bradford Dyers, and the J.P. Coates thread company developed to control prices and production. These were single-function holding companies, which made it very difficult for a firm to integrate spinning and weaving. In the case of the Calico Printers, for example, eighty companies came together, creating a Board of Directors with eighty or more members. English Common Law evolved with these changes, and accepted the restraining agreements of the cartels. Once this industry structure was in place in Britain, it was extemely difficult to change. It was not until the 1920s, when it had lost some of its world market, that the industry structure of the British cotton industry began to change to integrated operations. This change was aided by government pressure, in the interests of increased efficiency. The United States differed from Britain in that they integrated the spinning and weaving functions. While initially mills had specialized in one process, they had soon became integrated operations. In 1814, Francis Cabot Lowell built the first integrated mill in the U.S. This mill proved highly profitable and spawned similar integrated mills.[4] When a holding company was formed to integrate operations, it usually became an operating company in an attempt to rationalize the process. The U.S.

courts favoured free competition, and in their judgements resisted efforts to cartelize.[5] Companies overcame the British model of cartels by creating integrated mills which combined activities which in the British economy were separate.

Spinning Technology

The British and American mills generally used different types of spinning processes. British mills used mainly mule spinning, which required highly skilled, strong operators, and produced fine grades of yarn. Mules were favored in Britain because lower grades of raw cotton could be used and because wages were lower. Mule-spun yarn, wound on inexpensive cotton tubes called cops, was then shipped to weaving companies. Yarn produced by ring spinning had to be wound on wooden bobbins, which were often not returned to the separately owned spinning company. Since the manufacturing operations in Britain were not integrated, the added cost of wooden bobbins favoured the use of mules for spinning.

Ring spinning was developed in Britain in the early 1870s. It increased speed, required less power, and the machines could be operated by a less skilled work force. It required a higher grade of raw cotton, and produced coarser grades of yarn. In the U.S., where operations were integrated, the spinning and weaving was done in the same mills. The wooden bobbins of ring spinning remained within the same company and could be re-used.

Canadian mills used the two systems about equally.

To man the mules, the Canadian mills sought out expert operators from Lancastershire. It is not clear why the mule was so widely used in Canada, but is was probably because the mule could use lower grades of raw cotton. The cost of cotton was the heaviest expense of the Canadian textile companies. Labor was, by comparison, a less expensive factor, and remained so until after World War II.

Exhibit 2 - 1 Ring and Mules Distribution: 1908

	% Mule	% Ring
U.K.	83.6	16.4
U.S.	17.7	82.3
Canada	46.0	54.0
World	55.8	44.2

6

Technical Skills

Technical education in Canada, throughout the period was non-existent. The Minute Books of the early companies are sprinkled with references to the difficulties in training "green hands". The cotton mills were the first large manufacturing enterprises in Canada. The early mills had the problem of adjusting farm people to the punctuality and consistency which industrial work demands. Mills found it necessary to import British technicians. This meant that in the Quebec towns of Magog, Montmorency and Valleyfield, English was the language of work.

No research and development of new methods was attempted by the Canadian mills. The technology needed was easily imported from Britain and the U.S.

Business Cycles and Government Involvement

The world economy which the early Canadian textile companies faced in the 1870s to 1890s was generally one of deflation and recession. The period from 1813 to 1896, with the exception of 1879 to 1883, was one of very slow general growth in both population and the economy. From 1873 to 1879 there was a long, severe, world-wide depression. A brief boom period from 1879 to 1883 was followed by a long slide into another depression, known in Britain as the Great Depression.

The boom in the early 1880s coincided in Canada with the introduction in 1879 by the Macdonald Conservative government of the National Policy. Naylor feels that some of the recovery in Canada after 1879 was due to the National Policy, but it was also as much due to a general upturn in the world economy, and an increased foreign demand for Canadian staple products. The high tariff helped stimulate growth in manufacturing, particularly in steel, cotton, milling and sugar refining. The cycle of textile sales in Canada was similar to that in the U.S., where Galambos found: "In the mid-seventies and mid-eighties, during the downturn in the general business cycle, cotton textile suffered acutely."[7]

The Earliest Cotton Companies in Canada

The first Canadian cotton textile company was the Sherbrooke Cotton Co. The mill, built in 1845 in

Sherbrooke, Quebec, by Alexander T. Galt, was financed by twenty-eight Sherbrooke area men. The small mill was capitalized for approximately $40,000.

The Sherbrooke Cotton Company was also the first limited liability company in the colony of Canada. Paragraph fourteen of the Act incorporating the Sherbrooke company, passed by the Legislative Assembly of the Province of Canada, March 29, 1845 reads: "And it shall be enacted, that no shareholder in the said Corporation shall be in any manner whatsoever liable for or charged with the payment of any debt or demand due by the said Corporation, beyond the extent of his, or her, or their share of the Capital of the said Corporation not paid up."[8] Among the opponents of this act was John A. Macdonald, who would later reverse his position, and become a supporter of Canadian manufacturing companies.

The Sherbrooke Cotton Co., and its successors, were the first large scale manufacturing enterprises in Canada to need such protection for shareholders. The cotton mills were the largest manufacturing operations at the time in Canada. Partnerships were until then the standard form of business organization. They had proved inadequate, because of the large number of investors needed to buy the initial capital plant and equipment. The Sherbrooke Cotton Co. suffered a series of fires, and by 1855 had ceased operations.

In 1847 United Canada's second cotton mill opened a small operation in Thorold, Ontario, but it soon closed.

The first large scale cotton mill, of 200 looms and 1,200 spindles was built in 1850 at Meritton, Ontario. In the 1860s, three mills opened in Ontario, of which one survived. A mill was built in St. John New Brunswick (the William Parks and Sons mill, 1861), which survived until the 1950s.

The American Civil War interrupted raw cotton supplies to Canada. The closing of some U.S. mills during the war created an opportunity for Canadian producers to supply their domestic market.

The pre-Confederation cotton textile mills were all small, and for the most part unsuccessful. The two first large-scale Canadian mills were those of the V. Hudon Co., and Montreal Cotton, both established in 1873, after Confederation and the American Civil War. Following a series of mergers with a dozen other companies, V. Hudon would become Dominion Textile in 1905. Montreal Cotton was acquired by Dominion Textile in 1948.

The Distribution of Cotton Dry Goods

Before the large scale production of cotton goods began in Canada in the 1870s, the distribution of British-made cotton textiles was a business of considerable importance. The dry goods importer-wholesalers were concentrated in Montreal. Relations between the wholesalers were close, amounting to an informal cartel for the distribution of textiles. Naylor remarks in The History of Canadian Business on the co-operation among the wholesalers: "Cotton and woolen goods imports into Canada were dominated by a few Montreal wholesale dry goods merchants, notably George Stephen, A.F. Gault, Hugh Allan and David Morrice, in alliance with British export houses. Canadian textile manufacturers, both the cotton industry and the few large woolen factories, were dependent on these wholesale firms for marketing their products."[9]

The Canadian dry goods wholesalers, in turn, were dependent on British suppliers. The Montreal merchants wanted to break the hold British manufacturers had on their businesses. It was from these merchants that the impetus came to establish a domestic Canadian textile manufacturing industry.

In the early 1870s there was an attempt by some local textile producers to break the hedgemony of the Montreal dry goods merchants by trying to break the distribution chain by financing their own jobbers. This was unsuccessful, partly because the effort lacked the necessary financing. The Montreal dry goods wholesalers effectively controlled production. They, in effect, had the industry in a cartel.

By 1883, David Morrice had a virtual monopoly on the distribution of cotton textiles in Canada. He was the Commission Agent, sometimes called Selling Agent, for the majority of cotton textile companies throughout Canada. Morrice was also a leading shareholder in many of the cotton and woolen companies.

In the U.S. this type of monopoly did not exist. The New England mills each had a distribution agent, usually in New York, who sold the mill's output. Unlike the Canadian mills, the American mills generally did not use the same selling agent. As in Canada, the New England mills were solely manufacturers, but the sales agent and the manufacturer were closely allied in financial terms.

Tariffs and the National Policy

In 1873 a 15% tariff on manufactured goods was introduced by the federal government, for the stated purpose of revenue. The increased protection fostered manufacturing businesses, particularly Quebec's fast growing boot and shoe, and cotton textile industries. In 1878, the Conservative government of John A. Macdonald, as a result of the urging of Canadian business interests, including the cotton and woolen goods manufacturers, introduced a protective tariff on many manufacturing industries. Its purpose was to change the direction of Canadian trading patterns away from trade with the United States and Britain, in order to generate internal trade within Canada. This, in effect, meant that goods manufactured in the central Ontario and Quebec factories would be traded in the Maritimes and the Northwest. The new textile firms were well represented in Ottawa. Each company had on its board at least one and sometimes three federal Members of Parliament (M.P.s) or Senators. Matthew Gault for example, a brother of textile magnate Andrew Gault, represented Montreal West from 1879 (the year of the National Policy, of which he was a strong supporter) until his early death in 1888.

Under the National Policy, textile tariffs rose from 17.5% to 25%, and then to 30%, creating a boom in Canadian textiles. Cotton goods production increased from 4,500,000 yards in 1877, to 15,445,000 in 1882. British textile firms protested the tariff to the Colonial Secretary. British firms manufacturing textile machinery on the other hand welcomed and fueled the boom by aggressively marketing their equipment in Canada.

For the first few years after the tariff was introduced, companies made enormous profits. In 1880 the V. Hudon company paid a stock bonus of 33 1/3%, in addition to a 10% dividend. In 1881 and 1882 the company declared further dividends of 10% on the enlarged capital. In 1883 a common stock bonus of 100% was given to shareholders, based on the surplus funds accumulated at that time.

The same thing happened at Montreal Cotton Company. In 1882, Sir Hugh Allan announced the company was unable to fill half of the 1881 orders. The company's reaction was to increase their production capacity. Other companies as well used their high profits to reinvest in further production capacity.

The high dividends also stimulated the formation of new cotton companies such as the Merchants Manufacturing Company (1880) and the Chambly Cotton Co. (1883). A new cotton print mill, the first such finishing plant in Canada, was erected at Magog, Quebec in 1879. All of these companies were subsequently acquired by Dominion Textile.

Between 1874 and 1884, the number of cotton mills in Canada grew from four to seventeen. Most, but not all of the mills were built by Montreal interests. The exceptions were the St. Croix, New Brunswick mill, an extension of a New England mill that was losing money because of the protective tariff; and the Wincey Mill at Brantford, which was set up by an English immigrant Clayton Slater. The Yarmouth duck mill, which was acquired by Dominion Textile in 1973, was founded in 1883 as a subsidiary to a U.S. textile company.

In the five year period after the National Policy the Canadian cotton textile industry was over-built. By 1883, there were 22 cotton mills in Canada, with 10,900 looms and 531,500 spindles. In 1905 there were 29 cotton mills with 19,207 looms and 832,437 spindles. Although there were exceptions, notably the Montmorency Company, which was formed in 1889 specifically to produce goods for China, most of the major mills were in place by 1883. The growth of companies from then on was generally by consolidation rather than by the establishment of new companies.

The Cultural and Social Milieu

In the 1870s in the U.S., the textile industry was concentrated in New England in the control of people known as the Boston Associates. These were people closely allied with each other through family ties. The great Boston names, the Cabots and the Lowells, for example, were involved in textiles. Boston money is based on textiles. Harvard University was the creation of textile money. The

Montreal textile men had similarly close ties. McGill University benefited from endowments from Montreal textile firms and their owners.

In the U.S., in the early 1870s, a split developed in the focus of the industry. In the 1870s there was a spurt in the construction of new cotton mills, but this was in the South, in the Virginias and the Carolinas, in response to lower costs for raw materials and labor, as well as lower taxes and fewer regulations. By the 1880s the U.S. Cotton textile industry was marked by North-South rivalry. In Canada no such split occurred. The major mills of Ontario and the Maritimes, even if they were not founded by Montrealers, soon came under their control.

At the center of Montreal's political power was the Montreal Board of Trade. Until 1876 this group favoured free trade with the U.S. In 1876 the Montreal Board of Trade, and the Toronto Board of Trade reversed their position and stated a preference for increased protection. A second group, the Montreal Manufacturers' Association was formed in the mid-1870s, by the city's merchants, especially E.K. Greene, George Stephens, A.F. Gault, David Morrice, J.P. Cleghorn and A.W. Ogilvie. Dry goods wholesalers predominated in this group. In the small commercial community of Montreal, these prominent businessmen also sat as directors of the banks, of which Montreal was also the centre.

Naylor found this to be a characteristic of Canadian commercial growth in general, and adds that the

Montreal businessmen, through their control of the major banks, could perpetuate their economic hold on the Canadian economy. "The rules were fairly clear. The Montreal commercial community, branching out into cotton manufacturing, sugar refining, iron and steel, and the like, secured bank accomodation through their holding directorships on the banks. This accomodation of the old commercial elite reflected again the bias on the part of Canadian industrial development in favour of established wealth and away from the new entrepreneurial class which was promoting industrialization throughout southern Ontario." [10] One point should be clarified. The new class of Canadian textile magnates did not come from wealthy backgrounds. Nor were their fathers laborers. Andrew Gault, David Morrice, Louis Forget, William Whitehead and Hurbert Holt did not start their business careers with family inherited capital.

Retailing of Cotton Dry Goods

The cotton textile industry came of age in ways, other than high production figures and profits. In 1883 it acquired a journal, the Dominion Dry Goods Report : "A monthly journal devoted to the wholesale and retail dry goods, clothing and men's furnishings, millinery and fancy goods and hat and fur trades." [11] The publication, renamed The Canadian Textile Journal in 1908, marked its 100th Anniversary in 1983.

In its first year the journal reported the expansion of Canada's premier retail department stores. "T. Eaton &

Co., the large Yonge St. retailers, have recently occupied their new premises, which have been fitted up in a splendid manner, aided by electric light. Their building vies with similar houses in New York and Paris." Across the street "Mr. Robert Simpson has taken a long lease of the premises on the south-west corner of Yonge and Queen Sts., immediately north of his present stores."[12] In Montreal, the largest department store in the Dominion was opened on St. Catherine St. by Henry Morgan, in 1891.

Almost all the mills produced the same product, grey cloth or unbleached cotton. The execeptions were the V. Hudon Company and Montreal Cotton, which also had bleacheries, and the Magog Cotton Company which was the only mill to produce prints. While the Canadian mills produced the staple unbleached cotton, finer lines of goods continued to be imported from Britain.

Panic in the Cotton Trade: 1883

In 1883, the world economy entered what the British called the Great Depression. There was a long deflationary period of declining prices that lasted until 1896. The recession, combined with over-production, hit the cotton textile industry hard. Many mills were closed.

David Morrice's company was put under trusteeship. Morrice's collapse sent the whole industry into a panic. The collapse was precipitated by low prices and by the marketing and financial arrangements undertaken by Morrice.

Morrice occupied an important but vulnerable role in the marketing and production process. Morrice would take the cotton textiles from the mills on consignment. With the goods as collateral he obtained loans from the large Montreal banks, notably the Bank of Montreal. Morrice was then able to pay the mills for the goods. The cartel established by Morrice was a way for the firms to integrate their marketing function without forming their own sales organization, since Morrice sold the output collectively. Since many bank directors also sat on the boards of the cotton companies, the banks were willing to lend money to Morrice, far past the point prudence would warrant. By 1882 the Canadian mills were over-producing grey cloth, but Morrice continued to buy and stockpile the output. In the economic crisis of 1883, the price of cotton textiles dropped, and this pyramid collapsed.

The Canadian Cotton Manufacturers' Association

After the 1883 crisis, attempts to form a cartel on a formal basis were renewed. This time the the leading textile magnate, Andrew Gault, tried a more ambitious way of cartelizing than the informal methods he and Morrice had used. Following the collapse of David Morrice's firm Gault organized the merchants of Montreal into the Cotton Manufacturers' Association.

Gault and Morrice organized a series of meetings of many of the major mills in late 1883, at which several proposals aimed at controlling direct competition were discussed. The solution agreed upon was that of closing the mills on a regular basis. The danger of this approach was that the under-employed workers would leave for mills in New England. The cartel agreed to shut the mills down on Monday and Thursday evenings, and to decrease total output by one-third.

Another problem was that each mill produced the same staple goods, grey cloth. The convention of manufacturers agreed that each mill would begin making plans to diversify into more finished lines of goods. This required capital which was no longer forthcoming from shareholders. Since mills had machinery which produced the same line of goods, there was little more they could do to avoid head-on competition.

The Dominion Cotton Manufacturers Association would oversee the arrangement. Its executive was D. McInnis, President, A.F. Gault, Vice President. David Morrice was on the executive committee. The following year, Gault became President, while W.F. Findley, his nephew, was appointed the association's inspector. At a meeting on September 4, 1883, all the members of the manufacturers' cartel posted a bond. If any member broke the agreement, they would forfeit their payment.

By April 1884 the cotton manufacturers' cartel was working well enough to attempt jointly fight British competition by dumping excess Canadian goods on the British market. "It has arrived at that point where the struggle is keenest with foreign interests - the manufacturers propose a temporary relief for the over-stocked market by making an exportation of goods to England, each of the leading mills contributing a quota from the stocks at hand."[13]

In the U.S. textile industry a move to seek industry stability by forming cartels did not develop. Galambos found that while the impetus was there in the U.S., it was thwarted by the North-South split in the industry. "The spread of textile manufacturing into the South had a decisive impact upon the industry at a crucial stage in its development. Just when the concentration movement was getting underway, just when a series of large, horizontal combinations were being promoted, southern expansion brought into the industry hundreds of small, low cost firms. As a result, cotton textiles, unlike most other manufacturing industries, retained its atomistic structure."[14]

In the U.S. there were several trade associations which Galambos terms "dinner club associations", whose main purpose was to keep its members abreast of technological change. These associations did not compare with the cartel the Dominion Cotton Manufacturers' Association organized. It did not engage in political lobbying and fines for dissenters as did the Canadian association. Galambos characterizes the American associations as demanding and giving very little to its members. An attempt in the 1890s to broaden the base to include political and economic questions was turned down by the American members.

The cotton trade improved during 1884. Recovery in Canada was helped further by a revision of the tariff on textiles to 35%. By 1886 the <u>Dominion Dry Goods Report</u>

announced: "the cotton mills are all full of orders."

Gault and Morrice tried to keep the Dominion Cotton Manufacturers' a strong regulating force in the industry. In 1886 the cartel organized another conference in Montreal. Most Canadian cotton mills sent representatives. The members tried to agree on ways to come to agreement on setting prices and credit terms. Other problems were the use of gifts as incentives for making orders, and the practice of dating ahead invoices. But it proved impossible to reach consensus, let alone set enforcement terms, on this kind of informal agreement which was not legally binding. In 1887, the cartel of 16 of the 25 cotton mills, met again and agreed on prices.

In 1888 in the face of declining industry sales the terms proved no longer possible to enforce. Individual companies quietly sold at prices below those set by the cartel. Companies began to leave the cartel. A price war, particularly in the Martimes between the Moncton and St. Johns mills ensued. The breakdown resulted in casualties. The Windsor, Nova Scotia, and Chambly, Quebec mills ceased operations. The mills at Moncton, New Brunswick, and Stormont, Brampton, Dundas and Merritton, Ontario paid no dividends. In August 1889, Gault and Morrice organized a new cartel agreement, but by then they had no faith in informal agreements. It was a stop gap measure as they worked on formal mergers among cotton companies.

The China Trade

The next new mill Gault and Morrice organized was planned so as not compete with the existing Canadian mills, and was a direct result of the completion of the C.P.R. The route chosen by the Canadian government for the publicly financed Canadian Pacific Railway did not loop up through the most fertile section of the prairies in which there were already settlements, but through the semi-arid grasslands. This was the direct route to the Pacific Ocean and overseas trade. The completion of the line by 1886 allowed Canadian cotton mills to export their surplus goods to China.

The China trade was initiated by Gault and Morrice, who sold a consignment of Hochelaga Cotton Co. goods to China through contacts in New York. This was followed up by a visit to China by eighteen year old Charlie Whitehead, a son of the Hochelaga Mill Manager. Young Whitehead sold two years output of a mill, as yet unbuilt. With Gault and Morrice, Whitehead formed the Montmorency Cotton Company. The company's mill was built to produce grey cloth to specifications required by Shanghai dry goods wholesalers. Several other companies, particularly Dominion Cotton, continued selling to China between 1887 and 1900. The trade ended suddenly with the Boxer Rebellion. Except for Montmorency, which produced mainly for China until 1900, the other mills saw the trade as a way of selling surplus textiles at good prices. Their alternative to this trade was to reduce prices to sell them on the saturated Canadian market.

Cartels proved impossible to sustain in the overextended cotton industry, particularly during the depression of the late 1880s and early 1890s. As prices in the industry gradually fell, the tendency was for mills to undercut the agreed price. The only way out of the dilemma appeared to be legal mergers.

Chandler found a similar situation in the U.S. A depression in the 1870s dampened industrial growth and led to the formation in the 1880s and early 1890s of the first corporate enterprises in any number in the U.S.[15] These new integrated enterprises needed large administrative structures. The largest Canadian cotton textile company formed during this wave of mergers was Dominion Cotton in 1890. The scale of operations was increased by the mergers, but basically the administrative structure did not change (see Exibit 2 - 5). While the administrative structure was enlarged numerically, operations were not integrated in the way Chandler describes happening with large U.S. throughput technology companies.

Mergers in the Early 1890s

The first merger was in 1885 between the V. Hudon Cotton company and the St. Anne Spinning Co., both of Montreal. This merger was easily arranged because the companies shared the same president, A.F. Gault, and almost identical memberships on their boards of directors.

In 1890, a major merger engineered by A.F. Gault from eight grey cotton mills created the Dominion Cotton Mills Company. Mills at Montreal and Coaticook, Quebec; Kingston and Brantford, Ontario; Moncton, New Brunswick;

and Halifax and Windsor, Nova Scotia were amalgamated. The interest shown by two foreign textile groups, one American, the other British, in buying up and merging Canadian mills had acted as the impetus for the Canadian cotton magnates to act. The foreign interests proposed to close down the less productive mills. Gault, Morrice, and the Dominion Cotton directors decided to pre-empt the English Syndicate of buyers by acquiring the mills themselves, with the possibility of later selling the package to the English. The mills were sold to Gault's group on the promise that all the mills would be kept in operation.

Two years later, in 1892, Gault and Morrice amalgamated another six mills which specialized in colored goods, to form Canadian Coloured Cotton Mills Co. Ltd.

The two mergers had created two textile conglomerates, one in grey goods, the other in colored cottons. The mills in these two mergers comprised approximately 40% of all cotton spindles in Canada and 38% of the looms. In both these mergers the close links between the Bank of Montreal and the textile executives proved helpful in arranging interim financing. The directors and executive officers of both companies were essentially the same. A.F. Gault was President of both companies. These mergers helped stabilize the cotton textile industry for most of the 1890s.

Textiles in Canadian Trade

By 1890, textiles were the leading manufacturing industry in Canada. That year there were 843 woolen mills employing 8,415 hands, 21 cotton mills with 8,033 hands, 3,962 manufacturers of clothing with 23,241 hands, 156 shirt manufacturers with 3,057 hands, and 85 hosiery mills with 672 hands.

Galambos found the same trend to increasing concentration in the U.S. "As the New England industry grew, a number of fairly large companies emerged. During the first half of the nineteenth century the number of firms in the industry increased tremendously but in subsequent years the number of companies remained fairly stable while the existing firms grew larger. One of the big corporations was the Pepperell Manufacturing Company of Biddeford, Maine. By 1900 Pepperell was capitalized at over two and a half million dollars ...."[16] The Canadian textile industry was more highly concentrated, and at an earlier date, for Dominion Cotton Mills Co. was capitalized in 1890 for five million dollars. The acquisition of the new mills alone cost $3,800,000. Canadian Coloured Cotton Mills Co. Ltd. incorporated in 1892 was also capitalized at five million dollars.

A smaller amalgamation in 1893, which is part of the story of Dominion Textile, was the merger of several woolen mills with the Penman Mfg. Co., Paris, Ontario, including the Coaticook Knitting Co., Coaticook, Quebec, and the Peninsula Knitting Mill of Thorold, Ontario.

Penman's was acquired by Dominion Textile in 1965.

Dominion Cotton, and Canadian Coloured Cotton had promised not to close down the less productive mills. Dominion re-opened the mills at Windsor, Chambly, Coaticook, and Brantford. Canadian Cotton re-opened mills at Dundas and Merrittown, Ontario. But these efforts were futile, and gradually the smaller and less efficient mills were phased out.

The mergers stabilized the industry for a time. Both Dominion and Canadian Cotton were able again to pay dividends. Dominion was the largest and Canadian Cottons the second largest mill in the country. The two firms could reach agreement on prices through their interlocking directorships. Both firms shared the same president, A.F. Gault. David Morrice was vice president of Canadian Cottons. Gault's brother Robert, was a director of both companies.

The Anti-Combines Act was passed in Canada in 1889, but was not enforced, and made no impact on the cotton industry. In the U.S. similar legislation would have an effect, although there was a ten year gap before President Theodore Roosevelt pushed for enforcement.

The 1890s were a period of world business depression. Quebec was steadily losing manpower as Canadian millworkers drifted across the border to work in New England textile mills. In 1896 the economy in Canada, and the world in general turned upward, but not in cotton textile manufacturing. Textile prices briefly rallied in

1896, and then continued their fall. The problem of over-production in the textile industry was increased by the government tariff policy. In 1896, following his election victory, the new Liberal Prime Minister, Wilfred Laurier, responded to the Maritime and agrarian voters who had supported him by reducing the tariff on cotton goods. The low tariff policy was protested by the Canadian Manufacturers' Association. Laurier decided he had no desire to anger the Montreal business community, and set up a federal government commission, the Dominion Tariff Commission, to investigate the textile manufacturing situation. In May 1897 a new tariff was introduced, based on ad valorem rates ranging from 25% to 35% . The rates now favored Canadian textiles over imports. The beneficial effect of this was reduced the following year when the Laurier Liberals introduced the British Preferential Tariff in April 1898, providing that the customs rates on imports from the United Kingdom be reduced by 25%. The reasons for this preferential treatment were nationalistic. To be a Canadian at that time meant loyalty to the British Empire. The tariff meant that the main foreign competition in the Canadian market was British, and not American textiles.

While textile manufacturers blamed the tariff for the problems the Canadian industry was experiencing, the depressed trade in textiles was not only a Canadian problem. Galambos found that the U.S. textile industry was going through the same long cyclical downturn. "The depression which began in 1893 was even more severe, and the recovery this time was somewhat slower in textiles than in other manufacturing industries. As late as 1900 Fall River and other northern textile centres had yet to resume operating at full capacity."[17]

End of the Cartel and the Beginning of Price Competition, 1897

The informal cartel arrangments of the late nineteen hundreds were headed by the industry leaders, A.F. Gault, and David Morrice. In 1897 the men had a personal falling out. Gault seems to have precipitated it by deciding in late 1897, that Dominion Cotton would cease to engage David Morrice, Sons & Co. as their exclusive selling agent. Instead, Dominion Cotton created their own Selling Department which would sell only their own goods. David Morrice and his son, Gault's son-in-law, resigned their directorships with Dominion Cotton. In May 1898, Gault resigned as President of Canadian Cotton Co. and was succeeded by Morrice.

The break between these two magnates renewed cut-throat competition in the industry, still plagued with over-capacity. Only the strongest firms can enforce a strong cartel, so that if a smaller firm starts to go out from under the agreement the industry leaders can force them into line. When Dominion Cotton and Canadian Cotton were under the same management this was possible. But now that there were two strong firms, the informal cartel could no longer offer the industry some measure of stability. If, to gain an advantage over the other, one of the leaders started to undercut, the whole industry had to follow.

Gault tried to regain the lost advantage and renewed his efforts to control the price decline by forming yet another cartel. This time his partners were the Montreal Cotton Company, Montmorency Cotton and the Merchants Cotton Company. In addition to heading Dominion Cotton, Gault was also President of Montmorency and Montreal Cotton. By 1900 all these companies, and the Canadian cotton textile industry in general, were again facing over-production and stiff price competition. At their meetings, directors of the individual companies would exchange intelligence reports of rumors of price cutting their fellow cartel members.

The first victims of the severe competition were two of the small cotton mills in the Maritimes - Wm. Parks & Son, and the St. John Cotton Mill. Both failed in 1901.

The decline of Canadian cotton textiles in the 1890s was also linked to the declining protective tariff, as well as to over-capacity. In 1898 the Canadian government granted Britain a special British Preference, one-quarter lower than the general tariff. This was increased to one-third in 1900. The Canadian cotton mills were adversely affected. The woolen manufacturing industry was hit disastrously. British Preference was one way Canada acknowledged the high military costs Britain was incurring to defend its Empire.

The Early Period and the Chandler Hypothesis

It is worth noting (as a corporate history) that the formation of Dominion Cotton and Canadian Coloured Cotton was designed to create order and stability in a system and culture which was breaking down. The purpose was not new markets, but co-ordination to prevent competition, and to restore stability. The emphasis is not expansion or growth, as proposed by Rumelt and Chandler, but control over-production and price competition in what was in effect competitive battles between friends. The banks encouraged these mergers as well. Banks are hurt by failures, and the dominant "corporate culture" did not tolerate deviance. Since many of the cotton company directors were also directors of banks, the two groups were in sympathy and agreed on the solution of legal mergers.

Chandler notes that companies merged to form larger units in a search for markets. In this period in Canada, companies grew larger and were formed to protect markets. The impetus in the Canadian mergers was stability for the Montreal corporate culture. This contrasts with the drive for power to increase markets which is left unstated by Chandler. Chandler assumes an underlying power culture when he discusses U.S. developments. This assumption does not hold in Canada.

Canada has more often supported size to secure stability, rather than growth. This could happen because the companies were located in, or controlled out of Montreal. The geography of Canada meant that, with the support of the banks, prosperity through resource allocation is preferred to prosperity by market penetration.

This is a major difference in orientation between the reaction of the Canadian textile industry and banks, and Chandler's findings. The U.S. had unlimited resources. Therefore the growth emphasis was on marketing. Canada had limited resources, in terms of productive capacity and controlled markets, therefore resource allocations and control were preferred.

The Death of Gault Hastens the Industries' Decline, 1903

In 1903, A.F. Gault died, and with him went the era of a dominant personality superceding individual company boundaries to control an industry. As President of Dominion Cotton, Canadian Cotton, Montmorency Cotton, and Montreal Cotton, Gault had given a degree of unity to an industry which at a cursory look seemed fragmented, but which was in fact highly concentrated.

After his death, each of the companies elected different men as presidents. The degree of unity Gault gave informally, now had to be formally negotiated to make the cartel a legal corporate entity. Gault's death ended the period where one man could provide stability in an industry. The alternative selected to restore stability was an organic merger of separate companies. This organic merger became Dominion Textile. In 1905, the operations of Dominion Cotton, Merchants Cotton, Montmorency Cotton, and Colonial Printing and Bleaching were merged to form

Dominion Textile. The era of informal mergers headed by dominant personalities was over. Dominion Textile was a specific response to secure stability by means other than cartels.

Cartels, as opposed to holding companies, were never effective for very long in Canada. The formation of cartels was strongly dependent on a country's attitude toward them, as interpreted by its legal system. In Germany, cartels could be enforced, so that form was dominant, and holding companies did not develop. In Britain, common law came to accept the cartel, allowing this form of organization to dominate well into the twentieth century. But in Britain, the cartels divided along the specialized functions such as weaving and dyeing.

In the U.S., popular opinion favored free competition, and the courts reacted to this after 1900 by enforcing anti-trust legislation. While there was a pull toward cartelization in the U.S., this did not happen to the same extent as it did in Canada. There, the cotton industry was divided between the North and South, making it difficult to unify the industry. "If the industry had been concentrated exclusively in New England, as it had been fifty years before, these combines and the existing large companies would have provided the foundation for an oligopolistic industrial structure. But in cotton textiles the trend toward concentration was countered by a stronger force - the spread of cotton manufacturing to the South."[18]

In Canada there was no government opposition to the formation of cartels. While the courts did not enforce anti-trust legislation, neither did they enforce the cartel agreements made between companies. The firms needed to move to a holding form in order to legally insure compliance on pricing and production. The Canadian companies thus tended to merge to form larger and larger units, much larger than American textile companies were at that time. Because the Canadian companies were integrated operations they did not integrate along specialized functions as happened in Britain. Nor were there the forces present as in the U.S. that kept it fragmented. The Canadian textile industry reached a higher degree of concentration than did that of Britain and the U.S. because there were no structural or legal constraints to block this development. The corporate culture also supported this orientation, since the market was not growing, as in the U.S.A.

<u>The Protection of Self-Interest: Gault and Morrice</u>

The period 1872 to 1905 was one of dominant personalities rather than corporate effort. Two men in particular dominated the industry, David Morrice and Andrew F. Gault.

Morrice (see Appendix 4 - David Morrice) was a Highland Scot who gained business experience in Dublin, London, Manchester and Liverpool before emigrating to Canada. After gaining further experience in dry goods wholesaling in Toronto, he moved to Montreal in 1863, at the age of twenty-nine, and founded D. Morrice & Co. as a manufacturer's agent and dry goods commission house.

A dry goods commission house differed from a dry goods wholesaler. The commission house took the output of a mill on consignment. The agent used the goods to make bank loans, which he then used to pay the mills for the goods. This meant the mills did not need to be concerned with the selling function. The commission agent would advise the mill as to which goods were in demand. Unlike the American cotton commission agents, who usually did not take title to the goods[19], Morrice paid the mills for the goods, which he then moved to his warehouse until they were sold. He financed his payments to the mills through bank loans using the cotton goods as collateral.

Morrice entered the field as Commission Agent at an opportune time. When he established his business in 1863 there were only a handfull of cotton mills in Canada. In the 1870s and 1880s, the two decades when most cotton mills were established, he became the exclusive selling agent for most cotton and woolen mills in Ontario and the Maritimes as well as Quebec. This meant that Montreal was the centre of cotton textiles.

Morrice's location in Montreal was not only due to the concentration of textile mills around Montreal, but because it was the head office of the major banks, particularly the Bank of Montreal, then the largest bank in North America. Morrice's operation depended on a close association with the bank, since the bank loans made possible the transactions between the mills and Morrice.

Morrice's early prominence was also due to his providing financing for operating costs. The early mills subscribed only enough capital to get the mill into production. They did not have the extra capital to wait until their output was sold. Morrice took their output and in return gave them ready cash within a few months of beginning operations. He also saved them the expense of creating a Sales Department. In fact, sales departments in the early textile companies did not exist. Manufacturers sold exclusively to middlemen. Sales Departments were only introduced during the late 1890s.

The chain of trade went from the mills, to Morrice, the Commission Agent, to dry goods wholesalers, to jobbers, to retailers. The dry goods wholesalers were the dominant force on the boards of directors of the mills. They in turn sold to jobbers who travelled the country twice yearly, selling piece goods to the hundreds of small dry goods retailers across Canada. Morrice's operation meant he had only to maintain a head office in Montreal, and a branch in Toronto. The Board of Trade observed that the "travellers" or jobbers who visited retailers with their samples were "the best paid and most expensive employees of the house and his expenses and freight bill often exceed his high salary."[20]

Morrices's operation thus functioned as a one-man cartel, operating with the approval of the dry goods wholesalers. Since he controlled most of the Canadian output of cotton textiles, he could control the prices.

This Canadian solution to controlling prices in some ways resembled the German way of making a cartel work by having a single sales force. Then, since everybody in the cartel sold to the same person, they could not cheat.

Morrice had a monopoly on distribution of most of the output of Canadian cotton mills, and in this had the full support of the mill directors. Morrice served on many of the mill boards of directors.

Morrice's hegemony broke down at the onset of the Great Depression in 1883. Unable to sell all the ouput of the mills, he stockpiled the goods, financing the inventory through bank loans. When the price of cotton goods fell sharply his company was put under trusteeship.

Morrice's collapse meant the individual mills now faced each other in direct competition, a situation they did not want, particularly in a time of deflation when the prices were being cut. The directors of the mills showed forbearance with Morrice, trusting his well-known integrity to pay off his debts to them when he was able.

Morrice did restore his company's financial position within the year, but he never had the same power to regulate the distribution of Canadian-made cotton dry goods. New mills were formed, such as the Merchants Cotton Company, who specifically did not chose Morrice as their Selling Agent, in order to gain a competitive edge on the already established mills.

In the 1890s Morrice was dropped as Commission Agent by some mills who decided they could be more competitive by forming a Selling Department within their own company.

Morrice was still a dominate figure in the industry. The Board of Trade remarked that "younger Dry Good houses have a difficult time. A strong house able to pay cash for its goods, or able to lock its notes in its safe till they become due, can easily afford to undercut a house struggling from hand to mouth and having to discount every note the minute they receive it, and the consequence is the tendency of the dry goods trade is constantly towards concentration in the hands of larger houses who can afford to deal more leniently with their customers and offer them a larger selection to choose from."[21]

Morrice outlived Gault and took an active part in forming the syndicate that founded Dominion Textile. At the same time he was a founding director of Dominion Textile, he continued as President of that company's main rival, Canadian Cotton Co. As well, he was President of Penman's, Canada's largest woolen mill, and continued as President of his dry goods wholesaling and commission agent firm. In 1907, at the age of seventy-five, he was appointed a director of the Bank of Montreal.

In contemporary biographical sketches David Morrice quickly summed up his business activities by stating he was the Commission Agent for over forty cotton and woolen mills. The activities that are stressed in these accounts are his thirty years as the Sunday School Superintendent of the Crescent St. Church. He was an elder in the

Presbyterian Church. He had built the David Morrice Hall of the Presbyterian College of Montreal for McGill College. Sunday at the Morrice home on Redpath St. was a day of quiet and devotion, without secular reading matter or guests.

Morrice was President of the Montreal Art Association, predecessor of the Museum of Fine Arts. When a son James, after finishing a law degree at the University of Toronto still insisted on moving to Paris where he developed a reputation as an impressionist painter of some talent, it took him time to become reconciled. He was also a director of the Montreal Board of Trade, the Y.M.C.A., the General Hospital, the Sailor's Institute and the House of Refuge. These are an impressive, but not atypical list of community service organizations for a Montreal businessman of his time.

<u>Andrew Frederick Gault</u>

Andrew Frederick Gault (see Appendix 3 - Andrew F. Gault) was Anglo-Irish, born in 1833 in Strathbane, Ireland. He came to Montreal as a boy, and received the best education then available, at the Montreal High School. His parents died while he was still a boy and he was raised by his eldest brother Matthew (later to be a Member of Parliament and a founder of Sun Life Insurance Company). At the age of twenty-one Gault briefly formed a partnership with J.B. Stevenson in a dry goods wholesaling business. This was dissolved, and in 1856, at the age of twenty-three, he formed Gault Bros. & Co., with another brother, Robert, to deal in wholesale dry goods.

Gault first became involved in cotton manufacturing as a shareholder of a small number of shares in the Montreal Cotton Company. He must have been a man of enormous energy. Whatever he was involved in, Gault was the organizer - the animateur. Within a year of its founding he was on the board of Montreal Cotton; not because of his large investment, as was usually the case, but because the large investors, particularly Sir Hugh Allan, found his practical attention to getting things done made him valuable to the other directors, whose primary interest was in their own businesses. On Allan's death, Gault became Vice President of Montreal Cotton. J.K. Ward was President. Ward's main business interest was lumbering, despite the fact that he would later serve as President of the Merchants Cotton Company and the Magog Printing Co. . Gault on the other hand was becoming a "cotton man". He replaced Ward as President in 1876.

When the major investors in the V. Hudon Cotton Company sought an efficient manager to replace the President, Victor Hudon, they chose Gault. The following year he replaced Hudon as President of the Ste. Annes Spinning Co.

Gault was a leading figure in the drive by Canadian manufacturers to reduce competition among many small producers by forming cartels and later, mergers. As early as 1875 he formed the Dominion Commercial Travellers Association, a semi-cartel to bargain with the railroads in regulating trade conditions and rates.

In 1883, following the collapse of D. Morrice & Co. he organized the Canadian Manufacturers' Association, a cartel attempt to regulate cotton mill output and prices. These informal cartels could not be enforced by law, and failed.

Gault turned away from cartels and tried to form permanent mergers of cotton mills. The first merger, between V. Hudson and Ste. Annes Spinning, to form the Hochlaga Cotton Co. was easy to arrange, because he was president of both companies, and they had identical boards of directors.

Gault also performed the function of achieving concentrated buying. He set up amalgamated buying of raw cotton of the mills of which he was President. Gault bought cotton for Dominion Cotton, Montreal Cotton, Canadian Cotton, and Montmorency Cotton - firms which accounted for three-quarters of the total Canadian output. He did this through his office at Gault Bros., and was assisted by James Rogers the Secretary-Treasurer of Gault Bros.

In the early 1870s, when the cotton mills were first established, companies bought raw cotton bales by the car load from various agents in the U.S. South, both to test different grades of cotton, and because they lacked the capital to buy in bulk. By the late 1870s, all mills bought a year's supply, just after the cotton harvest. By acting as the buyer for the several mills of which he was President, A.F. Gault was able to reduce the cost of raw cotton.

Lazonick found the practice of buying a year in advance was widespread in the U.S., but not in Britain, where supplies were often purchased from middlemen for that week's scheduled orders. He also notes, "In effect such advance purchasing and warehousing of cotton was a form of vertical integration - over the course of the year it ensured a regular and consistent supply of the firm's crucial material"[22] In Canada, the raw cotton was paid for in regular installments throughout the year.

In controlling the purchase of raw cotton, Gault set a precedence that was to continue for fifty years, even after the formation of Dominion Textile. In the 1950s, the President and Vice President of Dominion Textile, Blair Daniels and Ryland Daniels were personally involved in buying cotton. Their fathers, Charles Gordon and Frank Daniels, who had considerable expertise in this area, had also found the cotton futures market an exciting part of the cotton business.

In addition to his textile interests, Gault was a direrctor of the Bank of Montreal, the City and District Savings Bank, the Liverpool, London and Globe Insurance Co., Manufacturers Insurance Co., the Havana Electric Railway System, the Trinidad Electric Light & Tramway Co., and the Sun Life Insurance Company, which his brother Matthew founded.

A.F. Gault endowed the Montreal Diocesan Theological College of McGill. He made his city home at one of Montreal's most charming Victorian developments, The Prince of Wales Terrace, later demolished by McGill University to build its management faculty block. Gault served on more than his share of community service organizations. He was Treasurer of the Synod of the Church of England, a Govenor of McGill College, Govenor of the Montreal General Hospital, Treasurer of the Robert Jones Convalescent Hospital, on the Committee of Management of the MacKay Institute for Deaf Mutes, Vice President of the House of Industry, on the Council and Board of Arbitration of the Montreal Board of Trade, Vice President of St. Andrew's Home and on the board of the Outdoor Relief group. He declined an offer of an unanimous return if he ran for Mayor of Montreal. Finally, he was the honorary founder of Dominion Textile.

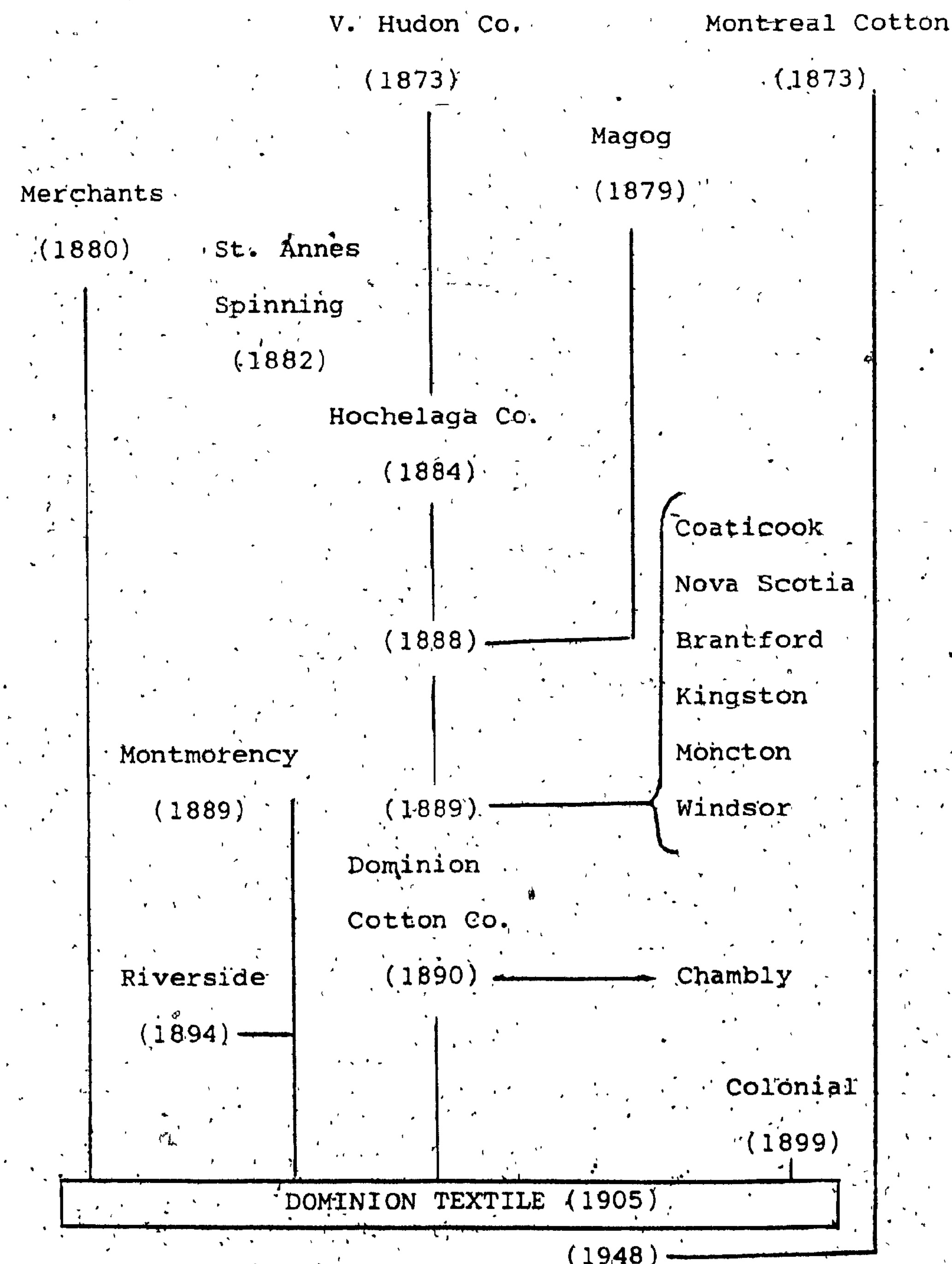
Both Gault and Morrice, the leading magnates of Canadian textiles had good reason to promote stability and to keep activities in their place. Morrice, the owner of a dry goods company, President of Canadian Cotton, director of Dominion Cotton, and Commission Agent for 40 cotton and woolen mills, and Gault, owner of Canada's largest dry goods firms, President of Dominion Cotton, Montreal Cotton, and Montmorency Cotton, were motivated to cooperate with their rivals rather than engage them in all-out competition for power in the market. Both men were involved in so many aspects of the business, not to mention their ties to the leading banks, that in was not in their interest to seek power through dominating the market and by direct competition.

The Predecessors of Dominion Textile

Dominion Textile became the major cotton company in Canada through a series of mergers and acquisitions covering 100 years. The remaining sections of this chapter discuss the strategies and structures of seven of these early companies: 2.2 The V. Hudon Company (1873 - 1885); 2.3 La Compagnie de Filature Ste. Anne (1882 - 1885); 2.4 Hochelaga Cotton Manufacturing Company (1885 - 1890); 2.5 Dominion Cotton Company (1890 - 1905); 2.6 Merchants Cotton Company (1880 - 1905); 2.7 Montmorency Cotton Company (1889 - 1905); and 2.8 Colonial Printing and Bleaching (1889 - 1905). Gault and Morrice would come to have a major influence on the development of all these companies. The following chart traces the series of amalgamations and mergers of companies that formed Dominion Textile in 1905.

EXHIBIT: 2 - 2

THE ANTECEDENTS OF DOMINION TEXTILE: 1873 - 1905



2. THE V. HUDON COTTON COMPANY: 1873 - 1885

The V. Hudon Company, founded in 1873, was the largest cotton manufacturing operation for its time in Canada. It would be the main enterprise into which other smaller companies were later merged to eventually form Dominion Textile. In 1885, after a merger with St. Annes Spinning it was renamed the Hochelaga Co., after the town in east end Montreal where its mills stood. By 1892 after several more mergers with smaller firms, the Hochelaga Co. mills formed the nucleus of the Dominion Cotton Co., then the largest textile operation in Canada. The Dominion Cotton Co. mills would in turn be the largest of the four cotton operations merged to form Dominion Textile in 1905.

A narrative of the important events in the evolution of the V. Hudon Co., to its eventual form as Dominion Textile Co. in 1905 cannot be regarded as a typical history of an early Canadian cotton company. Most of the early companies failed, and either ceased operations or were merged into larger operations, of which the largest was Dominion Textile.

In its several forms as the V. Hudon Co. (1873 - 85), the Hochelaga Co. (1885 - 92), Dominion Cotton (1890 - 1905) this company was the most successful of the more than fifty such operations established in Canada. The narrative of the environmental changes this company faced illustrate the environmental problems of the times. There are no impartial yardsticks to judge the appropriateness of a company's responses to the problems it faced, only the ultimate performance test of survival. This was the strain that survived, and is still the leading Canadian textile company. Because of its longevity, and its increasingly dominant position in the industry, the V. Hudon Company and its subsequent forms is the best company to examine to get a comprehensive picture of what problems managers faced, what strategic actions they took, and what inter- and intra-organizational forms they developed. In this company, like many others, decision-making was controlled by Andrew F. Gault, its President, assisted by David Morrice. These magnates involved the company in their series of informal, and later formal cartels, in an effort to stabilize the Canadian cotton textile industry.

Victor Hudon and His Cotton Company

The V. Hudon Cotton Manufacturing Company was founded by Victor Hudon a shipper and dry goods importer of Montreal. The company was built as an integrated operation, combining the three processes of spinning, weaving and finishing (bleaching and dyeing, but not printing.) The British-made machinery installed in the Hudon Mill included 70,000 spindles and 1,200 looms. Production concentrated on grey cloth, some of which was manufactured further to produce colored cottons.

V. Hudon is the only example of a cotton enterprise whose executive business was conducted in both French and English. For its first six years of operations the Minute Books were kept in French. Annual Meetings however were bilingual affairs. "The Directors Report for the past year was read in French by the President and in English by the Secretary." 23

Victor Hudon was not only President, but Managing Director as well, personally supervising the operation of the mill. This arrangement of combining both functions was unusual, and probably accounts for Victor Hudon's salary of $2,000. In the other cotton companies the President usually received $500, and turned the actual management of the mill(s) over to a salaried Mill Manager. Hudon was also the only director of any company who regularly presented his expenses to the board, for example, for his carriage, sleigh, and cab fares.

EXHIBIT: 2 - 3 V. HUDON COTTON CO.: 1875

Directors

President & Managing Director: V. Hudon

Secretary-Treasurer: M. Cinq-Mars

Mill Overseers

Mill Hands (Selling Agent: David Morrice)

The majority of the early shareholders of the company were French, but their individual holdings were small. The larger shareholders: J. Hodgson, D. Morrice, J.O. Gravel, J.K. Ward, J.P. Cleghorn, L.J. Forget, the

Hon. J.R. Thibaudeau, J.O. Villeneuve, C. Gareth and M.H. Gault and A.F. Gault, were also directors in several other Canadian cotton companies, as well as directors of companies in other industries.

A Change in Management, 1877

In 1877, these large shareholders insisted, over the objection of the President, Victor Hudon, that the mill operations be placed under a professional manager, W.T. Whitehead. As well, A.F. Gault who had recently been chosen Vice President of the Montreal Cotton Co. was appointed Vice President of V. Hudon Co. The titles of President and Vice President were corporate, not managerial titles. Victor Hudon's position was unusual in that, as President, he functioned as both a corporate executive and as a salaried manager. The only other salaried position, (other than Mill Manager) that of Secretary-Treasurer, continued to be held by M. Cinq Mars.

At the same time as William Whitehead was brought in as Mill Manager to relieve Victor Hudon, the control of the executive function was broadened to include an executive committee of A.F. Gault and Jacques Grenier, to advise and consult with the President. A committee of Hudon and Whitehead purchased raw cotton. These changes made the organization structure of the V. Hudon Co. similar to what had already evolved at The Montreal Cotton Company, where A.F. Gault had recently become President, and where several of the V. Hudon Co. directors also held directorships.

The David Morrice Co. continued as exclusive

Selling Agents. Morrice was not a director, but provided valued advice. When the telephone was introduced to Montreal in 1879, the directors called for tenders from the city's two telephone companies "to put telephones into the City Office of the Mill & also D. Morrice & Co."[24]

Morrice supported the change to a professional mill manager, as he told the shareholders that "the Selling of the Goods had been rendered easier by the improvement in the quality and appearance of these since Mr. Whitehead has taken the management of the Mill."[25]. At the same meeting Hudon observed that Whitehead "has attained the lowest cost of production yet attained in this Country."

Whitehead's management had made a difference. The yardage produced was increased to from 4,544,351 (1877) to 5,930,431 (1878), while the cost of manufacturing was reduced from $64,204 (1877) to $52,938 (1878). Profits were up to $76,563 (1878) from $50,161 (1877). A 10% dividend was paid.

Whitehead was generously rewarded. In June 1980 he was given $300 by the directors for a seaside vacation at Rye Beach, for a "greatly needed rest and Medical Treatment". In 1880, in addition to his $10,000 salary, he received a $3,000 bonus from the directors "in testimony of their appreciation of his able management."[26]

Effects of the National Policy, 1879

The directors reacted to the 1879 National Policy, which put a 25% tariff on textiles imported into Canada, by immediately calling a meeting to discuss extending the mill. The motion carried among the directors, but the President, Victor Hudon, dissented. Planning of the extension was put under the control of a committee, called Consulting Directors, who called for estimates. David Morrice was to request Mr. Bacon of Boston to come to Montreal to test the capacity of the mill's steam engine to see if the power would be sufficient for the increased requirements.

At a Special Shareholders Meeting the following month, the directors asked the shareholders' approval to expand the mill. In order not to interfere with dividend payments, the plan was to build a $30,000 extension that year, and buy the $100,000 of machinery to equip it when cash was available. The motion passed unanimously. Jacques Grenier urged that the full plans be carried out as soon as possible in view of the increased protection of Canadian-produced cotton. Sir Hugh Allan, a new shareholder, was also eager to expand promptly and told the shareholders that with the new tariff, larger profits could be expected. Both proposals were acted upon. Within the year the extension was built, equipped, and paid for out of profits.

After 1879, under the Protective Tariff, profits rose dramatically. In February 1880, the directors reported a net profit on operations of $111,516, based on a capital investment of $300,000. This left a balance of $153,627 in the Credit of Profit and Loss Account. The directors debated whether $100,000 of profits should be divided among shareholders, or whether one share to three held in stock should be issued and given to the shareholders. They decided, that in view of the high demand for cotton goods, they would give a stock bonus to shareholders, and use the added capitalization to further extend the mill. The vote on the issue was split, with Matthew and Andrew Gault, and Thibodeau voting against, and Grenier, Hodgson and Dubord for. The tie was broken by the President, Victor Hudon, who voted against extending the mill. A modest dividend of 10% was declared. Most of the year's profit not paid out as dividends was set aside in a "Surplus Fund".

No expense was spared on the company's annual picnic for the workers however. In grand Victorian fashion, a steamboat was rented to carry picnickers to Ile Grosbois in the St. Lawrence River, downstream from Montreal. Shareholders and members of the press were also invited. That year Whitehead was given a $10,000 bonus and Hudon's fee was increased to $3,000. None of the directors had received fees for their services, although as the major shareholders they had made a handsome profit on their investment.

In November 1880, as demand for Canadian-produced cotton goods continued to be heavy, the directors reversed their decision and decided to go ahead with further expansion of the mill. At the Annual General Meeting in February 1881 they announced to shareholders a stock bonus of 33 1/3%, to be paid in shares, one share to every three held. This would increase the "Capital Account" (i.e. the company's assets) to $403,333. William Whitehead went to England and purchased another 440 looms.

The company began to feel pressure from textile companies newly formed to take advantage of the tariff, who were seeking out their skilled workers. In the late 1870s they built several double cottages near the mill in Hochelaga to rent to workers. In 1881 the directors bought more land near the mill from Victor Hudon to build another 10 double dwellings, bringing the total of company houses to 46 double units. The housing tended to encourage employees to stay on at their jobs, and brought in a "fair return in rental."

Structural Changes to Manage Growth

By mid-1881, the Vice-President A.F. Gault's influence over the company was increasing, eroding the authority of the President, Victor Hudon. Gault was now president of the Montreal Cotton and the Stormont Cotton companies. He arranged for a committee to jointly buy cotton for the three companies, with Stormont represented by himself, Montreal Cotton by Morrice, and Hudon by Victor Hudon. In fact, W. T. Whitehead in consultation with Gault, purchased the cotton for all three companies.

The company's profits in 1881 were again extremely high. Even after $45,000 was deducted for "deterioration" (i.e. depreciation), $253,378 remained in the Profit and Loss Account. Only a 10% dividend was paid. The demand for Canadian made cotton created by the tariff could not be met by the existing production capacity. While new Canadian mills, in response to the Protective Tariff of 1879, were coming into production, they could not offer the quality and efficiency of the older Hudon Co. operation.

The directors, both English and French speaking, (who were also the owners of the largest number of shares,) decided to replace the founder Victor Hudon as President; with Andrew Gault. Since these men were also directors of the Montreal Cotton Company they had the opportunity to compare the management effectiveness of both men. Victor Hudon accepted his ouster with good grace, at least at first. Following the February 7, 1882 General Meeting, (probably as a result of pressure from the directors, most of whom supported a change in leadership,) Victor Hudon moved that A.F. Gault be nominated President, and Jacques Grenier, Vice President. A standing committee of Gault, Morrice, and Whitehead would look after "the ordinary affairs of the Company." Morrice was not a director, although he was often present at the meetings. Shortly afterward, the Secretary, F.C. Charbonneau, was replaced by the Treasurer, T.S. Ross, who now filled both jobs. To streamline the work of the mill, a mill office was to be built next to the mills. These changes gave the V. Hudon Co. the same men performing the same functions as the Montreal Cotton Co. Under A.F. Gault the presidency became a corporate title, and not a salaried managerial position.

Victor Hudon became bitter over the change. He called a board meeting for March 21, 1882 at which A.F. Gault was conspicuously absent. Hudon told the directors "that he had heard it stated on the street that he Mr. Gault had stated that the reason of he Mr. Hudon's retirement from the Presidency of the Company was on a/c of his having such a small interest in the Co. now, but he said his family represented about 200 shares of the stock of the Company no inconsiderable amount he thought he had been the originator of the Co. and had attended faithfully to his duties having had charge of all the office affairs & that he had only had a remuneration of $2,000 a year for 4 years & $3,000 a year for the last 3 years & he thought he had not been well treated by the Co. as other employees of the Co. had received acknowledgements of their services & considered his Services should be recognized."[27]

EXHIBIT: 2 - 4 V. HUDON COTTON CO. : 1882

Directors

President: A.F. Gault

Vice President: Jacques Grenier

Raw Cotton Purchases: Gault & Grenier Whitehead	Mill Manager: W. Whitehead	Secretary-Treasurer: T.S. Ross	Consulting Committee: Gault, & Morrice
	Mill Overseers		
	Mill Hands		

(Selling Agent: D. Morrice)

David Morrice proposed the request be deferred because two of the principal directors were not there - the Gault brothers. Thereafter Hudon did not attend directors' meetings. In a letter of September 18, 1882, he tendered his resignation from the company as a director "on account of ill health." The board accepted it. The secretary was instructed "to convey to Hudon the boards high opinion of him". At the same meeting, Morrice was appointed a director to replace Hudon. Victor Hudon had no further dealings with the cotton company which continued to bear his name.

The boom in cotton textile sales continued through 1882 as a result of the demand for the goods created by the tariff. While new mills were coming into production, they were not as cost efficient as the more experienced Hudon operation. After a dividend of 10% was paid, profits of $187,000 were added to the Profit and Loss Account which now stood at $431,467. Andrew Gault was awarded $4,000 for services, but nothing was paid to directors. The directors planned to apply to the government to increase the capital stock limit of the mill, from $600,000 to $2,000,000. The stock issue was soon fully subscribed.

The company's financial problem was what to do with the profits. "Whereas the profit actually earned by the said Company and not yet divided justify an allotment to the shareholders in paid up shares of Eight Hundred & Sixty Thousand ($866,000) by way of dividends out of the said profits." The $866,000 was allotted to the shareholders in the form of paid up shares, pro rata to the respective amounts of stock held by each of them. That is, the holder of three shares in 1881, would now hold 8 shares, the extra five coming as stock bonuses. This was in addition to the 10% dividend paid yearly. Furthermore, the no par value stocks which had originally sold for $100, had now fully doubled in value. While the company was capitalized at $600,000, an outside estimate valued the property at $1,500,000, not including 48 cottages valued at about $50,000. W.T. Whitehead was awarded a bonus of $15,000 that year for his part in this success.

The V. Hudon Co. was fortunate in that it was founded before the protective tariff of 1879 was placed on cotton goods imported into Canada. By 1879 its mills were operating efficiently. It was able to take advantage of the heavy demand for Canadian goods. The boom in the early 1880s meant the company was able to expand its capacity and still remain free of debt.

The company's success spawned competitors. The heavy demand for cotton goods fostered the formation of other cotton textile companies, including the Magog Cotton Co. (1879), the Merchants Co. (1880), and St. Annes Spinning (1882) - companies which would later be absorbed by the V. Hudon Co. and its decendents. These new companies took several years to become efficient producers, by which time (1883) there was over-production in the cotton textile industry. They in effect contributed to their own failure by their output. The newer companies remained hampered by debts. They had been planned when cotton goods sold for a good profit. These boom times were not repeated until the First World War.

The Panic of 1883

In early 1883 as a world wide depression was felt in Canada, the heavy demand for cotton textiles suddenly stopped, leading to disastrous results for the newly prosperous cotton textile industry. Gault called a special meeting of directors "in consequence of the heavy stocks of Manufacturing Goods on hand & the smallness of the sales for some time past & called on Mr. Morrice to give his views on the subject. Mr. Morrice having done so & after full discussion it was decided to leave it in his hands to do the best he could do under the circumstances."[28]

The situation worsened rapidly. In May 1883, at another special meeting, "the President said that this Meeting had been called to devise some means to dispose of the large stock of Manufactured Goods still held by the Company & after general discussion it was decided that Mr. Morrice go down & sound the Boston and New York Markets & report if anything could be done there in exporting out of the country."[29] But the U.S. market was also depressed, and the Canadians could not dump their surplus on it.

By July 1883 there was no operating capital left. Andrew Gault personally endorsed a note for $32,000 for expenses, particularly to over the mill hands' wages. In return, Gault asked the board to set aside that value in goods in bond to guarantee the endorsement. By August, Gault and Morrice called a "Meeting of Cotton Men in this city," at which the Canadian Cotton Manufacturers' Association was formed. Throughout the summer the directors were dipping into their own funds to keep the company in operation. Morrice deposited money at the Bank of Montreal to meet a draft. Jacques Grenier the Vice President (and also mayor of Montreal), did the same at the People's Bank, of which he was President. In October Morrice again settled claims against the company with a note for $143,000 placed with the Bank of Montreal. In late October, the D. Morrice & Co. was on the verge of bankruptcy, and was put into trusteeship. Morrice could no longer function as the company's Selling Agent, nor could he pay the company for the large inventory of goods he had taken possession of and which were now being held by the Court.

Gault and Whitehead decided to close the mill, first on Saturdays, and then later for three days a week. They personally paid for the raw cotton and workers' wages for several months. An allotment of cotton and goods valued at $100,000 was put in a warehouse, and the Bank of Montreal was given title, in order to cover further advances by the bank. Finally the mill was shut down for the month of November 1883 "to reduce stock & to maintain regular prices."[30]

The directors' 1884 report to shareholders was a very different story from the previous year. Gault remarked on the world recession, in which "both in England & the U.S., profits in Cotton Manufacturing have been very small, often losses."[31] For the first time since 1876 no dividend would be paid: Payments were made to Gault ($4,000), the directors ($6,000) and a bonus of $6,000 to Whitehead. The value of the stock, which originally sold at $100, was down to $135, from over $200 the year before. The minutes that year did not list the sums in the Profit & Loss Account, sales figures or profit, but mention that these figures were read to shareholders. It was never Gault's habit to advertise bad news, if possible.

(Gault's habit of leaving losses out of the records means a researcher cannot consistently report on the financial results of the several companies of which he was President.)

Despite Morrice's financial problems, the directors treated him with kindness and forbearance. Although his business was in trusteeship, the directors still sought out Morrice's advice. This confidence in Morrice was conveyed to the shareholders, and thus to the business community. Gault announced: "It was decided that Mr. Morrice be requested to attend a Committee Meeting as soon as he recovers from his illness to arrange matters with him regarding the selling of the Goods."[32] Later the directors passed a resolution stating that "the Board is in sympathy with Mr. Morrice & his troubles & wish that his future might be prosperous."[33]

Morrice was discharged from the fourth installment of a loan to the company for $44,000, maturing in November. The directors agreed, that as a gentleman, Morrice would undoubtedly repay the full amount when he was able. This delay in repaying the debt was still inadequate. "Through the shrinkage in values of stocks and from other causes it was found necessary for them [D. Morrice & Sons Co.] to seek further indulgence."34

The collapse of Morrice's company removed the main stabilizing influence on the cotton trade in Canada. As the Commission Agent for most cotton mills, Morrice had acted as an informal cartel, controlling the selling price and the quantity of goods sold. The newer companies coming into production, such as Merchants Cotton (1880) were breaking the pattern by chosing their own, exclusive agents, thus increasing competition.

The directors began to try unusual measures to sell their goods. An assortment of 25 bales of goods was shipped on consignment to England to see if it was possible to dump goods on an export market. The company decided to follow a policy of diversifying the product line as much as possible by introducing several new line of goods.

The cotton industry faced the problem of over-production and price-cutting. Yet the individual companies were still producing large quantities of goods that could not be sold. The V. Hudon Co. was fortunate in that it was one of the few operations with bleaching and dyeing works for finishing greiges, and was not limited only to selling greige.

Andrew Gault was now President of three cotton manufacturing companies - V. Hudon, St. Annes, and Montreal Cotton. He worked out agreements among these companies to cut-back on production. Gault next sought to make informal agreements with rival mills in an effort to lower their total production. Meetings were held with Paine, the mill manager of the Merchants Cotton Co. to reduce the production of bleached goods which both companies produced. The agreement failed because Merchants Cotton wanted a complete shutdown, whereas Gault did not think that was necessary. Gault did work out an arrangement to supply cloth for printing with the Magog Print and Textile Company, the only printing mill in Canada.

The Dominion Cotton Manufacturers' Association, 1883

Since informal agreements could not be reached, and with David Morrice ill and near bankruptcy, unable to exert his former influence, Gault turned to a formal way of uniting the cotton companies to act on their common problem. Through Gault's efforts, the Dominion Cotton Manufacturers' Association was formed, in September 1883. The informal cartel of channeling goods through David Morrice had failed. This formal cartel composed of two-thirds of the cotton companies, required that members post a bond, which would be forfeited if a member reneged and sold goods below the agreed upon price. The government also moved to help the cotton manufacturing industry by raising the tariff on imported cotton goods. By 1884, the cotton trade had revived in Canada. The Dominion Cotton Manufacturers' Association continued to meet to set price and credit terms. The industry was again stabilized.

The cartel only worked by mutual agreement. The only company which the V. Hudon Company could directly influence was St. Annes Spinning. In late 1884 the directors of the two companies recommended amalgamation to the shareholders of the two companies. A legal union would give both companies greater power in regulating out put and prices, and thus give both greater stability. Approval was granted by Shareholders at the Annual General meeting in February, 1885. The new company was named the Hochelaga Cotton Company, after the Montreal district where the mills were located.

2.3 LA COMPAGNIE DE FILATURE STE. ANNE : 1882 - 1885

La Compagnie de Filature Ste. Anne had a short, three year, existence as an independent company. The plant itself however, soon known as St. Annes, had a 101 year history, mostly under Dominion Textile, and was not closed until 1983.

The company was formed in the boom period of the cotton textile industry that followed the Protective Tariff of 1879. A year later, as the mill was coming into production, cotton prices collapsed because of a world-wide depression and over-production in Canada. St. Annes was the first of the mergers in the Canadian cotton industry because of the unfortunate timing of its establishment.

Founding St. Anne's

Victor Hudon had been ousted as President of the V. Hudon Cotton Co., the firm he had founded, in February

1882, by directors who wanted the more efficient management of Andrew Gault. By late March, along with Louis Forget, a young Montreal financier, Hudon had organized St. Annes.

The town of Hochelaga, eager for another mill, awarded the new company a large bonus, and tax free status for twenty years. St. Annes initial capital stock of $300,000 made it a much smaller operation than the V. Hudon Company. The new mill would specialize in the production of greige (unfinished grey cloth).

The projected mill easily attracted new investors because in 1882 the demand for Canadian-produced cotton textiles was at its peak. For the most part the stock subscribers were French-Canadian, and included a few men who had previously invested in textiles - D.P. Beattie, J.O. Villeneuve, and J.O. Gravel. Hudon was elected President, Villeneuve, Vice President, and A. Cinq Mars, formerly at V. Hudon Co., the Secretary-Treasurer. A Committee of Hudon, Villeneuve and Beattie acted as the company's executive.

Andrew Gault Becomes President

Within six weeks, planning for the new mill was at a standstill. All that had been done was to purchase of several lots near the V. Hudon Co. mill from Victor Hudon for $23,485.26. In August 1882, there was a shareholders' ouster of Victor Hudon, similar to the one that had occured at the V. Hudon Co. Hudon again resigned as President and was succeeded by A.F. Gault. L.J. Forget, and L.A. Senecal resigned as directors. S.H. Ewing and David Morrice replaced them. J.O. Villeneuve continued as Vice President. Hudon went on to found the wholesale grocery firm of Hudon, Hebert & Co. .

Both Gault and Morrice held only 20 shares in the company, the minimum requirement according to the By-Laws for a director. William Whitehead, the General Manager of V. Hudon Co. was one of the largest shareholders, with 219 shares.

Minutes which previously had been kept in French, were now recorded only in English. The company was now referred to as St. Annes Spinning Co.

Gault told the directors that "in spite of what appeared in the Star, this company will run independently, the only difference being that Mr. Whitehead will have the management of both mills." [35] But there were other "differences" that meant that St. Annes and V. Hudon were run co-operatively, not competitively. Both mills were run by Working Committees composed of the same men - Andrew Gault, William Whitehead, and David Morrice. Morrice acted as Selling Agent for both companies. An independent telephone line was installed between the two mills.

The new board began planning the building and machinery, for only the land had been purchased by the previous board. The directors felt they did not have enough money to complete the mill, and so increased the company's capitalization to $500,000 and also issued bonds for $150,000. David Morrice handled these financial matters.

The mill had been planned at the peak of the cotton boom in 1882. It was build in 1883. When the mill began production in January 1884, the demand for cotton goods had dropped away.

At the First Annual Meeting of St. Annes in 1884, A.F. Gault had only dismal news to report. The depressed state of the cotton trade had reduced the price for goods. The established mills already supplied more goods than the market demanded, making it difficult to sell the goods of the new firm. Operations at St. Annes were suspended for November 1883, as part of a joint agreement with the Hudon, Merchants, and Montreal Cotton companies. Only a few shares of the new $200,000 capital stock issue had been sold.

Merger With V. Hudon Co.

In September, Gault "reported that the Committee met to consider the question of amalgamating the St. Anne Spinning Co. with the V. Hudon Cotton Mills Co. & that VHC offered to take the responsibility of the bonds & to give one share of the VHC Mills Co. for two shares of the St. Anne Spinning Co. which the Committee decided to accept."[36] It is not surprising the agreement was easily arrived at. The Working Committees of both companies consisted of the same people, Andrew Gault, David Morrice and William Whitehead.

In late 1883, Gault had suggested the legal amalgamation of V. Hudon Co., to Merchants and to Montreal Cotton as well. The merger of St. Annes and V. Hudon in 1884 was the first in a series of three mergers over twenty years that would result in the formation of Dominion

Textile. Even at this early date, Gault recommended stabilizing the industry through corporate mergers; rather than relying on informal cartel agreements. The competing companies could not agree on the price to be set on their mills, and nothing was done. Merchants would be part of the eventual merger of Dominion Textile in 1905. Montreal Cotton was acquired by Dominion Textile in 1948.

At the Second Annual Meeting, in February 1885, Gault read a litany of problems. The long depression in the cotton trade resulted in very low prices. Rather than dispose of goods below production costs, production and sales had been restricted. The market demand was shifting to finished goods, whereas St. Annes produced only grey cloth. Not much more than 50% of the looms had been in operation that year. Some directors had visited all the mills producing grey cloth in the country with the hope of securing an agreement to limit the production, but had been unsuccessful. The board therefore recommended amalgamation with the V. Hudon Company. The shareholders agreed. The Bill of Amalgamation was passed by the Quebec legislature on May 26, 1885, merging St. Annes with the V. Hudon Company, to form the Hochelaga Cotton Company.

2.4 HOCHELAGA COTTON MANUFACTURING CO.: 1885 - 1890

The merger of V. Hudon Co. and St. Annes Spinning had been precipitated by the panic in 1883 in the Canadian textile trade. A.F. Gault, the organizer of the merger, saw the advantage of legal mergers rather than informal arrangements. Mergers gave greater size, which allowed decisions on production levels to be made internally rather than through agreements which were disregarded during difficult times. Gault was unable to pursuade other companies that this course could lead to industry stability. Merchants Cotton and Montreal Cotton refused to join the merger, unable to accept the valuation Gault placed on their assets.

The board of the new Hochelaga company reflected the entrenched position which Andrew Gault, the President, had on the company. Among the directors were his brothers, Matthew and Robert Gault, and other long-time allies in textiles - Jacques Grenier, Samuel H. Ewing, David Morrice, Jacques O. Villeneuve, and William J. Whitehead. David Morrice was not a director. Throughout 1886 and 1887 he was gradually paying back his indebtedness to the company. A.F. Gault was the largest single shareholder in the company with 1,035 shares in 1885. By 1890, when Hochelaga was merged into Dominion Cotton, his ownership had risen to 1,751 out of a total of 11,615 shares. His brother R.L. Gault (447), and brother-in-law Sam Finley (469) also had large holdings, while other Gaults held smaller amounts.

By the time the merger of V. Hudon and St. Annes was effected in mid-1885, the demand for cotton goods was slowly beginning to rise. The greater portion of inventory had been sold off at distress prices, and new orders were increasing. By the First Annual Meeting, in February 1886, Gault reported that "the prospects for the cotton manufacturing industry had improved and brightened considerably during the year." Both mills, with a combined capacity of 1,800 looms, had been kept running to nearly full capacity and goods were sold "at prices which although not altogether satisfactory were fairly remunerative."[37] A dividend of 6% was paid from profits.

Opening the China Trade

The directors' response to better times was to order more looms and bleaching equipment to expand the output both "to meet the demands of trade & to diversify production as much as possible."[38] In 1885 the government-financed transcontinental Canadian Pacific Railway line was completed to Vancouver, opening up the possibility of trade between Canada and the Orient. In 1888 Gault and Morrice travelled to New York and were able to sell 2,500 bales of cloth for shipment to Shanghai, China. This experiment was successful and led to opening a regular trade with China, through Vancouver. At this time Gault is believed to have financed the trip of the teen-aged Charlie Whitehead, the son of the Mill Manager, William Whitehead, to China to investigate further sales.

China proved a ready market in which excess Canadian production could be profitably sold. As Gault reported: "During the early part of last year a trade was opened up with China which has proved of great advantage, assisting us during dull seasons to keep Machinery running which otherwise might be standing idle. On the whole the profit from this trade has been found more satisfactory than at first anticipated."[39]

Gault took steps to guard against a recurrence of the depression of 1883 as President of the Dominion Cotton Manufacturers' Association, which would meet to set prices on cotton goods. Gault also held regular meetings with representatives of the Merchants Cotton Co. to determine the number of looms each mill would run. In the mid-1880s, a period of steady demand for textiles, this informal cartel worked satisfactorily. The arrangements gave the industry, which now had excess production capacity, stability.

In January 1888, W.J. Whitehead died at the age of 46. Although a eulogy was always made on the death of a director, the directors were clearly distressed by Whitehead's death. Several directors spoke of Whitehead, including Gault, who said: "The loss to the Company is irreparable. The interests of the institution were constantly in his mind, and under his care and superintendence the Company greatly prospered. He was keenly alive to everything that affected the interests of the Company, no labour was too great, no undertaking too trying, so long as the interests of the Company were or could be promoted. As a Board we shall sadly miss his genial presence at our Meetings, as well as his great experience and advice. This Board would tender to his family their heartfelt sympathy at their bereavement and it is hereby resolved that a copy of the foregoing resolution be sent to Mrs. Whitehead."[40] Mrs. Whitehead was also given a stock bonus of 50 shares worth over $5,000.

Later, the shareholders as well took the unusual step of recording their sorrow at the death of W.J. Whitehead. "We the shareholders of the Hochelaga Cotton Mfg. Co. desire to place on record our deep sense of the loss of our esteemed Manager Mr. W.J. Whitehead, and while many of us mourn for him as a personal friend, we take this opportunity, being our first meeting since the sad event, of tendering our sympathy to his bereaved Widow and Family and that the Secretary be instructed to furnish them with a copy of this resolution, carried."[41]

James Jackson, an American, was appointed Mill Manager, with a salary of $3,600, a third of what Whitehead had received.

Forward Integration Into Printing

In March 1889, Gault heard that the Magog Textile & Print Company, Magog, Quebec, was for sale. He visited the mill with Morrice and Jackson and was favourably impressed with both the mill and machinery. Gault then called a Special General Meeting where he recommended the mill be purchased. The Magog company, which was the only Canadian cotton textile company to specialize in printing, although it also operated 350 looms, was the single largest customer of Hochelaga. The acquisition was thus a forward integration into a finishing process. Specialized mills such as Magog were not successful in Canada because they did not have the flexibility to ride the cyclical demand for different cotton lines. By controlling the major print works in the country, Hochelaga would now have an advantage over its competitors.

Upon acquiring Magog, Gault used $100,000 in profits from the two Hochelaga mills to buy additional finishing machinery from England. The additions gave the Magog print works the capacity to keep the output of 1,000 Hochelaga looms busy.

Hochelaga extended its administrative control over Magog by appointing Jackson, already manager of the two Hochelaga mills, its mill manager. W.T. Whitehead, a son of the late W.J. Whitehead, who was appointed financial assistant to the secretary-treasurer of the company after his father's death, was moved to the Magog Branch to represent the financial interests of the company.

The 1890 Merger

In 1890, Gault reported to the directors that during the past twelve months he had "been frequently approached by parties representing themselves to be agents for English Syndicates who were prepared to buy up all the cotton industries in the Country and that within the last few weeks he had been approached by some New York agents who were anxious to take up the matter of buying up all the mills."[42] Gault and Morrice travelled to New York to meet with that syndicate. The American group planned only to operate the mills which were dividend paying concerns, and to close those which were not. Gault proposed to the directors that he sail immediatly for London to see what could be done about disposing of the Hochelaga property to

English interests, who also proposed closing down the unprofitable mills. The directors voted to place all property in Gault's hands. They recomended $3,000,000 as the selling price. The directors agreed to take 1/3rd stock in the new company to be formed.

On his return Gault, gave a short account of his "mission to London with a view of forming a syndicate to buy up all the Canadian Mills which although not successful at the moment could in his opinion be worked up later on. He advised the Board that an effort should be made by this company to acquire as many of the Grey Cotton Mills as could be got at moderate prices with the view to place the whole on the English market at a later period."[43]

The interest of the American and English syndicates seems to have acted as a catalyst on Gault, given him the impetus to carry out a scheme he had long been thinking about. "For a long time past the Directors of this Company have foreseen the great advantage that must arise from the control of all the Grey Mills being under one central management, and it seemed to them that the time had arrived to carry out a scheme which had been present in their minds for some time past, after frequent discussions of all the advantages that would accrue by occuring [sic] as many of the Mills as possible it was resolved that it would be advisable to have the controlling power central in the Hochelaga Cotton Co. ... We feel very confident that what has been done will greatly improve and increase largely the earning powers of the new Company and we consider that we have acted wisely in the interests of the Shareholders of this Company in occuring the control of what under the well known managment that has always been characteristic of this Company must lead to an immense success."44

Gault and Morrice saw the advantage of having the ownership of smaller, failing mills and of keeping them in operation if there were English interests prepared to buy them. While the English syndicate acted as a catalyst to the first large scale merger of Canadian cotton mills, no further mention is made of that syndicate in the company Minute Books. Thus the impetus behind the mergers of the early 1890s was foreign interest, from both the U.S. and U.K., in consolidating the Canadian cotton mills in order to stabilize, in effect "cartelize", the industry. This foreign interest came to nothing, but the Canadians, under Gault, still acted upon the idea, because of the benefits to be had in stabilizing the industry.

In order to carry out this strategy of buying up failing mills, the company first raised $225,000 by selling capital stock to shareholders in the ratio of one share to five already held.

As head of the Dominion Cotton Manufacturers' Association, Gault was familiar with all Canadian textile mills. Still, he and Morrice must have had a busy month of August 1890, for by mid-September he called a Special Shareholders' Meeting, and presented his shopping list of seven grey mills:

Name of Mill	Location	Number of Spindles	Looms	Original Cost	Price Wanted
Nova Scotia	Halifax	18,000	390	$390,000	$250,000
Coaticooke	Quebec	2,000	251	$203,000	$120,000
Craven	Brantford	9,350	250	$250,000	$150,000
Parks	St. Johns	12,500	299	$355,000	$150,000
Chambly	Quebec	6,0	149	$140,000	$ 60,000
Moncton	N.B.	1368	241	$267,000	$140,000
Windsor	N.S	0,680	274	$215,000	$130,000
		90,578	2150	$2,030,000	$1,150,000

[45]

As the new company would operate in four provinces, a federal charter, in place of the existing Quebec charter, would be needed. The company would also need to be recapitalized from $2,000,000 to $4,000,000, making it the largest manufacturing company in Canada. Gault had already proposed the matter to the banks: "We think the time is now ripe for action and we have laid the scheme before our Bankers and I think I may say we have their unqualified support".[46] David Morrice reported that the seven mills could be worked at a profit of $398,466.

The Shareholders assented. By October 28, 1890 Gault reported to the directors, that he and Morrice had visited all the mills "at prices which they considered highly satisfactory." Gault could not reach agreement with Parks & Sons, but was able to buy instead another grey mill at Kingston, Ontario.

The new company received its federal charter as The Dominion Cotton Mills Company (Limited) with a capital limit of $5,000,000. Shareholders of Hochelaga were issued pro rata shares in Dominion.

Gault had correctly it appears ascribed the success of Hochelaga to its management skills. Hochelaga had expanded until it was the largest single producer. It widened its product line, making its reactions to changing market demands more flexible than the small, narrow line producers. If one factor can be singled out is it must be the skill with which W. J. Whitehead, the Mill Manager, operated the manufacturing operation. He managed to keep production costs lower, while maintaining quality, than did other mill managers. Hochelaga, really V. Hudon Co., was the first large scale operation in Canadian cotton textiles. The company used the extremely high profits of the early 1880s to pay for its expansion, rather than incur debts to finance expansion as the later mills did. When the depression of 1883 came, it did not have heavy bank loans to pay.

Finally, the credit goes to Andrew Gault who knew more about the business of textiles than anyone in Canada. Gault was ready to expand into new lines and explore new markets and generally provide leadership for the industry. Gault was now known as "The Cotton King of Canada".

2.5 DOMINION COTTON COMPANY: 1890- 1905

The formation of Dominion Cotton Co. in 1890 was part of a wide-scale reorganization of the Canadian cotton textile industry, led by Andrew Gault and David Morrice. After the panic of 1883, Gault realized the industry could become more stable if the cotton industry structure could be changed from small firms competing in many product lines, to larger, fully-integrated operations. Gault had only been able to merge the Hudon and St. Annes companies, the two mills where his influence was strongest.

The merger wave of the early 1890s may have been stimulated by interest of foreign syndicates who investigated buying all the mills and then closing the less efficient. The idea behind the scheme was not new. While the textile trade had improved after 1883, it was clear to Gault that further rationalization was needed.

In the late 1880s, the larger mills such as Hochelaga, Montreal Cotton and Merchants Cotton were producing satisfactory returns, but smaller operations particularly those in areas outside the Montreal hub were close to bankruptcy. Gault and Morrice were able to buy these smaller, outlying operations, but could not persuade Merchants, or Montreal Cotton to join them in a merger.

In the early 1890s, Gault and Morrice added to the stability of the textile industry by absorbing a dozen small operations into large companies. Seven small greige mills, located mainly in the Maritimes, were joined to the

Hochelaga Co. in 1890 to form the Dominion Cotton Co. In 1892, six integrated mills specializing in producing colored cottons, located mainly in Ontario, were merged to form Canadian Coloured Cottons.

In the 1890 to 1905 period, the three largest Canadian textile companies in order of size were Dominion Cotton, Canadian Coloured Cotton, and Montreal Cotton. Andrew F. Gault was President of all three companies. Thus in this period there were not only the formal cartels of the newly merged companies, but the informal co-ordination Gault exerted.

The new industry pattern was successful for the first half of the 1890s. The new Laurier Liberal government upset the industry by lowering the Protective Tariff on imported cotton. The Canadian companies faced cheaper foreign imports. Competition became sharper in Canada as the domestic producers now had more facilities than were needed to produce for their smaller market. The industry was also weakened by a falling out between Gault and Morrice, the two magnates who dominated cotton manufacturing in Canada. In 1897, Gault dropped the D. Morrice & Sons Co. as Selling Agents for Dominion Cotton. Also in that year, Gault resigned as President of Canadian Coloured Cottons and was replaced by Morrice, thus eliminating the stabilizing effect of their co-operation. The cotton textile industry became even more price competitive.

The first meeting of Dominion Cotton, the direct predecessor of Dominion Textile (1905) was held at the president A. F. Gault's office in the Gault Bros. headquarters, a richly ornamented Victorian building at 21 St. Helen St. in Montreal. The directors were either relatives of Gault, or close business associates of long standing: Jacques Grenier, Vice President, Mayor of Montreal and merchant; David Morrice, Sr., commission merchant; Samuel H. Ewing, manufacturer; Robert L. Gault, merchant; Joseph O. Villeneuve, alderman and merchant; and Charles E. Gault, insurance agent and stockbroker. The first business was to pass a By-Law to authorize the purchase of the assets of: The Hochelaga Cotton Manufacturing Co., based on an evalutation made by Owen & Greenwood; and The Coaticook Cotton Co.; The Nova Scotia Cotton Manufacturing Co., Halifax, N.S.; The Craven Cotton Manufacturing Co., Brantford, Ont.; The Kingston Cotton Manuf. Co. Ltd, Kingston, Ontario; The Moncton Cotton Manuf. Co., Moncton, N.B.; and The Windsor Cotton Manuf. Co., Windsor, N.S.; "as per agreement entered into between them respectively and Messrs Andrew F. Gault and David Morrice and filed of record with this Company. Carried unanimously."[47]

Integrating the Merged Companies

A Special Shareholders' Meeting was needed on January 12, 1891 to authorize the company's pledge to the Bank of Montreal for $700,000 of bonds. Stock was increased by $250,000 and offered to the shareholders pro rata, one to every six held in their name.

By the First Annual General Meeting, held at the Notre Dame Street office of the Hochelaga Branch, Gault reported that "everything has merged into the new Company and all the necessary changes made without any interruption or unpleasantness of any kind." The nine separate mills, with the exception of Chambly, which had been closed when it was purchased, were in full operation, and Chambly would be within the month.

The nine mills, all formerly separate companies, were now called branches. Seven branches produced only grey cloth. The two exceptions were the Hochelaga Branch which also had a bleachery integrated into the operation, and the Magog Branch which was now designated specifically as the print mill for the other eight mills.

Jackson, formerly manager of the three Hochelaga mills was now mill manager of all nine mills. Gault reported that Jackson's "work during the last Year has been one of no ordinary magnitude and to his good management and sound judgement we consider we are largely indebted for the present prosperous condition of the company." [48] Jackson worked closely with the Consulting Committee, which met fortnightly, of A.F. Gault, R.L. Gault, Grenier, and Morrice who was termed ex officio. This committee, but actually A.F. Gault, purchased all raw cotton for all mills. Morrice was the exclusive Selling Agent. For the first time the positions of Secretary and Treasurer were separate.

EXHIBIT 2 - 5 THE DOMINION COTTON COMPANY: 1894

Board of Directors (9)

President - A.F. Gault

Vice President (D)

Secretary-Treasurer

C.E. Hanna — Consulting Committee

Mill Auditors (Pres., V.P. a Director, Commission Agent)

Plimsoll Finley

Purchasing Committee (with Merchants, Montmorency, Colonial & Montreal Cotton)

General Manager

- Mill Manager- Kingston (1) Cotton)
- Mill Manager- Brantford (2)
- Mill Manager — Hochelaga (3)
  — St. Annes (4)
- Mill Manager- Magog (5)
- Mill Manager- Coaticook (6)
- Mill Manager- Moncton (7)
- Mill Manager — Halifax (8)
  — Windsor (9)
- Mill Manager- Chambly (10)

Commission Agent

Jobbers

Production Committee (with Stormont & Montreal

(D) = Director

Jackson remained manager of the Hochelaga mill, in addition to his tours of inspection of all the mills. Each mill outside Montreal was headed by a Superintendent who was assisted by a mill Clerk. The treasurer of the company also travelled to the mills three times a year to inspect the accounts.

The merger worked well in the stable economic climate of the 1890s. Gault could report that "the promise is fully realized. The various mills are now all working together under one control and each contributing its quota to the welfare of all concerned instead of as formerly each Mill fighting a life and death struggle for existence."[49] Prices had not been increased. All mills were kept in full operation, although there was still over-production of some lines, especially grey cottons, amounting to about 500 looms in excess to supply the Canadian market of the company's 4,300 looms. The company had found a market in China for the excess.

The company now employed 3,200 hands, and paid $748,438 annually in wages, an average of about $234 per worker per year. Gault, as President, received $10,000, and as well as dividend payments of over double that amount. He was given $15,000 to distribute to "those who assisted in formation of Co.". Jackson, the Mill Manager, was paid $10,000; Ross, the Secretary $3,000, and Shannon the Treasurer $2,000. W. T. Whitehead, a son of W. J., Mill Manager of the company's second largest mill was paid $3,000. Jackson and Shannon lived in houses owned by the company.

Gault continued his cartelization efforts. In July 1892, a three year notarial agreement was signed with the Montmorency Cotton Co., to market goods in Canada for that company. Dominion also defrayed part of the costs of the Montmorency Mill Manager, Charlie Whitehead, a son of W.J.

Whitehead, on a trip to China seeking orders for grey cloth.

The results of the early 1890s allowed the company to pay steady dividends, 10% in 1891, 9% in 1892, and 8% in 1893. The company was able, through internal financing, to begin a program of improving the mills "whereby the production can be increased and the cost of manufacture reduced."[50] The Old Mill, or Mill No. 1, at Hochelaga, was completely re-equipped with new looms, spinning machinery and bleaching equipment. The results, as shown by production figures, were remarkable successful. Production, measured in yards of cloth, rose from 8,000,000 in 1892 to 12,000,000 in 1893.

<u>Effects of the Lowering of the Cotton Tariff</u>

In 1893 debate began in the federal parliament to lower the tariff on textiles. These discussions alarmed the shareholders of Dominion Cotton. Gault reassured them that the debate for reducing the tariff "has no doubt been viewed by many of our shareholders with some apprehension but we have reason to believe that the good sense of the People of the Country will not allow any action endangering the prosperity of an industry which has done so much for the General Welfare of the Dominion. ... This Company will always be in a position to earn a quite respectable dividend."[51] But this was not the case. In anticipation of the lower tariff jobbers held back on orders, and sales began to decline. In 1894, the company cut back on production. The dividend in 1894 dropped to 6%.

The lowered tariff coincided with overproduction in the U.S. and England as well. For the first time, the directors of Dominion began to see their competitors as not just Canadian producers, but international textile producers. They began to follow the almost daily reduction in price lists in the U.S. and "had to make frequent concession in prices to meet competition & certain amt of closing down."[52].

In 1895 the company's bond issue expired. The Canadian bond market was depressed. David Morrice travelled to England to place the $1.5 million in new bonds on the London market.

The composition of the board was stable. A. F. Gault's brother Robert died in November 1895. Gault "felt the board needed some younger men and suggested David Morrice, Jr.," his father's partner, and Gault's son-in-law.

Creation of the Selling Department

The demand for cotton goods continued to decline through 1896 and 1897. In September 1897, Gault made two bold moves to try to stop the slow decline of the company - adding an internal selling function, and changing the Mill Manager. Gault later described these actions to the shareholders. "The year through which we have just passed has turned out rather an eventful one in the history of the Company. For some time past your Directors were under the impression that this Company was not doing as well as it ought to do, and when the balance sheet for the first half of the year came out they were greatly disappointed with the results, and it became evident that some change would have to be made. It is always unpleasant to be compelled to make radical changes, but after very serious and mature deliberations the majority of your Board considered it necessary and in the interest of the Company to undertake the selling of its own goods. As soon as this information was communicated to the Selling agents they at once sent in their resignation, which the Board accepted with very much regret."[53]

Ten days later the board received and accepted the resignation of James Jackson the General Manager of the Company. "Your Board after considerable personal pressure on the part of the president, induced Mr. C.R. Whitehead to accept the responsible position of General Manager, who with Mr. Leslie G. Craig, as Joint Manager, have since the 20th of September last been in full charge. ... The directors feel all cause for anxiety has disappeared as they are convinced that everything that hard work, energy and ability can accomplish will be done."[54]

At the same time, for the first time, the small committee of four directors who met weekly to plan the company's activities, were termed the Executive Committee. The joint managers, Whitehead and Craig, were ex officio members of it.

Both Morrices resigned from the board and were replaced by C.R. Whitehead and S. Finley, Gault's brother-in-law.

The Management of Charles Whitehead

Charlie Whitehead, son of W.J. Whitehead the late mill manager of Hochelaga, was given the title Managing Director. Whitehead and Craig, a Gault nephew, were given a sweeping mandate: "We jointly agree to accept the entire Management of the Dominion Cotton Mills Coy Ltd including the manufacturing, the selling of the goods, the purchasing of cotton and supplies and in all respects to have the full Care and Management of the Mills and Works of the Dominion Cotton Mills Coy. Ltd. subject to the advice and decision of the Board."[55] They demanded the joint salary of $20,000. Whitehead reported to the newly formed Executive Committee, comprising Gault, Ewing, Finley, Grenier and Whitehead and Craig ex officio. This replaced the Working Committee. Leslie Craig was also appointed Treasurer, and a new secretary, C.E. Hanna was appointed. Executive meetings continued to be held in Gault's office at the Gault Bros. Building. At the same time, Whitehead continued with his previous position as Managing Director of the Montmorency Cotton Company.

Whitehead not only saw the mills in terms of manufacturing operations, but as organizations essential to the communities in which they were located. In the depressed time of the late-1890s, communities were more eager than ever to retain industry. Using this as leverage, Whitehead extended the use of "bonusing" a step further, to extract money from communities anxious to have the mill stay in operation, or be enlarged. Cities often vied with each other for mills by offering cash bonuses. Whitehead used this competition to exact promises of bonuses for improvements to local mills.

Dominion had bought the Wincey mill at Brantford, Ontario, from Clayton Slater in 1895 for $50,000. The Kingston Mill had suffered considerable damage in a storm in 1896. Whitehead asked the city of Brantford to buy the Wincey Mill for $30,000, so the proceeds could be used to update the Craven Mill, the company's other Brantford mill. Faced with the threatened closure of both mills, Brantford agreed. Whitehead asked the City of Kingston for a bonus of $50,000 to re-equip the mill there. Since the alternative was closure, Kingston also capitulated. A year later, Brantford sold the Wincey Mill to Dominion's former manager James Jackson, for $20,000.

Next Whitehead closed the company's smallest mill, at Chambly, and moved the equipment to Magog. He persuaded Magog to rescind their By-Law taxing the mill. In 1898 a $600,000 capital expenditure program was approved. The print works at Magog in particular received extensive renovations. Magog's role as the company's finishing plant was further confirmed. In 1901, electic power equipment replaced the coal powered equipment at St. Annes and Hochelaga mills.

Gault's health was poor after 1897, a factor contributing to turning over more control to the Managing Director, Charlie Whitehead. He was pleased with Whitehead's management. In 1899 Gault's salary was halved to $5,000, and Whitehead was given a bonus of $10,000, "promised by Gault for taking charge."

Whitehead certainly did take charge. In 1899, he secured twenty year tax exemptions for the mills, from the towns of Magog, Halifax, Windsor, N.S., and Kingston. In fact, Whitehead seems to have overlooked no detail, even as to how the mill hands voted. "The President stated he understood that Mr. Whitehead had taken an active part in Politics, and had ordered the men at the mills to vote Liberal, under penalty of dismissal. The President took this opportunity of notifying him that the men were at liberty to vote as they saw fit. It was therefore decided by the board that notices be put up in all the mills that the hands are free to vote as they may desire."[56] Gault himself was a Liberal, but never ran for public office, although he was urged several times to run for Mayor of Montreal and for Parliament.

Whitehead was personally more zealous than the other, older directors. A company legend has it that when there was a strike at the Hochelaga Mill, Whitehead went to the mill and shouted at the operatives to get in the mill and get back to work.

Under Whitehead's management the results of mill operations continued to improve through 1898 and 1899. The increases levelled out in late 1900 and showed a decline from early 1901 onward. Gault's description of 1901 was: "on the whole we have had a disastrous year."[57] While the decline Dominion was suffering was a result of a general downturn in the business cycle, and was experienced by other companies as well, the blame fell on Whitehead. In October 1901, Charlie Whitehead resigned his seat on the board in favour of James Wilson, whom Gault asked to join the board. Also in October, for the first time since the company was founded in 1890, no dividend was paid. Nor was any dividend subsequently paid by the company.

Reactions to Losses

A Subcommittee was called to report on the losses. They reported the cause to be buying raw cotton at very high prices and not raising the selling prices, both functions under Whitehead's control. In November, the directors "felt management was in some way to blame and asked for the Managers' resignation."[58] Gault was authorized to go to Boston and find a "1st class manager."

(In retrospect, the same conditions of high cotton costs and low selling prices continued on after Whitehead left. The problem was over-production in the industry, and with production costs of raw cotton in the U.S., and not Whitehead's management.)

The directors felt that a weakness of Whitehead's management had been his control of both selling and management of the mills. They decided to separate the functions and hired Stevenson, Blackader & Co. as selling agents. Stevenson now attended the fortnightly Executive Committee meetings ex officio.

By March 1902, the company did not have sufficient funds to cover its operating requirements. The directors had an act passed in Parliament that would allow them to increase their borrowing power on paid up stock up to 75%, but very little of this issue was taken up. The board then decided to issue 6% gold bonds to be offered to shareholders of the company in proportion to the stock they held. They hoped to raise the $2,000,000 they felt was needed "to develop the business and liquidate indebtedness." No one on the open market would buy the bonds. The entire amount was taken up by the directors themselves, the largest holdings being the Bank of Montreal, $500,000, and the brokerage firm of a new director, L.J. Forget & Co. also took bonds worth $500,000.

In spite of these financial difficulties a committee of directors led by Gault were negotiating with the Merchants Cotton Company to buy it out to help reduce the competition within Canada. The two companies could not agree on price. Dominion offered $1,500,000, while Merchants wanted $2,000,000, the book value of their mill. Negotiations sputtered out again.

The 1902 Annual Meeting was a heated affair. Gault blamed the company's problems on the fluctuating price of raw cotton, on the distress sales of English and American goods in Canada, and on the "keen competition from mills making similar goods in this country." Some shareholders demanded that the Annual Report be published to show results, rather than just having them read at the meeting. Gault felt the publication would be detrimental to the company's interests and refused.

Gault's proclivity to print only good news, and pass on bad results verbally makes impossible the task of drawing up comparative financial results for the companies of which he was president. Since he was president of three of the five companies described in depth in this study, there is incomplete financial data.

Andrew Gault died July 9, 1903. He had been absent from company meetings for several months. The minutes record a unique meeting on the day of his death. A joint meeting of the directors of both Dominion Cotton Company and Montreal Cotton was held, at which it was agreed to close down both the Valleyfield and Dominion mills that Friday afternoon so that all hands could attend the funeral.

Shortly after Gault's death, the new president of Dominion, Louis Forget, called for a meeting of Dominion and Montreal Cottón, with Merchants Cotton. Gault had tried and failed to make the links between these companies closer. Perhaps if he had lived longer he would have achieved the legal merger of these companies. As it was, after his death, without his unifying presence, the need for merger was even stronger.

Crisis - Near Bankruptcy, 1904

The financial results for 1904 were again poor. At the 1904 Annual Meeting, a group of shareholders led by G.E. Amyot, proposed a resolution to adjourn the meeting until a fuller financial statement of the company's position could be prepared. But most shareholders were afraid that fuller disclosure would only further reduce the vaue of their stock. "Mr. Amyot's motion was then put and it was decided by a majority that it would do more harm than good to give the public too much information about the company's affairs."[59]

A subcommittee was set up with Forget and Ewing representing Dominion, Cratherne and MacKay representing Merchants, and Holt representing Colonial, and David Morrice. Montreal Cotton refused to become involved. The representatives were given full authority by their respective companies to settle the evaluations of assets as the prelude to amalgamation. They signed a Memorandum of Agreement stating that "The New Company" would be formed to take over the assets of the three companies. But the negotiations were stuck again on the point of each company wanting to be bought at its capitalization value, and the other companies to be bought at the lower actual valuation.

During this period of negotiation the sales of goods continued to decline. The directors debated the alternative of either reducing wages or cutting production. They feared lower wages would provoke strikes, and so chose cutbacks. The uncertainty of the market meant jobbers were afraid to order in advance and were keeping minimal inventories.

Forget was a stockbroker and financier, with no knowledge of the textile industry. A.B. Mole who had replaced Charlie Whitehead as mill manager was appointed

Managing Director. He had already proven a competent manager. Forget handled financial affairs, while Mole ran the operations and bought the raw cotton. Mole travelled on regular inspection tours of all the mills. Another sign of the changing times was the appointment of Samuel Carsley as a director in 1904. Carsley was the owner of Montreal's largest department store. Department stores were becoming important customers of the mills. Their size allowed them to circumvent the jobbers, and to place their orders directly with the mills.

Attempts by the three mills to agree upon an evaluation for the mills dragged on for a year after Gault's death. In December 1904, a Syndicate of thirteen men was formed, with the object of buying the three companies. Louis Forget, President of Dominion Cotton was one of these thirteen. Gaining control of Dominion was the key to the scheme. The Syndicate offered to buy Dominion, for 50% in bonds and 50% in preferred shares of the new company. The directors considered the offer reasonable, and decided to accept.

The Royal Trust, on behalf of the Syndicate made offers to convert shares individually to the shareholders. Most shareholders converted their shares promptly. For some shareholders the low offer made for their shares came as a revelation, on the basis of the late A.F. Gault's financial presentations they had not imagined the company was doing so poorly.

The Last Annual Meeting of Dominion Cotton, 1905

The April 1905 Annual Meeting of Dominion Cotton was the longest and stormiest in the hundred year history of Dominion Textile and its antecedents. Louis Forget tried to convince shareholders that the Syndicate's offer was the best solution to the problem. A very angry group of shareholders strongly voiced their feelings of having first been deceived as to the true state of the company's affairs, and of now being taken advantage of in the low price being offered for their shares. The meeting lasted several hours as Forget faced shareholders who felt the directors had betrayed them.

Some shareholders believed the directors had sold their shares at a good price, and now held only the minimum required to be directors. "A shareholder pointed out that Directors only hold less than 400 shares & never held a Shareholders' meeting about selling. Stock once sold in vicinity of $130 & Directors holding thousands of shares, now hold only enough to keep on the Bd. The stock is now selling at 50% of par value, not in cash but stocks & bonds in the new Co." [60]

Forget's replied that the charge of watering the stock was untrue. "These gentlemen who come and criticize the company, and say that the directors have no interest in it, and especially the President, they do not know what they are talking about. As for myself, in this company I have three quarters of a million, and I have had it three years past, so that those who say that I had no interest in this matter do not know what they are talking about. Besides that, my friends and myself had over half a million dollars in bonds and stock, and I have over a hundred thousand dollars of the common stock myself, so that my interest is just as great as any one of you ... As far as I was concerned, I was not going to remain in this company and have the interest in it I had, in the way it was run. It was impossible to see daylight."[61]

Forget's description of his holdings was accurate, but he did not succeed in convincing a few of the shareholders. The rumor stuck. A few shareholders, led by Mr. Amyot, filed legal claims against Dominion Textile, which dragged on in the courts for the next twelve years, and were eventually decided in the company's favor. But this still didn't satisfy the shareholders concerned. Thirty years later, Amyot would still be making these same charges at Dominion Textile Annual Meetings.

Amyot did voice a very real complaint in the way Dominion Cotton Annual Meetings were run. "When the shareholders come to a meeting the report is read, and it is catch what you can, and criticize what you think, that is about it. No shareholder can grasp any of these items. He can hear them, but that is all. If we had distribution [of the Annual Report], as I have several times called the attention of the directors, a statement and everybody studies what they are interested in, these so called mistakes would have been avoided."[62]

The reason for the shareholders' anger about the price offered for their shares was that Dominion Cotton had never deducted depreciation on their equipment. When improvements were made to mills the amount was added to the capital value of the mill. But textile machinery wears out after fifteen or twenty years, and must be replaced. But this wear was never deducted. What profits were made were paid out in dividends. In the late 1890s, when machinery had to be replaced, it was financed by bonds. The general public and shareholders would not take these bonds, and the whole amount was subscribed by the directors. By 1904 the company could not make the payments on these bonds.

Forget explained the directors' reasoning in supressing this information: "Now as far as giving you the assets of our company, what we thought they were worth, before asking you - supposing this thing had fallen through, you would have shown to the whole world what you were worth, and your credit would have been gone. If you had shown you could not earn any more dividends and your assets of seven millions were worth only four millions, and you were bonded for more that that, or equal to that, where would you have been ? What could you do ? The only thing to do was to keep it as quiet as possible, as to the value of your mills."[63]

Added to this were the generally poor conditions in textiles. As Forget reported: "You must have read the papers, and the cotton mills in the United States and in England were hard pushed as well, and we had to buy raw cotton at a great advance - I cannot remember the exact percentage, but about 35 or 40 per cent advance, and our goods only advanced about ten per cent, so how could you make profits. We could not sell at a profit. And then we were always expecting that the Government would see its way to give us protection against the preferential tariff which is eating us up, but we had no encouragment from that quarter, and had nothing but black clouds, and when we saw that, we thought that the only salvation for this company and the others was to do what we advised you to do."[64]

Despite the intense questioning, as one shareholder described the questioners, "they are honest men, they may be a little saucy, but they mean right"[65], the sale was in fact made. Enough individual shareholders had already sold their stock. A motion was made to block the sale but it failed, 1016 votes for, to 25,890 against. Because of the dissenting shareholders, the company had to continue as a legal entity until all shares were secured.

At the close of the 1905 meeting, all the directors of Dominion Cotton resigned, and the same slate of directors as the new company Dominion Textile were elected in their place.

For the first year, 1905, the new directors of Dominion Cotton held monthly meetings to clear up legal and financial problems connected with the lease of all assets of Dominion Cotton to Dominion Textile. The dissenting shareholders, particularly Amyot and Mathys continued to question the directors on all the steps that were being taken. Sometimes their tactics were intended to annoy; for example they would demand the time consuming procedure that the minutes of the last meeting be read in full, and then cast dissenting votes

In February 1909 the Provincial Court handed down its decision on the case filed by Amyot et al., that the lease made by Dominion Textile on the assets of Dominion Cotton be declared cancelled and annulled. Dominion Textile appealed. In May 1912 the Privy Council upheld the lease.

The minority shares were finally acquired in 1913. The assets of Dominion Cotton were then sold to Dominion Textile for $1.00, and other considerations. The company was legally dissolved in 1920.

Dominion Cotton had been on the verge of bankruptcy. It could not meet its payments on it bonds, most of which were held by the directors, and it had no funds to continue operating. The company needed to be refinanced. Yet the bankruptcy of the largest manufacturing company in Canada, would have had a considerable economic effect on the Montreal business community. The Syndicate which formed Dominion Textile and bought out Dominion Cotton, as well as Merchants Cotton, Montmorency Cotton, and Colonial, were the prominent Montreal businessmen of their time. They knew little about manufacturing textiles, but for the sake of the Montreal economy these companies had to continue in operation.

2.6 THE MERCHANTS COTTON COMPANY: 1880-1905

The Merchants Manufacturing Company was organized in February, 1880, at the height of the boom in primary cotton textiles. The Protective Tariff on imported cotton goods had created a heavy demand for Canadian-made cotton textiles. Mills already in existence, such as the Hochelaga Co., and Montreal Cotton, were making huge profits. Merchants Cotton was formed to take advantage of this lucrative business.

The formation of Merchants not only added to the total output of cotton goods in Canada, but increased the involvement of the Montreal business community in this industry. Andrew F. Gault was not involved in Merchants Cotton. Despite his later attempts to arrange a merger between Merchants and Hochelaga, Merchants remained independent, until near bankruptcy made it open to the offer of the Syndicate which formed Dominion Textile in 1905. Merchants also chose from the beginning to have an exclusive Selling Agent, rather than sell their output to David Morrice. By deliberately staying outside the Gault-Morrice nexus, Merchants Cotton made the Canadian cotton industry more competitive, a countervailing force against the stability sought by Gault and Morrice.

The Founding of Merchants Cotton

A group of eight Montreal merchants prepared a prospectus for the proposed company with a capital of

$400,000 in 4,000 shares of $100 each. None of the founders were in dry goods, as the founders of the earlier mills had been, but all were Montreal merchants involved in other businesses. Most of them had already invested in other cotton companies. They included Robert MacKay, Jonathan Hodgson, J.P. Cleghorn, A.A. Ayer and J.K. Ward.

In the Prospectus, the founders emphasized the high returns that had already been made by shareholders of other cotton mills. They noted that the original $100 share price of mills had now increased considerably, that Dundas Cotton Co. shares were now selling for $140, Montreal Cotton $160, Canada Cotton for $126, and V. Hudon Cotton for $185. This was in addition to high dividend payments. The committee emphasized that there were still opportunities for growth in textiles, and pointed out that the U.S. had one spindle for every four and a half people, while in Canada, the ratio was one spindle for every twenty-seven people.

Planning the Mill

The committee planning the mill proceeded cautiously. The company was not formally organized until $250,000 in shares was subscribed. When this amount was reached in November 1880, a Shareholders' meeting was held in St. Lawrence Hall to elect provisional directors. The newer subscribers were again Montreal merchants, most of whom already had cotton textile investments - William Hobbs, now manager of the Magog Cotton Co., W.M. Ramsay, Dr. Campbell, J. Cochrane, S. Finlay, J.O. Gravel, J.

Turnbull and W. McDougal.

The strategy of the company was to set up an integrated operation that included both a bleachery and print works, in addition to spinning and weaving facilities. Since several grey mills now supplied almost all the demand, they argued that "without the printing there would be no demand for the cloth."[66] They felt there would be a demand for finished cloth. At that time there was no fine cloth or calico mill in Canada, and only Montreal Cotton produced bleached cotton. Most of the Canadian needs for bleached cotton came from England and the U.S. After a discussion, the shareholders agreed the need existed for another mill.

Planning was done by committees formed of the larger shareholders. A Provisional Directors' Committee met weekly. The first task was to negotiate with several municipalities around Montreal vying for the mill, in order to get bonuses for the company. Responsibility for these inquiries were assigned to different members of the committee. In January 1881, the Land Committee of Cheney, MacLachlan and Ayer, decided on a site on the Lachine Canal because of the transportation faciliies and its proximity to Montreal. The municipality of St. Henri voted the company a bonus of $15,000, and freedom from municipal taxes for 20 years. The company's minutes note that the new mill was sought after by other municipalities: "Large and pressing inducements have since been offered us to locate in other places, but believing our interests in this City and in the advantages of a large centre of trade and population overbalanced all other inducements, it was resolved to make this place of location."[67]

Planning continued, carried out by different small committees of major shareholders, depending on their talents. Ward and Cheney were in charge of selecting and buying machinery. Like other Canadian cotton mills the plant would be an amalgamation of British machinery and American layout. Since the mill was to be an integrated operation, the directors looked to the U.S. for a design for the mill processes. "Mr. Ward [was] asked to write to some of his English friends regarding plans & machinery and it was agreed to pay Mess. Ward & Cheney's expenses in visiting U.S. mills."[68] As the directors reported to the shareholders, "different points in the U.S. have been visited, and considerable time and pains have been expended in obtaining full information on all the latest and best plans and machinery."[69] Cheney and Ward chose to pattern the mill after one they inspected in Manchester, New Hampshire.

British machinery was considered superior to that of the U.S. producers. The partners of a prominent British textile machinery manufacturer made a trip to Canada to seek orders. "Messrs Bullough & Leigh came before the Director's soliciting the order for machinery."[70] The mill manager was sent to England to inspect the machines. The steam engine to power the mill, was purchased in the U.S.

The new cotton mill was well received by investors. By March 1880, a month after the Perspectus announcement, the subscription list of 4000 shares was oversubscribed. The provisional directors refused several share offers, in order to round off the capital at $400,000.

In April, 1881, over a year after planning began, a Shareholders' Meeting was held to formally elect directors. The same slate of men who had originally started the company were elected directors - Gilman Cheney, Jonathan Hodgson, J.P. Cleghorn, J.S. MacLachlan, Robert MacKay, J.K. Ward, and A.A. Ayer. Cheney, the man who had put the most effort into the enterprise was elected President, and Ayer, Vice President. The eighth member of the founding committee, Alexander Ewan, declined nomination because he hoped his partnership of Ewan, Cantlie, Co. would be appointed selling agents. Ewan remained very involved in the planning. He soon went to Ottawa to obtain canal water privileges on the Lachine Canal.

M. Paine, already a shareholder, was engaged as a manager, at $300 per month. J.J. McLaren was appointed Solicitor, D.M. Ayer, secretary-treasurer and the Merchants Bank was named the company's banker.

The mill began production in early 1882, producing only grey cloth, as the bleachery was not completed.

Labor Problems

As the mill neared completion, Paine, the mill manager was approached by William Whitehead, manager of A.F. Gault's Hochelaga mill. Trained mill hands were still in short supply in Montreal. Whitehead proposed that the two mills form an agreement on paying the same wages. Paine agreed to this, but would not agree to Whitehad's proposal that "each Coy refused to accept help from the other Mill on any condition whatever. The Board concurred with Mr. Paine in his refusal so to bind himself."[71] Such an agreement would have been clearly to the advantage of Hochelaga, which had trained skilled workers.

The shortage of skilled workers continued to be a problem for Paine. In March 1882, shortly after the mill began production, he complained about the lack of fencing "or proper means of keeping intruders out of the mill, the Manager had been annoyed by interference with some of his hands & offers made of higher wages."[72] Yet when the opportunity was presented, the Merchants directors had no scruples in recruiting workers from other mills. "The President stated that requisite help had not come in freely, and advantage had been taken of the strike at Cohes to send a man there from the Weave Room to engage hands for the Mill, who had succeeded in bringing down 110 persons inclusive of families and children, resulting in the addition of some 65 hands to the Mill, principally weavers." The company paid the railway fares of the new workers, and then gradually deducted the amount from their wages. The turnover of workers was high. As the mill manager Paine explained, "it was not considered desirable to retain those incapable of good work, preference being given to the manufacture of quality rather than quantity at present." [73]

Paine's attempts to control quality was resented by the workers. When the mill began, weavers were paid $.90 a day. On Monday October 30, 1882 the workers struck. As Paine explained to the directors, "that finding the Loom production unsatisfactory, and falling off, he issued a notices on Thursday 26th stating that on the above date, which commenced a new month's work at the Mill, all hands would be paid by piecework at rates noted which were so calculated as to allow good weavers to earn $1.00 or $1.25 or thereabouts per day." [74] No notice was taken until Monday morning when the hands refused to work and Mr. Paine was sent for. On arrival he desired them to send a deputation to discuss the matter, but as their delegate admitted (in reply to Mr. Paine's question) that they were acting unfairly in thus striking work no discussion took place, and up to the present no hand come in. Some were known to be willing to work but were afraid at present to do so, and to-day being a French holiday it was not expected that any satisfactory result would be arrived at this week." [75]

The directors discussed the situation. Some solutions suggested were to pay the workers fortnightly rather than monthly, and to seek out workers from England. Their only communication from the workers was anonymous letters that requested a 10% pay rise. In the end they decided to wait the situation out, withholding wages from workers not on the job.

Gradually the weavers began to return, but not in the numbers needed for full operation. The directors tried several expedients. Advertisements were run in the French papers of Montreal and St. Hyacinthe advertising for workers, but still "fresh help [is] not applying in sufficient number to make any improvement in the general situation."[76] Weavers continued to leave for the U.S. The company hired an agent to go to several mill towns in the U.S. to try and hire some weavers, but without success. There was no surplus of American weavers, and the U.S. mills paid higher wages. Placards were posted up and down the Canadian railway ~~lines~~, but again without much success. The company's agent in England, did however, manage to engage 24 weavers who departed from Liverpool in February, 1883. The importation of English weavers proved to be the answer. Afterwards, Merchants would bring over a steady supply of these skilled technicians.

In an effort to keep its workers, the company began to pay them fortnightly instead of monthly. They also made plans to buy houses near the mill, suitable for boarding houses, and to look for people to run them. Despite the labor problems, the mill was worked at a profit, and the number of seconds being produced was gradually declining.

The early 1880s were boom times for cotton textile manufacturers. The mill was barely in operation when the President, Cheney, recommended at the Second Annual General Meeting of Shareholders, in February 1882, that "due to great demand for bleached cotton & co. has land for mill of equal size," the capital of the company be increased to one million dollars, and new buildings be erected.

Selling Arrangements

When the mill was in production, Cantlie, Ewan & Co. were appointed Selling Agents. The partners would receive 3% commission on consignments they guaranteed sales, and 2% when there was no guarantee. Interest of 8% would be paid on goods, with settlements made monthly. Merchants was one of the few mills which did not engage David Morrice's company as commission agent. Merchants was formed a little later than the other large companies. It knew it would have greater difficulty in breaking into the market, and hence produced finished goods then not produced in Canada. By engaging Cantlie and Ewan as Selling Agents, Merchants was going into direct competition with the mills controlled by Gault and Morrice. When the Merchants mill came into production, it added goods to a market almost saturated, and made the cotton texile industry much more competitive. It also threatened the existing stable relationships worked out by Morrice and Gault.

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By the summer of 1882, the company was short of operating funds because the construction of the new addition to the mill ran over budget. Cheney arranged a loan for $50,000 with his textile friends in Manchester, New Hampshire, to provide operating funds.

Just as the company was getting some of its production problems worked out, and the extension to the mill ready for operation, the world economy again turned downward. By April 1883 the company began having trouble selling its goods. They noted that English goods were now being sold in Canada for much less. Within a month, other Canadian mills began to lower their prices as well. Ewan, their selling agent recommended that prices be dropped 11 1/2 % in order to stay competitive with Montreal Cotton.

The Recession of 1883

By July 1883 the company's financial problems were becoming acute. They proposed a mortgage on the mill, and contracted George Stephens, who had been President of the Bank of Montreal until 1881, and was now President of the Canadian Pacific Railway, and his cousin Donald Smith. Stephens was unable to take up the proposed mortgage, and Smith was now Commissioner of the North West, (which then included the three prairie provinces,) and was dealing with the consequences of the Metis and Indian rebellion of the previous year, and unable to help.

By July 1883, the directors were beginning to think "it might be considered necessary at some future time to come to some arrangement with other mills for lessening the general production."[77] Meanwhile Paine prepared schedules of production in the event that there would be 1/2 time and

1/3 time production.

Participation in Cartels

Cheney became involved with the leaders of other mills, in a cartel organized by A.F. Gault and David Morrice "to form a Cotton Manufs. Assn. to regulate prices & terms of credit - also to provide a remedy for the over production now shown, especially on Grey Cottons, by a common agreement to shut down partially for a certain time to be fixed, three representatives to be sent by each Mill to a further meeting appointed for 4th Sept."[78] In September 1883, Cheney signed the Cotton Manufacturers Bond of Agreement between the mills that would limit production. Each mill involved, Montreal Cotton, V. Hudon, Hochelaga and Merchants would close down 30% of their looms. The cartel also discussed the possibility of reducing wages, but both Whitehead of the Hudon Mill, and Paine felt this was unwise. The problem with the Canadian Manufacturers' Association was that too few mills were represented, and the agreement did not affect the whole industry. It did harm those mills which were members. Details of the arrangement were left to the mill managers to work out.

Besides the cartel agreement, the directors also decided to specially label goods for large customers. They were in close contract with William Hobbs at the Magog Print Company as prints were still in demand. Merchants tried to produce a small amount of their own prints, but the batches were too small to be profitable.

The cartel agreement proved impossible to police, despite the close business ties between the several companies. James Ward was on the boards of both Merchants and Montreal Cotton. Cheney of Merchants formally objected, at a directors meeting, "to Ward serving on this Bd. & that of competing company."[79] This is the first evidence in the Minute Books of the several companies studied that there could be a conflict of interest in serving in two companies in the same industry. Directorships in several cotton textile companies were the norm at that time. Merchants Cotton had esculated the competition in the textile industry, so it was not surprising that it was the first company to question this industry practice. Ward, in fact, acted as a go-between Merchants and Montreal Cotton. The latter's larger production capabilities meant it was an unequal contest.

In April, Ward reported that Montreal Cotton had authorized him to say they would agree to run a limited number of looms and each mill would export a proportionate number of cases, or to stop all the mills on bleached goods for several months. If Merchants failed to agree to this arrangement, "they would be forced to sell their gds at a further 30% reduction."[80] Merchants was at a disadvantage is this arrangement, as they only produced bleached goods, while the other mills could run other lines. Merchants would be the only mill to be shut down completely. After much conferring, a new combined agreement was reached between the four mills that gave Merchants a larger share of producing bleached goods. During this time, textile sales in Canada, fell even lower.

Merchants also took part in the agreement with the other mills, whereby all four mills would reduce wages by 10%. In the midst of all these discussions the directors forgot the obvious in their planning. In April they noted they had "overlooked wages of $2,500 to the mill hands."[81]

The four mill cartel devised the plan of shutting down all mills for a month, and sending their selling agents to England to sell all goods at 30% off the list price. Unfortunately, even at this price, there were no buyers in England.

Production at Merchants was stopped in July 1884 and resumed seventeen weeks later on November 17. Only some overseers were retained, on half salary.

The depression gave the company serious financial problems. They operated at a $40,000 loss in 1884. The interest rate on their bank loan was increased from 6% to 7%. There was also the heavy expense of starting up again.

1884 brought new leadership. Gilman Cheney resigned because of pressures from his other businesses and was replaced by A. Ayer. Ward resigned due to the conflict of interest controvery, and was replaced by Senator Robert MacKay.

A New Product Policy

The company made plans to avoid the disaster of 1884 in the future. As the directors told the shareholders: "Retrenchment and reduction of stock has been our motto."[82] Rather than close the mill down and ruin the property, they were prepared to run the mill, and sell at cost if necessary. They were more vulnerable than other mills because they produced only bleached cloth. In 1883 the mill had operated at 3/4 capacity, in 1884 at 1/4 of capacity. "Consumption of bleached cotton in Canada is about 10,000,000 yds. pa. Our mill produces 4 1/2 to 5 million yds. Only other mill bleaching now is Hochelaga. At present only 1/2 the looms of these mills can be profitably sold."[83] They felt it was urgent to diversify their product line, particularly into prints, which were still mainly imported from England. An expert was brought in from Providence, Rhode Island to examine the method of bleaching to see if any improvement could be made. He recommended the purchase of additional machinery to achieve a better finish on goods. In the following year the directors would often bring up the question of improving the quality of the cloth. An experimental shipment was sent to England to be printed.

The mill manager recommended that wages be reduced a further 10%, but the directors were afraid to do so lest it provoke a strike. As it was, many workers were leaving Merchants for higher wages in other mills in Canada and the United States. The mill manager's salary (Paine) was reduced by 20% to $4,000 on the principal that he should also share in the company's losses. Paine resigned. His salary was reinstated to $5,000. Paine did not change his mind, but agreed to stay on until a replacement could be found.

In the fall of 1885 a smallpox epidemic swept Montreal. The company arranged for employees to be vaccinated. Workers were reluctant to be vaccinated because a St. Henri parish priest spoke against it. The directors at Merchants took a tough line with employees. The mill manager examined each employee. Anyone not having proof of vaccination, in the form of a scar, was discharged.

In late 1885, A.F. Gault wrote to Merchants proposing an amalgamation of the companies, offering $300,000 of the new company in return for the $455,000 of paid up Merchants' stock. The Merchants directors refused. They would only consider an amalgamation based on the face value of both companies. In the depressed state of the economy this was not a realistic demand, and Gault could not agree.

1885 was another poor year in all cotton producing countries. The Merchants attempt to diversify failed. The small pox epidemic prevented the company from getting enough help. The mills again operated at a loss.

In 1886, the company dropped the expensive plan of adding printing facilities, and worked on a new policy of trying to produce a "higher grade of plain goods." Additions were made to the Bleachery, and a new Weave Room was built.

A new mill manager, Mr. Eaton, who was experienced in producing "fancy goods" was hired from the U.S. Eaton would be paid $2,500, and 4% of the profits of the company. Other management changes were: a superintendent was added to the staff; an overseer was hired for the Bleachery; and additional experienced weavers were employed. An office assistant was hired at $500 per year. W.G. Cheney, son of the former president, was appointed secretary-treasurer to replace Mr. Creak. Creak was dismissed because he was also Secretary-Treasurer of Montreal Cotton. The Merchants' directors now considered these dual duties to be a conflict of interest. Mr. Bruce of Hamilton, who represented several mills, was engaged to represent the mill in Ottawa to keep the company's problems before the government. This was the first case of one of the companies under study paying a lobbyist. Other companies had more informal means of communicating with the government. Andrew Gault's brother Mathew for example, was a Member of Parliament, and spoke for Montreal business interests.

The President held an informal meeting with shareholders to explain these management changes. Eaton's work was highly regarded by the directors, but he resigned in 1889 "to take a position in the States in lg & prosperous mill."[84] The directors sought a replacement in Boston and Providence, hiring Mr. Harold Law.

The directors however always retained certain management functions. Throughout its history, the President of Merchants would purchase raw cotton supplies. Another committee of directors purchased the coal to power the company's steam generators.

The company, like other cotton manufacturing firms in Canada, still held that ownership and management should be separate. In 1891 the directors "discussed making Pres. also Managing Director, but not considered necessary."[85]

Cartel Arrangements

Merchants also supported the Dominion Cotton Manufacturers Association, formed in 1884, donating $2,000 to the Bleached Cotton Committee. The cotton association disbanded in 1889, but meetings among mill directors continued. By 1893, company minutes refer again to meetings of the Bleached Goods Association where "it was decided to reduce the prices of all lines selling over 8 cents, by 1/2 cent a yard, with view to stimulating trade and to prevent the importation of Cotton of this class."[86]

The idea of amalgamation with Hochelaga had not been completely dropped. In 1887, a committee of four directors investigated the possibility, but when the motion was presented to the Annual Shareholders meeting in February 1887, the motion was "declared lost". Informal agreements continued. In April 1889, Hochelaga and Montreal Cotton, who both had A.F. Gault as President, signed an agreement with Merchants setting a quota on the number of looms to be in operation in each mill, for the next six months.

The mill began to make a profit in 1887. In that year, for the first time the President and Directors were paid for their services, and were voted $5.00 for attendance at each board meeting.

Expansion, 1893

In the early 1890s, the mill showed a steady profit and paid dividends of 6%. The mergers of smaller companies into Dominion Cotton, and Canadian Coloured Cotton had produced a stability which benefited other companies in the industry. Merchants Cotton's response to this prosperity was to expand its production facilities. In May 1893, the company called a special meeting of Shareholders for authorization to increase the capital stock of the company by $100,000, because "demands for production are in far excess of supply." The proposed addition would increase the mill from 900 to 1,000 looms. Within a month, practically the whole issue was subscribed. The municipality of St. Henri granted the company a bonus of $20,000 and freedom from taxes for 20 years on the extension.

Other companies in the textile industry had by this time either expanded their facilities, or improved the efficiency of existing ones. By the mid-1890s the same cycle of prosperity, enlargement of capacity, followed by recession, that marked the early 1880s, was repeating itself. In 1894 there was a falling off of sales, and profits were reduced by half. The company began to reduce its selling prices. A charge was brought against the company by Dominion Cotton Mills Co. for the oversale of seconds. The action was successful, and the Merchants agreed as a penalty to close down their looms on white cottons for two weeks. The company still earned enough in 1895 to declare an 8% dividend.

In 1895, the company's product line was further expanded to include broad sheeting and window shades. This specialization was a typical response in the industry to declining sales and increased competition. Since most companies were expanding into similar new lines, the only effect was decreased efficiency in production, smaller batches of goods, and lower returns.

Structural Reorganization, 1897

The feud which began between Gault and Morrice in 1897, and which resulted in D. Morrice & Sons Co. being dropped as Selling Agent for Dominion Cotton had repercussions at Merchants Cotton. Now the two largest textile companies, Dominion Cotton, with A. F. Gault as President, and Canadian Coloured Cotton, with David Morrice as President, were in direct competition. Dominion Cotton and Montreal Cotton now both set up their own Selling Departments. These changes in the competitive picture were soon reflected in a reorganization of the structure of Merchants Cotton as well.

In 1897 profits continued to slip. In February, the directors began to discuss a new possibility, that of selling directly to the retail trade, and avoiding the middlemen of Commission Agents and jobbers. The President however vetoed the plan because he had just concluded an agreement with Gault and Dominion Cotton Co. not to do so. In August the President reported he had heard that one of the large cotton companies intended to sell directly to the retail trade, "which would be a serious and important change"[87] On October 21, 1897, the directors of Merchants Cotton decided that "in view of the large commission made by the Selling Agent, his commission is reduced from 3 to 2%." On December 16, they decided a Selling Department should be organized. The company's Selling Agent, Alexander Ewan died on December 23, and five days later the President engaged Mr. W.A. Mackay to take charge of the Selling Department, for 5 years at a yearly salary of $5,000. An arrangment was made with Mr. Knox of Toronto to represent the company in the West, which was then just beginning to open up to farmers. The Directors told the shareholders: "The present system of the Office Department, the Manufacturing Department, and the Selling Department, each with a responsible head working in harmony, will we trust prove the most efficient and economical way of conducting the affairs of our Co."[88] The office staff now consisted of the secretary-treasurer, and four others. This increased functionalization was driven by both the increased competitiveness of the industry, and because the company had increased its size by three times since its founding in

1884.

In 1898, the company again made a good profit. The demand for bleached cotton goods was greater than the mill could supply. The reaction of the directors was to plan to double the size of the mill. The new mill manager, Mr. Hawkesworth was sent to Providence to consult with architects on layout. A bond issue for $400,000 was placed. The increase in activity resulted in the directors voting to make the president, A.A. Ayer, also the company's managing director, at a salary of $5,000, as opposed to the $600 he had received as President and a director. At the same time, Ayer continued as President of the company he had founded in 1867, A.A. Ayer & Co. Ltd. Canada's largest exporter of butter and cheese. William Hawkesworth was now designated as Manager of the Company Mills, and his assistant, and brother, Fred Hawkesworth as Superintendent of Mills. Other than these changes the composition of the board had changed very little in fifteen years.

By early 1899 the new mill was completed, and the old machinery re-arranged to make it one continuous operation. The company was well supplied with orders.

The Selling Department sent a circular to the trade announcing a general price increase for goods. Despite its satisfactory financial performance, Merchants Cotton had not increased the workers' wages. Within a few weeks of the announcement of the price increase the Warp Spinning Department struck for a 10% increase in wages. The directors decided on a general raise throughout the company of 6% for fear of losing even more workers to the higher paying U.S. mills. This put wages still slightly lower than they had been in 1894. The workers returned the next day.

1899 was again prosperous and the dividend of 8% continued. The directors reacted by again planning another expansion, this time into the production of prints and yarns. The capital of the company was increased to $1,250,000.

Management by Committee

In 1901 the management structure of the Merchants changed again. It was precipitated by the financial difficulties of the President of fifteen years, A.A. Ayer. He wrote to the board that "Circumstances have occured which most of you no doubt are aware of, which will compel me to transfer a large portion of my stock in trust, retaining only 100 shares in my name." [89] The following day Ayer wrote "that if, in the opinion of the Board, such embarrassment would tend to operate against the interests of this Company, the Directors might consider this letter as his letter of resignation from the Presidency & Managing Directorship, or as a member of the Board." [90] The board accepted Ayers resignation. "The Board decided that it was in the interests of this Company that its affairs should be largely governed by an Executive Committee." [91] The Executive Committee would consist of the new President, Cratherne, Vice President, William Cheney, and Ayer, who remainded a director. The committee was given the same powers as were previously given the Managing-Director. The Chairman of the Executive Committee, Ayer, would report to the board at its monthly meetings. (Incidentally, this exchange of letters were typed, the first occurence of typed correspondence in the Dominion Textile archives.)

The Reduction in the Protective Tariff

In July, 1900, the tariff on textile was dropped from 25% to 16 2/3%. The company had been founded on the basis of a 25% tariff, which gave the Canadian made goods a slight advantage in price on British goods, which had lower costs for labor, most supplies, and machinery. The lower tariff knocked away the Canadian advantage. The company's sales immediately began declining. In 1901, for the first time since 1884, Merchants declared no dividend.

The overtures toward cartelization began again. The Yarmouth Duck Co. and the Imperial Duck Co. approached the directors with the proposal of entering into an agreement with the Dominion Cotton Co. "to dividing up of the duck business amongst the various mills so as to avoid undue competition."[92]

The following year was as bad. Directors reported to shareholders the "Loss this yr. [was] brought about by circumstances really beyond the control of the management".[93] Raw cotton prices were up 20% and then down 20%. Goods were sold below the actual manufacturing cost. Bad debts increased. Like their counterparts at Dominion Cotton, the directors of Merchants deliberately did not report to shareholders how bad their financial position was. "It was decided to make no general statement to the shareholders of the position of the Company but the President was authorized to give such information as he might think best to any shareholders." In 1902, both the President, Catherne, and the Vice President, Ayer, made personal emergency loans of $25,000 to keep the company in operation.

The board listened to a proposal from two New York firms, represented by the Merchants Trust Co. of New York that proposed the formation of a company which would purchase the properties of both the Merchants and Dominion Cotton companies. In March 1902, committee from the Merchants wrote to A.F. Gault representing Dominion Cotton, proposing a meeting to discuss the absorption of Merchants into Dominion Cotton. Merchants wanted $2 million for the property. Gault offered $1,750,000. The two companies were unable to come to terms. Gault continued to try to persuade the directors of Merchants to lower the price they wanted for the property from $2,000,000, to $1,750,000.

But cartel arrangements continued. Merchants and Montmorency agreed to set the same yarn prices. Merchants, Montmorency and Dominion through their Selling Agents "agreed in fixing prices for the different lines to govern all three mills."[95] Merchants also signed an agreement with a selling agent in NSW, Australia to sell their goods on a

3% commission. In May 1903, Hurbert Holt of Colonial Printing and Bleaching was again approached by Merchants Cotton with the proposal of an amalgamation. The Colonial directors declined, saying the time was not opportune.

A.F. Gault died in July 1903. The amalgamation cause was now taken up by David Morrice who proposed a union of Merchants, Dominion, and Montmorency. But once again, the directors of Merchants would not accept the price of $1,500,000 now offered.

The company saw the lowered tariff as the cause of their problems. It meant that in 1902 the profit on the turnover of goods was reduced from 10% to 3 1/2%. In 1904 the company increased their efforts to get the tariffs raised by sending a delegation to Parliament in Ottawa asking that tariffs on greys be set at 30% and bleached goods at 35%. The company was not without influence. J.K. Ward, a former director was now a Senator, as was Robert MacKay, a founding director. The Prime Minister, Wilfred Laurier wrote Ward a letter stating he intended to have a commission to look into changes in the tariff.

The directors increasingly began to find fault with the way the mill manager Hawkesworth ran operations. The President, Cratherne visited the Lawrence Mill near Boston, to see how operations compared wih American mills. An American expert, Mr. Parker made several recommendations for changes in administration. In particular, Parker found the Merchants mill employed more workers to produce the same output. Hawkesworth was given three months notice. On May 5, 1904, Hawesworth sent the directors a letter outlining the friction that had arisen between himself and Ayer over the administrative changes. Two days later, another letter from Hawkesworth stated he was ready to carry out any changes Ayer or the directors wanted. Ayer insisted it was time to change managers. The Executive Committee already had a new candidate, H.S. Houghton of Northbridge, Mass., Superintendent of the Rockdale Mills. Houghton was appointed General Superintendent of Mills. The title of Mill Manager was collectively held by the Executive Committee.

The Secretary-Treasurer, Barker, was given full supervision of the mill, outside of manufacturing. W. Bishop became the assistant in the Shipping and Order Department. Mr. Smith was put in charge of the clerical work of the Purchasing Department and Mr. Stockton made assistant Secretary-Treasurer.

Merger

On October 7, 1904, the directors received a copy of a draft prepared by David Yuile proposing to buy Merchants, Dominion, and Montmorency. Yuile set a limit of $1,500,000 on the price for Merchants. The board asked for one million in 6% bonds and $500,000 in preferred stock of the new company. Yuile found this suggestion impractical, instead he proposed buying the entire stock of the company at 80% of its past value, 2/3 in bonds, and the balance in

7% preferred stock. The Merchants' board was willing to accept. A printed memo was circulated to shareholders outlining the terms. A syndicate, headed by David Yuile would purchase the shares of Merchants at 85% of their par value, 66 2/3 % in 6% bonds, and 18 1/3 % in 7% bonds. The preferred stock of the new company and the bonds would be secured by the real estate of the new company. Shareholders were to deposit their stock with the Royal Trust before January 10, 1905. By February 9, the majority of shares had been transfered to Dominion Textile Limited. Louis Forget, a member of the Syndicate was elected to the board of Merchants, and W.T. Whitehead was appointed manager of the mills. A few days later, at the annual meeting, the same men who were on the board of directors of Dominion Textile were elected to the board of the Merchants Cotton Company.

There remained a handful of dissenting shareholders who refused to sell their shares to the Syndicate. As a result, the company could not be sold outright to Dominion Textile. Since an outright sale was blocked, the assets of Merchants were leased to Dominion Textile for twenty-one years. The Annual General Meetings of Merchants continued to be held, immediately before the meeting of Dominion Textile, until 1920. The boards of the two companies remained identical. Gradually the outstanding shares of Merchants were exchanged for those of Dominion Textile. Dominion refused to offer any more for the shares than the 1904 offer. The last shares were turned over in January

1913, at a Special Shareholders' Meeting. All the assets of Merchants were sold to Dominion Textile for $1.00.

Merchants had an independent Selling Agent marketing its goods from its formation in 1880. While it co-operated for a time in the Dominion Cotton Manufacturers' Association cartel organized by Andrew Gault, its actions usually upset the industry balance sought by Gault. Merchants essentially, through its competitive actions, worked against Gault's efforts to cartelize the textile industry. This strategy worked to the benefit of Merchants - the company was more successful than its competitors, including Dominion Cotton, by the early 1900s. Eventually, the stiff competition Merchants helped to stimulate, meant that most textile companies faced bankruptcy.

2.7 MONTMORENCY COTTON COMPANY: (1889 - 1905)

The Montmorency Cotton Company, one of several later cotton companies formed in Canada, was established to take advantage of the low export freight rates over the Canadian Pacific Railway, which opened the line from Quebec City to Vancouver in 1886. The company built its mill expressly to produce grey cloth for export to China.

Andrew Gault and David Morrice had made some sales of Dominion Cotton goods to the China market through New York agents. China seemed to be a market with potential, although it demanded somewhat different specifications as to weaving. Montmorency was to produce to these specifications. It was planned that the Montmorency goods would not compete on the domestic Canadian market.

Charles Whitehead

The idea of going to China to directly open a trade between Canada and China belonged to Charlie Whitehead, when still in his teens. Whitehead was the third generation of his family in Canadian textiles. His grandfather, William T. Whitehead was one of Montreal's pioneer dry goods wholesalers. His father, William James Whitehead, born in Montreal in 1841, ventured into manufacturing, establishing the Trenton Valley cotton mill in Hastings, Ontario, one of the first cotton mills in Canada. In 1872 the business was transferred to Cornwall and W. J. Whitehead became manager of the Stormont and Canadian Cotton Mills, both in Cornwall, Ontario. He returned to Montreal in 1878 as General Manager of the Hudon Cotton Mills at Hochelaga. His expertise was held in high esteem by the President of the company A.F. Gault. William J. Whitehead died in 1888 at 46 years, when his son Charlie was in, or had just returned from China.

Charlie Whitehead, born in 1868, had worked at Hochelaga as a clerk in the mill office, when his father was General Manager. Charlie Whitehead had a career in textile manufacturing unmatched by any one of his time, (to say generation would be limiting since he was a manager or executive in the business for over sixty years.) In 1935 the Canadian Cotton Institute would describe him as: "A man of tremendous energy and strength of purpose. He has always reserved his energies wholly for his work and it has been rightly said of him that there has been no job in the mills under his control which he could not do, and which he could not show others how to do."[96] (This study has already described Charlie Whitehead's efforts for Dominion Cotton. His work with Montmorency precedes it chronologically.)

In 1886, at the age of eighteen Whitehead went on his own to China. Three different sources give him three different backers for the trip, A.F.Gault, the Price family of Quebec City, and J. Greenshields, all of whom were investors in Montmorency. In China he sold two years output of an as yet unbuilt mill. When the Montmorency Cotton Co. was incorporated Whitehead was still under twenty-one, and needed his mother's signature to authorize his participation. His mother was a substantial financial backer of the mill, but took no part in its organization.

Establishing Montmorency

On his return from China, Whitehead sought assistance in organizing his project from the dominant figure in cotton textiles, A.F. Gault. The meeting to organize the new company was held May 17, 1889 at Gault's Montreal office building. It attracted established Montreal businessmen, all of whom, while they headed firms of their own in various industries, had already made investments in other textile companies. Present at the meeting were: C.R. Whitehead, A.F. Gault, David Morrice, Thomas Pringle, H.M. Price, Hon. D.A. Macdonald, Hon. A.W. Ogilvie, J.O. Villeneuve, J. Grenier, J.P. Cleghorn, and S.H. Ewing. The company was chartered with a capital stock of $200,000 under the Provisional Directors C.R. Whitehead, A.F. Gault, D. Morrice, Thomas Pringle, and H.M. Price. Gault was appointed Chairman, and James Rodger, the secretary of Gault Bros., was interim secretary.

The experience the Directors, and particularly Gault had in organizing cotton mills meant the floundering so evident in setting up Montreal Cotton, was replaced by smoothly executed plans when getting Montmorency underway. The provisional directors set about establishing the new mill quickly and expertly. Charlie Whitehead was very active in handling the details of construction. Only four Directors' Meetings were held in the six months it took to get the mill in operation. With the Montmorency Mill, unlike the earlier ones, the directors were able to calculate costs accurately and to time calls for payments of shares from the shareholders to meet expenses as they were incurred.

The mill was built beside Montmorency Falls, near Quebec City. The draw of inexpensive hydro electric power at the site overcame the usual proclivity of Montreal business men to situate the cotton mills near Montreal. Land at the foot of the Montmorency Falls, near Quebec City, including a wharf and railway sidings, and was leased from the Hall Estate for ninety-nine years, at $100 per year. In less than a month, construction of the plant began. Some excess machinery was bought from the Ontario Cotton Co. of Hamilton; the rest was ordered from England.

The mill started with 200 looms, but the boiler was calculated on an eventual capacity of 500 looms.

Organization Structure

In September, as the mill neared completion, a Shareholders' Meeting was held at which Gault was elected President and David Morrice, Vice President. Details of operations were left to Charlie Whitehead who was appointed Mill Manager. A young nephew of Gault, Leslie Gault Craig, was appointed Secretary at a salary of $1,000, p.a. Whitehead hired the mill superintendent, John Taylor, at a wage of $5.00 per day. The Board of Directors planned to meet every three months, oftener if necessary, at the mill office in Montmorency. This was not carried out. Directors' Meetings were invariably held at the Gault Bros. offices in Montreal. This was convenient because all the directors, except Willliam Price of Quebec City were, Montrealers.

Exhibit: 2 - 6 Montmorency Cotton Co. 1890

Board of Directors: A.F. Gault, D. Morrice, Sr., C.R. Whitehead, H.M. Price, Thomas Pringle

President- A.F. Gault

Secretary-Treasurer
Leslie Gault Craig
Asst. Secretary

Mill Manager
Charles R. Whitehead
Superintendent - John Taylor

Manufacturing started slightly behind schedule in February 1890. By May, Whitehead reported "that two shipments, of one carload each, had been made to China, and that he anticipated shipping at least that much every month."[97]

Problems in Training and Retaining Mill Hands

The major problem at Montmorency was the inexperience of the mill hands, recruited from farms in the area. Gault reported at the First Annual Meeting: "There has been a great deal of difficulty in educating the help, nearly all of whom were green or inexperienced."[98] Whitehead was unable to put all the looms into operation immediately, but only started them in operation gradually as farm hands were trained as mill hands. A year later Gault reported; "The help are now much more tractable and satisfactory than when the mill was first commenced."[99]

Housing the operators was always a problem in rural Montmorency. Along with the mill, the company constructed four blocks of tenements of four houses each. Within the year another ten tenements were built. Gault justified the initial expense to the shareholders because "While these cottages will pay the company a good rate of interest, it will give a control over the help, which we could not otherwise had had and will in every way prove beneficial to the mill."[100] Housing was always in short supply at Montmorency, despite the company's considerable efforts in building cottages. Despite these efforts, as late as 1901, some families were living two or three to a house. In 1896 the company spent $10,000 to build a Club House, which included a Social Literary Club, for employees of the mill. Money was also donated to build a non-sectarian school.

In 1901, to comply with new provincial regulations, the work week was reduced from 60 hours of ten hours work a day, to 55 hours a week. In winter the new hours of work were from 6 a.m. to 11 a.m. and 12 p.m. to 4 p.m., six days a week, with an extra hour on Friday between 4 and 5 p.m. for cleaning. Summer hours were 7 a.m. to 12 noon, and 1 to 6 p.m. five days a week and Saturdays from 7 a.m. to noon. The reduced hours did not effect productivity: "from Experience Mr. Whitehead stated that he had not found the production had suffered from the reduction in hours as the help was able to do more under the above schedule than under the 60 hours schedule."[101]

Throughout its history, the Montmorency Company had difficulty in recruiting, training, and retaining mill workers. Employees would leave for higher wages in the Northern U. S. textile mills. Some returned to the Quebec City area, but preferred not to work year 'round. For example, Whitehead noted in 1901: "Many operatives have returned from the United States during the year, but these were content to remain upon their farms throughout the Summer months and refused to work in the mill."[102] Other industries around Quebec City vied for trained factory workers, leaving the company forced to continually train unskilled farm people. "The people in our own Parish are also most independent, owing to the great demand for labor in the immediate vicinity. The approach of winter is beginning to drive them in and we have imported families of green help who are now being rapidly turned in the different departments of the works."[103]

Efficient operation of the mill required production to be at full capacity. Unskilled help however, meant that even at full capacity, production was down. At full capacity the mills needed 1,200 workers, but because of absenteeism the company needed to employ 1,400 skilled operators.

Unlike the earlier mills such as the V. Hudon, the General Manager at Montmorency was able to compute production costs from the beginning. The main variable cost was the price of raw cotton. Just as the mill was about to start up, raw cotton went up three cents a pound. The next year, Gault, intervened, and using his expertise, waited until he felt cotton was priced at its lowest, and then bought a year's supply. Gault, through Gault Bros & Co. was ordering cotton for all ten mills of which he was now President.

The China Trade

The Montmorency Mill had been built exclusively to produce grey cloth for trade to China. The China Trade in Cotton Textiles (in pounds) lasted just over a decade, the figures for the entire trade being: 1887: 1,742,205; 1888: 2,009,974; 1889: 886,332; 1890: 2,279,150; 1891: 2,466,944: 1892: 1,825,259; 1893: 1,742,312; 1894: 3,770,343; 1895 3,521,004; 1896 : 3,392,042; 1897: 2,471,278; 1898:

1,375,257; 1899: 344,316. In 1900 the trade abruptly ended.

For the first two years, all production was shipped by rail to Vancouver, and then on to China. In 1891, export orders did not absorb all production. Gault arranged that Dominion Cotton Co., of which he was also President, sell some output on the Canadian market, as a temporary expedient.

The problem with trading in China was that the company was paid for its goods in silver, which fluctuated in value. Occasionally the company was not paid for goods delivered. In 1892 it was necessary to write off $12,545 in losses on a shipment to China. In 1892 and 1893 these exports dropped off further, and Montmorency signed an agreement with the Dominion Cotton Company in which Dominion would act as their exclusive sales agent of goods to be sold on the Canadian market. Sales were low, so the following year Montmorency hired its own Canadian sales agent. A second salesman was appointed by Whitehead in the depressed times in 1901 because "it was impossible for one man to cover the whole country on all lines, and obtain the best results".[104] The sales force was also simple because the mill had only one product to sell, unbleached cotton.

Montmorency had been designed to produce goods only for the China trade. The fluctuations in the China trade resulted in an increasing amount of its goods being offered on the already saturated Canadian market.

In late 1892, Charlie Whitehead took a five month leave of absence and again visited China and Japan, as well as England, seeking orders. His travel expenses for the trip were just over $1,000, of which the Montmorency Company paid $780. He was evidently successful, as the exports to China increased in 1894. The minute books of Dominion Cotton Co. record : "Whitehead of Montmorency visiting China, Dom. C. C. donates $250 to defray part of cost." Dominion was selling its excess grey cloth in China and presumably Whitehead was also acting as Dominion's sales agent as well.

The directors' response to the increase in orders was to add more capacity. In 1895 the mill was expanded from 200 to 270 looms. Production capacity was increased 35%, but a repositioning of machines to take advantage of the larger scale of operations, increased output by 54%.

For the first time the product line of Montmorency was expanded to include carpet yarns for the Canadian market. The company continued to sell its surplus grey cloth in Canada, following what Whitehead described as "a policy of non-interference with the existing conditions in this market with regard to prices".[105] Whitehead was concerned about this change in strategy and warned the company not to forget its main purpose - trade with the China market. In 1895 there was a price war on the domestic market. Gault's production and pricing agreement among the mills had broken down. Montmorency did not lower its prices so that it made virtually no sales in Canada. The China trade through Shanghai, however, flourished and brought in a good return.

The export trade continued to be brisk until 1897, when internal strife in China again reduced the mill's exports. As Price explained to the shareholders, "Many of the large Chinese Native houses have been hit hard by the fluctuations in exchange and have been unwilling to purchase freely."[106] An additional problem was that overproduction in the U.S. had resulted in American textile firms sending larger than usual shipments to the Far East to get rid of their surplus stock, even at a loss. As a result, Montmorency's profit margin was down.

The company sought another outlet for their grey goods. In 1897, the British government was building a railway from Mombasa to the Albert Nyanzia Lake, and establishing trade stations along the route. Montmorency sent representatives to London who arranged for the firm of Gray, Davis & Co. of London, agents for the North West Protectorate of Zanzibar, Mombasa, East and Central Africa, and the Lake District, the largest shippers in the Persian Gulf, to trade exclusively in Montmorency goods rather than the American goods it was carrying. The company was helped in making these arrangements by the Hon. Charles Fitzpatrick and Sir Richard Cartwright, both federal Members of Parliament. The production of carpet yarns was ended and all output was once again made only for export.

<u>Merger With Riverside Cotton</u>

In 1898, at the instigation of Whitehead, Montmorency Cotton merged, through an exchange of shares, with an adjacent cotton company in Montmorency. The

Riverside Manufacturing Company, established in 1894, a small mill specializing in fine hosiery yarns for the knitting trade which was barely breaking even on its operations. The two companies previously had an arrangement to purchase their raw cotton supplies jointly. The new company, Montmorency Cotton Mills Company had $400,000 capital stock. Plans were made immediately to enlarge the Riverside Mill to expand its production of towelling and sheeting, and to include hosiery yarns in its product line. In 1900 a weaving plant was added to produce flannel goods. The enlargement of the Riverside mill meant that Montmorency could now produce all counts of yarn. This change in strategy, to produce a wide range of goods was not due to declining orders from China, but was made in order to produce goods for their rapidly growing sales to the British Government for goods for its new African protectorates. In the boom year of 1899 the Montmorency Mill was also expanded, to gain economies of scale in order to compete on the open world market with large efficient U.S. Southern Mills.

In 1899 the demand for goods in China was so heavy the company refused some orders. That year produced the best return in the company's history. The mills were in excellent condition, with almost all the 1889 equipment having been replaced. Whitehead reported to the shareholders that the only problem was "The Chinese war has caused a temporary shortage of the shipments to the East, ...when settled these markets should greatly increase, the natives like our goods." [107]

Reorganization After Gault's Departure

Until 1895, A.F. Gault was the leading figure at Montmorency. Most Board of Directors meetings continued to be held in Montreal at the Gault Bros. Building. In his annual addresses to the shareholders, Gault used the same phrases he used in his speeches to the shareholders of the Montreal Cotton Co. and Dominion Cotton Co.

Gault resigned as President of Montmorency in 1895 on the advice of his doctors. He had been the invaluable link between several textile companies. Charlie Whitehead made this point on Gault's retirement when he called "the attention of the Shareholders to the great efforts Mr. Gault had made in the past to secure peace and harmony between this company and the other Company's in this Country. It was largely owing to these efforts that this Company was in such a prosperous condition today." [108]

On Gault's retirement, Whitehead became President, as well as Managing Director. H.M. Price of Quebec City, replaced David Morrice, who had also resigned from the board, as Vice President.

Gault and Whitehead clearly continued their close association, as in 1897, Whitehead and Leslie Craig, Gault's nephew, accepted an offer by Dominion Cotton, of which Gault was still President, to be joint managers of the company's mills in Montreal. H. M. Price commented on the new arrangement, that while the directors regretted the company's loss of "the minute supervision which it now derives from their services, yet this would be compensated for by the removal of the undue competition and the cutting of prices which had hitherto existed."[109] That is, it was important that Montmorency's close ties with Dominion Cotton, the industry leader should continue now that Gault was no longer president.

Craig's replacement as Secretary-Treasurer was a young Montrealer, Frank G. Daniels, who in 1928 would be chosen President of Dominion Textile.

The new Board of Directors was now composed mainly of Quebec City business men. Meetings were now held in several locations, at the mill office in Montmorency, at the newly build Chateau Frontenac in Quebec City, and at Charlie Whitehead's office at the Dominion Cotton Mills in Montreal. Under Whitehead, meetings were held monthly, but most of Whitehead's time was spent in Montreal, dealing with the concerns of the much larger Dominion Cotton Company.

The End of the China Trade and Reorganization, 1900

The disturbances in China, which Whitehead had at first thought were temporary, were not. The Boxer Rebellion in China completely cut off the trade between Canada and Shanghai. The company tried briefly and unsuccessfully to sell goods in Australia, but could not compete with the British and U.S. mills on price. The domestic market was depressed. Within a few years the company's performance fell from steady profits and dividends, to an operating loss in 1902. From 1901, until its merger into Dominion

Textile in 1905, Montmorency earned no profits.

In 1901 the company began to follow a policy of retrenchment. As Whitehead diplomatically put it: "We have now been steadily increasing our plant for 8 to 10 years and we feel that we have brought our mill up to a size and capacity where they can be worked at the most economical point. This being the case we feel, that instead of seeking to make further extensions, the Company must now pursue the policy of working the Plants as existing to its greatest capacity and building up a strong reserve fund." 110

By late 1901 the operating losses brought the pressure of shareholders to bear on Charlie Whitehead's management of the mill. Whitehead and Craig had just been dismissed as joint managers of the Dominion Cotton Mills in Montreal. The minutes of December 6, 1901 record Whitehead's obervation that informal discussions had been held among shareholders wanting wider representation on the Board of Directors, whereupon, Whitehead resigned as President. Thereafter, he would attend meeting sporatically, as Managing Director, to give well-received advice on industry conditions, and on matters such as purchasing raw cotton and coal. Whitehead continued to be active in the cotton section of the Manufacturers' Association Meetings. For the next few months the Quebec City Directors, led by H.M. Price held regular meeting in which they planned a new type of management for the company. Whitehead's demotion indicated the infomal cartel led by Gault was breaking down. Competition between the mills was fueled by the recession.

Ownership of Montmorency

Montmorency was a widely-held company. The largest holding was owned by the Whitehead Family. In 1898, the largest shareholder was La Caisse Economic of Quebec City, the second largest shareholder was Mrs. L.A. Whitehead, mother of Charlie Whitehead and widow of William Whitehead. Late in 1898, the amount of capital stock allowed the company was increased by federal charter. Charlie Whitehead paid $50,000 for an additional 500 shares, making him the second largest stock holder.

In 1900, in order to attract more shareholders, the company listed its stock on the Montreal Stock Exchange. In the same year, in order to get more shareholders at the Annual Meeting at the mill office at Montmorency, the company started the practice of hiring a railway car to bring shareholders the short distance from Quebec City to the mill at Montmorency Falls.

Decline

In the difficult times after 1900, the company's stock fell in price. To counteract the declining interest in textile shares by investors, the company's federal charter was changed to reduce the par value of the stock price from $100, the standard price of textile stocks, to $10. The directors explained: "We feel that could the Stock be purchased in small amounts, many of our Employees and also the Parishioners would be able to invest in it, whereas their savings do not allow them to purchase at present value. This system has been most successful in the English Co. operative mills, and while not wishing to turn this into a Cooperative Company we think the above would be a step in the right direction."[111]

Third Reorganization, 1902

In February 1902, in an attempt to deal with operating losses, dramatic changes were made in the company's executive. Lt. Col. F.C. Henshaw, and Rudolph Forget, both Montreal financiers, neither of whom had been shareholders the year before, were made Directors, and elected President and Vice President respectively. Henshaw bought 3,106 shares, making him the largest shareholder, with Whitehead, holding 1,267, the second largest. Henshaw and Forget also constituted a newly formed Financial Committee to deal with the increasingly pressing financial problems. An Executive Committee of three Quebec City businessmen, headed by Price, monitored mill operations.

Lt. Col. Henshaw was a stockbroker whose title came as commander of a Montreal militia unit. He already held several directorships in transportation companies, but he had no background in textile manufacturing. At the same time he accepted the presidency of Montmorency in 1902, he resigned as Commander of the Royal Victoria Rifles, Montreal. Rudolph Forget was the nephew and partner of Louis Forget, one of Montreal's leading stockbrokers. Louis Forget would become President of Dominion Cotton the following year. The appointment of Henshaw and Forget was part of a trend after 1900 of bankers and financiers taking over executive positions in manufacturing companies.

In April the new executive outlined the specific duties of Whitehead as manager, duties now clearly separated from those of the executive. Instead of the President and board handling mill matters, wider powers were now given to the position of Mill Manager. The new executive, the President, Henshaw in particular, had no expertise in manufacturing. Therefore: "It was resolved that the Manager have charge of the manufacturing deciding what line of goods should be made, purchasing the cotton and supplies, taking care of Buildings, plant and machinery, engaging and discharging superintendents, overseers and firing, the scale of wages, engaging salesmen and taking charge of the selling department and all other matters pertaining to the proper conduct of the company subject always to the order and direction of this Board." [112]

The duties of the Secretary-Treasurer were also clearly defined. Instead of being a part-time position, somewhat honorary, which involved the gentlemanly duties of preparing financial reports, recording minutes and looking after correspondance, the job became a staff function, that of an office manager, including "the charge of the mill office and financial work, the engaging and discharging of the staff, compiling the records of the working of the Mill cost etc., etc.; watching Cotton and other markets, supervising correspondance both sales and general, and generally taking the responsibility of the clerical work of every kind required for the proper carrying out of the business of the whole subject to the orders and direction of this Board." [113]

From 1902 onward, this new division of powers between professional managers and a Board of Directors concerned mainly with broader financial and industry level problems prevailed at Montmorency. The mill accounts and bookeeping became much more detailed after 1902, under the direction of Henshaw and Forget.

The company now stressed efficient operation of the mill. More attention was given to training operatives "many of whom were necessarily learners or what are commonly known as "green help." More houses were built in the village in order to attract "the better class of operatives." [114]

Product Diversification

The product line was futher diversified to include production of flannel blankets and cloth for one-piece underwear, known as union blankets and union suits. President Henshaw explained to shareholders in 1904, that in view of the loss of the China trade it was now "the policy of the Company to diversify as much as possible our output and to get as far as possible out lines of goods which could be turned out in a more highly finished state than our present grey cottons." [115] In order to circumvent using the Colonial Printing and Bleachery, one of its largest customers, the company built its own bleachery. This strategy now placed Montmorency in direct competition with the other Canadian mills, and only increased the cut-throat competition in the industry. The directors had no choice however, other than ceasing operations. In order to keep the mill in operation the goods would have to be sold on the Canadian market.

In the depressed Canadian textile market the shakey pricing agreements that had been worked out by magnates like Gault and Morrice no longer held. When the directors of Montmorency met they exchanged intelligence reports on examples of how the pricing agreements were being ignored, with examples of competitors selling below agreed upon prices. Whitehead acted as the company's go-between with other textile companies about enforcing the agreed upon price list, but the undercutting continued.

Another problem was what the directors called the "slaughtering" of U.S. cotton goods in Canada as a result of over-production in the U.S. The directors saw the problem as beyond their own abilities and spoke increasingly of seeking some protection from the government. In 1904, as a result of the combined effort of lobbying by textile interests, an anti-dumping law, a new departure in Canadian tariffs, was introduced.

Merger into Dominion Textile, 1905

Despite the efficient financial managment of the company, it continued to lose on operations in the severely depressed textile market. On December 12, 1905, at the Chateau Frontenac, President Henshaw reported to the Board on the interview he had with members of the Syndicate, representing Dominion Textile, interested in buying Montmorency. The Board agreed to accept the Syndicates' offer of $1,200,000 for Capital Stock, paid half in preferred cumulative 7% stock and half in 6% bonds. The Syndicate assumed all assets and liabilities of Montmorency.

In April 1905, a Special Shareholders Meeting of the Montmorency Co. was held at the Dominion Textile office, 112 St. James St., Montreal. The Montmorency Board resigned. A slate of officers identical to that of Dominion Textile were elected, with David Yuile, President, and Charlie Gordon, Vice President. The Montmorency Company existed as a legal entity until 1920, to handle its unfinished business. Each year between 1905 and 1920, in late May, a few minutes before the Dominion Textile Annual Meeting, the previous year's minutes were read out, and Dominion Textile Directors were again elected as Montmorency's Directors.

Montmorency had the unusual beginning of producing solely for the China trade. It had expanded partly by the acquisition of Riverside, and partly through enlarging its facilities during prosperous times. When the China trade ended in 1900, Montmorency was forced to sell in the depressed Canadian textile market.

The company's management reflected the general trends in the textile industry. It was part of the informal cotton textile cartel controlled by A. F. Gault and David Morrice. Even before Gault's death in 1903, the direction of

Montmorency passed to financiers, Henshaw and Rudolph Forget. These men were by 1905, eager to place the operation within the larger cartel, enforced by legal control, organized by the Syndicate of financiers which formed Dominion Textile.

2.8 COLONIAL PRINTING & BLEACHING: 1899 - 1905

The Colonial Printing and Bleaching Co. Ltd., founded in 1899 was the smallest and newest of the four companies which merged in 1905 to form Dominion Textile. Colonial was planned as a converting operation. The company did not spin or weave cotton, but bought greige goods (unbleached cotton,) and converted (finished) it by bleaching, followed by dyeing or printing. Colonial was formed because there was an over-supply of Canadian-made greige goods on the market, when the demand was for finished goods.

William T. Whitehead

The idea of forming this specialized operation was conceived by William T. Whitehead, the brother of Charlie Whitehead, instigator of the Montmorency Cotton Company, and the son of the late William J. Whitehead the highly regarded mill manager of the Hochelaga Cotton Co. W.T. Whitehead had first worked at Hochelaga Cotton under his father. In 1888, when Hochelaga acquired Magog Cotton, Whitehead had been transfered to this mill. Within a few years he was mill manager of the Magog Branch, the only

Canadian mill to produce printed cotton goods. Whitehead now wanted to start his own operation, perhaps to emulate his younger brother Charlie. The other charter members of the company were four Montreal businessmen without a background in textiles.

Hurbert Holt

The company's business organizer, Hurbert Holt, would later be Vice President of Dominion Textile for nearly four decades. Holt's only experience in manufacturing was a shirt-making company he had recently organized. Anglo-Irish, Holt had studied civil engineering in his native Dublin before coming to Canada at the age of twenty. Between 1875 and 1890, he had worked as an engineer and superintendent on railroad projects, notably the Canadian Pacific Railway.

In 1890 Holt married the daughter of Andrew Paton, founder of the Sherbrooke woolen mill company, and settled in Montreal. Holt would subsequently become a leading figure in Canadian banking and finance. Colonial was one of his first ventures outside engineering. During his time as President of Colonial he would become President of the Montreal Gas Co. in 1894, the Montreal Park and Island Railway Co. in 1896, and of the Sovereign Bank in 1902. In 1908, when he was Vice-President of Dominion Textile, he was elected President of the Royal Bank of Canada.

The company's federal charter allowed 500,000 in capital stock, although initially only $253,700 was subscribed. Within a year the full amount was bought up.

At Colonial's First Annual Meeting in July 1899, Hurbert Holt was elected President, and W. T. Whitehead appointed General Manager in charge of construction. An office was opened on McGill St. in Montreal.

The Strategy of Colonial

The company was formed to operate a converting operation, to buy grey cloth from Canadian and U.S. mills, and finish it for consumers by bleaching, dyeing and printing. The mill was formed after Gault's Hochelaga Co. had taken over the Magog Printing Company, the country's only printing operation. This left a niche, or so it was felt, for a small independent converting operation, since Magog now gave priority to the Dominion Cotton output. It hoped that as much work as possible would be on a commission basis, thus avoiding having to make loans to buy cloth and carry an inventory. But as the directors noted, "this is a business that must be worked up in the field".[116] They began operations without contracts with primary textile mills. The company did not develop into the middleman operation the directors had meant it to be. It had to created its own business by buying greige or unfinished goods. Loans to purchase grey cloth became a permanent feature of the operation. From the beginning, the firm's prints were sold under the 'Colonial' brand.

The plant was built on St. Ambroise St. in St. Henri, a town adjacent to Montreal, because of the twenty year tax concession made by the municipality of St. Henri. The site was well-served by both the Lachine Canal and by railway spur lines.

The company's early sales were satisfactory, but not as good as originally anticipated. Colonial paid its only dividend, of 6%, in 1904. It was the only one of the four companies forming Dominion Textile to pay a dividend after 1902.

Organizational Structure

Management at Colonial, from the beginning, was clearly divided between the directors and salaried career managers. President Hurbert Holt and his executive were primarily concerned with costs and with general trade conditions in the industry. Day-to-day management concerns and business affairs connected with the plant operation were left to William Whitehead Jr., the General Manager. Operating decisions were not discussed in the Director's or the Executive Minute Books. Whitehead, the General Manager handled business affairs connected with the plant operation. A Mill Manager was in charge of supervising plant operations.

The Difficulties of a Specialty Operation

From the beginning the Directors found operating only a converting plant, and not an integrated operation, to be risky and subject to business cycles. By August 1900, the directors of Merchants Cotton Co. passed a ruling putting a limit of $50,000 goods on their line of credit to Colonial. At any amount higher than that, Colonial would have to post a bond. Within a year after the company was formed the directors were seeking out other mills with integrated operations with which to formally amalgamate.

In 1901 the Directors agreed they should add a cotton spinning and weaving mill to their facilities, but did not carry out this ambitious and costly plan because of the depressed state of the cotton trade. Instead, they entered into negotiations with the Merchants Cotton Company, then experiencing losses. Holt approached Merchants several times to discuss amalgamation. The Merchants' directors discussed possible financial arrangements. But by then, early 1901, cotton textile sales were declining, and there was talk of a more general amalgamation with Dominion Cotton which A.F. Gault was trying to arrange, so the directors of Merchants dropped the issue. The proposal was also scrapped because Colonial considered the share exchange offer made by the directors of Merchants unacceptable.

In early 1903 William Whitehead tried to come to an agreement to amalgamate with four Montreal shirtmaking companies, one being The Standard Shirt Company, owned and managed by Charles Gordon. Another was owned by Holt. The companies could not agree on terms of a merger, but did come to a pricing agreement for their fall lines. In 1903 the President, Hurbert Holt was involved in merger negotiations with Dominion Cotton and Merchants Cotton. Again, attempts to find a satisfactory division of common stock based on assessed values failed.

<u>Merger Into Dominion Textile, 1905</u>

In late December 1904 the Syndicate representing

Dominion Textile Ltd. made Colonial an offer of $507,000, payable in bonds and preferred 7% Dominion Textile Co. Ltd. stock, an offer the directors of Colonial accepted. A Special Meeting of Shareholders unanimously approved the resolution to sell the company. Hurbert Holt, a member of the Syndicate, as well as President of Colonial, had no difficulty in persuading all the shareholders to sell their shares to the Syndicate. Immediately after this meeting, the Directors and Executive Officers of Colonial resigned, and in their place the board members of Dominion Textile were voted in as Directors, with David Yuile, President, and Charles Gordon, Vice-President.

Colonial was not dissolved as a company, and continued to exist legally as a holding of Dominion Textile Inc. until 1920. Each year between 1906 and 1920, a two minute annual meeting was held to re-elect the Board of Directors, which was the same as the Board of Dominion Textile.

Colonial was never successful for two reasons. It was a specialized, and not an integrated operation, and it was dependent on the largess of letters of credit from textile weaving companies, at a time when these companies were short of working capital.

2.9 SUMMARY

The operation of the Canadian cotton textile mills followed the pattern sketched out by Chandler in his description of U. S. textile mills in the three decades after 1818. "The merchants who founded the mills and those who came to control them, as well as those who marketed their output, held to traditional ways. Although they incorporated these manufacturing enterprises in order to pool capital, they continued to manage them like partnerships. The manufacturing firm had one full-time officer, normally a treasurer, who resided and worked in Boston or another commercial center and was a major stockholder. The day-to-day operations of the distant mill were left to a salaried agent or to a superintendent. To the treasurer and members of the board, the mill agent was a technician similar to an engineer on a canal or an inspector in an insurance company. ... The treasurer kept in touch with the agent through the accounts the agent sent him and through weekly visits to the mill."[117]

Canadian mills were operating with this minimal hierarchical structure between 1873 to 1905. Managers of mills located outside of Montreal (Valleyfield, Montmorency, and Magog,) travelled every week or so by train, to report to the President and to receive instructions. Messages were relayed by telegraph, until 1880 when the new Edison Telephone Co. was established in Montreal with lines to the surrounding towns.

The Secretary-Treasurer headed each company office in Montreal, aided by one or two office assistants. The head office was usually just that, one office room in which the Secretary worked, records were kept, and board meetings and annual meetings held.

The Secretary-Treasurer, in some cases, held this position in more than one corporation, even in two competing textile companies. Mr. Creak was simultaneously Secretary of the Merchants and the Montreal Cotton companies. It was not until the 1890s that firms demanded they be the exclusive employer of their Secretary-Treasurer. In Mr. Creak's case, Merchants Cotton asked him to resign. This change coincided with severe competition in the industry during the long general business recession in the 1890s, and with the breakdown of the informal cartel agreement.

The Secretary-Treasurer in the Canadian mills studied was never a board member, nor a major stockholder. One of the conditions of employment as Secretary-Treasurer was the ownership of some stock. Incumbents bought stock after being appointed, and generally sold it when they left the company. The value of their holdings was small. The exception to this was young Leslie Craig, Secretary-Treasurer at Montmorency, who was a nephew of A.F. Gault.

Mill managers, as well, were obliged by their contracts to buy shares. In some cases, where their personal funds allowed them to buy only a small number of shares, the managers were under an obligation to use part of their yearly salaries to buy additional shares. In a few cases, such as Charlie Whitehead at Montmorency and A.B.

Mole at Dominion Cotton, highly valued mill managers were eventually asked to become directors. This was generally considered undesirable. The feeling between 1873 to 1911, when Frank Daniels, General Manager of Dominion Textile, was appointed a director, was that managers should not be directors, that the two functions should be separate.

Generally, the Mill Manager was treated as an ex officio member of the board. He was usually present at directors' meetings, where his advice was frequently sought. The Mill Manager was the company's technical expert, possessing knowledge of the production process the owner-managers did not have. As Chandler found in the U. S., although primarily technicians, the mill manager also hired, fired, and paid operators. He kept production records and accounts of finished goods shipped to the commission agent.

Chandler found that by the 1880s, U.S. textile directors began to use their accounts to assist them in management. Canadian directors began using mill records of costs and outputs, as aids in planning, by the late 1880s. There was a uniformity in these dates across the mills. Thus, Montreal Cotton, established in 1873, did not collect production data in any detail until 1890, but Montmorency, established in 1889, collected and used production data from its founding. The interlocking directorates of the Canadian mills can account for the rapid diffusion of these reporting proceedures.

Chandler found considerable variety in accounting methods used in U.S. textile mills. In Canada, of the five mills studied, the accounting forms used were similar, but not identical. This was again probably because of the interlocking directorships. Only Montreal Cotton and Hochelaga were prosperous enough to have a designated "surplus fund" into which profits were accumulated to be used for capital improvements. Montreal Cotton was also the only early company to regularly deduct depreciation.

As in the American case[118], the Selling Agent was the main determiner of quality and style. Chandler found it was the Selling Agent who told the mill management what quantities he could sell that season. In Canada, in six of the seven mills mills described here, and 40 mills in all, David Morrice in effect cartelized the distribution of goods.

Chandler[119] notes the role of the Selling Agent in providing textile companies with the credit needed for working capital. In the Canadian case, David Morrice was the pre-eminent selling agent. His role was particularly important in the 1870s, and had declined considerably by 1900. In the 1870s, Morrice provided needed funds to both Montreal Cotton and Hochelaga Cotton when the banks would no longer extend credit. Morrice probably saved Montreal Cotton from bankruptcy. Morrice's business failure in 1883 rocked the textile industry, as it removed the industry's main source of operating revenue. His near bankruptcy resulted in a cartel arrangement among the mills, which reduced output on a quota basis. Like his U. S.

counterparts[120], Morrice paid the insurance and transportation costs on the finished cloth.

Chandler describes the U.S. primary textile industry as being in the hands of several unconnected groups of businessmen. That "long after 1840, the basic functions of marketing, production, finance, and purchasing remained under the control of different men often in different enterprises who rarely lived in the same place and who saw each other briefly once a week or less. In a word, no central management existed. Indeed, the selling agent and production remained in the hands of two legally different enterprises. There was of course some coordination, for often merchants who were partners in selling companies, were on the board of the manufacturing firms."[121] In Canada, this exception was the rule. True, financing, production, marketing, and purchasing of materials were handled by different legal entities, but in Canada, the same men controlled all four types of enterprises.

Canadian bankers, textile directors and selling agents likely came across each other several times during the course of a day. In 1890, Montreal had a population of 200,00. The head offices of the textile companies, banks, as well as other businesses the directors were involved in, were clustered around Place d'Armes, a five, at most ten minute walk of each other. Their residences, according to city directories, were in the "Square Mile" around Sherbrooke Street, making them neighbours at home and at work.

Club membership was de rigeur for businessmen. Until recently, lunching regularly at the St. James Club was an important part of the Montreal businessman's communication network. Other clubs, notably the Mount Royal, were obstensibly social, but in fact provided a further meeting ground. Montreal businessmen were expected to be civic and community minded. Businessmen typically sat on the boards of hospitals, musical and dramatic groups, charitable institutions and the art gallery.

Chandler makes the point that unlike the railway industry which was financed on a national and international basis, the textile mills of New England were financed locally or from Boston and Philadelphia. In Canada the same was true. The transcontinental railway, the Canadian Pacific, required so much capital it was financed and built by the federal government. The textile mills were financed locally, with Montreal capital. The exception was the early (1870s) support Samuel Barlow a Lancastershire textile machinery manufacturer gave to Montreal Cotton. Only very occasionally does a company's stock subscription role list a non-Canadian, and these exceptions were invariably New Englanders.

Chandler notes that in the U.S.:"By the 1870s, nearly all wholesalers had become jobbers."[122] This was not the case in Canada. Here, the chain of manufacturers, Commission Agent (usually Morrice), dry goods wholesaler, retailer held until the late 1890s, although by the late

1880s a few mills had their own Selling Departments and jobbers. Secondly, Chandler observes that by the 1870s, east coast middlemen nolonger controlled the distribution of manufactured goods. In the primary Canadian textile industry, this hold was sustained until the end of the Great War. Thirdly, Chandler notes "the new jobber created large buying networks, though which he purchased directly from manufacturers at home and abroad, and he built external marketing organizations to sell to general stores in rural areas and specialized networks."[123] In Canada this process was handled, in textiles, almost singlehandedly by David Morrice. His control of the distribution of cotton textiles manufactured in Canada, in the 1870s and 1880s, amounted to a monopoly.

The end of the industry's middlemen in Canada came in the 1920s, when textile manufacturers began to sell directly to retailers and garment manufacturers. The garment trade eventually forced textile manufacturers to deal directly with them in the early 1920s.

The large U.S. corporations that Chandler describes in <u>The Visible Hand</u> were operated much differently from the Canadian cotton textile companies. The Rockefellers, Carnegies and Du Ponts all had cartels before the anti-trust legislation made it illegal. A key point Chandler makes is that they all realized, around the same time, that because they were in industries with a very high volume through-put, if they could reduce prices and be very much the low cost producer, they could effectively cartelize their industry. In industries such as oil and steel, volume through-put production meant oligopoly and price leadership. This cannot be done in most industries, including textiles, no matter whether they are Canadian or U.S. companies.

The big integrated firms came out of technologies that permit a very high volume of through-put. Chandler argues that when high volume through-put is possible there are tremendous cost per unit advantages, but only at full producion. If the volume is dropped the costs go right back up. The organization required to sustain this volume throughput is the origin of modern management.

In the much more labor intensive industries, particularly in textiles where there is a long learning curve. An increase in output is achieved by adding more machines and more operators. The management of this type of industry requires dealing with greater numbers of units, but the basic management techniques do not need to change - as was seen in the Canadian study between 1873 and 1905. Where this study differs from Chandler's U.S. findings is the ways in which an industry sought stability through co-ordination. Units became greater not in order to increase market share, but in order to secure market co-operation.

The period from 1879 to 1905 had been characterized by attempts by Gault and Morrice to secure co-operation and mutual support by cartels, and mutual associations. Although these had been partly successful, the rift between

Gault and Morrice, followed by Gault's death ended these efforts. The cartel arrangements were also unsuccessful.

The nature of the type of product produced - a necessity which was also similar to a commodity - made cartelization efforts useful. The interlocking directorates supported the cartel.

The problems which prevented cartelization being operative were:

(a) the death of the dominant personality Gault;

(b) the differences in sizes between the companies;

(c) the allocation of supply reductions;

(d) the business cycle;

(e) and variations in the tariff protection effectiveness.

A different system of industrial organization was needed in order to secure Gault's goal of "peace and harmony" among Canadian primary textile companies. The result was the creation of Dominion Textile in 1905.

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CHAPTER THREE

THE FORMATION AND DEVELOPMENT OF DOMINION TEXTILE: 1905 - 1919

MAJOR STRATEGIC-STRUCTURAL COMMITMENTS

- Rationalization and centralization within acquired industry structure.
- Specialization of mills within the company for efficient production. Decisions dominated by manufacturing imperative.
- Initial efforts to increase environmental leverage and reduce uncertainty through tariffs, quotas, and building strong ties in government and financial communities.

Critical Events	Company Actions	Effects of Change
1905		
approaching financial collapse of several cotton textile mills	formation of Dominion Textile, D. Yuile, President	Dominion Textile leases mills of merged companies
Canadian market depressed	co-operative effort by Montreal business community	reduced competition increased stability in Canadian cotton textile industry
industry over-production	work out financial arrangements	Holding Company structure
1906		
Canadian tariff on cotton raised, new companies formed	try and fail to acquire Montreal Cotton Co.	satisfactory financial returns for industry
1906		
Wabasso Cotton Co. 1907 Mount Royal Co. 1912 Empire Cotton expansion of industry output capacity	1905 -07 integrate operations of merged firms; keep mills operating continuously	products of mills specialized

beginnings of ready-to-wear clothing industry, increased importance of department stores	begin direct sales to manufacturers and department stores	still sell mainly to jobbers, but importance declining
1909 death of President D. Yuile	new President, Charles Gordon	more centralized, simple structure
1911 increase in Preferential Tariff 1911 - 14 world recession, overproduction in cotton textiles	sell or close small mills outside Montreal; improvements to large Quebec mills; lease Mount Royal Spinning	adequate financial performance; mills in improved state
1915 - 18 W.W. I., heavy demand for cotton textiles	emphasis on manufacturing efficiency & output	structure bureaucratic
British imports decline sharply heavy demand continues	President C. Gordon fills government duties, 1919: President, Bank of Montreal	increased responsibility to General Manager, operating decisions by salaried managers.

3.1 REASONS FOR THE MERGER

Dominion Textile, through a new organizational structure combined The Dominion Cotton Co., The Merchants Cotton Co., Montmorency Cotton Co., and Colonial Printing and Bleaching. This chapter focuses upon the creation of Dominion Textile in 1905, and its development until 1919. The formation of Dominion Textile was designed to bring order and stability to the primary cotton textile industry, and to prevent the financial collapse of the four companies which were merged.

In 1905 the cotton textile industry in Canada was mature, in part because of a lowering of the cotton textile import tariff. The industry had expanded to meet an increased demand for Canadian-made cotton textiles - a demand partly created by the government's 1879 Protective Tariff. When the tariff was lowered, firms competed for a reduced domestic market share. Dominion Textile was founded because the many competing mills knew they would not be able to function for much longer in direct competition with one another. The strategy was to merge four companies which specialized in producing mainly grey cloth, as well as a number of competing lines of finished dry goods. Production was to be rationalized - mills would specialize in certain types of goods to obtain economies of scale, rather than produce small batches of goods. The volume of output of the merged companies could be controlled to match the inevitable cyclical demand for the goods. It was hoped this would reduce the over-production of goods which were being sold at low prices, sometimes below their production cost. The merger was a desperate move made by textile firm owner-executives unable to see any alternative to combination other than having the individual companies go bankrupt.

In a much larger economy such as the United States, the failure of the less successful firms probably would have been welcomed by the firms which survived. This was in fact the textile industry pattern in the U.S. as the industry shifted from New England to the South. But in Canada there were different forces operating which encouraged co-operation and combination. The interlocking directorships between the cotton textile companies, the banks, and other industries in Canada, centred in the Montreal business community, meant that the near failure of one industry threatened the stability and security of the entire business community. The men of the Syndicate who formed Dominion Textile represented Canadian business and banking in general. The creation of Dominion Textile does not comply with the Darwinian notion of head-on competition. The merger of companies to form Dominion Textile was a communal reaction of businessmen in a small market economy, where head-on competition was expected to adversely affect the stability of the entire community.

The near bankruptcy of each of the four companies was due to several different factors:

[1] the depressed Canadian market, part of a world business
stagnation.

[2] over-expansion of the cotton textile industry

[3] the breakdown of the original pricing and distribution
system channeled through D. Morrice & Co.

[4] the loss of foreign markets

[5] the extension of product lines by each company into small lots of many lines in order to be competitive

[6] the failure of informal cartels

[7] the death of the industry's leader, Andrew F. Gault

A.F. Gault had tried informal agreements among the mills. But in times of economic depression as in the early 1900s, these agreements, which were not legally binding, fell apart. The impetus toward legal consolidation had been in many minds for a long time. Andrew Gault had first proposed the merger of the V. Hudon, Merchants, and Montreal Cotton companies in 1884, after the David Morrice cartel collapsed in the panic of 1883. At that time Gault was able only to merge the V. Hudon and St. Annes companies to form Hochelaga Cotton. Again in 1890, Gault merged six small Maritime and Ontario mills with Hochelaga to form Dominion Cotton Co. The 1892 merger which formed Canadian Coloured Cotton is another example. But the mills Gault and Morrice were able to acquire for these early 1890s mergers were smaller operations, outide Montreal, in financial difficulties.

The Dominion Textile merger required a crisis as a stimulus to action. In the past, the better managed companies, such as Dominion Cotton, had produced enough revenue to survive. By 1905 each of the four companies involved faced bankruptcy if they did not act jointly to change the industry structure.

The impetus for this merger was expressed by the President of Dominion Cotton, Louis Forget. "What else was there for us to do ? We were there and in that position, and we had to come to some foreclosure if we did not do this. We knew we could not meet the interest on our bonds."[1] When prodded by a group of emotional Dominion Cotton shareholders to justify the move, Louis Forget replied: "That was the only way to do it. If we were to remain as we were and manufacture the same line of goods against one another and fight our way to sell these goods, there was no hope for this mill or for the others."[2] Forget's analysis of the desperate situation appears to be correct. His company could not pay the interest on their bond payments, and could not, because of the stiff competition, earn enough to cover operating expenses. The company either faced imminent bankruptcy, or acceptance of the offer of the Syndicate.

The Textile Companies Which Formed Dominion Textile

All four companies which formed Dominion Textile were in severe financial straits by 1904. The stock of Dominion Cotton Company, (with the face value of $100, and which had traded for $130 in the early 1890s,) was now trading on the Montreal Exchange for $25 a share. Dominion Textile paid 42 1/2 cents per dollar on the book value of the stock to buy the four companies. To have gone higher would have hindered the new company from the start. According to Louis Forget: "For weeks and months I tried to get sixty cents, and could not, and in the end we had to consent to accept the offer made by The Royal Trust Company, and in doing that we did not want to tie the [new] company." 3

By 1904, with a net worth of $6,770,631 and a surplus of $932,831, the working capital position of the four companies which would form Dominion Textile showed a deficit of $108,414. The operating results for that year, ending December 31, 1904, for the four companies were: Dominion Cotton Mills, a $164,624 loss on ten months; Merchants, a $277,072 loss over twelve months; Montmorency, a $148,265 loss over five months; and Colonial, a $477 profit over nine months. Dominion Cotton had last paid a dividend in 1902, Montmorency, one payment of 1% since 1901, and Colonial, one payment of 6% since its founding in 1899. All of the companies had heavy bank loans and needed fresh capital, which they were in no position to raise separately. To make them viable survivors the firms needed to be refinanced and to control output to match the fluctuating market demands, rather than their current practice of maximizing production and selling it sometimes below production costs.

The textile companies needed to coordinate their activities so they would not all fail, but they could not do this as individual mills in informal cartels. Self-interest prevented the kind of harsh reassessment of the financial structure of the mills that had to be done. No single company had the resources to buy the others out. The reorganization had to come from an outside group that had strong financial support, the confidence of the business community, and the legal authority of ownership to force the individual companies to do what they would not agree to through voluntary groups such as the Cotton Manufacturers' Association.

The Dominion Textile Merger and Chandler's Findings

The formation of Dominion Textile created the largest textile company in Canada. The motive and emphasis was not to open new markets, to expand output and production, nor to produce new products as Chandler has proposed. The holding company structure was motivated mainly by the need to survive.

The hope of the Syndicate was that a central management would co-ordinate and rationalize the activities of the individual companies. Louis Forget, former President of Dominion Cotton explained that hope: "There was only one way to save ourselves, and that was for the four mills to come together and make changes in their operation, and in the selling department, and at the same time to have every mill manufacture a certain line of goods."[4]

The formation of Dominion Textile was a response to a management culture which emphasized survival, co-operation and support. The merger was possible because of the interlocking relationships among shareholders and directors of the four companies.

The merger was a logical result of the values, beliefs, and goals which had guided the actions and behavior of the founders in their early activities and business ventures. These values had been mutual support, communal interest, lack of competition, and self-protection, through observance of one's area or domain. Opportunities were viewed narrowly, as existing in one's line of business. Cotton manufacturers did not normally diversify into wool products, nor was a wool producer expected to expand into cotton. Diversification was not perceived as a logical activity for a company. The owners, however, as investors, sought investments in many different businesses.

There appears to be many different reasons for this approach to business:

[A] The Lack of Managerial Expertise. Managers of mills were principally technically oriented production people. The activities of mill superintendents excluded the purchase of supplies and the selling of products.

[B] The Commodity Nature of the Various Businesses. The cotton and wool businesses were conducted as commodities where demand and supply conditions affected market prices, and supplies were also commodities.

[C] The Nature of Ownership and Control. Many of these investors/owners had limited time for any one business. Control was exercised through the appointment of a superintendent, financial results, purchase of supplies, especially cotton, and regular meetings. A company which is involved in many different businesses, becomes more difficult to control.

[D] The Cyclical Nature of Business Activity, and the Reliance on Government for Protection. The cotton business was subject to various cycles and fluctuations in the protective tariff. Diversification of financial investments was considered prudent.

[E] The Separation of a Person's Business Career from Individual Companies. A person's life, status, position, and dignity was distinct and separate from the business in which he was involved, or the corporations with which he was connected. The models of business behavior which appeared to guide these early Canadian businessmen were those of manorial lords rather than White's organization man. Like manorial lords, they were involved in many different kinds of businesses, which were separate from their personal finances and values. They accepted the position of president of corporations, which did not imply corporate committment and attachment, but the status of ownership and respect from one's peers.

These values, and attitudes appeared to be held by many in the Montreal community. The decisions to form Dominion Textile were made by "gentlemen", all of whom knew the rules of the game, and were operating with similar values to protect investments and guard against further loss. This could easily take place since the Canadian financial community was small. The same men were shareholders and sometimes directors in several of the companies. The Hon. Robert MacKay, for example, was a shareholder in Dominion Cotton, Montreal Cotton, and Montmorency Cotton. He had been a director, simultaneously, of both Merchants and Montreal Cotton. He was also a Senator, and a director of the the Bank of Montreal, the bank which financed the merger. MacKay served on the Syndicate which organized the merger, and was elected a director of Dominion Textile in 1905. Thus MacKay played several roles - as a director of one of the companies that accepted the merger, as a director of the Bank of Montreal which financed the new company, and as a director of the new company Dominion Textile - all roles which facilitated the merger.

David Morrice is another example of interlocking relationships. Morrice was a shareholder in Dominion Cotton, Montmorency Cotton, and Montreal Cotton. He formerly had been a director of these companies. In 1905 he was President of the second largest primary cotton textile company in Canada, Canadian Cottons. Morrice was another member of the Syndicate who would be elected a founding director of Dominion Textile. He would soon be elected a director of the Bank of Montreal.

The connections with the Bank of Montreal were important for the merger. Bank connections were more important in Canada than noted in Chandler's studies of

American firms. Chandler observed, that roles played by banks varied in different European countries: "... because the capital markets were less highly developed in Germany than in Britain or the United States, banks played a much more significant role in financing large-scale enterprise in Germany than they did in the other two nations. Financiers thus had a greater say in the management of the firms. Industrial sectors in Germany are therefore examples of financial capitalism."[5] The three major sources of funds for Canadian development were: banks, foreign investors, and government. The banks in Canada played a major role in protecting Canadian industry, especially the cotton and woolen textile industries. The antecedents of Dominion Textile were all Canadian owned. Banks were the major source of capital. A default of capital would have hurt Canadians, especially the banks.

The Dominion Textile merger was part of a wave of mergers taking place in both the U.S. and Canada at the turn of the century. In the U.S. there was the formation of the Chicago Stock Yards, U.S. Steel, General Electric and Massey-Harris. In Canada, at the same time, there was Dominion Rubber, Dominion Engineering, and Dominion Glass. Chandler found the U.S. mergers were instigated by in-place managers. In Canada, mergers like Dominion Textile were the result of financiers and their business allies, who because of the small national market were shareholders in the companies that were merged, and in the Bank of Montreal which facilitated the mergers.

In the United States the major influences on industry mergers were inter-industry. The U.S. market, ten times the size of Canada's, supported large-scale industries. In Canada, there were inter-industry forces behind integration because in its small market economy the same people had large and influential investments in many industries.

Chandler's second proposition is "... that the advantages of internalizing the activities of many business units within a single enterprise could not be realized until a managerial hierarchy had been created."[6] The formation of Dominion Textile took place before a managerial hierarchy was created. The motivation for the formation of Dominion Textile was financial and survival for both the textile firms and the financial community of Canada, and not expansion and growth to satisfy the needs of managers already in place.

Chandler's third proposition is "that modern business enterprise appeared for the first time in history when the volume of economic activities reached a level that made administrative co-ordination more efficient and more profitable than market co-ordination. ... Conversely in those sectors and industries where technology did not bring a sharp increase in output and where markets remained small and specialized, administrative co-ordination was rarely more profitable than market co-ordination. In those areas modern business enterprise was late in appearing and slow in spreading."[7]

The legal consolidations that took place in Canada at the turn of the century did not occur in the United States, but there was a move toward industry stabilization. Galambos, in his study of the U. S. textile industry, observed: "during the early years of the twentieth century, the world of the cotton manufacturer began to change - change with a speed that was bewildering - change in the most fundamental ways. No longer did the traditional forms of individual and collective action produce satisfactory results. New concepts, new values seemed to be called for. If the manufacturers were to cope with this new environment, more collective action seemed to be necessary: Cooperation, not competition, was apparently the key to this twentieth century puzzle. Under the new conditions, stability became a more popular goal. At the same time both the means and the desirability of controlling the political and economic environment were increased significantly."[8]

In the U.S. this change resulted in informal associations of textile manufacturers, rather like the type found in Canada in the 1880s and 1890s. There were major differences between the U.S. and Canadian textile industries. In the U.S., the change in mood did not result in legal mergers into holding companies because the industry was fragmented by geography into two factions - the South and New England. In Canada, the textile industry was part of the turn-of-the-century wave of mergers taking place in many industries.

Chandler ties the U.S. merger movement to through-put technology, and thus does not include textiles in his examples of modern business enterprises. He found that in industries with capital-intensive, energy-consuming, continuous or large-batch production technology which served a large number of customers, that "most enterprises had integrated production with distribution by 1917. These integrated operations, characteristic of modern corporations did not develop or did so more slowly in labor intensive industries such as textiles. In the United States, manufacturers internalized distribution functions only when internalization made possible services and scheduling that reduced manufacturers' unit costs. ... In other industries, where additional services and scheduling were unnecessary to maintain volume, mass marketers continued to distribute and sell consumer goods."[9]. That is, the U.S. textile industry did not develop the type of modern managerial hierarchies Chandler describes in The Invisible Hand, because this phenomenon is tied to new technologies which significantly change the ratio between labor and output.

An example of the type of merger in the U.S. which resulted in professional management was the reorganization of du Pont in 1904. The three du Pont cousins, Pierre, Coleman, and Alfred, consolidated the family companies and wound up, as completely as they could, the subsidiary companies, dissolving more than sixty companies in all. At the same time they dropped the separate sales companies and created their own Sales Department. The reason for this was: "Through careful rationalization of their properties, they expected to lower the unit costs of production and distribution of explosives. Such reduced costs meant that they could undersell small competitors, old or new, who could not get the same advantage of volume production and distribution."[10]

In the Dominion Textile case the motivation was not volume production and distribution, but stabilization. It will be seen in Chapter 4 (1920 - 1939), that the evolution of the marketing function was a very slow process in textiles in Canada. This capability developed only when the external distributors (wholesalers) were unable to do this job adequately. When Dominion Textile found itself losing markets to foreign competitors it filled this function itself. But the re-direction took nearly fifty years. These changes in the Canadian textile market were a reflection of changes in the U.S. Dominion Textile led the industry in these changes in Canada by imitating what was evolving in the U.S.

The Dominion Textile merger of 1905 differed in character from the American norms of the same period described by Chandler. This merger was in a mature industry with a slow moving technology. The impetus was not provided by rapidly changing technology, which according to Chandler encouraged the creation of new administrative structures, but by an industry decline which threatened to weaken the largest manufacturing industry in the country. The cause in the Dominion Textile merger was not technology or managerial pro-action, but was the result of a small market controlled by a close-knit community of financiers all of whom had something to lose if this industry went into bankruptcy.

Nor is this the case of the industry moving from the "invisible hand" of the Smithian free market competition to the Chandlerian "visible hand" of a professional managerial hierarchy. The primary cotton textile industry had not been founded, and did not flourish, in a free market. The industry was characterized by government protection, and informal cartels. At the turn of the century when these conditions were breaking down, the industry faced the most open competition it had yet seen. At this point the Montreal financial community acted together to stabilize conditions by amalgamating several competing firms.

Chandler means by a managerial hierarchy a salaried, professional group of full-time managers who direct a company's strategy. In the case of Dominion Textile, as will be seen in Chapters 4 and 5, the direction of strategy formulation remained under the control of financiers for the next half-century (1905 - 1953.) The implementation of strategy, however, was given to professional managers after the 1905 merger.

In Chandler's American companies the sequence was first a rapidly changing through-put technology, followed by the rise of a professional managerial hierarchy, then merger, and finally the formation of the modern business enterprise. The U.S. textile firms were not representatived in these changes because its technology was slow to change. In the case of Dominion Textile the sequence was changing industry conditions, followed by merger. This was followed by a fifty year period of strategy formulation by financiers, and implementation by salaried managers. Only in the 1950s, when industry competitive conditions changed again, and technology was changing more rapidly, was strategy formulation controlled by professional salaried managers.

Chandler's model assumes entrepreneurship, in the Schumpeterian sense, which draws a distinction between the manager who operates within constraints he regards as given, and the entrepreneurial manager who changes the constraints in order to create new and profitable opportunities. Chandler's professional managers were entrepreneurial. The founders of Dominion Textile were not entrepreneurial. They were not seeking growth, but rather stability. The merger did not drastically change the constraints under which the industry operated.

In Canada, the motivation of the business leaders that required a merger was preservation and survival. The assumptions in both countries were rooted in the nature of the different national economies. The U.S. economy was characterized by rapid growth, permitting the expansion of companies into new markets. The Canadian market was limited and growing slowly. The Canadian economy was dominated by commodities: fur, wheat, sugar, timber, paper, rubber, glass, iron ore, beef, and cotton. In the United States business was influenced by commercial products. The Canadian managers and financiers thought in commodity type terms of specialization and reduced costs rather than expansion into new commercial markets. In both cases the dominant way of thinking came from the nature of the economy. Thus Canadian business leaders thought in terms of controlling the limited market and protecting it as much as possible from the cyclicity of the world market.

<u>The Syndicate</u>

The thirteen men forming the Syndicate were a microcosm of Canadian business in 1905. Their various interests show the changes that were taking place in Canadian business. Very generally, leadership was passing from merchant-investor- owner-managers, to financial capitalists who later turned the operation of a company over to professional managers. The older men in the Syndicate were generally owner-managers of their own businesses, but were using their pooled capital to finance mergers in fragmented industries. The careers of the younger men, such as Gordon and Holt, would span the entire change, from ownership of small companies to financial and strategic control of large, integrated corporations.

The title of "founder" of Dominion Textile has two contenders: David Yuile and Charles Gordon. Yuile was widely respected for his financial acumen and his track record in organizing other mergers. He provided solidity and know-how. At the time he led the formation of Dominion

Textile, Yuile was also the catalyst behind the formation of the Dominion Rubber Co., and the Dominion Glass Co. Charles Gordon provided the energy, enthusiasm, and sheer activity to carry out the re-organization. Charles Gordon was the young man (thirty-eight) the older financiers chose to implement their plans. According to his son Blair, Gordon had to borrow money to buy his first shares as a founding director. In 1940, shortly after Gordon's death, Hurbert Holt, another founding director, eulogized Gordon as the founder of the company. The honor of the title of founder technically belongs to Yuile, but the achievements were Gordon's.

The thirteen founders were all leading Canadian businessmen. The occupations listed in quotes is the way they chose to designate themselves on the company's charter:

David Yuile, (450 shares) "manufacturer", Dominion Textile's first president, was also owner of Canada's largest glass manufacturing company, Diamond Flint Glass. By 1905, Yuile, a Scottish immigrant, preferred the role of investor and spent much of his time travelling in Europe with his family, turning the management of his investments over to others.

Hon. Louis Forget, (450 shares) "Senator" was the former president of Dominion Cotton Company. Born in Terrebonne near Montreal, in 1853, Forget was a self-made man who by the 1880s was the senior member of L.J. Forget & Co., Montreal's leading stock brokerage firm. He was one of the best known men in Canadian financial, commercial and social circles. Forget was also President of the Montreal Street Railway and of the Richelieu & Ontario Navigation Co. (later Canada Steamships), Vice President of Dominion Iron and Steel, Dominion Coal Co., and the Royal Victoria Life Insurance Co. He held numerous directorships. In addition he was Governor of the Montreal General Hospital and of the Western Hospital.

Henry V. Meredith, (500 shares), "banker", later named a Baron, was a leading Canadian banker. He would be a director of the Bank of Montreal from 1910 to 1929 and President of the bank, 1913 - 1927.

Hurbert Holt, former President of Colonial Printing & Bleaching (500 shares) listed his profession as "capitalist". He was also Vice President Canadian Paper Co. . Holt was later knighted. In 1908 he was elected President of The Royal Bank of Canada.

David Williamson, (450 shares) "manufacturer", was managing director of David Yuile's Diamond Flint Glass Co. Ltd., soon to be Dominion Glass.

Hon. Robert MacKay, (250 shares) "Senator", held numerous directorships including the Bank of Montreal, 1903 - 1916. MacKay was past president of the Montreal Board of Trade, President of the Harbor Commission managing the Port of Montreal, and a former director of Merchants Cotton, and the Montreal Cotton Co.

George A. Grier, (450 shares) "manufacturer"

David Morrice Sr., (200 shares) "merchant" was

President of Dominion Textile's major rival, Canadian Coloured Cottons. Morrice would also become part of the Bank of Montreal connection as a director, 1907 - 1914.

Charles B. Gordon, (496 shares) "manufacturer". Gordon's future connections with the Bank of Montreal were as Director 1912 - 1939, Vice President, 1916 - 1927, and President, 1927 - 1939.

Frederick C. Henshaw, former President of Montmorency (100 shares), "capitalist", was a stock broker and past President of the Montreal Board of Trade.

John R. Black, (450 shares) "manufacturer"

James N. Laing, (2 shares) "manufacturer"

A.J. Brown, (2 shares)

While there were thirteen men in the Syndicate, the corporate charter was granted to twelve of these men, excluding Brown. The first board of directors had fourteen men, (which leads to speculation about these men not being above a little superstitious number re-arranging.)

David Morrice was the only member with an extensive knowledge of the cotton business. Although his expertise was in selling, not in manufacturing, Morrice's opinions and comments were valued by the other board members. Morrice's position as president of Dominion's leading competitor in the cotton textile industry underlines a major difference between Chandler's entrepreneurial managers, and the concern with industry stability of Canadian financial leaders. It would be unthinkable in today's business culture, and illegal in several countries, to have the president of the main competitor on the Board of Directors, let alone seek his advice as the industry expert. But in turn of the century Canada this kind of co-operation was part of the culture. After Gault's death, David Morrice had the widest experience in the industry. As a director of Dominion Textile, President of Canadian Coloured Cotton, and soon to be a Bank of Montreal director, Morrice illustrates the co-operation between supposedly rival firms, and with the banking industry. Morrice's position supports the argument that the intention of the merger was to stabilize the cotton textile industry through co-ordination to reduce competition, not to increase it.

Organizing the Merger

In 1904, the Syndicate deposited $1,000,000 with The Royal Trust. Royal Trust carried out the trust functions for the Bank of Montreal. Its leadership was closely connected with that bank. Letters were sent to five cotton companies, including Montreal Cotton, flatly stating "if this combine is formed we would be able to pay a dividend on your stock, a thing you certainly could not do if you intend to cut the throats of each other."[11] The Royal Trust then sold these shares to the new company, Dominion Textile Company Limited. Dominion Textile, represented by the Syndicate, deposited with Royal Trust, "sufficient bonds and stocks . . . to enable it to redeem the paid Certificates in accordance with their terms."[12]

Most of the shareholders of the four companies, except for a minority group at Dominion Cotton, reacted quickly and turned in their shares to The Royal Trust, in exchange for Dominion Textile preferred shares. These shares, available only to stockholders in the old companies, bore interest of 6 1/2%, and provided a strong incentive to shareholders to act immediately in order to receive their first dividends in four or more years.

All shares of Colonial and Montmorency were redeemed by January 1905. But some shares of Dominion Cotton and Merchants remained outstanding. Unlike the U.S. where a 51% majority was sufficient to determine ownership, Canadian law required that the new owners needed all shares to establish ownership. This meant that for its first fifteen years, Dominion Textile legally would be a holding company, leasing out the facilities of the four founding companies.

This did not bring in fresh capital badly needed in order to keep the mills operating. The thirteen members of the Syndicate individually bought five thousand shares of preferred stock in Dominion Textile at $100 par value per share, totalling $500,000, and 50,000 shares of common stock, $100 par value at $10, a further $500,000 of new capital. These fifty thousand common shares constituted the total issue of shares until 1922. The common shares were first traded on the Montreal Stock Exchange in June 1907 but no new stock was sold to the public. Shareholders in the new company were either Syndicate members or shareholders in the old companies.

Their share holdings made the Syndicate members the largest individual shareholders. As well, most of them had held shares in the four holding companies. As was usual practice at the time, the largest shareholders, the Syndicate members, were elected to the board of directors.

The merger was opposed by a group of minority shareholders of Dominion Cotton Co. Their complaints, aired in the newspapers of the time, have been echoed by contemporary business historians. Naylor has repeated the charge that "for a total investment of one million dollars, the syndicate of outside promoters under the auspices of Royal Trust secured control. The common stock was purchased for $500,000 and immediately paid dividends of 89%. Then an enormous watering operation was mounted with the common stock re-valued at $4.5 million and issued to the directors." [13]

The charge of watering the stock was not valid. The shareholders of the four original companies shared in the profits. No dividends were paid until 1906. This rumor would plague the company for the next decade before the charge was finally dismissed by the courts.

The company's capital stock of $10,000,000 was divided into 1,000 shares of $100 each, with 25,000 preferred shares at 7% cumulative yearly, and 75,000 common. The company's charter outlined its intended activities as: "to purchase and operate cotton and woolen manufactories of every description, to develop and own water powers, construct dams, develop and own electric plants, and to buy, sell and deal in raw cotton, wool and cotton waste."[14]

3.2 INDUSTRIAL ANALYSIS: 1905 - 1919

Business was generally good in Canada for the first four years after the company's formation, but the textile producers continued to feel insecure. They were afraid that when British mills again had a surplus they would dump it in Canada. The tariff on British cotton imports into Canada was a relatively low 15% to 17 1/2%. Tariffs of from 40% to 50% effectively blocked the entry of American goods into Canada, and eliminated the U.S. companies as serious competitors. The tariff favoring Britain meant the Syndicate still looked to Britain as a business model. Since U.S. goods were effectively prevented from competing on the Canadian market, the Dominion Textile executives did not closely follow trends in the U.S. textile manufacturing industry.

The demand for cotton goods in Canada followed world business cycles, except that in Canada, downturns were magnified. When world demand declined, Britain looked to the Canadian market for sales of its surplus. As David Morrice remarked, a depression in England and the U.S. "did to a very large extent bring out quantities of stuff into this market, which we would not have otherwise had."[15]

In 1905, the dry goods sellers were still the merchant princes of Montreal. According to the Board of

Trade: "the local dry goods trade represents a larger investment of money and distributes a greater value of commodities, than any other branch of business."[16] The Board of Trade also noted that as the conditions of the country changed, so did the methods used by the dry goods wholesalers. They were considered a progressive and adaptive group. In 1905, the Montreal dry goods wholesalers controlled four-fifths of the imported goods distribution, including flax, cotton and woolen goods, silks and carpets.

The textile industry remained centred in Quebec. The Quebec cotton mills accounted for 63% of the workers, and 66% of the net value of production, while plants in Ontario had 18% of both the workers and the net value of Canadian production. The proportions for the Maritimes were 19% and 16% respectively, for workers and production.

Two new groups of textile buyers were beginning to make their purchasing power felt: the "ready-to-wear" clothing industry, and department stores.

The ready-to-wear clothing industry was new and growing. Although the real change to ready-to-wear clothing came after World War I, there was a growing demand for certain types of "store-bought" clothing. By the early 1900s, a number of men's shirt manufacturers were operating in Montreal. With their bulk buying power, these manufacturers were able to circumvent the dry goods merchants and jobbers, and buy directly from the manufacturer. Often the founders of these factories were dry goods wholesalers.

This trend had been recognized by A.F. Gault who established the Crescent Manufacturing Co. in the early 1900s to manufacture men's shirts. The Montreal Board of Trade remarked: "The Crescent Manufacturing Company have adopted one of the most modern and up-to-date plans of carrying on its business: a plan which is now obtaining considerable vogue in the United States among numbers of manufacturers in every branch of industry, namely that of dealing directly with the retail trade. This method of transacting business dispenses entirely with the wholesale merchant, the jobber and other middlemen, the goods being purchased by the retailer or consumer directly fom the manufactory. The Crescent Manufacturing Company has decided to adopt this plan, and they are in a splendid position to develop it, owing to their extensive and well-established connections in all parts of Canada, and it is expected that the new departure will meet with the success in this country, it has achieved in the United States by manufacturers of small and distinct articles of wearing apparel. The Company relies on the basis that intermediate profits are cut, and that the consumer gets the benefit of the system in buying goods of the best quality at the lowest prices."[17]

The people in the best position to implement this innovation from the U.S. were the textile manufacturers and dry goods wholesalers. They had the national connections with dry goods retailers to market the finished goods. At the same time, this form of forward integration was undercutting their traditional role and the traditional distribution patterns of the wholesaling business.

Gault's involvement was far from unique. At the time of the 1905 merger, Charles Gordon was the manager of The Standard Shirt Company Ltd., Montreal, in partnership with J.P. Black, another member of the Syndicate. The rise of this industry was a result of advances in mechanization. A description of operations at Standard Shirt makes the difference clear. "The cutting is done by electric knives; all machinery runs by motors, and laundry departments are equipped with electric machinery where possible. A large number of employees, about 1,200 in all, are on the payrolls, and the output is shipped to all parts of the Dominion of Canada, and also certain lines are exported to South Africa and Australia. The policy of this firm has been to keep up with the times in the matter of equipment, and a large amount is expended every year in the renewal of plant and installation of machinery."[18]

These companies followed the practice of "shop sewing". Finishing work was parcelled out to French-Canadian farm women. Distributing agents in the country districts distributed cut cloth, linings, etc. and collected the finished clothes. Other operators travelled through the country districts as inspectors. Even cloth cut in Toronto was made up on Quebec farms.

Links between the old and the new are also found in the Standard Shirt example. The Selling Agent for the shirts was John Gordon & Son, which was founded in 1891 as a dry goods wholesaler by Charles Gordon's father. It was now run by Gordon's older brother James, and had become a national selling agent for both dry goods and ready-made garments.

Hurbert Holt was a partner in another shirt manufacturing company in addition to being President of Colonial Printing and Bleaching.

By 1900, a changing method of distributing textiles through department stores was taking place. Montreal had several of these palatial emporiums before the turn of the century: H. Morgan & Co., S. Carsley, John Murphy & Co., and H. & N. E. Hamilton & Co. These stores began to demand that manufacturers sell directly to them. In addition to these department stores, there were nearly 300 retail dry goods stores in Montreal in 1905.

Jobbers continued to act as middlemen and usually as the converter in the distribution of textiles. The jobber/converter remained the kingpin who first commissioned the cloth from the manufacturer, then converted it by printing or dyeing. He, in turn, sold it mainly to wholesalers. The goods were sold outright, on terms of 30 or 60 days, not on consignment. Once the goods were sold to the converter the mill's responsibility ended, except if there were quality problems. Jobbers usually charged a 12 1/2% commission as their standard cost of doing business, in addition to converting expenses. "With the exception of some of the big department stores, which buy in wholesale quantities, the Canadian retailer buys

Canadian cottons through jobbers. Some of the department stores say that they could handle more American cotton in some lines if they could buy direct from American mills as they do from Canadian mills."[19] During this period, some of the wholesaling firms amalgamated, just as the manufacturers had.

Between 1905 and 1919, these two new forces, garment manufacturers, and department stores, were slowly making inroads into the traditional pattern of dry goods stores and home sewing. They would not gain widespread acceptance by the general population until after World War I, but the trend was growing.

After a period of relative stability and prosperity from 1905 to 1911, the cotton industry went into a decline in 1913, as did Canadian industry in general. In Canada and the U.S. 1914 was a year of reduced economic activity despite the declarations of war in Europe. The world was accustomed to short, localized wars. There was no initial build-up of war materials in the First World War as would happen in World War II, because it was expected that the war would last less than a year. Build-ups of supplies began in 1915, after action in the war had settled into thousands of miles of trenches in eastern and western Europe.

The Great War, 1914-1918, created a boom in Canadian cotton textiles. The first year of the war was slow, but beginning in 1915, and continuing after the war, the industry could sell anything it could make. <u>The Canadian</u>

Textile Journal recorded the wave of orders that were received by the Canadian mills in 1916. "The Canadian industry has made rapid strides during the twenty months under the stimulus of urgent demand for war equipment and other factors, resulting from the war. The orders have consisted of millions of yards of khaki cloth, blankets, underwear, hosiery, shirtings, towellings, cotton duck, flannels, etc. In addition, the mills have been called upon to supply a greater proportion of the ordinary domestic demand for textile materials than is the case in normal times, owing to the fact that British mills found it impossible to supply more than a very limited proportion of the orders usually received from Canadian merchants." [20]

Training

There were no training facilities for textile workers in Canada throughout this period, although it was realized they were needed. The Canadian Textile Institute was founded in 1917, with Frank Daniels, General Manager of Dominion Textile as its first President. Its main object was education. The Canadian Textile Journal of March 1917 explained the problem. "It is to be regretted that your sons may go through the common schools of this country, through the high schools, and even through the universities without coming into contact with a textile atmosphere, or a course of studies such as Lowell, New Bedford and Philadelphia, etc. in the United States, and Manchester, Leeds, Bradford, etc. in Great Britain. If you want to educate your sons to take your place in business, you must send them out of the country, and if you have a good position to fill, you have to go outside of the country to get a man who is capable of filling it. This should not be and might not be, if there existed in your industry a strong association which would move at once in the direction of bringing about a much needed change."[21] Despite the institute's attempts to get government support, training programs remained in the hands of the individual companies until the end of World War II.

3.3 COMPETITION

The tariff structure which was set by the government, in large part determined the competitive forces in the cotton textile industry from 1905 to 1919. The tariff rates meant that the main foreign competitor in Canada was Britain. In 1906, textile industry representatives appeared before the Tariff Inquiry Commission asking for higher tariffs on the grounds the existing mills could not operate near full capacity under the existing tariff, and that this was causing skilled workers to move to jobs in U.S. mills. The government agreed to act on the problem. In December 1906, a new customs tariff was introduced, affecting the entire textile structure. It incorporated three tariff classifications: the British Preferential Tariff (B.P.), applied only to goods from the U.K., the Intermediate, and the General

Tariff (G.T.). On white goods the tariff was 17 1/2% B.P., and 25% G.T. . The tiered tariff in effect meant that British goods were keenly competitive on the Canadian market, but the price of U.S. goods was slightly higher than that of similar Canadian goods.

In the September 1911 "Reciprocity Election", the federal Conservatives were returned to power. Several men prominent in the textile industry were elected as Members of Parliament on the government side. The new tariff schedule, brought in by the Borden Conservatives in 1915, was more favorable to Canadian manufacturers. It increased the general and intermediate tariffs by 7 1/2%, and the Preferential by 7% .

The upward revisions of the tariff resulted in full utilization of production capacity. For the first time in nearly twenty years the industry was optimistic. The Canadian Textile Journal announced that: "Canada has entered on an era of expansion which it will tax all the energies of her manufacturers and importers to keep pace with for a long time to come, even taking into account the marked increase in the number of industries which seems now to have started in earnest."[22]

By increasing the tariff the government had increased the price of British imports to Canadian consumers. The sales of Canadian-made textiles increased. Thus the expansion of the industry following 1911 was partly to fill a gap left by the new tariff, and was not only due to the actual expansion of the total domestic market. There was also a general expansion in Canadian industry and agriculture during the early part of the century, which provided growing markets for cotton goods. The textile industry responded as it had before, by planning new cotton and woolen mills. Charlie Whitehead established the Wabasso Cotton Co. Ltd. at Three Rivers, Quebec, in 1906, capitalized at $1,750,000. In 1907 the Mount Royal Spinning Co., Ltd., which would later be acquired by Dominion Textile, was established with a capitalization of $3,000,000. The Empire Cotton Mills, in Welland, Ontario was incorporated in 1912 with a capitalization of $3,000,000.

World War I sharply reduced the amount of British cotton exports available in Canada. The war had dislocated the industry's traditional trade routes, making it more difficult to get American and Egyptian Cotton. Some British mills closed down, and others went on short time. This meant a greater demand in Canada for domestically produced cotton goods. Canadian mills not only supplied the Canadian market during the war, but also undertook war contracts for the U. S. Government after its entry into the war in 1917. Increased demand during the war was largely met by operating the mills on a 24-hour basis.

Dominion Textile and the Industry

Chandler notes that: In those cases, the first firms to integrate usually continued to dominate, and those industries became and remained highly concentrated - that is they were controlled by a few large firms."[23] This description is also applicable to the Canadian textile industry. When Dominion Textile was formed, with a capitalization of $10,000,000 it was the largest textile company in Canada. In 1907 there were 29 cotton mills in Canada, with 19,207 looms, and 823,437 spindles. Dominion Textile had just over 8,500 looms, and 350,000 spindles, almost 45% of the industry's production capacity. Dominion Textile began as, and has remained, the largest primary textile operation in Canada.

Dominion's largest competitor was Canadian Coloured Cottons (after 1913, Canadian Cotton) which was capitalized for $6,000,000, whose mills were: the St. Croix, Milltown, N. B.; the Merritton and Lybster Mills, Merritton, Ontario; the Ontario Mills, Hamilton, Ontario; and the Canada and Stormont Mills, Cornwall, Ontario. Canadian Coloured Cottons also controlled the output of the Marysville Cotton Mills, N. B., and the Hamilton Cotton Mills.

The third largest Canadian textile company was Montreal Cotton with mills in Valleyfield, Quebec.

Two smaller companies were formed in the favorable industrial environment before World War I. In 1907, C.R. Whitehead started Wabasso, and in 1913 he started St. Maurice Valley Cotton, capitalized for $1,250,000.

Each of these companies tended to specialize in certain types of goods. Dominion concentrated on

American-style cotton prints, all manufactured at Magog, ranging from narrow 26/27 inch, to the widest then produced at 31/32 inches. It also specialized in ducks, twills, and cotton blankets, manufactured at the Montmorency mills. Dominion sold considerable quantities of cotton yarn to other producers for further processing. It did not attempt to produce the finer grades of high quality goods, which were mainly imported from England.

Canadian Cottons mainly made a coarser grade of colored goods. Other specialties were denim (which at that time was usually dyed black), ginghams, and flannelettes.

Montreal Cotton produced white and dyed goods, but was noted for its high quality specialty cloth such as muslims, lawns, cambrics, and piques. The Wabasso Cotton Co. specialized in fine white sheeting.

In 1905 Dominion Cotton, Canadian Cotton, and Montreal Cotton represented a combined capital of $14,000,000 of the $15,000,000 invested in the Canadian cotton industry. The domestic companies produced about three-fifths of the dry goods traded in Canada.

The Preferential Tariff tended to keep out American goods to a large extent, but importers were still able to sell some American goods because of styling. The Canadian Textile Journal commented on this imitation of American styling. "The Canadian companies took their lead in style from the U. S. The Canadian mills are not keeping pace with the demands of their home market, but they are enlarging, and if a line is imported in considerable quantities they soon get out an imitation. Their print designs are largely based on the American, which are more novel and more suited to the Canadian taste than the usual English designs. ... The Canadians are not entirely copyists, as they have some good designs in their print works, but the neighbouring American industry being so much the larger they naturally have to follow their lead in many cases, and if an American specialty invades their market to any extent they try to replace it as soon as possible with a similar one made by their mills."[24]

3.4 THE MANAGEMENT OF DOMINION TEXTILE

Between 1905 and 1919, Dominion Textile expanded and grew in a slow, evolutionary way. There were no sharp discontinuities in strategy and structure. A search through the documents for "critical incidents" reveals no crisis or perceived need to change plans. The company was formed to rationalize the production of the four large mills, and this process continued throughout this period.

The change from the previous fragmented period was that the directors were less involved in management decisions. The rôle of the General Manager was enlarged because the scale of operations had increased, but he still fulfilled the same tasks. There was no immediate, critical impact on the company because of the merger. This was a manufacturing, not a marketing operation. The managers of the merged mills continued for a while to produce the same lines of goods. The Selling Department continued to sell to the same dry goods wholesalers.

The company's strategy was to keep their mills operating as fully as possible. The orientation was totally toward manufacturing. Selling efforts were seen as directly linked to price, which led back to manufacturing. If manufacturing costs were kept down, so too could the selling price. The company was gradually able to reduce costs by avoiding repetition in the product lines of the mills, and by co-ordinating the purchases of supplies and raw materials.

The 1905 board of directors of fourteen men was found too cumbersome to administer the company. Most of the members had many other time-consuming business affairs. Most were financiers, not cotton manufacturers. Supervision of the business, and the important tasks of buying raw cotton and coal was assigned to the Executive Committee of Yuile, Forget, Gordon, Hold, MacKay, Black, and Williamson. Yuile gave over all financial direction to the company, but he was often absent as he regularly spent long periods of time travelling in Europe with his family. He did not attend the first meeting of the provisional directors, although he later signed the Minutes.

The job of carrying out and supervising decisions was left to the young, energetic Charlie Gordon - including the appointment of the selling staff. It was Gordon who would report back to the board such operating details as: "the Travellers had been out during the past week [March] with Fall Samples."[25]

The bi-monthly Directors' meeting soon fell into a pattern of hearing a regular list of reports on total sales, weekly sales, loans, sales orders received, and production figures. Most discussions centered on financial matters, or on tariffs. The directors treated the business rather like running a bank. Nearly half of them were also bank directors, predominately with the Bank of Montreal. They did not discuss actual manufacturing problems such as production, technology, or marketing. These matters were left to Charlie Gordon to arrange with the Mill Manager A.B. Mole. David Yuile and Charlie Gordon soon took over the job of buying raw cotton in the U. S. Yuile was so successful that several months after the merger he reported to the directors that he had made the company a $25,000 profit through speculation on cotton futures.

The primary concern in 1905 of the executives of Dominion Textile was to clear up the financial tangles of merging four debt-ridden companies. The different companies had dealt with a variety of banks: Dominion Cotton with the Bank of Montreal, Molson's Bank, the Quebec Bank, and the Eastern Townships Bank; Merchants' loans were with the Merchants Bank; Montmorency had loans with Molson's, Quebec, and the Bank of British North America; and Colonial with the Royal Bank. The outstanding loans of the four; Dominion Cotton, $663,048; Merchants, $1,138,648; Montmorency, $745,975; and Colonial, $415,000, totalled $2,932,671. In order to provide funds for buying further shares of the four companies as they were exchanged, a by-law was passed to issue bonds, to be sold on the market, with the face value of $3,370.500 for 20 years at 3% . Each of the four bond series for the four companies was secured by the Deed of Mortgage against the immoveable property of the companies.

At their meetings in 1905, the directors were primarily concerned with combining the loans spread around the various banks, and in decreasing the amount owed. Shares from the four companies were still being redeemed at the Royal Trust in exchange for Dominion Textile shares.

In 1905 a tender was put out for a chartered accountant. The lowest bid was from Messrs. P.S. Ross & Sons for $600 a year. The latter-day form of this firm, Touche-Ross, is still the company's accounting firm.

Dominion Textile leased offices, at $1,200 a year, in the rear of the second floor of the Liverpool, London & Globe Co. building on the corner of St. James and Place D'Armes, one of Montreal's prestigious business addresses. The closest building was that of the head office of the Bank of Montreal. In the building on the other side were the head offices of the company's major competitor, Canadian Cotton. Business links in Canada were literally close.

Many of the new company's major decisions about products were determined by the existing plants and technology, and thus were already made. Because of their machinery, Dominion Textile would produce mainly grey cloth and prints. The geographic area served would be Canada. If there were any discussions on expanding sales abroad, there are no records in the Minutes.

The first major step the new company took was to try to acquire the Montreal Cotton Co., as part of an overall plan to combine as much of the industry as possible in a single company. In 1904, the Syndicate had included Montreal Cotton, the country's third largest textile company, in their merger offers. The director's of Montreal Cotton had rebuffed the offers. In May 1905, a few months after Dominion Textile was formed, Gordon and Yuile told the board of their plan "of getting control of the capital stock of the Montreal Cotton Co. for the benefit of our Company. Mr. Gordon also explained to the Board the great advantage which our Company would derive by the acquisition of the Montreal Cotton Co." [26]

Gordon's plan included applying for letters patent from the federal government to authorize the incorporation of a new company, to be named the St. Lawrence Cotton Co. Ltd., and buying up shares of Montreal Cotton, in preparation for the takeover. The name had already been taken, so new letters patent were applied for as the North

American Cotton Co. A draft prepared by Yuile was circulated by the Royal Trust to shareholders of Montreal Cotton, offering to purchase shares. The shareholders of Montreal Cotton voted to refuse the offer. Dominion Textile did not have the cash to buy Montreal Cotton outright if these stocks had been offered for sale by most of the shareholders. They were able to buy $126,000, or 5,040 shares of common stock of Montreal Cotton on the Montreal exchange.

Yuile interviewed several director/shareholders of Montreal Cotton, particularly Molson and Ewing but they remained opposed to the offer. He also looked into purchasing Montreal Cotton shares held by the A.F. Gault Estate. As they waited, another $24,000 of company funds was put into North American Cotton to buy more shares of Montreal Cotton. As small lots of shares became available on the Montreal Exchange, Dominion Textile bought them up. In June 1905, the Executive Committee decided, because little progress had been made, to withdraw their offer to Montreal Cotton. They held on to the stock they had already bought. Interest in acquiring Montreal Cotton continued to flicker periodically. Throughout this period the company would continue to buy shares, as they became available, if the asking price were not considered too high.

Dominion Textile would have liked to negotiate a merger with Montreal Cotton. When this failed they turned to buying up shares on the stock market. In the early 1930s they finally had controlling interest in Montreal Cotton, but by that time they were content to influence its operations, rather than integrate it. Dominion was eventually able to carry out the 1905 plan of acquiring and integrating Montreal Cotton after 43 years - in 1948.

The company's other major plan was to construct a new mill at Shawinigan Falls, in order to take advantage of the low hydro electricity rates offered by the Shawinigan Light and Power Co. Like the Montreal Cotton scheme, this plan also came to nothing. Dominion would not build a new mill until the 1950s.

After 1905, the demand for cotton goods took a cyclical upswing. There was the same recurring phenomena as in previous good times. Groups of investors came together to establish new companies. Dominion Textile could do little when Charlie Whitehead formed Wabasso in 1906. But when another group of Montreal businessmen, headed by Herbert M. Marler formed the Mount Royal Spinning Company Ltd. in 1907, Yuile was immediately interested and concerned. Even as the new company's mill was being constructed, Yuile formed a committee "to negotiate with the representatives of the Mount Royal Spinning Company with a view of our company obtaining the controlling interest in the stock of that Company."[27] Dominion was still following its strategy of 1905 of buying (in this case leasing), production facilities which could be rivals. The Mount Royal Spinning operations, with their new buildings and machinery, had serious potential as a competitor. Dominion co-opted the threat by leasing the operations.

In 1907, Dominion Textile's stock was listed on the Montreal and New York exchanges. In 1910, following a recession in the Canadian stock market, Gordon and the directors decided to broaden the company's financial base and list the stock on the London exchange as well. Gordon arranged for the Bank of Montreal, Threadneedle Street, London, to act as the company's Transfer Agent. In order to list their shares with the French and Continental exchanges, By-Law 23 was approved so shares would carry warrant coupons entitling the bearer to receive future dividends which might be declared by the company on its common stock. The plan brought in English shareholders, and eventually resulted in a director being elected specifically to represent British interests. A plan to trade on the Paris Bourse ran into problems and was eventually dropped.

The legal and financial tangles of running Dominion Textile as a holding company created additional complications. The company wanted to consolidate all its operations under one legal entity, but had to wait until all minority shares of the four founding companies, (Dominion Cotton, Merchants, Montmorency, and Colonial,) were redeemed before they could wind them up. It was necessary to put through an arrangement for Dominion to lease the mills, for operating purposes, until such time as all the minority shares were surrendered. As a result, Dominion could not transfer a considerable portion of the properties of the two companies to their balance sheet, instead terming this portion as "Shares in other Companies and Goodwill."

During this period the legal existence of Dominion Textile was being questioned in the courts by a group of minority shareholders of Dominion Cotton, led by G.E. Amyot. In 1909, the provincial court passed judgement that the 1905 lease by Dominion Textile of the Dominion Cotton Mills was illegal, and the lease was declared cancelled and annulled. The company appealed the decision. In 1912, the lease was upheld by a Privy Council decision.

The dissenting group of shareholders of Dominion Cotton did not forget the issue. In 1936, when the Turgeon Royal Commission on corporate pricing investigated the textile industry among others, one of the dissenting shareholders of 1904, F.B. Mathys, raised the issue of illegality again. Once again the issue was studied. Holt and Gordon were subpoenaed to defend their actions of thirty-two years previously. Once again the company's actions were upheld.

All the shares of Colonial and Montmorency had been redeemed in 1905. By 1913, Domtex controlled all the shares of the Merchants Co., and its real estate, plants, machinery, and equipment were transferred to Dominion

Textile. All shares of Dominion Cotton Co. were redeemed by December 1916, and all its assets were also transferred to Dominion Textile.

Dominion Textile also had close ties to the largest woolen goods operation in Canada, the Penman Manufacturing Co., with plants in Paris, Thorold, and Port Dover, Ontario; and in Coaticook and St. Hyacinthe, Quebec. David Morrice was President of Penman's until his death in 1914. He was succeeded by Charles Gordon. Although the leading shareholders of Penman's were also directors of Dominion Textile, the Minutes make no mention of any discussion of merging the cotton and woolen concerns. They were considered to be two different types of businesses. This was also the case in the industry as a whole. Textile companies were either in wool or in cotton, with no overlap. Penman's eventually was purchased by Domtex in the 1960s.

Throughout World War I, and the textile boom that followed, the company found no need to change its strategy. Wartime demand meant the company continued to focus completely on manufacturing, to produce the maximum plant capacity allowed. Selling was a matter of doling out the limited supply of goods to eager customers. The Canadian textile boom continued for two years after the war, extending to 1920 the viability of the original strategy of 1905.

3.5 FROM HOLDING COMPANY TO CENTRALIZED BUREAUCRACY

Dominion Textile began by necessity as a holding company, because of the outstanding minority shares in Dominion Cotton and Merchants Cotton. While the holding company form constrained the intended rationalization process legally and financially, it posed no barrier to managerial changes. Chandler comments on the holding company form that: "Although its central office had the legal power to determine policies for its operating units, to coordinate and monitor their activities, and to allocate resources for future production and distribution, it could not do so in practical terms until a staff had been created to implement its decisions."[28]

Because there were so few full-time managers in the four founding companies, the changeover to a centralized administrative structure of the mills by Dominion Textile did not create undue problems, and took only a few years to accomplish. Little changed at the mill level. The mill managers of the individual companies remained at the same jobs. A.B. Mole, manager of the six Dominion Cotton mills (there were mill superintendents in the individual mills,) was, in addition to this role, made Mill Manager of all the mills. Mole was relocated from the Dominion Cotton mills in nearby Hochelaga, in east end Montreal, to the company's headquarters on Place d'Armes. He carried out the directions of the Board of Directors, and on day-to-day matters consulted Charles Gordon. The allocation decisions were no different than before the merger, just on a larger scale. The market and products remained the same.

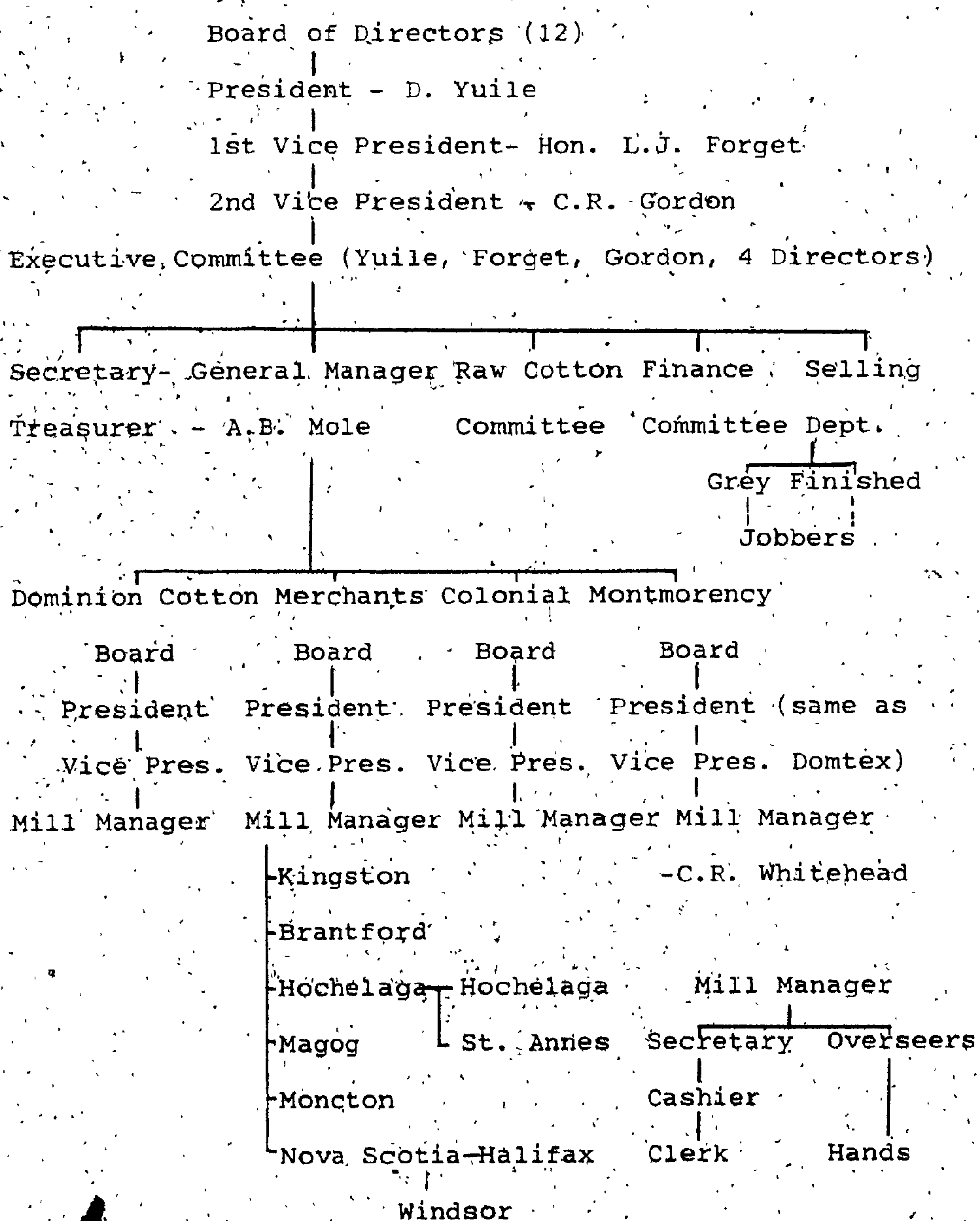
At the time of the merger, the Syndicate members did not have specific ideas on how to structure and staff the new enterprise. The form they developed was evolved to meet the organizational needs, guided by the principals of centralization and simplification. The positions created, and the duties assigned were more a response to individual personalities, than to some preconceived ideal of structuring.

The Syndicate members never intended to be directly involved in day-to-day management. They had other companies to attend to, and knew little of the workings of the textile industry. Their main interest was to stabilize this important industry, and thus they felt shore up the Canadian economy as a whole. The Syndicate's goal for Dominion Textile was a simplified and economical management structure for the four companies. A small, proven group of full-time men, and Board members worked gradually to achieve this. Most of these intentions were carried out between 1905 and 1907.

Dominion Textile as a result of its origins as a holding company began with more executive officers than any previous cotton company: a President, David Yuile; First Vice President, Louis Forget; Second Vice President, Charles Gordon; a Secretary and a Treasurer. Initially a

Exhibit 3 - 1

THE STRUCTURE OF DOMINION TEXTILE: 1905



General Manager and an Assistant General Manager were to be included as executive officers, but this plan was soon dropped for the official reason that functions of directors and managers should be separate.

The 1905 Board of Directors, with the thirteen Syndicate members, plus Charlie Whitehead, was large. While this was a large Board in Canadian terms, it was small compared to the fifty or more members then found on the Boards of the amalgamated British companies. The Board appointed the Executive Committee of five or more Board members, which met weekly, but could meet on 24 hours notice and had "all the powers of the Board of Directors when the Board of Directors was not in session."[29]

In addition to the Dominion Textile Board, because of the holding company structure, the same slate of directors sat on the Boards of the four mills which had been merged. Until 1920, meetings of these companies, lasting one or two minutes, were held just before the Dominion Textile Annual General Meeting.

The original plan was to have Charlie Whitehead as Managing Director of the mills, with A.B. Mole, formerly Managing Director of Dominion Cotton the Assistant General Manager, but within a month of the 1905 merger this plan was abandoned.

One infers from the records that there was considerable tension between Charlie Gordon and Charlie Whitehead. The men were the same age, both born into textile business families, and given responsible management jobs when quite young. In many important respects their attitudes to company's business were different.

Charles Gordon worked easily in co-operation with others. He was a leader, but one who kept in close step with his business allies. Charlie Whitehead was a one-man-show. Following the dictates of a committee did not fit with his "taking complete charge" type of personality. Within a month Whitehead tendered his resignation. Whether it was requested, or freely offered is not made clear by the minutes, but it appears to have been inevitable. "As it is considered to be in the best interests of the Dominion Textile Co. to have the Board of Direction and the Management of the Company entirely separate, I beg to place my resignation as a director in your hands."[30] Whitehead returned to Montmorency where he was mill superintendent for Dominion Textile, but only for about six months.

Within the year Whitehead had organized a new cotton company, Wabasso, and was supervising construction of the Wabasso mill at Trois Rivieres. Charlie Whitehead's idea of supervision was to live in a tent alongside the mill site and make sure the workers were up by six in the morning to begin work.

The separation of ownership and management cannot be considered as the reason, but rather as the excuse for Whitehead's departure. A few months later, the directors gave to Gordon, what they had refused Whitehead. In April

1905, a Special Meeting of the Executive Committee was called "for the purpose of appointing some person to have general charge and control of the business of the Company. After this matter had been fully discussed it was moved by Hon. L. J. Forget, seconded by Mr. H.S. Holt and unanimously Resolved , That Mr. C.B. Gordon be appointed Managing Director of the Company with the title of 2nd Vice President and Managing Director."[31] Gordon's salary was $15,000 a year.

A.B. Mole was named Acting General Manager to replace Whitehead. A.W. Allan, a nephew of Sir Hugh Allan the founder of Montreal Cotton, replaced Whitehead on the Board. At the first vacancy on the board in February 1908, A.B. Mole was appointed a Director and given the title of General Manager. Mole did not serve on the Executive Committee.

A.B. Mole resigned as General Manager in September 1909 and retired to New York, where he would continue "to devote part of his time to the interests of the company". Retirement was unusual. Most men worked until they were either too sick, or died.

Gordon "mentioned that Mr. F.G. Daniels of Montmorency Falls had been assisting Mr. Mole in his capacity for some time past, it was therefore unanimously decided to appoint Mr. Daniels as "Manager of Mills."[32]

CENTRALIZED MANAGEMENT

In July 1909, David Yuile died following an operation in Baltimore. During Yuile's illness, meetings had been chaired by Louis Forget, the First Vice President. But Forget, a financier, made no pretense of his knowledge of the business's details, and frequently called upon Charles Gordon to answer specific questions at meetings. The new executive included: Charles Gordon, President; Louis Forget, First Vice President; and Herbert Holt, Second Vice President. This executive more accurately reflected who was actually making policy decisions - Charles Gordon.

The interim period of the merger ended when the executive committee turned over all decisions except financial ones to Gordon, the Managing Director. The new era of Charles Gordon, (the company's link to the business environment,) and Frank Daniels, the cotton manufacturer began. This team would head Domtex for over twenty years. The team would be re-created by these mens' sons, Blair Gordon and Ryland Daniels. Playing roles similar to the ones their fathers had filled, they would head Domtex, for another quarter century, from the early 1940s to the 1960s.

As the older financiers died, and as the company's operations became increasingly integrated at head office, the structure made the major transition from a holding company form to a centralized bureaucratic structure. The managerial hierarchy became simplified, reflecting the actual work performed, and not the number of shares held in the company. Gordon now accelerated the company's move away from individual mills in a holding company to begin an organizational structure which for the first time included salaried middle managers carrying out functions formerly handled by committees of directors.

When Louis Forget, the original First Vice President, died in 1911, the structure was simplified further. There would be only one Vice President, and the roles of Secretary and Treasurer were combined. The new slate was : Charles Gordon, President, Hurbert Holt, Vice President, J. Webb, Secretary-Treasurer, and J. Fish, Assistant Secretary-Treasurer.

In 1911, Frank Daniels the Mill Manager began attending Directors' Meetings "by request". The following year Daniels was appointed Managing Director, a position which had not been used since his predecessor as Mill Manager, A.B. Mole, retired in 1909. The Board had not automatically replaced Mole's position. The attitude seemed to be that managers earned the right to a title before they were given it, rather than grow into it after they had the job title. The number of directors was reduced from fourteen to nine in 1912. A number of the founding directors had died, and were not replaced. When the company's first Secretary-Treasurer, Charles E. Hanna died in April 1915, his position was divided and Webb became Secretary, and Fish the Treasurer, the first reversal in the trend to reduce the number of executive personnel.

Neither Gordon nor Holt were full-time professional managers of the Chandlerian type. Both men held offices in other companies, particularly Holt, who in 1908 became President of the Royal Bank of Canada, then the country's second largest bank. Soon after the company's founding, Charlie Gordon became the driving force behind the practical operations of the company. Gordon was a man of far-ranging interests and ambitions. His alter ego in the company was Frank Daniels. Daniels saw himself as a textile manufacturer first and always.

EXHIBIT 3 - 2

THE STRUCTURE OF DOMINION TEXTILE: 1910

Board of Directors (9)

President - C.R. Gordon

Vice President - H. Holt

Executive Committee (Pres., V.P., 4 Directors)

Secretary-Treasurer — General Manager - F.G. Daniels (D) — Raw Cotton Purchasing (- Gordon & Daniels) — Finance

Manufacturing Department — Superintendent of Manufacturing

Sales Department — Grey — Finished — Jobbers

Dominion Cotton Co. — Merchants — Colonial — Montmorency

Hochelaga — St. Annes — Magog — Halifax

(D) = Director

The company had no Chairman of the Board until 1928. Gordon acted as both Chairman and President. He was assisted by two committees, Executive and Finance. The Finance Committee was composed of the stockholders with the largest number of shares, as had been the case in the 1870 - 1904 period. Chandler found the same situation at Du Pont in the U.S. at that time. In 1909, when Gordon became President, role of the Executive Committee in decision-making was reduced, as was the number of their meetings. They now met only monthly instead of weekly, half-way between the monthly Board meetings. The function of both committees soon came to be one of discussing and ratifying plans set by Gordon and Daniels. Thus long-term planning rested with Gordon and Daniels, and not with the Board, as had been the case in the 1870 - 1904 period. The Board continued to be composed of the major stockholders, but these men were executives of their own companies and were not knowledgeable in textiles.

Within a short time after Gordon became President the active role directors had played in the 1873 - 1909 period had been reduced. Instead of making operating decisions as they had formerly done, the directors' role was now to accept or reject the proposals of the executive, much the same as the functioning of the modern board. The business had become larger and more complex. Only the full-time managers could give the detailed attention needed. The directors, typically bankers and financiers, judged the business by its financial performance. Operating details were left to full-time staff.

Gordon, with the help of Daniels took on the work of integrating what was a very loosely-knit organization into a functional and bureaucratic structure. Both men were able administrators and knew certain areas of the textile industry well. Gordon concentrated on administration at head office and financial matters, while Daniels reorganized the plants and nursed them into effective production units.

The functional departments of manufacturing, purchasing, selling, engineering and statistics were gradually created at Dominion Textile head office. By 1910 there were two distinct departments, Manufacturing and Sales. There was little co-ordination between these two departments. Sales sold to wholesalers what Manufacturing produced. Other functions were carried out such as finance, but they were not designated as specific departments until later. Purchasing, particularly of raw cotton, was done centrally by Gordon and Daniels. The Legal Department followed the Selling Department as the third distinct company department, with the appointment in 1911 of two Montreal attorneys "to answer all declarations". The Legal Department was not initially an integral part of the company, but was on a retainer basis. Generally, the structure was built around the men involved, and the evolving needs of the company, but in the direction of centralization.

Chandler found that: "Although mergers occurred in every industry, few continued to prosper unless they met two conditions. A merger was rarely successful unless it replaced a strategy of horizontal combination with one of vertical integration and unless it created a managerial hierarchy to co-ordinate, monitor and allocate resources through its operating units. In carrying out these moves, the directors of the holding company set up a staff of managers in a central office to administer the factories and other producing units of the company's subsidiaries."[33] Dominion Textile did centralize the functions that had already existed formerly in the companies it merged. But it did not go beyond that. It did not extend the activities of the Sales Department beyond selling to jobbers. It did not extend the functions of the company beyond the product lines of the original companies. It centralized only the financial operations of the four companies, and it rationalized the allocation of resources amongst them. Having done that, Dominion Textile stayed strictly within this set range of activities, and did not absorb new functions such as producing woolen goods, or extending their finishing or retailing activities.

This is not a criticism. The technology was slow to change, as were the market size and fashion demands. There was little opportunity for changing the nature of the business.

While senior posts in the organization were being reduced, the number of middle managers in the company increased, In April 1915, the company head office moved to larger quarters, a floor in The Liverpool and London & Globe Insurance Building at 112 St. James St., one of Montreal's major office buildings, The rent was $600 per year.

The gradual rationalization of operations actually reduced administrative expenses in a period of rising general costs. In 1913, Gordon explained to shareholders: "... we have a very efficient staff and our expenses in that respect are very little more than they were when this company was first organized in 1905 and our selling expenses are within a fraction of what they were then, so although as you know expenses have gone up, our administration expenses, that is the officer's salaries, I think have actually gone down, although we are doing a great deal more business then at that time, and expenses generally, overhead expenses I refer to particularly, have been kept right down since the organization was begun. That is one of the reasons the Textile Company has been successful. Out staff is very loyal and have done very well indeed."[34]

After 1905, Charles Gordon's business interests, in other companies in addition to Dominion Textile, continually widened, particularly after he was appointed

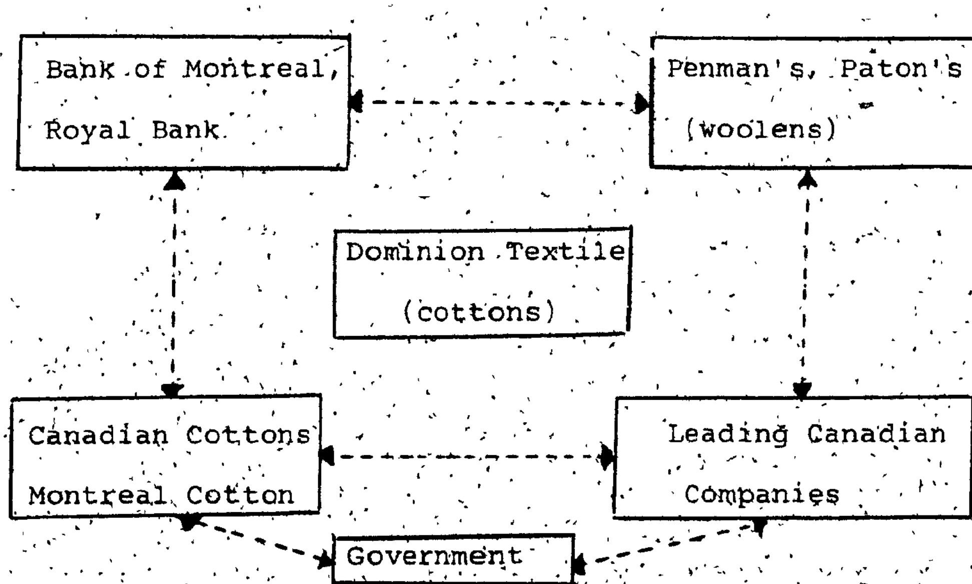
Chairman of the Imperial Munitions Board in 1915 and Vice President of the Bank of Montreal in 1916. Gordon increasingly withdrew from day-to-day management concerns and left them to the F.G. Daniels. Gordon had set up a bureaucratic structure that could operate during his absence. In speaking of the personnel of the company in 1916 Gordon revealed the extent to which he and the financiers of the Syndicate had turned operations over to full-time managers: "I think all our mills are well manned with sub-managers and I think you ought to know this ... that this Company is not depending on any one man to carry it along, it is really the employees who are looking after things so closely that makes it a successful company. My business is to get good men, and that is all I can do."[35]

Because of the composition of its Board of Directors, Dominion Textile was closely linked to the Canadian business establishment. These interlocking relationships integrated this company into the country's small, Montreal-based national economy.

Dominion Textile was closely-linked to the two leading Canadian banks. Its board of directors contained four Bank of Montreal directors. Charles Gordon was increasingly involved in the bank's leadership. Hurbert Holt was President of the Royal Bank of Canada from 1908. Domtex had close ties with the leading company in its sister-industry, woolens. Penman's whose President was first David Morrice, next chose Charles Gordon. Some

Directors of Dominion held shares in the second largest woolen company Paton's. Hurbert Holt was such a shareholder; he also married the company founder's daughter. Later, F.G. Daniels, while President of Dominion Textile, was also President of Paton's.

Exhibit: 3 - 3 INTERLOCKING RELATIONSHIRS



Dominion had close connections with its rivals, Canadian Cottons and Montreal Cotton, the second and third largest primary cotton textile companies. David Morrice was President of Canadian Cottons, while Dominion gradually came to control the largest block of shares of Montreal Cotton. Several of Dominion's Directors were also members of the Montreal Cotton Board of Directors. Dominion also had close links with the federal government. Two of its founding-directors were Senators, Louis Forget and Robert Mackay. During the war Gordon and Holt would serve the government and receive Knighthoods. Finally, through the members of its Board of Directors, Dominion was linked to other major business enterprises in Canada. The business connections of the Syndicate members have already been noted earlier.

Manufacturing and Technology

In 1905 the company stated its "policy was to improve quality and to keep up-to-date by closely following all improvements which are going on in the cotton business of other countries and by being able to place on the market quickly new lines of goods" as "we consider that this policy is the only wise one to be pursued as unless improvements are kept constantly going on, the plants would soon become antiquated."[36] By this Gordon meant that funds were being continually spent on replacing machinery, or keeping it in good repair. The British and U.S. markets were watched for new styles of cotton goods which could be duplicated in Canada.

While one of the directors' first efforts had been to acquire the large operations of Montreal Cotton, they deliberately did not build new capacity. The Directors' mood was cautious. Although demand was good in the early years the Directors were prepared for it to slacken. "One reason for this among other things is that a great many of the Mills in England have been enlarged and new Mills built and as we have a very low tariff in Canada and compared with other countries, higher wages (we have had to raise wages once or twice which we do not complain of) taking these things into consideration we have as I say acted on a very conservative basis."[37]

After the merger the Directors negotiated with buyers to sell off the two smallest mills in their organization - those at Brantford and Coaticook. The directors also negotiated with the Penman's Manufacturing Company, to purchase controlling interest in that company's stock, but decided the price was too high for Dominion Textile to buy. Charlie Gordon, however, acting on his own, and not as a respresentative of Dominion, put together a syndicate of Montreal interests which purchased Penman's and ran it as a separate company. In 1907, Penman's bought the Coaticook mill from Dominion Textile. Penmans was eventually acquired by Dominion Textile, in 1965.

From the beginning the directors left technical matters to A.B. Mole, the Mill Manager. The directors had no particular knowledge of the textile business; they were financiers. But they gave financial support to Mole who was interested in keeping operations technically up to date. In the past the directors had investigated new processes themselves. Now they left technical details to full-time staff.

Thus, in April 1906, Mole visited Germany to examine a new "paper filling" process being used in the manufacture of cottons. He advised the directors to buy the exclusive rights in Canada for the process, for $7,000. One unit of the machinery was bought for $15,000 to try out at Montmorency. As new processes were available the directors' authorized their purchase. In 1908, for example, $20,000 was authorized for a new photo engraving machine for use in the Print Works at Magog.

Generally though, textile technology moved slowly. Machinery was used for twenty or thirty years, until it was worn out.

Improvements to the mills, throughout the 1905 - 1919 period, followed the original plan of having mills specialize in particular products. As equipment wore out, new equipment purchases gradually increased the specialization of product lines in each mill. In 1907 improvements were made to the Magog print mill, and Montmorency, a grey mill. These two mills were powered by hydro electricity, a cheaper source than coal-powered steam generators. The smaller mills in the Maritimes were left to be operated as they were, without improvements.

For the first few years the mills continued to operate on the same lines of goods as before the merger. The move toward rationalization of production really began in 1908 when Frank Daniels, who had been the mill manager at Montmorency, was brought to Montreal to take general charge of manufacturing operations. Daniels was the acknowledged force behind building up a well-woven organization. In 1909 the print machines at Colonial in Montreal were transferred to Magog, and Colonial was designated as the main bleaching operation. These changes were legally cumbersome. Since the new bleaching machinery was more expensive than the print machines were, the directors had to get the approval of the holders of Series D (Colonial) Bonds to do this. By May 1908, nearly $500,000 had been spent on repairs to equipment, capitalized at $2,113,816.

In 1910 the company took a ten-year lease on the Mount Royal cotton mill built a few years earlier by Canadian Cotton, because the mill "was manufacturing similar goods as was being manufactured by our co." Under the arrangement, in which the business of the Mount Royal Spinning Co., Montreal, was controlled by Dominion, the printing and bleaching plant of the Mount Royal Mill was transferred to the print works and bleachery at Magog. In 1919, when the lease expired, the directors voted to buy the mill outright from Canadian Cotton for $2,375,270.

At the same time the larger mills were being specialized and improved, the smaller less efficient mills were being gradually sold off or closed when the opportunity came along. The first to be sold was the Coaticook Mill, in December 1907, to Penmans for $6,250, the best offer the company could get.

In 1909, David Morrice, the President of Penmans Ltd. and also a director of Dominion Textile, bought the Craven Mill at Brantford for Penman's for $35,000. The condition of sale was that the mill would not be used for making cotton yarns, and thus be in direct competition with Dominion. The money from both Penman's sales was used to improve existing property.

In 1911, the company closed down their small mill in Windsor, Nova Scotia, which had been operating at a loss. The Windsor weavers had struck several times, the first time in the spring of 1905. A.F.A. Strong the Mayor of Windsor, and President of the Windsor Board of Trade wired the company: " Our citizens view with alarm this determination believing it to be a serious blow to the progress and business interests of our town. Is there any possibility of your company reconsidering its decision, or anything we could do to help in any way their continuation of operations here". The company's reply pointed out "the Windsor Mill has been operated at a loss for years, largely owing to instability of work people. The Weave Room has not been fully operated in ten years. Also, recently enacted Factory Act entirely too drastic."[38] The machinery of this sub-marginal mill was dismantled and re-installed in other mills of the company. As there were few technological changes in this period, the machinery acould still be used. The Windsor Mill was eventually sold in 1915 for $25,000.

In November 1911, the Moncton, N.B. mill, another sub-marginal operation was sold, for $40,000.

The total production capacity of the company was increasing because of additions to its larger mills in Quebec. A new cotton mill of 500 looms was completed at

Magog, in May 1912, to meet an increased demand for print goods. This created legal and financial complications, since Dominion Textile leased the mill from Dominion Cotton, which still had legal title to the Magog facilities. In July 1913, this new mill was burned beyond repair. In April 1914, $370,000 was authorized by Dominion Textile to rebuild it. Despite this setback, the company still saw Magog as its major mill and because of economies-of-scale, as the best place for future expansion. "The company already owns all the land required, and these extensions are of the nature of additions to existing plants, storehouses, power plants, machine shops, offices, etc., have already been provided for."[39] Two years later in September 1915, during a heavy rainfall, the company's hydro electric power dam at Magog burst, carrying away part of the new mill and causing havoc in the river's path.

The directors again planned the rebuilding of the Magog Mill "carried away" in September 1915. Three years later the directors were still dealing with claims from U.S. residents in Newport and Derby, Vermont, for flooding to their property. Construction of the new dam was delayed by the war. It was finally rebuilt in 1920 for $276,999.

Just prior to World War I, other improvements were made. Additional looms were added to Mount Royal, the spinning capacity of Montmorency was doubled, and a new addition to the St. Annes Mill doubled its capacity. When the war began in 1914 the company's mills were in an excellent condition to meet the heavy wartime demands. In 1914 plans had been developed for the building of a major new 2,000 loom mill to be built in Montreal alongside the Colonial Bleachery. These plans were cancelled with the outbreak of the war.

The only closure of a plant during the war was as a result of the Halifax Fire. In 1916, the city of Halifax tripled the tax assessment on Dominion's mill there. The company threatened to dismantle the plant and move it elsewhere. A freak event negated these plans. In 1917, the explosion of a munitions ship in Halifax Harbor resulted in a devastating fire. The company's mill, along wih much of the city, was destroyed. The directors decided the mill "was no longer required for the company's business". In November 1917 the real property of the destroyed Halifax Mill was sold for $25,000. The company could have rebuilt the Halifax Mill. They received $247,425 in insurance, but simply deposited this with the Royal Trust in Victory War Bonds. All the company's mills were now located in Quebec.

THE MANAGEMENT OF PRODUCTION AND SALES

Dominion Textile began in 1905 with 8,226 looms, 368,826 spindles and employed 6000 hands. The company's policy at its founding in 1905 was: "to manufacture a different line of goods at those mills which are best adapted to produce the same thereby getting longer runs of cloth & also saving on the constant change of looms which was necessary when the subsidiary Companies were competing with one another."[40] The company also intended "to add a number of lines which up this time are imported."

Dominion Textile continued to emphasize the the specialty in prints already established. Its largest competitor, Canadian Cottons specialized in coloured cloth. Charlie Whitehead's new and small Wabasso Cotton Co. found a niche producing fine grades of white goods, until then not made in Canada.

In 1905, the mills were run as four separate entities, with coal and raw cotton purchased centrally by headquarters. The reason for this was partly financial. Until 1920, mill accounts of the four founding companies were kept separately, because there were still a few minority shareholders in Dominion Cotton. The original companies still existed legally. When improvements were made to mills the cost was charged to the separate company concerned, and a corresponding increase made in the yearly lease of the assets of that company by Dominion Textile.

From the start, Dominion Textile did not use a Selling Agent, but had its own Selling Department. By 1905 the larger Canadian textile companies had their own, exclusive Selling Departments formed during the 1890s. The smaller companies continued to use Selling Agents, notably David Morrice & Co. The total selling expenses of Dominion were $72,000 in 1906, and $66,000 in 1907. This department was divided into two sections, the Print section, and the

Grey & White. Since the Selling Department sold mainly to jobbers it was very small. In 1905, in addition to an office manager, the Print section of sales had three salesmen, the Grey & White, had four. The company also had three salesmen in Toronto. Their western representative, located in Winnipeg, was J.G. Dodd, who sold for the company on salary, plus commission.

The Print group sold finished goods to large department stores, but their biggest customers were the jobbers, or travellers who bought goods only twice a year. In the early winter jobbers bought their fall lines, which they sold in the spring. They bought their spring lines in the fall. Once an order was made, the jobbers did not re-order until all the goods were sold. Style was not the important factor it would become, and it was mainly decided on by what the jobbers ordered. This meant that Dominion prepared two lines of samples a year, both a year in advance.

Dominion Textile was formed just as world cyclical demand for cotton goods turned upward. In 1905 through to 1908, there were three or four months orders on hand which kept the mills running at full capacity. According to the Directors, this was due to the prosperous conditions in Britain, which made British companies less anxious to export. "The company has enjoyed several prosperous yrs. without feeling affects of foreign competition owing to gd times abroad which kept all the [foreign] Mills supplying their own requirements."[41] Exports from the U.K. then increased again for a few years, the low point for Dominion Textile being 1910. In 1911, Gordon explained to the shareholders that the mills were producing under capacity because the Canadian market "must contend with English competition very keen at present because of the lg. number of [British] mills that have been put up in the last few years, especially in the good times. These mills have not enough to do & so scour the world for business, particularly in Canada because the tariff is so low at 15% and we are unable to compete."[42]

The years just before the war were again prosperous. In 1912, the company had orders on hand for about six months production.

In a sense, Dominion Textile was ready for the war. Its inefficient mills had been phased out, and its major mills were in good condition. Charles Gordon prophetically told shareholders in May 1914: "Our mills are in such shape now that we could take care of a very large increase in business over what we could do two years ago, if we could get it; just at the present time the mills are rather quiet."[43]

In the first two years of the war, demand actually decreased, and production dropped. In 1914 and 1915 there was a general business depression. Sales dropped off as retailers reduced their inventory by buying very little stock. The company was able to pay a dividend in 1915 only because when the war broke out the previous August the price of raw cotton dropped off considerably. Dominion did not have any raw cotton inventory on hand and was able immediately to take advantage of that drop. It could sell its goods at a lower price than companies that had a stockpile of raw cotton. By 1916, the shortage of British imports greatly increased the demand for Canadian-made cotton goods. There were some shortages of chemicals and dye-stuffs during the war, but the company was nevertheless able to maintain production at full capacity. In addition, a number of lines not previously manufactured in Canada, and difficult to get from exporters during the war, were added.

Shortly after the start of World War I, "the President stated that an opportunity had been offered the Company to borrow money to purchase raw cotton to be stored in New York."[44] This large purchase, at low prices, meant the company had an assured supply of raw materials and helped account for the profits that were made during the war.

By 1917 the capacity of the manufacturing operation was severely strained. The company continued to produce at capacity, but prices rose during 1917 because the cost of raw materials was up sharply. That year alone wages increased by 21%, supplies 18%, coal 42%, dyestuffs and chemicals 103%, and raw cotton by 60%. Freight embargos, as a result of German submarine activity in the North

Atlantic, also greatly increased the cost of operations.

The company's biggest single order during the war came from the U.S. government in early 1918, to provide cloth for army uniforms of a type and in the quantity the American mills could not supply. The American Government also placed a substantial order for duck and webbing - a fabric type Dominion produced in large quantities for the Canadian armed forces. The order came about through Charles Gordon's contacts as Director General of War Supplies for Great Britain in Washington. To finance this order the company needed American dollars, which were then in short supply in Canada, to purchase cotton. They borrowed half a million from Ogilvie Flour Mills which was also doing a considerable business with the U.S. government, and another $690,000 from the First National Bank of Boston.

Two factors, reduced textile exports from the U.K., and increased consumer demand. As Charles Gordon noted: "One reason why our business is so good and a very important reason is on account of the difficulty in getting goods from the other side, of course that acute condition of freights and difficulty of getting goods across will not always go on, but I think we will from now on be in a better position to compete with the English market than we were previous to the wars. ... Of course the amount of money spent in this country at the moment on munitions has a great deal to do with the purchasing power of our people, and that is one reason we have done so much business. There is a tremendous amount of money being put into circulation from this source."[45]

Immediately after the Armistice was signed in November 1918 orders dropped off sharply. Business was negligible for several months. Then, in early 1919, according to Gordon, orders "materially improved" to the 1915-17 levels again as consumer demand increased and imports were scarce. The company's major concern in 1919 was the state of the mills. They had been maintained as well as conditions would permit, but during the last two years of the war replacement machinery was unavailable. This problem was the company's first priority.

The company made big profits during the latter part of the war due to Gordon's speculation in raw cotton, and to the high prices paid by the U.S. government on contracts it made with the company. Charles Gordon, now Sir Charles, stressed: "these reasons are entirely unconnected with the trading of the Company, and that is the point I wish to make, they were outside the regular trading of the Company. They were made, first because we had a very large amount of cotton, some thirteen million pounds, which was selling then at a fairly low price, and which immediately began to go up, and of course prices were very high during the year and that showed in our profits this year. The second reason was we had large orders from the Government of the United States, and these orders were sent us at their own price. We did not have anything to do with the fixing of the price at all, so that we cannot be accused of having tried to get a larger price than they were willing to give us, but we accepted the price they gave us, which was very high. And I might say here, the prices of all cotton goods fixed by the War Industries Board at Washington were very high. They fixed prices on articles such as steel and other things fairly high, but this was done, having in view a certain purpose, which was to make it possible so that there would be no trouble, and manufacturers would be able to give advances readily, and they would also make large profits which they would have to pay back into the Treasury of the United States in the hope of excess profit taxes and doing this made it much easier for the United States to finance the War."[46] Dominion Textile thus gained from war profiteering in the U.S.

The lesson of stockpiling large supplies of raw cotton at the beginning of the war was remembered by Sir Charles' son, Blair Gordon, who was then in his teens. Twenty years later, at the outbreak of the Second World War, Blair Gordon, now President of the company, again stockpiled huge supplies of raw cotton, which he was able to secure cheaply.

OPERATIONAL GOALS AND PRACTICES

The management of the operations of the company was characterized by a production emphasis. The importance of raw cotton to the final selling price, and to the availability of supply, dominated the company from 1905 to

1939. The nature of the commodity-like final product, meant that profits could be made in resource management. Operational resources included labor, machines and raw materials. The cost of labor and machines were fairly fixed, Machinery was manufactured in Britain and bought at the going world price. The Directors felt the cost of labor should be tied to the selling price they were getting .The main opportunities for keeping selling prices down were in purchasing raw materials and running large batches in order to realize economies-of-scale. Gordon and Daniels looked after the purchase of raw cotton themselves. From its formation in 1905, the company had a wider product line than any other Canadian textile producer. As new variations in textiles were developed it entered these as well, and so continued its dominance.

The cost of raw cotton was the main determinant of the price at which goods were sold. Raw material purchases usually were made annually, tying up large amounts of capital. Profit margins before the war were extremely small, and tied directly to the price of raw cotton. The cost of labor was accepted as a given by the Directors, that is, productivity of the individual worker was not discussed as the major factor determining efficiency.

The company found it difficult to upgrade the skills of its operatives. About 1910 Dominion began its own night classes. Since most operatives were French-speaking, books had to be obtained in France. The problem was that before instruction on textile manufacturing could begin, most operatives first had to be taught to read and write. Several Laval College professors were hired to instruct in textile manufacturing, but the attempt was soon given up. By 1917, as Frank Daniels the General Manager reported,: "The only thing we have succeeded in keeping alive was the night school, which actually did a great deal of good in raising the standard of education and teaching the operatives the necessity of having complete training and gathering some idea of the work they were doing rather than carry it on by rule of thumb as they had been doing. This country is yet in a way, too small to admit of any of the large institutes which we have in other parts of the world."[47]

In the years 1905-07, when the company was running at full capacity, it raised wages slightly. Gordon paid a bonus to workers who remained with the company and thus showed their loyalty. The company officials had a pragmatic attitude toward workers. The director's attitude was to not accept the workers' demands, but to keep the mill in operation in order to fill orders, if at all possible. The company's first strike was at Magog, in July 1906. The manager at Magog was told "to come to the best settlement possible but to get them back to work as it is not in the best interests of co. to have mill idle."[48]

In October 1907 orders fell off. The mills were put on short-time, and wages were lowered, with the result was that workers in several mills went out on strike. The Directors' attitude was that as income was down, workers must also bear the cost of the economic slump. "While many of them [the operatives] were willing to take it they were advised by their leaders not to & have not agreed to it yet. In the U.S. where they have some experience with unions the reductions were accepted."[49] David Morrice added that the company was not acting arbitrarily. They would have liked to keep the same wages, but it was utterly impossible to do so. It was "simply a question of whether you can continue to run the mills or whether you must shut them down."[50]

When conditions improved in 1912 and 1913, two raises of 5% each were made in mill wages and the hours of work were reduced. By 1919, the average wages of Dominion Textile workers had risen by 50% and in some cases 100%, over the 1914 rates.

The Directors voted themselves a reduction in their fees, from $14,740 in 1907, to $13,100 in 1908. During the recession of 1908-1910 these fees continued to decrease to $8,400 in 1909, $7,150 in 1913, to $5,290 in 1918. Despite the high war profits Directors' fees stayed around the $5,000 mark. This was probably a reflection of the decreased duties the directors had, as more decisions were made by professional managers.

After the war the supply of labor increased, but so did general labor unrest throughout the country. The company sought to adapt to the increased demands of the workers and began, in 1920, a company-paid pension plan with the initial capital of $100,000. This capital came from the Surplus Account accumulated during the war.

3.6 MANAGEMENT CULTURE

The Syndicate members who founded Dominion Textile not only had close business ties, but were literally neighbors as well. Since the 1870s, the Montreal business elite had made fortunes, unhampered by personal income tax (introduced in 1917 as a temporary war tax.) A mansion in Montreal's Golden Mile became a conspicuous way of keeping score of this new wealth. At the time of the 1905 merger, all Directors but Charlie Gordon lived within ten blocks of one another in Montreal's Square Mile, centred above Sherbrooke Street between Guy and Peel. First Vice President Louis Forget's neighbours on his block of fashionable Sherbrooke included Markland Molson (brewing, banking, Montreal Cotton), Sir William Van Horne (the builder of the Canadian Pacific Railroad), Hon. Justice J.A. Ouimet, Hugh Paton (woolens), Senator Raoul Dandurand, and A.H. Gault, son of A.F. Gault. Two blocks along Sherbrooke were two other Directors, A.J. Brown and W.A. Black. A block above, on McGregor Street, were the mansions of the President, David Yuile at no. 23 and Senator Mackay at no. 29. On adjoining Stanley Street lived Hurbert Holt, John Beattie, Andrew A. Allan (a nephew of Sir Hugh), as well as David Morrice Jr. . Morrice senior's mansion was a few blocks away on Redpath. Charles Gordon lived, in what was then the outskirts of the city, off Cote des Neige on Westmount Mountain.

The men in the Syndicate not only had intertwining business dealings, they also belonged to the same clubs. Almost all the Syndicate members, and hence the early Directors, belonged to the Art Association of Montreal, the group which later created the Montreal Museum of Fine Arts. David Morrice's third son, James Wilson Morrice (1864 - 1924) was by this time an expatriate in Paris, sketching with Matisse, and earning an international reputation as a painter.

Many of the Directors (Mackay, Holt, Gordon, Meredith, Forget, Morrice, and Yuile) were members of Montreal's most prestigious club, then and now, the Mount Royal Club. A number (Baillie, Forget, Yuile, Mackay, Morrice, Holt and Gordon) were members of Montreal's elite businessmens' club, the St. James Club. Baillie, Forget and Mackay were also members of the Montreal Club. These men met socially at several sports clubs they had joined: The Forest and Stream Club (Yuile, Mackay, Forget, Holt, Gordon, Morrice, Meredith and Brown), The Montreal Jockey Club (Mackay, Forget, Gordon, Holt, Black and Meredith), The Royal Montreal Golf Club (Forget, Holt, Black, Baillie and Laing), The Montreal Amateur Athletic Club (Baillie and

Meredith) The Royal Montreal Curling Club (Yuile, Mackay, and Baillie), The Montreal Racquet Club (Gordon and Holt), The Back River Polo Club (Gordon and Meredith), The Mount Royal Lawn Tennis Club (Gordon and Meredith), and The Montreal Automobile Club (Forget and Holt). Louis Forget belonged to over two dozen clubs. He not only had memberships in the mainly English-speaking clubs, but was also a member of Le Club Canadien, Alliance National, Club Lafontaine, Club St. Denis, the Rideau Club in Ottawa and the Albany in Toronto. Scots amongst the Directors were members of loyal societies, the Caledonian Club (Yuile, Morrice, Mackay and Gordon), and the St. Andrew's Society (Yuile, Morrice, Mackay and Baillie).[51]

Clubs were an extension of the office as a place to conduct business. The clubs' membership collectively represented Canadian business. They saved time and provided a suitable atmosphere, since business deals were still as much between individuals, or groups of individuals, as between companies.

All the Directors during this period were Montrealers with one exception. Captain D.C. Newton was elected in 1911 to represent the English investors who had responded to the company's sale of shares on the London market. Newton died in January 1915 "whilst on duty at the front with the Princess Patricia's Regiment in defence of his country."[52] The Princess Pats Regiment had been privately raised and equipped by Hamilton Gault, the son of

Andrew Gault.

By 1919 the ownership of the company was widely dispersed, but the Directors were still the men holding the largest blocks of shares. The largest single shareholder was W.A. Black, a Director, with 2,750 of the 69,406 shares issued. J.P. Black (1,875) and Sir Hurbert Holt (1,233 shares) were also Directors with large holdings. The exception was Sir Charles Gordon who held only 200 shares. The company General Manager, Frank Daniels held 470.

SIR CHARLES GORDON

Charles Gordon was born and raised in Montreal. He found in the textile industry a route to becoming one of the prominent business figures of his time, in many fields outside textiles.

Gordon's father, a Scottish immigrant, had founded John Gordon & Son, a textile commission merchant for British goods. Later the firm included a range of Canadian-made textiles. The business was destined for Charles Gordon's older brother. At 19 Gordon was a clerk in a wholesale dry goods store. Two years later he worked as a shipping clerk for J.P. Black & Co., dry goods wholesalers. J.P. Black would be a Syndicate member, and a Director. At 29, in 1896, Gordon organized his own shirt manufacturing company, The Standard Shirt Co. His business flourished, and he soon bought other shirt plants in Montreal. Gordon's successful business interests drew the attention of older established financiers who saw him as the right man to play the active role in organizing Dominion Textile.

At the outbreak of World War I, Gordon was President of the Canadian Manufacturers' Association. During the war he went to Washington as representative of the Ministry of Munitions, and Director General of War Supplies for Great Britain in the United States. For these and other services he was knighted in 1917 as Sir Charles Gordon, G.B.E., Knight of the Grand Cross of the British Empire.

In 1916 Gordon became Vice President of the Bank of Montreal. The number of directorships he held in other companies continued to grow. Gordon's executive positions at both the Bank of Montreal, and at Dominion Textile were made more convenient because the Bank headquarters were across the street from Dominion's offices on Place d'Armes.

FRANK G. DANIELS

Frank Daniels was also a Montrealer. He first job, at 16, was in the Car Service Department of the Canadian Pacific Railway. He went to Montmorency Cotton in 1893, at 19, as office manager, recruited by Charlie Whitehead. At Montmorency he was quickly promoted and by 1907 was Mill Manager. In 1909 he was transferred to Montreal as Assistant General Manager of the company, and in 1916 was made the Managing Director.

The transition to salaried, full-time management, actually running the company was accelerated by the war. From 1915 to 1917, Charles Gordon was mainly in Ottawa as the Vice President of Imperial Munitions Board. In 1917-18 he was in Washington as the Director General of War Supplies for Great Britain. These duties meant he was absent from company meetings for periods of many months at a time. In Gordon's absence, Holt acted as Chairman of Directors' and Executive Meetings. Gordon and Holt made strategic decisions, but during the war this function provided no alternatives. The company's strategy was simply to produce the maximum output, all of which could be sold.

The job of running the day-to-day operations of the company during and after the war was taken over by Frank Daniels. The directors were appreciative of Daniels' work as the following example of praise by George Caverhill, a Director, illustrates. "I hope all the Directors will understand how we appreciate his services because those of us interested in other companies know it has been a very hard and arduous year to pull through, not only with the market prices, but with the strikes and labour troubles, and you people handle these very well."[53]

During the war the company was very generous in disbursements to charities particularly to the Y.M.C.A. Military Fund and the Canadian Red Cross. After the war, when profits were still high, it continued its generous donations. In 1920 for example the company gave $100,000 to McGill University, $10,000 to the Universite de Montreal, as well as $1,000 to Jewish Relief Work, and $500 to the Salvation Army Self-denial Fund. Donations such as these were an extension of the civic responsibility the Directors felt to be their duty. Privately they endowed and made donations to museums, theatres, hospitals and other social agencies not then funded by the state.

The business values of the pre-World War I Directors resembled those of the 1870 - 1904 period, but as the older generation died the younger executives treated their responsibilities somewhat differently. The earlier generation had used the corporate form as an extension of the still older partnership form. The size of companies after 1870 had increased to the point of requiring the corporate form in order to bring in more capital, and thus more shareholders. Between 1870 and 1904 the largest shareholders still carried out, on a part-time basis, the executive functions. In the 19th century a textile company required only a few hours a week of executive decision-making. Thus A.F. Gault was able to be the President of many companies.

After 1905, the level of activity and the capital requirements had esculated again. Dominion Textile became too large to permit this loose type of management by the owners. The further increase in size of the company after 1905 meant that most of the Directors no longer had the time, nor expertise, to fill executive positions, even part-time. The company required more time from its managers. But the senior executives did not see their careers tied to the destiny of a single company. They needed another group of full-time managers to handle operating decisions. Chandler found in the U.S. after a merger, that typically: "In a few cases, financiers dominated the boards after the merger; in most cases, however, two or three experienced manufacturers, advised by one or two financiers, became the core of the new top-level management."[54] In the Dominion Textile case, the manufacturers were full-time salaried employees.

The original Board of Directors of Dominion Textile was a mixture of the 19th and 20th century cultures. David Morrice, President of Canadian Cottons and a Director of Dominion Texile, represented the old style. Gordon and Holt represented the new style of financier-capitalists. Holt chose to describe himself as a "capitalist". Gordon and Holt resembled the 19th century executives in that they placed their own careers above the interests of a single company. They too held executive positions in several companies. The difference between them, and Gault and Morrice, was that loyalty was now redefined as loyalty to only one company within an industry. Industry was narrowly defined, i.e. the primary cotton textile industry was seen as separate from the woolen industry. It was accepted that a man could be President of companies in both industries, as were C. Gordon (Dominion Textile and Penman's), and F.G. Daniels (Dominion Textile and Paton's). A later generation of full-time, professional managers at Domtex would see company loyalty first, and define their industry more broadly. They bought Penman's and other companies, and went into merchandising.

Managers at this time were full-time, but they cannot be described as professional in the Chandlerian sense. The managers did not determine strategy. They were given their domain, and expected to defend it. A modern professional manager, according to Chandler, also determines his domain.

PERFORMANCE AND CONTROL

The first dividend on Dominion Textile common shares was a yearly dividend of 2 1/2% was paid May 1906 on an income of $316,324. Louis Forget commented that it was a good thing that amalgamation had been carried out, as otherwise there would not have been a dividend. The company has never had a year without a dividend payment since.

In 1905, Dominion Textile had a capitalized value of $7,000,000. From 1905 onward the company's large debt acquired by assuming the debt of the four founding companies for $2,996,854 preoccupied the directors. The directors worked gradually and continually at whittling down the loans. At each meeting they would hear a report on the state of their loans, and note with satisfaction that each month the total amount of debt was decreasing. After the initial bank loan in 1905 to cover this debt the company did not borrow any further money throughout this period. As well as this debt, in 1905, the company issued 6%, 20 year bonds with the face value of $3,370,500. The mill repairs and refurbishing were paid for out of profits. In 1919 all bank loans were repaid in full.

As part of the rationalization process, a few years after the merger, the company began to pay closer attention to the financial performance of the operations. In 1908 the mills were required to forward monthly statements of expenditures covered by vouchers which were incorporated into the books at head office and balanced each month. Inventories on raw cotton, merchandise on hand and in process of manufacture, and supplies were now prepared in detail and certified as correct by the General Manager. Beginning in 1909 auditors made monthly instead of yearly reports. The Book of Accounts was also balanced monthly. In 1910, a separate trading account was set up for each mill and the mill office reports were incorporated into those of the head office. But until 1917, when the final shares of the Dominion Cotton Company were turned in by all shareholders, the company had to keep four sets of books and maintained, at least financially, the form of a holding company.

Dominion Textile was formed at the same time the demand for cotton was on a cyclical upswing. The company's results were satisfactory from 1905 to 1908. Returns supported steady dividend payments of 6% to 8%. At the time, bank interest rates were between 2% and 3%. During the latter part of the war and afterward, despite very high profits, the company continued to pay out 8% per annum.

After a few years of operation the company began to gradually build a "Surplus Fund" found in the accounts as "Balance of Profit & Loss Account". By 1910 it amounted to $492,905. Minority shareholders proposed the fund be paid out to shareholders. The President replied that he would take the suggestion into consideration and the fund continued to grow. During the war the very high profits were added to the fund. The company could sell all it could produce, but adding additional capacity was out of the question, as machinery was unavailable. The company was also well aware that in peacetime, demand would eventually slacken. During the war these high profits were largely invested in Victory War Bonds, for example, in October 1918 the company bought $1,000,000 in bonds.

1918 was the company's most successful year to date. Its Gross Sales were close to $24,000,000, nearly three times its sales volume in 1905. Inventory stocks were at a minimum.

The years immediately following the war were the years of the highest profits yet seen in the international cotton textile industry. Charles Gordon warned stockholders in 1919 to accept their temporary good fortune, despite the criticisms made of the industry in the press. "It is true we have made pretty large profits during the last year, but I would like to explain these profits are very abnormal as it is what has happened in practically every industry doing any cotton business. The reports from Manchester show that the cotton mills there are showing even larger profits than we are showing and the reports from the cotton mills in the United States show their earnings are very large. It is the nature of the business at present which makes it necessary to make large earnings and we might easily if we did not have a very large margin to come and go on, make a serious loss."[55]

3.7 DOMINION TEXTILE AND LIFE CYCLE THEORY

The formation of Dominion Textile in 1905 did not require a management restructuring or reorganization, but was more a paper and control rearrangement. Each of the mills continued to operate as before. Gordon and Yuile were in charge, but they were not active in the operations management. In theory structural change implies a sudden change of form. In fact, at Dominion Textile the change from the holding form to a centralized functional structure resulted in no sudden dislocations. The business of production continued as it had before the merger. The policies of centralizing management and rationalizing production could be carried out slowly, as smaller mills and the equipment became obsolete or worn out. Few functions in this manufacturing operation needed to be carried out at head office.

A review of the operations and management of the years after 1905, shows that one can not compare the complexity of Dominion Textile in 1905, with its complexity in the 1960s when its management had become professional in the Chandlerian sense. In 1905 the entire merchandising function required less than a dozen people, while by 1960 it numbered over 500 people and dominated the company's plans. In 1905 the company narrowly defined its business as spinning and weaving cotton textile, with some finishing operations. By 1960 Domtex had moved into a wide range of textile products- tire cord, synthetics, consumer goods- that redefined what the primary textile industry was. In 1905 the company was sufficiently protected that it could safely produce for a secure domestic market. By 1960 Domtex regarded all textile producing countries as serious competitors for the Canadian textile market.

Life cycle theory has generally not noted this qualitative difference. The emphasis upon products as noted by Scott (1971), ignores the qualitative management differences in the early period. Responses to a broadened market take place when managerial culture, inside and outside the firm, considers product diversification as an appropriate activity. Dominion Textile was in the primary cotton textile business. Integration forward and backward, and diversification was not considered appropriate because at that time these were not seen as being part of the purpose of the company. The purpose was to manufacture goods, not market them. Marketing was an area of expertise considered to be outside the role of manufacturing.

The change to manufacturing companies being driven by marketing was a concept that began, for most companies, after World War II. This is represented in the formation of the company. The President of Dominion Cotton expressed the alternatives - come together or go broke. There was no consideration of going into wool, integrating forward or backward, or going into related or non-allied businesses. The emphasis was upon the <u>business</u>, not upon the management. The owners did not actively manage the business, this was left to those who understood the operations and their orientation was commodity production.

The separation of ownership and plant management which permitted Dominion Textile to be formed without disturbing operations, had very practical reasons. Gordon, Yuile and others lived in central Montreal. Plants were located in outlying towns, or in different cities. Plant managers lived at the plant site. Even travel to a plant in Montreal was slow in 1905. Yuile and Gordon for example, worked where their associates were and jobbers were located - downtown Montreal. Transportation, communication and geography hindered the development of a management core. The mills in Nova Scotia were allowed to deteriorate, and were eventually closed. Plants closer to Montreal were refurbished and expanded. The exception was Montmorency near Quebec City, but the reason for that was the ready availability of hydro-electic power. Given the problems of communication, many decisions were best left with the Mill

Managers, rather than with the head office in Montreal.

Summary

The beginning of Dominion Textile in 1905 started the company on the way to becoming a modern corporation. The purpose of the merger was to help stabilize the Canadian cotton textile industry by co-ordinating the activities of competing separate companies. The founders intended to rationalize the product lines of the several companies so each mill could concentrate on larger quantities of a line, rather than having several mills producing small amounts of identical goods. The purpose was not to consolidate to then increase total market share, but to reduce industry competition. At the time of the merger industry competition was so intense, all four founding firms were near bankruptcy. The new company, Dominion Textile, soon achieved this purpose.

The merger was supported by the Canadian business community, and not only the industry. The linkages between the cotton textile industry, other industries, banks, and the government were close because of the widespread holdings of cotton textile stocks by Montreal businessmen. The Montreal business community generally would have suffered if these mills had gone bankrupt. Business and banking leaders co-operated in the company's creation.

A strong corporate staff did not develop for several reasons. Canadian law did not permit the legal unification of the four companies into one organization.

The major emphasis of the company was on production and satisfying orders received from jobbers. The early period is filled with references to managing resources. Relationships with workers were handled informally, and wage increases were related to prosperity.

The activities of the company in these early years included managing and controlling productive units which were already established. Personnel functions and activities were handled by general managers. Marketing activities related only to relationships with jobbers, selected retailers, and government agencies and groups. Capital acquisition decisions were made by the general manager. The major emphasis was on keeping the productive units operating to fulfill orders.

These perspectives on the development of Dominion Textile hardly support the Scott (1971), Rumelt (1974), or Leontiades (1980) theses. In historical development, the distinguishing characteristics of Dominion Textile are not its single product, but the relatively simple dimensions of management as compared to a modern corporation. Facing a simple, stable environment, the corporation could continue to replicate activities established in the 19th century, and produce goods at a maximum rate.

FOOTNOTES

1 Shareholders' Minute Books, Dominion Cotton Company, Annual Meeting, Apr. 28, 1905

2 Ibid.

3 Ibid.

4 Ibid.

5 A.D. Chandler, Jr., and H. Daems, Managerial Hierarchies, (Cambridge, Mass.: Harvard University Press, 1980), p. 6

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CHAPTER 4

THE DEVELOPMENT OF STRUCTURE AND PURPOSE: 1920 - 1939

MAJOR STRATEGIC-STRUCTURAL COMMITMENTS

- Continuation of external strategy.
- Extend integration into selling functions.
- Diversification into new synthetic products.
- Still very specialized, immature functional structure.

Critical Events	Company Actions	Effect of Change
1918 - 20 high post-war demand for cotton goods	maintain heavy production schedules	industry profitable
1920 - 27 demand for cotton low, industry over-production & low prices	Strategy: stay within one's own business; emphasize manufacturing efficiency	structure constrains strategy; mills operate under-capacity
Preferential Tariff	enjoy tariff protection	U.K. main competitor
rise of ready-to-wear clothing industry	inventory own goods to garment manufact-	decline of dry goods wholesalers & jobbers, rise of
consumers demand greater variety, U.S. styling	gradual development of Selling Dept.; look to U.S. styling & marketing model	marketing view; manufacturing orientation dominates

department stores demand direct selling	company complies	increased emphasis on selling
slow technological change	change loom width & add printing machines, long drift spinning	meet new consumer demands
early 1920s beginning of rayon (synthetic) textiles	invest in new processes, 1926- Verdun Mill	gain experience in synthetics
~~Canadian~~ business dominated by finan- 1928 Sir Charles Gordon, President, Bank of Montreal	company officers emphasize links to business community; President F.G. Daniels	strategy-making by financiers, salaried managers carry operations
1927 Liberals reduce tariff, textile industry depressed, heavy U.K. imports, dumpint of U.S. over-production in Canada	emphasize manufacturing efficiency, economies-of-scale, no expansion	plants operate under-capacity Surplus Funds invested in securities
1929 Crash textiles less affected than most	request tariff protection	main competition from U.K.
1930 Conservatives raise tariff on U.S. & Asian imports, Preferential tariff	cut-back on hours to avoid lay-offs, volume production of cheaper lines	loss of sales, steady employment maintained
Slight recovery after 1933, but business conditions severe	concern for workers' welfare over profit; Strategy = survival	operated at loss for 7 years by selling securities
1935 Liberals lower tariff	emphasize low cost production	under-utilization of capacity
late 1930s, rise in Japanese imports	dominated by manufacturing technology	centralized bureaucratic structure
1938 economic downturn	maintain effective Production system	

The formation of the company in 1905 did not bring with it a managerial orientation and structure which one could have anticipated from the Chandler analysis. The development of Dominion Textile as a dominant company may partly have been responsible, but even more important appears to have been a pervading managerial culture of financial capitalism, a reliance on profitability through resource allocation, and a dependence on prior values and attitudes.

Dominion Textile, like other textile companies, had developed the capability to respond to boom and bust times by closing mills or shutting down looms, laying off workers, and adjusting prices. These are the appropriate responses of commodity type companies. The company relied on its primary business of spinning and weaving yarn to produce greige. Some greige was bleached, dyed or printed to sell to jobbers, the middle-men in the distribution system.

The strategic questions of "what is our business ?" and "what business should we be in ?" were not really examined. The policy considerations were doing one's business well. The business had already been determined through those companies which had formed Dominion Textile - producing cotton goods and adapting to market demands.

The period 1920 - 1939 was one of very gradual change in technology, and in distribution methods within the industry. The problem with describing a company's operations sixty years ago is that the management techniques and the systems used in the 1920s are unavoidably compared with contemporary practices, usually in a deprecating way.

The senior managers of Dominion Textile between 1920 - 1939 were conservative and careful. This should not be misconstrued, from the perspective of the 1980s, as close-mindedness. Dominion Textile was always a well-managed operation. What was required was acquired. Progress was slow, at times hesitant, but constant, in keeping with the slowly developing economy of a small country, and a technologically stable industry.

In the period 1920 to 1939 the company's strategy and management culture stayed much the same, and for this reason is described in one chapter. However, the economic climate of this period changed radically, especially in 1929. The discussion is therefore divided into: I. Maturity, 1920 - 1929, and II. Survival, 1929 - 1939.

I. MATURITY: 1920 - 1929

4.1 INDUSTRY ANALYSIS

In the 1920s the textile manufacturing industry did not share the boom times felt by certain manufacturing sectors in new consumer products, such as the automobile industry. The cotton textile business was generally poor worldwide. In the U.K., nearly half the Lancastershire mills were unable to make dividend payments in 1925. In the U.S. business was poor, especially in the North, although Southern mills, with lower labor costs, did better.

Lazonick has described the British textile industry as mature and stagnant. "With generally contracting markets after World War I, however, very few new firms entered the industry. In the 1920s many inefficient firms that might have been forced to exit had there been technical development and enlargement of the more efficient firms, found that they could hang on despite the dramatic decline in demand, living so to speak, off their capital. Throughout the 1920s, both spinning and weaving capacity varied little from its pre-World War I levels. Many "American" spinning and weaving firms remained in business in the early 1920s by shifting some of their capacity machinery into the production of finer goods . . . ."[1]

The major changes in the textile industry were being made in the U.S. where several different types of integration processes were happening. The impetus for the change came from people in the converting business who had their hands on the pulse of the market.

Until World War I, large U.S. mills primarily made grey goods and sold them to a converter to have them bleached (there was a large market for finished white goods,) dyed or printed in another mill. By the 1920s the main change in the U.S. textile industry was that a few top firms were becoming integrated through into marketing, and in some cases even further into manufacturing apparel. In 1920, a large U.S mill basically made grey goods and sold then to a converter to have them bleached (there was a large sale for finished white goods) dyed or printed in another mill. In the 1920s the main change in the U.S. textile industry was that a few top firms became integrated becoming involved in bulk marketing, and in some cases even further into manufacturing apparel.

Exhibit: 4 - 1

FORWARD INTEGRATION IN U.S. COTTON TEXTILES BY PRIMARY PRODUCERS

SPINNING ⟶ WEAVING ⟶ FINISHING ⟶
(MANUFACTURING)

PRIMARY PRODUCERS MARKETING DRIVEN OPERATIONS

In other cases, converters began to join with, or to buy out, the spinning, weaving, and converting companies in order to form integrated textile companies which started the manufacturing process by making yarn from cotton bales.

Exhibit: 4 - 2

BACKWARD INTEGRATION BY CONVERTERS

SPINNING ⟵ WEAVING ⟵ FINISHING ⟵ MANUFACTURING

The primary producers had the advantage of large-scale efficient operations. What they lacked was knowledge of the market. It should be emphasized that only the very largest American firms were integrating forward. The majority of U.S. textile firms continued to define their business as manufacturing primary textiles.

The backward integration by converters meant they could more effectively plan their operations. These companies often found it difficult to be efficient manufacturers, and this type of operation remained relatively small-scale.

The key change in the U.S. that influenced Dominion Textile was the trend to forward integration - companies developing their own distribution system by having their own sales force and brand names. In the 1920s, Spring Mills, Stevens, Dan Mills and others, all developed their own sales operators. These companies also developed more branded products, for example, producing their own sheets to be sold to retailers. The smaller U.S. mills did not make these changes until after the Second World War. They continued to use agents who, while they were engaged by and represented several companies, and worked on a commission basis. For most mills, large or small, New York was the great distribution centre, as it had been since British textiles were dumped on the U.S. market in 1815.

Integration into marketing meant the large firms began to deal directly with the customer, whether clothing manufacturer, wholesaler, or retailer. The primary producer now had to deal with changing consumer tastes, as opposed to producing what the wholesaler ordered from their samples. Very gradually in the U.S., the marketing function began to tell the manufacturing operation what to produce.

In Britain, in the 1920s, there was an awareness that greater efficiency was needed in the specialized functions. The answer, everybody argued, was vertical integration of spinning, weaving and finishing, which had been operations controlled by separate companies. But nothing happened because of the strong institutional rigidities of the largest firms. In fact, the high degree of integration Canadian companies had achieved was now of interest to the British. As early as 1919, a delegation of six English cotton manufacturers visited Canada to study industrial problems and methods of manufacturing and merchandising.[2]

In his analysis of the British cotton textile industry between the wars, Lazonick points to the British textile managers' acceptance of the given structural constraints of their industry as the underlying cause of the stasis in British textile manufacturing. "... they failed precisely because as individualistic managers in highly competitive and vertically specialized industries they were powerless to alter the organizational constraints that determined feasible technological choices and profitable opportunities. As a result, they barely tried, individually or collectively, to transform their industrial environment."[3]

In contrast to the British primary textile industry, their American counterpart was adjusting to market and technological changes. After World War I, the Canadian primary textile industry deliberately patterned itself on the American model in order to deal with changing market conditions.

The post-war period saw some important changes in some traditional product lines. The specialization of companies in particular lines had remained substantially the same until the close of the war. In the 1920s, diminished demand for some of the older staple fabrics, such as gingham and bleached cambric (used for ladies petticoats) as styles varied, caused the Canadian mills to adopt new lines of production, but along the same lines of specialization. Small, independent converting plants were started in the Twenties. These operations purchased grey cloths and produced finished goods in competition with the integrated enterprises.

In the U.S., these changes began during the 1914-1918 World War. America did not enter the war until 1917. In contrast, the Canadian mills during this period focused single-mindedly on mass production of wartime goods. The Canadian textile manufacturers faced these trends abruptly, after the war was over. Integration of processes was not the problem. Pre-war Canadian companies had more throughly integrated operations than those in Britain and the U.S. In Canada the abrupt post-war change was in distribution. Before the war, Canadian mills sold almost exclusively to dry goods wholesalers. In the early 1920s there was a rapid growth in the number of garment manufacturers, and department store customers, especially in Montreal. Home sewing, as the family's major source of clothing, fell off quickly in the Twenties. The major customers of textile mills were now garment manufacturers, many of whom were recent immigrants from Eastern Europe, with family or friends connected with the New York garment trade. The focus of the Canadian industry began to switch from Manchester to New York.

One of the biggest influences on the mills came from the department and chain stores. As they grew larger, and ready-made clothing became increasingly important, they also carried the consumer's message for style back to the companies. The biggest influence of all on consumer tastes in Canada in the 1920s were the mail order catalogues, particularly Eaton's Catalogue. By the early 1920s, consumer demand for fashion fabrics necessitated shortening the time between production and delivery. In order to meet these demands, manufacturers of textiles increased the inventory of their own goods and squeezed out the wholesalers.

The 1920s saw the beginnings of the synthetic textile industry in Canada. In 1923, Courtaulds Ltd. of

London created Courtauld's (Canada) Ltd. with a capital of $3,000,000 and purchased a site for a factory in Cornwall, Ontario to manufacture "artificial silk" or viscose filament rayon yarn. The factory was completed in 1925. Within five years Courtauld's doubled its capacity. In 1926, Canadian Celanese Ltd. was organized to establish another "artificial silk" plant at Drummondville, Quebec, to manufacture acetate filament yarn. A third large foreign-owned synthetic company, Du Pont Textiles Ltd. also formed a new Canadian company.

The two types of rayon yarn, viscose and acetate, have entirely different characteristics, and are not interchangeable. They must be handled differently in all parts of the manufacturing process. Because of its difficulty in handling, acetate yarn was not readily adopted in the U.S. or Canada. As a result, Celanese Co. set up their own weaving and finishing plants, in both countries, to produce acetate rayon.

The cotton industry throughout the Twenties, in Canada, was a mature industry with little change in the total demand for its goods. Styling however was increasingly important as the garment manufacturers grew to be the primary textile industry's major customer. This also changed distribution patterns. While there was no new domestic competition, starting in the early 1920s the U.S. discovered the Canadian market and increased imports. The main factor that accounts for the textile industry's counter-cyclical performance to the general prosperity of the decade was the change in the federal government's tariff policy.

Other than the introduction of rayon, the main growth in the textile industry was the creation of a large number of knitting mills, particularly in woolen and silk hosiery.

The 1920s saw several important technological changes: companies were formed to produce new, synthetic fabrics (viscose and acetate); knitting mills for hosiery and woolen goods became important, and some large producers were integrating processes. Consumers now had available cloth which was woven, or knitted. Customers were switching to ready-made clothing. Fashion, dictated by New York, became increasingly important to Canadian consumers. Garment manufacturers were a new force in the textile industry.

The industry of textiles was becoming complex, customer driven, dynamic and diffuse. New competitors - Celanese, Courtaulds and Du Pont, were not part of the Montreal community. The cotton people, whether they recognized it or not, were being forced into a competitive position.

4.2 POLITICAL DEVELOPMENTS, 1920s

In the 1920s, the Liberal government turned away from the policy of high protective tariffs. Textile tariffs became an internal political issue.

The 1921 election victory of William Lyon Mackenzie King had been based on discontent of two regional interests. The Liberals had the solid support of Quebec following the Conservative Government's introduction of conscription in 1917. Western Canada, becoming a political force, was making increasingly strong demands for a change in the Crow's Nest Pass freight rates and for lower tariffs on imports which competed with goods manufactured in the East. Westerners supported these policies through their own political party, the Progressives, which were becoming a third force in federal politics.

Prime Minister King felt assured of political control in Quebec, where the Liberals held all 65 federal parliamentary seats. He needed a new tariff policy to co-opt the rising power of the Progressives. As a result, the Liberals equated the lowering of tariffs on manufactured goods with quelling the political revolt in the West. In the interests of working out a new political equilibrium King began a policy of selective tariff reductions, which also reduced the protection in textiles.

In 1922 the Liberal government began making cutbacks in the textile tariff that over several years amounted to a 10% reduction in the British Preferential Tariff. By 1927, the Tariff Advisory Board had reduced the tariff on British goods to 7 1/2%. These continually lowering rates meant that British goods were lower priced and thus more attractive purchases. For Dominion Textile and the Canadian textile industry it meant lower, in fact very marginal, profits.

COMPETITORS

Early in the 1920s the main foreign competition was from the U.K cotton manufacturers. They provided such stiff competition that the Canadian producers earned minimum profit margins. In pre-war years the British cotton industry had 54 million spindles, with 80% to 85% of their production exported. By the mid-1920s Britain's exports fell to about 50% of production, a result of buyers, particularly in India and Asia, setting up their own primary textile industries, and keeping out British made goods with tariffs. This left the British textile industry with large idle production facilities. Because of the Preferential Tariff the Canadian government gave to Britain, Canada remained a lucrative market for British manufacturers. Sir Charles Gordon, President of Dominion Textile explained the dilemma: "They are not, in the proper sense of the word, dumping prices, but, nevertheless, we have to meet that with our own different manufacturing conditions here."[4]

Canadian mills on the other hand did not export. Their chances of success would have been slim. During the Twenties, Canadian textile wages were double those in the U.K., and considerably higher than wages in the Southern U.S., making the Canadian goods too high priced for the world market.

In response to the keen price competition from Britain, the Canadian manufacturers continued to specialize in certain product lines in order to gain some economies of scale. Interlocking directorships between the companies continued, a reflection of the small base of the Canadian industrial community. For example, C.R. Hosmer, a Bank of Montreal director, succeeded David Morrice as President of Canadian Cottons, and was also a director of Dominion Textile.

Early in the Twenties, the U.K. gave the Canadian mills competition, but as the decade advanced, their areas of competition narrowed, and that of the U.S. widened. A growing number of mills in the U.S. South, particularly Georgia and the Carolinas, were producing large amounts of goods, which because of economies of scale and labor costs could be sold cheaply. These mills, unlike those in Canada, operated twenty-four hours a day. The very competitive American companies ran 144 hours a week on two 12 hour shifts, resulting in continuous operations from Sunday midnight to Saturday midnight. Employees worked 72 hours a week over six days. The result was over-production and such low prices that the mills themselves, by mutual agreement, were cutting back on production by 25%. In Canada, because of stricter labor laws, the mills ran 90 hours a week, with two shifts of 45 hour work weeks over six days. Canadian mills were closed at night, resulting in one-third less production time with the same amount of capital in machinery, and facilities.

By the late 1920s, American textile jobbers were aggressively selling U.S. over-production on the Canadian market. Canadian garment manufacturers, driven by increasing consumer demand for more variety in styling, in part a result of the spill-over effect of American magazine advertising, were eager customers. Dominion Textile's president, Frank G. Daniels complained about this problem to Dominion's shareholder's in 1928: "I should think that at least fifty communications have come across my desk in the last three months, sent out by manufacturers themselves by direct circulars to the prospective buyers, pointing out the fact that they had purchased cotton many months ago when the price was much below existing prices, and while this stock lasted they would be glad to supply it, at figures well below listed prices, and this is going direct to the retailer, which has made it particularly difficult for the wholesaler here."[5]

In Canada, textile wholesalers traditionally worked through dry goods wholesalers. Mills did not retail. Goods passed through the chain of mills, wholesaler and retailer. The American jobbers disrupted these long-established distribution channels. F.G. Daniels explained: "They have been sending their travellers in here, calling on the wholesale, and when they get through with the wholesale, they immediately turn to the retail, large and small, and particularly do we find this to be the case in the larger communities throughout the country where there is a large retail or general store."[6]

4.3 MANAGEMENT BY FINANCIAL CAPITALISTS

Chandler terms the type of strategy-making followed at Dominion Textile, from 1905 to the end of World War II as "financial capitalism". "Where the creation and growth of an enterprise required large sums of outside capital, the relationship between ownership and management differed. The financial institutions providing the funds normally placed part-time representatives on the firm's board. In such enterprises, salaried managers had to share top management decisions, particularly those involving the raising and spending of large sums of capital, with representatives of banks and other financial institutions."[7] Dominion Textile had needed the assistance of banks to merge in 1905, but thereafter it was self-financing. Yet the term applies because Domtex had very close connections with banks. Its President, Sir Charles Gordon, became President of the Bank of Montreal, and the Vice President, Sir Hurbert Holt, became President of the Royal Bank of Canada. These banks were the two largest in Canada. In addition, two to four Bank of Montreal directors were directors of Domtex.

Chandler comments on the non-strategic role of mill managers: "Unless the owners or representatives of financial houses became full-time career managers within the enterprise itself, they did not have the information, the time, or the experience to play a dominant role in top-level decisions. ... Of necessity, they left current operations and future plans to the career administrators. In many industries and sectors of the American economy, managerial capitalism soon replaced family or financial capitalism."[8] Gordon and Holt left current operations to full-time, salaried managers, but they determined the long-term plans. Because the primary textile industry was mature by 1920, and had a slowly changing technology, this stage of financial capitalism lasted for nearly fifty years (1905 - 1953), and was not "soon replaced" by managerial capitalism. The slow evolution to managerial control in Canada, was similar to many companies in the U.S. except the largest of the U.S. primary texile companies.

Before and during the World War I, Dominion Textile had operated in an industry largely oriented to the manufacturing function. After the war the company faced an environment more complex than the pre-war environment dominated by protective tariffs and world cycles in textile sales. The reduced Preferential Tariff meant that British goods had a competitive advantage, but they increasingly appeared old-fashioned to Canadian customers. American goods offered the latest styling, but were more expensive because of higher tariffs.

Within Dominion, the problem of how to compete with American goods was most clearly seen by some men in the Finished Goods section of the Selling Department. Any change toward greater flexibility to respond to style would involve considerable and expensive change in manufacturing equipment. Directors and senior managers often did not share the need for marketing changes, resulting in considerable questioning. The change to more responsive selling required not only involved grey manufacturing areas, but also in the equipment of the Magog Print Works bleaching, dyeing, and printing facilities. The pressure to recognize the new developments and revise the organization to deal with the changing consumer tastes came from the young men in the company, many of whom had recently returned from service in the war. Garment manufacturers were demanding 36" wide cloth as was now made in the U.S. This would require changing most of the looms and other machinery from the 28" equipment in use in all mills.

These changes came about after a great deal of agitation on the part of the younger men. Executives needed to be convinced that it was worth scrapping still useful equipment to install 36" wide equipment. The President, Sir Charles Gordon, a dyed-in-the-wool financial type, needed to be convinced of the financial merits of the switch-over. He was also a businessman, and gradually came round to the idea that the huge expenditures were needed. The changeover of looms, finishing and print machines to 36" made a clear break with the past.

While the company was dominated by financial and manufacturing men, management listened to the Sales personnel, although management was often difficult to convince. The senior executives were oriented to manufacturing, but were not blind to the marketing necessities of the day. They were similar to U.S. and U.K. companies in their approach.

Dominion Textile made this changeover years ahead of its major competitors – Canadian Cotton, Hamilton Cotton (weaving only) and small, emerging, Wabasso. Dominion was the Canadian leader in this change, and in many others. Why could they foresee changes coming when their Canadian competitors held back ? One reason was their more professional management style when compared to their Canadian competitors. The smaller companies, such as Hamilton Cotton, were family-owned and managed and did not have close ties to major financial institutions. The second largest Canadian operation, Canadian Cotton, did have professional management and financial connections, but did not pursue new developments in products and styling to the same degree as Dominion.

Previous decisions on its product line had put Dominion in a position where it had better market information. From 1905 onward, Dominion had two operations, one in Grey and White goods, the other the Print business. None of its major competitors had heavy capital investment in print machinery. They preferred to concentrate on the traditional Grey and White cloth business. The Print or Finished Goods section at Dominion had attracted several energetic young men into the company. On their return from the First World War, they headed the push for modernization of their product lines along U.S. lines. It also brought the company into dealings with the garment manufacturers who pushed for up-to-date styling. By serving their needs, the company was in the growing part of the textile market. Dominion was also always aware of the threats of garment manufacturers and wholesalers. Not only were these people being approached directly, they were also able to lobby for a reduced tariff.

The 1920s were generally disappointing for the textile industry in Canada. Plants chronically ran under-capacity. By the mid-1920s Dominion faced the competition of low-priced goods, particularly from Lancastershire, and to a lesser extent from the Southern U.S. mills. The company's strategy in the bulk of their sales, as described by Sir Charles Gordon, was simply to lower their prices and raise competitors' prices as much as possible. "These two factors [U.K. and U.S. imports] have had their effect on us here, and it does not leave us in a position to work an equitable cost in pricing our goods, and as far as the complete plans are concerned it has simply been a case of more or less ignoring things and getting what we can." [9]

Heavy competition continued through the 1920s. In addition to keeping manufacturing costs and selling prices as low as possible the company accepted whatever business was offered, just to keep customers. This meant producing a wide variety of goods in small batches, which was counter-productive to economical manufacturing because of the set up time and the cost of being idle.

The company had accumulated four million dollars in its surplus fund, built up during the war and the boom that followed. During the 1920s this fund was not tapped for financing expansion, but was invested in the market and left to accumulate interest. There is no discussion in the Minute Books of using the surplus to enter into businesses unrelated to textiles. The company did use its surplus to enter two new product lines in the Twenties, cotton tire cord and weaving rayon, two developments they considered promising growth areas.

Dominion Textile did not integrate backward into the production of synthetic fibres. It could not because these processes were protected by patents held by Courtaulds, Celanese, and du Pont. Moreover, it did not want to become a synthetic staple producer because they perceived it as a very different industry - the chemical industry, in which they had no expertise.

The company had gradually changed the product lines it had begun with in 1905. The strategy was one of manufacturing goods as efficiently as possible, and of waiting for demand to increase. Management conceded that could take a long time. "We need more population here in this country, and we are in a position to take care of any extensions which may be necessary. We have the money and we have the organization to make a lot more stuff than we are making, and if the country needs stuff, the only way I can see they will need it is to get more people, and then we will be able to use more cotton goods."[10]

The executives saw their industry caught in heavy international competition. Despite capital expenditures, fabrication, and styling updating, the company really could do little to stop the increasing flow of U.S. goods, other than to be aware of the situation and to exert whatever pressure possible on the government.

In the 1920s, the company executives, particularly Sir Charles Gordon and Frank Daniels paid much more attention to the details of purchasing raw cotton than they did to the Selling Department. In this manufacturing-oriented operation, success was seen as hinging on getting the best possible deals on raw cotton. Gordon and Daniels used their expertise in buying raw cotton, and depended on others in Manufacturing and Selling to provide expert advice in their fields. Unlike most Canadian textile companies, Dominion's Raw Cotton Department purchased most of the cotton used in the mills directly, thus eliminating the expense of middlemen. In 1922 Dominion set up its own company, the Howard Cotton

Company, named after its manager, George Howard. The company's first office was located in Memphis. Later it maintained offices in several southern U.S. locations where buyers bought cotton directly from producers. Both Gordon and Daniels were expert cotton buyers. As Sir Charles explained: "The amount of margin we have between profit and loss is so small that it makes it very difficult when anything abnormal occurs in the price of raw cotton for instance, or in our general expenses, to see much profit."[11]

STRUCTURE

Dominion Textile began the post-war period by buying its own office building at 10 Victoria Square (later re-numbered 710). The refurbished building, financed from wartime profits, consolidated in one building departments of the company which had expanded into offices neighboring the former main office on Place d'Armes.

During the Twenties the organization structure continued to be very simple. The President and Vice President, Gordon and Holt, dealt mainly with financial matters, spending most of their time on their many other unrelated business interest. Day-to-day operations were controlled by F.G Daniels, the General Manager and Managing Director. Daniels had a few other business interests - notably he was President of Paton's Ltd. woolen mill, but his outlook was largely that of a manufacturer.

When Sir Charles became President of the Bank of

Montreal in 1928 the position of Chairman of the Board of Dominion was created. F.G Daniels became President and Managing Director. Sir Charles still dropped by the company offices every morning on his way to the bank, to read the book recording production. He is remembered as being able to read the figures upside down.

Senior managers also wore several hats. For instance, C.A. Bishop, was in charge of Fabric Development, Manufacturing, Planning, and the Statistical Department. Samples for new products all went through his department, which put out lists and specifications of the fabrics produced. These lists were then supplied to wholesalers. H.F. Mills was General Manufacturing Manager of all mills, which reported directly to him, except for the Magog Print Works.

At the level of the mills, administrative staffs were lean as well. Typically, at the Verdun Mill in the early 1920s, the office staff consisted of the Office Manager, the Paymaster, the Production man and the office boy. While operations were kept tight, there were enough people around to do the job.

The main feature of the Twenties was how little the job descriptions and the personnel who filled them changed over the decade.

Exhibit 4 - 3 Structure: Dominion Textile Inc. 1922

- Board of Directors (9)
  - President - C. R. Gordon
    - Vice President - H. Holt
      - Executive Committee (Pres., V.P., 4 Directors)
        - General Manager- F. G. Daniels (D)
          - Raw Cotton Purchasing Department
          - Manufacturing, & Costing Department - C. A. Bishop
            - Superintendent Manufacturing H. F. Mills
              - Merchants Branch
                - Hochelaga
                - St. Annes
                - Magog
              - Dominion Branch
              - Colonial Bleachery
              - Montmorency Branch
              - Mount Royal Branch
              - Verdun Branch
                - Superintendent
                  - Office Manager
                    - Paymaster
                      - Production Man
                  - mill hands
          - Statistical
          - Sales Department
            - Grey
            - Finished

Secretary Treasurer

(D) = Director

Exhibit 4 - 4 Structure: Dominion Textile Inc.: 1928

- Board of Directors
  - Chairman of the Board - C. R. Gordon (1928)
    - Secretary / Asst. Secty. — President and Managing Director: F. G. Daniels — Assistant to Managing Director - B. Gordon
      - Vice President - H. Holt
        - Accounting Dept. Treasurer J. Webb
        - Selling Dept. J.G. Dodd
          - Grey
          - Finished
        - Purchasing Dept. P. Webster
        - Manufacturing Dept. Supt. of Manufacturing
          - Hochelaga
          - St. Annes
          - Magog
            - Cotton
            - Print
          - Merchants
          - Mount Royal
          - Verdun
          - Colonial
          - Montmorency
        - Mechanical Dept. B. Donald

Chandler found a similar lack of change in the managerial hierarchies of the U.S. textile firms. He accounts for it by tying it to the production technology. "Since the speed of production was limited and since this energy was used for little more than powering the machines, the requirements for coordination and control remained relatively simple. These mechanical industries continued to be labor-intensive, and the type of organization developed by the early textile mills remained satisfactory. The only important change was the centralization of management in a single office, usually at the mill site."[12] The only alteration in Dominion Textile's case was that the head ofice remained in Montreal, the location of several of its mills, and central to its other mills.

MANUFACTURING AND TECHNOLOGY

The continuous operation of the mills during the war, when little new machinery was available for replacements or repairs left the company's equipment worn down. After 1920 the company was occupied in making improvements to its existing plants and equipment.

In 1920 the company operated eight mills, seven in Quebec, the Mount Royal, Merchants, Hochelaga, Colonial, and St. Annes, all in Montreal, and the Magog and Montmorency mills in small mill towns of the same name. Outside of Quebec it operated a small mill in Kingston, Ontario.

The policy of rationalizing production to gain advantages of economies-of-scale announced in 1905 was still in effect and to continue to act as a guide during the 1920s. "The policy which was instituted at the very inception of the Company, namely that of concentrating our business at our largest plants, has been consistently carried out. The smaller plants have been closed up as the overhead expense connected with them was out of all proportion to the results. All our principal extensions have taken place at six different points, namely Montmorency, Magog, Hochelaga, Merchants, Mount Royal and Verdun and we have situated at these six points great properties, each of which is becoming more specialized day by day and will in time we hope be capable of holding its own as compared with the larger plants of other companies."[13] All printing was now concentrated at Magog, and all bleaching at the Colonial Mill in Montreal.

The manufacturing policy was "to distribute our manufacturing in such a way as to specialize in so far as possible, so that each mill will run on as few lines as possible, and so to get the best results from a manufacturing point of view."[14]

Only one new plant was put into production by Dominion between the world wars, although they did buy other on going operations and made additions to existing plants. The exception was a new mill of 50,000 spindles and 1,480 looms brought into production at Verdun. An extensive factory, formerly a fuse assembly plant, was bought from the Imperial Munitions Board. The mill was designed to produce medium and fine cambrics known as underwear cloths. The Canadian market until then was mainly supplied with this type of goods from England. The plan was to duplicate in Canada the kind of mill producing these goods in Lancastershire, except that American automatic looms were purchased for weaving. Most of the preparatory machinery came from one of the best Lancastershire machinery makers, Dobson and Barlow, the same firm that had supplied looms to Montreal Cotton Company in 1873. The grey goods woven in the new mill were finished in white at the Colonial Bleachery and sold to garment manufacturers. Production of cambric in Canada was not successful, for no sooner was the mill in production than women's fashions changed from long to very short hemlines. Women no longer needed great quantities of cambric for petticoats. By 1925 the mill was converted without undue dislocation to produce broadcloth for men's shirtings.

Fashion, this time for men's printed shirts, led to a major addition to the Magog Print Works in 1927. In the 1920s the popular price field in shirts was dominated by stripes. Considerable additions were also made to the Montmorency Mill that year, including a revamping of the machinery and realigning it to reduce the cost of operation and handling.

The garment manufacturers also created another source of problems between the company's Manufacturing and

Selling Departments. The garment trade preferred 36" wide goods, which were more economical to cut. The U.S. had begun selling 36" goods in the early 1920s, but the Canadian manufacturers felt they could resist this pressure because of the tariff against U.S. goods. But when the English changed to 36" cloth as well there was considerable discussion and soul searching in the company because of the large capital expenditure involved. The advocates for the change were much more eager and radical than the financial and manufacturing areas who had to finance and cope wih substantial expenditure. The Manufacturing Department resisted because of the great expense in scrapping the 28" looms and replacing them with wider looms. They were opposed by the Selling and Print Departments who warned that they would soon be unable to sell 28" cloth. After much internal pushing and pulling, Gordon and Daniels felt the process was inevitable and replaced the narrow looms.

While the mills were kept in good repair by a consistent program of repairs or replacement, because of the general over-capacity of the Canadian industry, the financier-directors of the company felt no need to invest large sums of capital in new mills. Sir Charles Gordon explained:"We do not have any false impression that we have got the best in the way of a cotton mill, but we think our plants will compare to day very favourably with any similar plants."[15]

In 1927 Dominion began its first attempts at weaving filament viscose rayon at the Verdun plant, with a modest 200 looms. The policy of the company was to get in on the ground floor of a possible growth area by learning the process. This type of yarn was starting to be made in England, with cotton warps and continuous filament rayon fillings. Courtaulds, Canadian Celenese and Du Pont had all just built factories in Canada to produce the staple fibre.

Initially Domtex used rayon filament yarn produced by Courtaulds. The yarn was composed of a number of filaments which were extruded separately from spinerettes and then immediately combined into yarn. When received by mills such as Domtex it was ready for use in the same manner as cotton yarn, except that it required careful and lighter handling in order to avoid breaking the filaments. Staple yarn, which came later, was cut into lengths of 1 to 1 1/2 inches, approximating cotton fibres. Rayon eliminated the necessity for the considerable cleaning processes required to process cotton.

The company experimented with running rayon warps milled with cotton or wool, but the process never worked very successfully. One of the problems was in obtaining the proper equipment. Another was the lack of availability of staple rayon fibre, which despite the new plants remained in short supply. Most of the rayon produced at Verdun was used in inexpensive, ready-made dresses.

By 1930, the demand for rayon goods had greatly increased. The company decided they were not giving this development enough attention. The equipment was moved to Sherbrooke and the operation expanded. By this time, rayon staple fibre was more readily available on the market. The number of looms weaving rayon, then also referred to as artificial silk, was increased. During the Thirties the tariff on synthetics was so low the company's production of rayon was not a profitable line. It debated on whether to cut back rayon production but management decided against it because it would have meant layoffs at the Montreal and Sherbrooke mills.

While Dominion Textile expanded into manufacturing rayon textiles, there was no discussion recorded in the Minute Books of the firm expanding into manufacturing woolen goods. Woolens were perceived to be a different industry. The largest woolen manufacturer was Penman's, of which Charles Gordon was President from 1907 to 1928, to be succeeded by F.G. Daniels. Also, the woolen industry in Canada was in decline after World War I.

In the late Twenties, in an effort to increase productivity, the company started formal time studies of the production process. This type of study, as much as the introduction of new machinery, increased output. "There have been more changes in the process of manufacturing cotton goods in the last three years than in the last 50 or 100 years, By means of time studies we have determined cause and effect and have gone out to eliminate waste. The causes of warp breaks for instance: The result has been that we have in the Mount Royal mill reduced the warp breaks from what was a normal condition of about 25 breaks per loom per day to between 4 and 6 a day and that has allowed the weaver to handle 4 or 5 times as many looms as before."[16]

PRODUCTION AND SALES

Following the war there was a two year boom in textile sales as Canadian consumers bought goods which had been in short supply. As in other times of world shortage, countries such as Britain and the U.S., traditional exporters to Canada, were involved in supplying their own markets, and were not interested in marginal Canadian sales. Canadian suppliers had the market to themselves for a few years until over-production in their domestic markets again caused U.K. and U.S. exporters to enter the Canadian market.

The December 1920 figures showed the first decrease in sales figures since 1914. In January 1921, orders were down dramatically. For the year, orders were less than half of the 1920 figures. The Twenties saw a few relatively prosperous years, 1922 and 1926, but for the company, and the industry world-wide, it was not a prosperous decade.

In 1920 the company still benefitted from the heavy wartime and post war demand. Gordon could report to shareholders that: "There are no large stocks throughout the country, and we have reduced our prices to the very lowest price cotton has touched now for some years, although our wages are not as low as they have been, or possibly will be in the future. We have not materially reduced our wages yet although we are getting much better efficiency than we were getting due to the fact we have been able to eliminate unproductive labour taken on during the boom times. We will have to face the reduction in wages some of these days, but we have not thought it wise to do so to any great extent as yet, because the cost of living amongst our people we do not think has been reduced very much yet." [17]

Yet as early as 1920 there were signs that international competition would again give trouble. Mills in the U.S. reduced wages by about 22% in the North, and 30% in the South. Dominion expected keen competition from the South. "Of course the rate of exchange helps us, and it is additional protection to the protection we usually have, but still, even with that, wages are very low today in the Southern States, and they are producing goods almost cheaper than they have produced them for a great many years." [18]

THE SELLING DEPARTMENT

By 1920 Dominion Textile operated sales offices in Vancouver, Edmonton, Winnipeg and Toronto.

In addition to finished goods, the company had very important positions in the Sales Yarn and Grey Goods fields. The sales yarn was sold either in its natural greige state, or bleached white, or dyed to customers' requirements. This was, and still is today, a very important element in the company's business. The yarn went to other textile weavers in a few cases, but mostly to garment knitters, as well as to braiders making shoe laces and other notions.

The Grey Goods people catered to various types of customers, making industrial products such as coated fabrics (the cotton greige cloth was used as a backing,) oilcloth, canvas for tents, etc.

These two sectors traditionally did business directly with large-size manufacturing customers. The wholesalers, by and large, catered to the smaller trade.

In the Twenties, the business of bed sheets and slips, and flannelette blankets, (consumer goods,) was handled through the Grey Goods section. Sales were largely through wholesalers, although in the early 1920s, T. Eaton Co. Ltd. insisted on buying directly, and this started a movement of great importance to Dominion Textile, and to the trade at large.

While Finished Goods were a very important development to the company, and certainly added to its standing in ~~the textile~~ industry, actually the Yarn and Grey Goods section had a tendency to be much more stable and dependable, if not quite as spectacular in the way of change.

The largest proportion of the goods sold by Dominion, and in the Canadian industry in general, continued to be unbleached cotton, the total yardage being: 18,500,000 grey cloth, 8,250,000 printed, and 5,000,000 bleached. In 1922 the company ran 11,023 looms and employed almost 8,000 operatives, figures only a little above those when the company was formed in 1905.

In the mid-1920s the company's mills chronically produced at below capacity, for example, throughout 1925 the mills operated only 3 or 4 days a week instead of the normal six day week. Rather than laying off workers, the company preferred shortening the work week. That way they felt they could keep their skilled work force until times were better. Sir Charles explained his dilemma: "The heads of Departments, Superintendents, and overseers have been torn between the necessity for maintaining reduced expenses, and at the same time keeping up their organizations. In the same way, the operatives have gone through without complaint, being on the work of three and four days a week without grumbling. I think a very large amount of credit is due to the way they have carried on and held together."[19] But in 1928, when the company went to a three day week they noted they were losing some of their best operatives.

Dominion Textile, the largest Canadian textile company, also produced the widest range of textile products of any Canadian company. Cotton cloth was either sold as greige (unbleached goods), to converters, or was finished by the company itself by bleaching, dyeing and printing processes. Other products included yarns, oil cloth fabric, rubber footwear, mattresses, automobile tire cord and artificial leather. The company's line of household cottons, sheets, pillow slips and towels was packaged as the "Colonial" Brand. Print dress goods were advertised under the "Magog Fastest Prints" label, a brand name which emphasized their color fastness.

Consumer demand for greater variety continued to grow during the 1920s, forcing the company to produce smaller and smaller batches of finished goods. "The orders have become so small that considerably more time is occupied in changing from one pattern to another than is actually occupied in the running, so that to give quick delivery that seems to be required and necessary today under existing conditions, it has been decided to add an additional eight printing machines to the Magog Plant, with a general re-vamping of the plant throughout, to take care of the particular requirements."[20]

While offering finished goods added to production costs, the company needed this integrated type of operation of selling goods in a completed state to selling grey goods, because of the flexibility integrated operations gave.

By 1927, garment manufacturers were increasingly important. Neither manufacturers nor wholesalers had the means to convert grey goods to finished goods. Dominion Textile was forced into finishing, despite not always being able to fully recover costs because of smaller volume per design. The alternative was to completely lose the volume to imports.

During the Twenties, the role of the middlemen in the textile trade, the dry goods wholesalers, was slowly being diminished as the most important factor in the distribution of finished goods. The trend was specifically blamed for the company's $600,000 decline in sales in 1928. The company had maintained its sales of grey goods to other converting companies. Its losses that year were in sales of finished goods. The print works was also not working to capacity. Increased consumer demand for variety was breaking down the traditional distribution channels between the wholesale trade and garment manufacturers. When garment manufacturers could not get the variety of styles from Canadian wholesalers that customers demanded, they turned to American suppliers. F.G. Daniels, the new President of the company saw the problem as being only temporary, tied with American overproduction and dumping: "This has been due largely to the hand and mouth buying on the part of the retailer, and the need for quick delivery - as he had been circularized from all parts of the country and offered goods from stock, and being only just a night's run from either Buffalo, New York or Boston, depending on his locality, they are able to sell him perhaps something a little different to anything offered from the Canadian business, and in that way we have lost a very large amount of business."[21] Because he saw the problem as temporary, Daniels offered no remedial action to deal with it.

4.5 THE RISE OF THE MARKETING VIEW

The garment manufacturers introduced a new element. They were buying continually, and constantly changing fabric styling. In the industry "styles" of fabric means the basic cloth style or construction, while "styling" is the type of design put on standardized fabrics. The wholesalers were not able to keep up with the styling trends to meet their requirements. They were facing a dilemma, the organization could not respond to the increased need for flexibility in styling because they lacked facilities of their own. This need created a new entrant into the business, the Textile Jobbers who catered to the garment trade. The Textile Jobbers became increasingly important in the late 1920s and early 1930s. They were small, individual operations, well-connected in the garment industry and quick on their feet. They catered largely to the smaller manufacturers and supplied fill-in goods as required by the larger manufacturers.

In F.G. Daniel's view the problem was due to dumping of U.S. goods. This perspective was not shared by some of the Selling Department. One man in particular, Colin Mackellar in the Finished Goods section, led the crusade for change. He fully recognized the growing and inexorably increasing influence of New York on the fabrication and styling developments in the textile business and the future place of the garment manufacturers in the Dominion Textile finished goods business to come. Mackellar was not the Sales Manager (J.G. Dodds), but rather the senior of the young men returning from the war. He had several years of experience in the finished goods section prior to the war, and on his return had been an important factor in the push for modernization of facilities necessary to cope with the new era. He, along with others, viewed marketing as an important adjunct to the manufacturing function. This tension was partly a result of age. The Sales Department had an influx of men under thirty, while the senior executives who considered marketing to be less important were in their fifties and sixties.

Mackellar went to New York and formed a management connection with the Scheuer Company, a New York firm which had established a reputation as a textile broker and consultant in the area of fabric development in the U.S. The head of the firm, Sidney Scheuer, had a lifelong experience in the marketplace and had a distinguished career in Washington during the war in the procurement of war supplies. Mackellar formed a close and lasting connection with Scheuer & Co., and was able to have Scheuer himself use his experiences in convincing Dominion Textile seniors that change was inevitable.

Scheuer & Co. was retained on a consulting basis with reference to U.S. market developments at large, and with regard to fabric styling in particular. The connection was valuable over the years and was continued into the early 1970s. Scheuer's offices became the unofficial New York headquarters of the Dominion Textile salesmen.

In order to cope with the increasing styling tempo in the Canadian market, it was believed to be necessary to bring out lines modelled along U.S. lines, but adapted to Canadian tastes. This meant new fabrics in some cases, and definitely a greater availability of designs in the printed area, as well as stepped up or expanded lines of solid color dyed goods. This requirement was fulfilled through establishing connections with several New York design studios. These people serviced the American finished goods manufacturers. They were therefore of considerable assistance in developing the new and expanded lines.

In both countries many wholesalers resisted the trend. Those who were slow to react to styling changes demanded by the consumers were gradually eased out. Garment manufacturers welcomed the change, but often, without money to buy goods outright for cash, the way the wholesalers did, many had to continue to deal through jobbers.

The Canadian textile people did not initiate this pressure on the wholesalers, they were following what started in the U.S. But it was clear to many in the industry by the 1920s, that with the rise of the garment manufacturers who were becoming an entity of their own and displacing home sewing, there was going to be intensive pressure for more rapid change.

The Selling Department realized the importance of the garment manufacturers and the necessity of anticipating and catering to their requirements, or lose business, both for the company and for Canada. Garment manufacturers were the "guts" of the business. It was only an overnight trip to New York where the styles were created. Dominion's bulk styling was dictated by New York. Customers could always buy directly from New York. Import tariffs were not that important as U.S. goods were cheaper. The tariff made them 15% to 20% more expensive, but they had the kind of goods that would sell.

Styling was not as important as it would become after World War II. Wage earners were less influenced by style, making the mass market relatively stable.

Tariffs also helped to determine what lines of goods the company produced. For example, in 1929 the Canadian manufacturers of men's clothing applied to the federal government for a remission of duties, for sleeve and body linings in suits, because there were none made in Canada. F.G. Daniels decided Dominion had to get into the cotton sleeve lining business and produce linings so the company could prove they were made in Canada - and keep the duty. It was feared, and this fear activated the development of other new lines as well, that once the door was open to imported linings the market would be lost forever, and would make inroads on other lines as well. Although the company was never a power in the lining business, it made enough of the product to avoid a remission of the duty.

E.F. King, president in the late 1960s, then in his twenties, was given responsibility for men's linings. King was told to get some sample goods, establish some lines and get some sales. As this was a specialized fabric not produced in Canada, King had to start at the beginning by going to the garment trade to find samples of the most sought after fabric in the cheap, medium and expensive lines. The bonus for the company was that it was able to convince the government that sufficient domestic business in sleeve linings was available to warrant refusal of a special item for the garment trade. King acquired detailed knowledge of the clothing manufacturers on the Montreal Main - the centre of Canada's garment manufacturing industry. This experience encouraged King to continue to maintain these valuable contacts. Nearly thirty years later, with King as the spearhead, the whole company would be turned around to this marketing-driven orientation.

In the late 1920s, prosperous days for some manufacturing sectors, the textile industry continued to face over-capacity. In the first half of 1927 there was full production, but in the second half it declined to 75% ,then 50%. 1928 was also a poor year. In Maroh the company was producing at 50% capacity, operating only three days a week. In the first six months of 1929 operations were at 50%. That level was only reached by accepting all business offered, regardless of the price. When the Depression struck in October, the company felt it was doing well at 80% operating capacity.

MANAGEMENT CULTURE

The Board of Directors throughout the Twenties was a stable group, with Sir Charles Gordon continuing as President, and Sir Hurbert Holt as Vice-President. Both men were paid handsomely for their work. In 1921, for example, Gordon was voted a bonus of $35,000, and Holt $7,000. On the seven man Board, three younger members of the 1905 Syndicate still remained - Gordon, Holt, and J.P. Black. Two employees were appointed to the Board - Frank Daniels and J.H. Webb. The share holdings of the directors were small. In 1922 Gordon held only 200 shares, Holt 600, and Daniels 560; in 1928, Gordon held 500 shares; Holt, 3,500; Daniels, 1,505; and Webb, 500.

In 1928, on being appointed President of the Bank of Montreal, Sir Charles Gordon resigned the presidency of Dominion Textile. In 1930, F.G. Daniels was elected President of Montreal Cottons Ltd., succeeding Sir Charles who was elected Chairman of the Board. The following year the by-laws of the Dominion Textile were changed to create the position of Chairman of the Board, which was filled by Sir Charles. F.G. Daniels became President and Managing

Director. Daniels had been in charge of the daily operation of the company for over a decade. This change in structure was in title only, the roles Gordon and Daniels performed remained the same.

In the 1920s, under Sir Charles Gordon, and continuing to the 1950s under Blair Gordon, the Chief Executives of Dominion Textile had closer ties to the Canadian financial community than with the North American textile industry. The company's closest tie remained the Bank of Montreal, through interlocking directors.

PERFORMANCE

The company entered the 1920s rich in cash, but with declining sales. Its loans had been entirely paid off, and $4,000,000 still remained in the Profit & Loss or "Surplus Account".

In December 1922 the first new financing was done since 1905. A new company was formed, Dominion Textile Co., Ltd., 1922, to take over the 1925 company. Shareholders of the old company received three no par value shares of the new for each $100 par value share held in the old. This reorganization was done because the market value of the old $100 par value shares had risen to over $200 per share, rendering them unweildy for trading purposes and unsuited to the portfolios of small investors who now formed a large proportion of the stock ownership of the company. It also made possible the representation on the Balance Sheet of the real value of the company's physical assets, which in

1920 had been appraised at $22,918,033 Net Depreciated Value. The last balance sheet of the original company showed the land, buildings and machinery at a net value of $13,000,000. The first balance sheet of the new company carried these fixed assets at $20,000,000, closer to the actual appraisal values. The change simply increased the capitalization on the books, no money was put in.

In 1928 a further issue of 45,000 common shares at $75 per share was sold to shareholders. The issue which brought in $3,375,000 was used to acquire the new Sherbrooke and Drummondville plants.

Gross profits were small throughout the Twenties, approximately one cent a yard on grey cloth, and an additional 5/8ths of a cent on printed cloth. Thus on the average, for a $3.50 to $4.00 printed shirt, the company's proportion of the profit was 4.75 cents.

The unusual feature of the company's accounts between the wars was the "Surplus Account". The $4,000,000 account was invested in securities and left to accumulate. By 1930 it amounted to $7,500,000. In the mature industry these funds were not needed for expansion.

Throughout the 1920s the company paid out a steady 12% yearly dividend. Again, because it was a mature industry, and because its financier-directors saw their first duty being the shareholder, dividend payments were of the highest importance.

II. SURVIVAL: 1930 - 1939

4.6 THE COTTON TEXTILE INDUSTRY IN THE DEPRESSION

Comparatively, the textile industry in Canada did not suffer the drastic collapse that hit other types of businesses in the depression, mainly because it had not boomed in the good years. By 1933, the primary textile industry lost only 8% of its employees and production was back to the 1929 level. In contrast, all other manufacturing industries lost an average of 30% of their employees, and did not regain the 1929 level until 1940.

The industry was influenced by world cycles in textiles. In the 1920s, the textile industry world-wide was characterized by over-production and low prices. Canada was seen as a place to sell off excess production at low prices. The onset of the depression in 1929 meant even heavier competition in Canada from international producers.

The Royal Commission of 1933 described the Canadian textile industry as the third or fourth largest industry in the country. "The 217 companies had in 1933 a capital investment, including bonds, of $185,000,000; they operated 246 mills, employing approximately 47,500 factory workers, with a total wages bill of $32,700,000; and their combined sales in that year totaled $135,000,000. As a group these companies occupy a prominent position in the industrial structure of the country and in volume production are only exceeded by three other groups, manufacturers of wood and paper products, and possibly iron and steel."[22]

The textile industry was in sharply demarcated classifications of goods, which made each section virtually a separate industry: Primary Cottons; Woolen Manufacturers; Silk Manufacturers; Hosiery; Synthetic Silk; Knit Goods; Carpets and Rugs; Thread and Cordage; Bags & Waste, Tents & Awnings; and Specialty Fabrics. Dominion was involved in only three areas: Primary Cottons, Bags, and Synthetic Silks (rayon) which it sold to other manufacturers, primarily garment manufacturers. Dominion Textile was however involved in producing yarn for most of these market sectors. At the same time it supplied yarn for hosiery, bag cloth, duck for tents and awnings to manufacturers of these products for further processing, and some cotton specialty fabrics such as tire cord for individual users. It did not manufacture and sell the finished articles in hosiery, knit goods, carpets, thread and cordage, but each was an important segment of Dominion Textile's business.

These relationships meant that Dominion Textile was a producer of intermediate supplies for other manufacturers, but was also a producer of finished goods sold to companies like Eaton's. In most of its Standard Industry Classifications (S.I.C.s) the company was mainly a wholesaler. Despite the development of marketing, the company in the Thirties was principally a manufacturer.

The Commission reported: "The largest single group, primary cotton manufacturers, is an example of imperfect competition. The largest company, Dominion Textile Company, Limited, has 38 per cent of the total sales and with its controlled subsidiary, Montreal Cottons Ltd., ... 48 per cent."[23] The next two largest companies were Canadian Cottons, Ltd. and Wabasso Cotton Company, Ltd., who together accounted for 31.3% of the Primary Cotton section, each having sales over $4,000,000 in 1933. Of the next five companies, only one had sales exceeding $1,000,000 in 1933. Wabasso, Canadian Cotton, and Hamilton Cottons all competed with Dominion Textile for the secondary business.

In the synthetics field, then still a small operation, Dominion had several competitors, including Bruck Mills in the Eastern Townships of Quebec. Rayon weaving capacity had developed rapidly from 1928. The growth of rayon was not halted by the Depression, as the imposition of higher duties on imports in 1930 and 1931 gave most of the domestic market to Canadian manufacturers. By 1932 the yardage of rayon fabrics exceeded that of silk, and the following year the ratio was three to one. By 1950, little real silk was processed in Canada.

The weavers depended on three Canadian sources for rayon fibre: Courtaulds, Canadian Celanese, and Du Pont. Courtaulds (Canada) Ltd, Cornwall, had built an addition, doubling their plant capacity. Canadian Celanese, Drummondville, built an addition for dyeing and finishing, and enlarged their weaving plant. The Du Pont Textiles Ltd. plant came into operation in 1930.

The cotton yarn and manufacturing industry as a whole had not grown. Between 1923 and 1933 the net assets of the five largest textile companies had increased by only 9.7%, as compared to an increase of 83.8% for the 95 largest non-financial Canadian Companies.

In the 1930s, the cotton industry remained concentrated in Quebec, which produced 70% of cotton goods. Ontario mills produced just over 20% and the remainder came from the Maritimes. All the Maritime mills were owned by Ontario-based companies. Most of the cotton mills were located in small towns. Of the 29 cotton mills, only five were in cities of over 250,000 people. Fifteen mills were in towns of under 15,000 people. Consequently they played an important part in the life of these communities.

Of the nine companies making up the primary cotton section, six were public companies. Two others were subsidiaries of large manufacturing corporations in other industries. Only one company was privately owned and controlled by the group owning its capital. Another feature of the cotton section was that because of the small size of the market, each company tended to emphasize certain types of goods. All competitive lines were not necessarily exact duplicates in all cases. Dominion Textile, for example, stayed out of the production of denim, which required special expertise. As a result, a wholesaler who required a wide variety dry goods had to buy from all the large companies.

During the Depression, while the textile companies experienced a decline in prices, as a whole they suffered to a far less degree than Canadian industry. The main reason was the tariff revisions made in 1932 and in following years, helped protect the industry from the dumping of textiles from other countries. Ad valorem rates of tariff duty on many items had the effect of virtually excluding cheaper product lines which had been imported into the country during the 1920s, and with which Canadian manufacturers could not compete.

The general response of the industry to the loss of sales volume, resulting from reduced customer purchasing power, was volume production of cheaper lines still demanded by consumers. The Bureau of Statistics index for wholesale textile prices showed a drop of 15% from 1930 to 1932. In the same period, textile sales dropped by 17%. This relatively stable performance was due to increased volume production and the production of cheaper lines as customer demand for higher quality lines fell away. It is clear that the tariff policy of the Bennett Conservative government was responsible for maintaining relatively stable conditions in the textile industry from 1929 to 1935.

During the Depression, sales in the primary cotton textile sector fell from 48 million dollars in 1930, to 34 million dollars in 1933. Some mills sustained heavy losses. The percentage of profit to net worth throughout the industry fell to almost 2%. Dividends were cut or completely eliminated. In April 1933, the fourth year of the Depression, wage reductions were made. Half of this was restored the following year. Executive salaries were reduced substantially before wages were cut. This policy was a feature of the cotton industry. In most other Canadian industries the reverse was true. Wages were cut before salaries.

The average wages in 1931 of Canadian textile workers at $692 annually were 5% higher than the average $666 of U.S. textile workers and far above the $455 similar workers in the U.K. received. Worker's wages in the cotton textile sector of the industry were higher in Canada than in any other country in the world. This made the Canadian goods higher priced than international competitors and meant that sales of Canadian goods were restricted to the Canadian market.

4.7 THE EFFECTS OF GOVERNMENT

The Great Depression resulted in a reformulation of the protective tariff policy. In 1930 the newly elected Conservative government of Richard Bennett introduced substantially higher tariffs as part of its industrial strategy "to blast our way into the markets of the world". This inherently contradictory policy proved a failure, but it probably meant the survival of the textile industry through the worst of the depression. In September 1930, an upward revision of textile tariff schedules, affecting all important items, cancelled the lower tariffs of the preceding Liberal government. An exception to this was British goods. The Ottawa Agreement of 1932, "had been designed to secure the Commonwealth markets for British goods."[24]

In 1930, the major external competitor continued to be the U.K., which controlled over 20% of the Canadian market. This trade was insured by the Preferential Tariff which gave British goods a lower tariff rate than other countries. The Preferential Tariff was reduced in 1932 to 3%, and to 1 1/2 % in 1934 In 1935 the excise tax on cotton goods coming in under the Preferential Tariff was abolished. This did not apply to the import tax on raw cotton from the U.S. and Egypt, on which Canadian manufacturers continued to pay a 3% tax. Taxes raised the price of raw materials for Canadians by $2.50 per bale above the world price available to their international competitors. This higher price for raw materials and labor meant that to stay in operation, Canadian cotton mills often sold their goods at below production costs.

The Liberal return to power in 1935 brought back again the situation which had resulted in the lower tariffs of the 1920s. Prime Minister William Lyon MacKenzie King set up a Royal Commission on Price Spreads to investigate certain industries, including textiles. The final report criticized the Cotton Manufacturing Section of the textile industry on such essential features as profits, prices and wages.

The Commission may well have been the result of Prime Minister King's reaction to an action taken by Blair Gordon, son of Sir Charles Gordon and newly appointed Managing Director. By 1935, Dominion Textile was finding Japanese competition in rayon very difficult to meet, as there was no tariff on rayon goods entering the country. Blair Gordon decided to close the rayon production facilities at Sherbrooke until the matter was settled, hoping that the government would take action. King's immediate reaction was to call the Royal Commission.

The Royal Commission strengthened King's position in lowering the tariffs in 1936. The move hurt Quebec hardest, but again King was assured of Quebec's sixty-five seats. The lowering of the tariffs was an appeal to Western voters who felt that textile tariffs were an example of the control big business had over Western farmers. By this time the Progressive Party of the 1920s had been absorbed into the Liberals, but a new threat had emerged with the C.C.F. Party in Regina in 1933. Western farmers needed assurance that King had Eastern industrialists under his control. The imports of Japanese rayon would presumably pay for the export of Western wheat to Japan.

The Royal Commission caused concern in Dominion Textile, the industry leader. Preparing briefs took up much of two years of senior executives' time. As a result of the Royal Commission's suggestion, the Department of National Revenue reassessed Dominion's Income Taxes and business profits from 1915 to 1934 and heavily fined the company for under-payment. The company appealed to the Exchequer Court in Ottawa. In 1940, Justice A.K. MacLean decreed that the company had made no innaccurate or false returns.

In 1930, with the cotton industry as a whole operating at a loss, delegates from the several companies approached the government requesting that the Dumping Clause be enforced against U.S.goods. U.S. mills had been over-built during the 1920s. In the 1930s, these mills sold their excess production in Canada for several cents per pound below the cost of production.

From 1930 onward, there were also steadily increasing tariffs aimed at stopping dumping from Far Eastern countries, where production costs were at unprecedented low levels. The tariffs effectively diminished these imports. The statistics of imports of manufactured textiles from other countries showed the effect of these tariffs. Imports of cotton fabrics for example declined by over 52% between 1929 and 1932.

The tariffs of the Thirties had the effect of delaying the eventual emergence of American companies as the major competitor of the Canadian textile industry. Imports from the U.S. dropped off sharply during the depression, from 75,638,000 square yards in 1929 to 17,112,000 in 1934. A factor was the increased cost of U.S. textiles because of the adoption of the U.S. National Recovery Act, which ended child labor, and the extremely low wages in the South.

On the other hand, cotton imports from the U.K. doubled from 38,127,000 square yards in 1929 to 63,821,000 in 1934, due to Imperial Conference Agreements. In 1932 the U.K. was granted a further lowering of the Preferential Tariff. By March 31, 1933, importation of cotton goods and yarns from the U.K. increased by 300,000 pounds from the previous year, an increase of 72% in one year.

Canadian textile people suspected dumping on the part of U.K. producers, but the charge could not be proven. Canadian Customs valued goods on the face value of the invoice. There was no way to prove the actual British production costs.

From 1937 onward, the stiff competition from Lancastershire began to ease. This was mainly due to the rationalization of the Lancastershire mills planned and carried out by representatives of the industry working in connection with the government and the Bank of England. The rationalization consisted of scrapping or closing inefficient plants in order that well-managed concerns could continue in business at a profit. The Canadian textile industry welcomed the resulting rise in U.K. prices, but they wanted no such rationalization by government of Canadian mills. In 1938 there was a down-turn in the world economy again, resulting in an increase in British and U.S. goods, resulting again in reduced sales of Canadian-produced yardage.

In the late 1930s, Japan began to export an ever increasing amount of cotton and rayon goods. While the total volume was not large, the continued growth gave Canadian producers cause to watch it for future problems. Japan's growing importance in textiles was particularly felt by Lancasterhire. In 1939 the U.K. cotton mills employed 365,000 people, whereas in 1913 they employed 711,600, with a correspFnding nearly 50% drop in production and world markets. Canadian producers were unable to benefit from this drop. Because there was no tariff against British goods, Canada was a place for the U.K. to dump British goods no longer saleable in India and the Far East.

4.8 SURVIVAL AS A STRATEGY

The strategy of Dominion Textile in the 1930s can be summed up as one of survival, fueled by a social conscience. For seven years during the Thirties the company operated at a loss or with slight operating profits. In order to pay dividends it sold securities from the "Surplus Fund". Some production was sold below production costs.

Most of the employees kept their jobs, although they were on shortened work schedules. In 1935, Sir Charles Gordon told shareholders: "These conditions may not improve in the near future; but it can be stated that if the manufacture of cotton goods is to be carried on in this country, your Company should prove to be one of the survivors in the Industry."[25] He repeated the same sentiment at the 1937 Annual Meeting: "Despite certain unfavourable aspects of the situation facing us, we are proceeding to carry on the business of the Company on the assumption that there still is a place in Canada for an industry and a Company which gives gainful and steady employment at good wages, while producing and marketing in an efficient manner, and at a small margin of profit, goods which are an essential factor in the national economy."[26]

The executives of the company continued to follow the same manufacturing-oriented strategy they had followed since the company was founded. The same continuity was found in the leadership. In October 1933, F.G. Daniels died unexpectedly at the early age of 59. Charles Gordon then reassumed the presidency and his son and heir-apparent, Blair Gordon, moved from Assistant to the Managing Director, to Managing Director. Sir Hurbert Holt continued as Vice President.

The Gordon - Holt action in keeping the company operating was a reflection of the social responsibility the men felt. The alternatives, of shutting down the company and so stopping the drain on the Surplus Fund, or at least of shutting down some of the smaller, less efficient mills are not mentioned in the Minute Books. Most of the mills were in small towns. For example, the mill in Magog, Quebec, population 8,000, employed 1,500 people. Unimpeded by unions, the company reduced the hours of work, but did not lay off or let workers go. Sir Charles in 1936 felt it was important that in Magog "the civic resources have not been subject to dole demands, and the municipal finances are in a very healthy condition."[27]

The company's commitment to the country's welfare was no idle oratory. For example, in 1933, despite their operating losses, they donated over $50,000 to the Canadian Red Cross, to be distributed "to the drought stricken areas of the West."

The onset of the Depression in 1929 made poor conditions even worse. The only source of relief the company could see was enforcement of Anti-Dumping laws. The strategy was to isolate the Canadian market through government tariffs and thus maintain Dominion's dominance, even in poor market conditions. The company struggled on, operating at a loss or near loss. "The over production of cotton goods in both England and the United States, which has been so disastrous to the mills in those countries, has continued throughout the past year. The very large yardage offered from these points has either been sold here at a loss to the producer or has necessitated our accepting business at a loss, in order to keep our such goods and out plants in operation. There seems to be no effective application of the Dumping Clause in the Tariff, nor any attempt to made to apply the British Content Clause in the Preferential Tariff on English Cottons."[28]

When the Liberals came to power in 1935 the company was well aware that it would again come under close government scrutiny. Blair Gordon warned shareholders: "The social and industrial legislation, which has been enacted or is in the throes of being enacted, may call for considerable readjustment to the new conditions imposed thereby, and appears bound to lead to a higher level of manufacturing cost."[29]

Responding to the Royal Commission on Price Spreads, which began in 1935 and continued for nearly three years, took up a great deal of management's time. Legal fees for the special counsel to plead their case were $50,792 in 1937 alone - a large sum considering all executive salaries in the company that year totalled $72,554. Holt complained to the shareholders in 1937: "... the management was so fully engaged in preparing statistics for and appearing before the Royal Commission that they had very little time to attend to the regular business of the Company, so that only $365,689.86 was expended on extensions and machinery."[30]

While the Thirties in general offered little opportunity, Dominion did continue the development of production facilities in two new areas product areas showing growth in the decade - rayon and cotton tire cord. In the Thirties the company also entered into production of fishing nets and wooden bobbins through a subsidiary company - Industrial Specialty. While tire cord and rayon were deliberate strategic decisions, nets and bobbins were sidelines that more or less happened on the whim of the General Manager of the time.

STRUCTURE

Chandler found that after World War I, the large, integrated U.S. operations adopted a new strategy of diversification into new products.[31] This created coordination problems for middle managers, and burdensome administrative problems for top management. Chandler implies this created a need for professionalization among managers. At Dominion Textile the top-managers/financiers did not go this route. They took advantage of new product opportunities by investing in separate companies. Sir Charles Gordon and Sir Hurbert Holt saw Domtex as a primary textile company. Holt and Gordon were two of the leading Canadian financiers of the era, with interests extending into most areas of Canadian business. When cotton tire cord, a primary textile product was added to the Dominion Texile product line in the late 1920s, it was produced by a subsidiary company, Drummondville Cotton.

The expansion of product lines by subsidiary companies controlled by the owner-financiers of Dominion

Textile, rather than integrating subsidiaries was not unusual. There are several reasons for this approach - one retains ownership, no changes are required in the basic production processes of the existing company, and risk is spread. At Dominion Textile, new untried products were started up as separate but related companies, prior to integration, as a means of attaining a production level and spreading risk. The senior executives of the company perceived the parent company as an efficiently operated and managed production core. New products such as tire cord and rayon required different production processes. In an uncertain market the executives preferred to form a totally new company to absorb the financial risk and uncertainty.

Differentiation was secured by financiers controlling different businesses. Only later, when professional managers took control, was differentiation created by a product/market policy.

The organizational structure barely changed in this decade. After the death of F.G. Daniels in 1933, Sir Charles Gordon re-assumed the presidency, as well as retaining the position of Chairman of the Board. Blair Gordon was considered to be too young to become President, but the presidency was clearly reserved for him in a few years time. Sir Hurbert Holt was showing renewed interest in the company. Gordon was a leader in the close Bank of Montreal/Canadian Pacific Railway business alliance. Holt, was kept out of this group and denied the C.P.R. directorship he dearly wanted, and which Gordon had. By

Exhibit 4 - 5 Dominion Textile Inc.: 1933 - 1939

<u>Subsidiaries:</u>

Montreal Cotton
-Valleyfield, P.Q.
Howard Cotton Co.
-Memphis
Drummondville
Cotton Co.
Industrial
Specialty

Board of Directors

Chairman of the Board
and President - C.R. Gordon

Vice President - H. Holt

Managing Director - G.B. Gordon(D)

Secretary - L. Webster

Accounting Dept.
- Treasurer
- J. Webb
- Asst. Treas.

Purchasing Dept.

Manufacturing Dept.
- Superintendent of Manufacturing
  - Hochelaga
  - Ste. Annes
  - Magog
  - Merchants
  - Sherbrooke
  - Mount Royal
  - Colonial
  - Montmorency

Mechanical Dept.

Selling Dept.
J.G. Dodd(D)
- Grey
- Finished

taking the presidency again, Sir Charles kept control of Dominion Textile.

Sir Charles Gordon and F.G. Daniels also bought the raw cotton. The low prices they paid were part of the reason for Dominion's success. E.F. King remembers: "They bought the right cotton, usually at the right time. It wasn't delegated down the line to somebody who was interested and maybe good, but not intense."[32]

G. Blair Gordon was made a director in 1934. At the same time, two long-term employees, J.H. Webb, head of the Accounting Department (the term Finance was not used), and J.G. Dodd, head of the Sales Department, were both named directors. These were the first employees to be appointed to the Board since F. G. Daniels in 1916.

The head office staff continued to occupy four floors at 710 Victoria Square. While small by today's terms, it was sufficient to maintain and promote a successful business. In 1930 the head office had twelve women, all secretaries. Before the 1914-1918 war, secretaries had been male. There was no cafeteria in the building, but the building carpenter often made meals for the staff. Cafeterias were a rarity for companies in the 1920-1939 period. Mail consisted of two bags a day, for the whole company.

MANUFACTURING AND TECHNOLOGY

The first major extension of the company's product line was into cotton tire cord. In the early 1920s, two tire cord fabric mills were started in Canada by American interests. Jenckes-Canadian Company at Drummondville, a branch of the Manville-Jenckes Company of Rhode Island supplied the Dominion Rubber Company and Firestone Rubber Company, and the Canadian Connecticut Cotton Mills at Sherbrooke, supplied the Goodyear Tire Company. Both mills were built on a large scale to produce what seemed an every increasing demand. The cotton cord used in automobile tires had a short life, which fueled the need for constant replacements.

F.G. Daniels decided that since the automobile was here to stay the company should get into tire cords, then made exclusively from cotton. He saw it as a branch of the cotton business. Dominion Textile made offers to the owners of each of the tire fabric mills early in 1929. The bids were accepted and Dominion placed the two mills in subsidiary companies Drummondville Cotton Co. and Sherbrooke Cotton Co. Ltd.

Between 1930 and 1934 broad changes were made in the operations of these two subsidiaries. Generally, all tire cord was manufactured at Drummondville and the Sherbrooke plant changed to produce sheetings and print cloths for Magog.

Early in 1935, when the changeover from tire cord to cloth was completed, the Sherbrooke Cotton Co. was merged into Dominion Textile and the plant became the Sherbrooke Branch. A vacant portion of the plant received machinery transferred from the closed Verdun Plant. The company decided to close that plant after what they considered unsatisfactory negotiations with the City of Verdun over taxes.

The Drummondville plant was successful because the company had virtually every rubber tire factory in Canada as customers. Then, a major customer, Goodyear, decided to make a large proportion of the own requirements in a plant they acquired and enlarged in St. Hyacinthe. In 1936 the Drummondville subsidiary received another shock when its principal customer, the Firestone Tire and Rubber Co. decided to manufacture its own tire cord in Woodstock, Ontario.

For several years previously Dominion Textile had found it increasingly difficult to meet the contract demands of their buyer's idea of the proper cost for manufacturing tire cord in Canada to their specifications. In 1936 when Firestone renewed only on a temporary basis and announced their intention of starting up their own mill in Pembroke, Ontario, Dominion faced the loss of a market for about one-third of the Drummondville production. By 1937 the outlook for the tire plant was bleak.

In 1938, to fill the void left by the contracted cotton tire cord business, Blair Gordon, President of the Drummondville subsidiary, decided to fill in the slack by turning the Drummondville plant to manufacturing nets and twines for the commercial fishing industry. Gordon used as his example in this switch, the experience of the Bibb Manufacturing Company of Georgia, which had successfully combined the production of such goods with tire cord. Specialized machinery such as Brownell Twisters and netting looms were installed in the main mill. Later, a new factory was built to house this subsidiary.

In 1938 netting was not a promising business. International competition in fishing nets was stiff, particularly from Japan and the U.K. Yet within a few years the netting business was doing much more than filling slack. When Japan became an enemy and the U.K. could not supply the Canadian market, this part of the business became very successful. After 1939 the Canadian Army needed all the camouflage nets, made from fish netting, the company could produce.

Another subsidiary had an equally personal and inauspicious start in the early 1930s. A group of fifty or so people in Magog had lost their jobs when a small furniture manufacturing company closed. The employees then tried to run the operation, but quickly ran into a financial impasse. In an effort to save the jobs, the Mayor of Magog and several city councillors made the trip to Montreal to see the President of Dominion Textile, F.G. Daniels. This action was not without its logic. Dominion already employed most of the town's work force. Daniels told them he did not want to go into the furniture business, but that he would figure something out. He decided the local industry could be kept going by producing wooden bobbins, spools, picker-sticks etc. for use in the company's mills. Over the years the business grew to supply other textile companies in Canada, Mexico and India. The business continued into the 1950s when business fell off due to competition from Ceylon. The foreign business in Ceylon was started, ironically, with foreign aid grants from the Canadian government.

The major subsidiary of the company through the Twenties and Thirties was the Montreal Cotton Company Ltd. The original mill of Montreal Cotton was now dwarfed by the huge operation gradually added to it. It was now one of the largest cotton mill units of its kind in the world, covering several acres, with 3,5000 looms providing a wide range of white and colored goods. In 1908 the Dominion Textile group had made overtures to the Montreal Cotton's Directors to fully integrate, but had been refused. As time went on the Boards of the companies came to include three or four directors who sat on both Boards. Yet they were operated completely separately. Montreal Cottons had felt the strenuous competition of the late Twenties very severely.

Until 1930 management of the Montreal Cotton mills was controlled by John Lowe. When F.G. Daniels took over the Presidency in 1930 the huge Valleyfield Mills had become generally very run down and obsolete in many respects. A firm of textile engineers was called in to make a survey. Management's spending of great amount of time and money rehabilitated the plant. But for a few years it was questionable whether the benefits would come in time to save the company from going under. In 1934 Dominion took over the selling of Montreal Cotton's lines on a commission basis, with some resulting economies of scale in the company's selling expenses.

Three mills were closed in the Thirties. In 1930 the small and outdated Kingston mill was closed, and 200 of its looms installed in other mills. In 1934 the old St. Annes mill was phased out, although the building was kept as a warehouse. In 1935 the Verdun Mill, opened after the war was closed and its equipment moved.

A final subsidiary formed before the war was a non-manufacturing service company. In 1915, George Howard, then a young clerk working in the Secretary Treasurer's office in Montreal was selected to work as the company's buying agent in Muskogee, Oklahoma. Under the tutelege of the head buyer of the agency, an American, A.B. Tussington, Howard learned cotton buying. This department, which took care of 75% to 80% of the company's requirements, bought cotton throughout Tennessee, Arkansas, Oklahoma, Mississippi, North and East Texas and part of Georgia. The company representative bought directly from the gins. Having their own Raw Cotton purchasing department permitted Dominion to buy cotton at prices below those which cotton merchants charged their competitors. The cotton buying outfit did a good job, although specifications and communications between the buyers and the mills were not always perfect. As time went on, the Howard Cotton subsidiary proved to be a most beneficial operation and became the envy of many major companies in the U.S.

In 1930 the company decided to form a subsidiary company in the U.S. to consolidate all the company's buying agencies and to take advantage of a subsidy on raw cotton now offered by the U.S. Government. An agent could now sell to his principal, but needed a bona fide sale to get the subsidy. It was named the Howard Cotton Company, after George Howard its President, with headquarters in Little Rock, Arkansas.

In the early 1930s new, automated machinery and more efficient looms were available worldwide, which increased the productivity of the individual employee. Dominion gradually bought some of these newer models, but not on a wide scale. In the Grey mills, new Long Draft spinning, high speed spooling and warping machinery were installed. Generally in the 1930s capital equipment purchases were limited to necessary replacements in worn productive machinery. Capital expenditures were for alterations and renovations where necessary. No attempt was made to increase capacity except through greater productivity. In the 1930s there was increasing demand for wider goods involving 40 to 41 inches in the greige. In the 1930s the goods that sold well were wider still, 40" to 42" across.

In the 1930s the company worked on manufacturing efficiency and cotton prices. "We forever are trying to reduce the prdocution cost represented in the sale price of our goods by improvements in machinery and manufacturing methods, so that these prices may be more competitive and permit us to obtain more business for our mills while maintaining or increasing wage levels."[33]

PRODUCTION AND SALES

The first six months of 1930 were disastrous in all sections of the business, with the lowest production figures in the company's recent history. As sales steadily declined, prices were reduced on some lines, in some cases below pre-World War levels.

In 1931, sales dropped another 9.2% to $13,854,000, but the company produced and shipped 1,661,000 more yards of grey cloth, and processed 4,300,000 more yards of colored goods through the Magog Print Works than in the previous year. Operations varied from a low of 49% capacity to a high of 79%, with a year average of 64.10% capacity.

In 1932 sales were again lower in both value and volume. Prices in many lines were so low that goods were sold at manufacturing cost with no profit margin. In 1933 because of drought in the U.S., raw cotton prices shot up 80%. The company managed not to pass on these costs in full to the consumer through a further reduction in manufacturing costs. That year was relatively better than the previous ones. The total value of goods sold was up 49%, and the total volume of goods produced was up 37%. With the upturn, some unused facilities were put back into production in 1933.

In scheduling the reduced production the company tried to avoid laying off workers. Economic theory suggests that as wages are decreased, the number employed should increase. In this case, while wages were lowered slightly, the number of employees remained the same, and were given fewer hours of work because production was lowered due to decreased demand. The number of employees, over 7,000 in 1934, remained much the same as 1905, although output had tripled. The policy was to distribute production and employment so as to reduce the social distress to the employees. Rather than let people go, workers were given three or four days work.

In their statements during the Thirties company officials stressed two issues. They genuinely saw continued operation of the mills as a social contribution to relieve the misery of the Depression for their employees. They would tie this to their continual requests for higher tariffs to protect these jobs. Sir Charles' address to shareholders is typical. "Over the past four years our mills, on the whole, have given steady and well paid employment, and have been a strong factor in stabilizing earning and purchasing power in their respective localities. In Magog, P.Q., for example, where we have a cotton mill and print works, employing upwards of 1,500 hands, although this plant has not operated on a full-time schedule, we have managed to distribute employment so that the municipal authorities have no relief problems to contend with, and there has been no drain on the resources of the country from that point. It is difficult to see how we can continue to be of great assistance in relieving the unemployment situation if a large part of the cotton goods consumed in Canada are to be produced in other parts of the world."[34]

Protected by ad valorum tariffs and anti-dumping regulations, the company was able to maintain employment at a steady rate during the early 1930s. This was true of the textile industry as a whole, where the number of employees decreased by only 3%, and officers, salaried employees and hourly paid workers were paid 10% to 20 % less. In the manufacturing sector as a whole, from 1929 to 1933, there was a 29% decline in the number of workers.

The Royal Commission for Price Spreads, convened to investigate prices and wages in the textile industry found "the cotton group has a fairly good record in the matter of employment. While not paying high wages, it appears to adopt a fair attitude in its employment policies, and there are no cases of unscrupulous tactics."[35] Wages in the cotton industry averaged 27 cents an hour. The average annual wage in the cotton textile industry fell from $721 in 1930 to $685 in 1933 - an average below the general level of all industries.

Dominion followed a policy of maintaining wage rates in Montreal well above the minimum wage required by provincial law. Despite its operating losses from March 1929 onward, the first wage cut, of 10%, for both officers and workers, was made in 1933. This was increased 5% the following year for workers, but not for officers.

Dominion Textile resisted direct sales to retailers longer than its Canadian competitors. By 1933, 67% of the output of the cotton manufacturers was still sold to converters for further finishing. Of the rest, which was sold as consumer goods, jobbers and wholesalers sold 19.1%, department stores and chains 13.5%, and smaller retailers .4%. While most of the other cotton manufacturers had developed their own jobbing outlets, Dominion Textile, dominating nearly half of this market, was able to resist this trend and continued to use wholesale merchants for small-quantity distribution. The company did deal directly with a few large department stores, but felt it could not deal with small independent retailers. F.G. Daniels explained his reasoning. "If the company tried to deal directly with all retail outlets which handle their products they would have to establish warehouses across Canada to give the required service. The company would also have to assume the handling of collection, assume credit losses, adjust the claims of thousands of minor disputes annually, warehouse and repack tens of thousands of small shipments, finance the sales of a multitude of small accounts. This process would need a great deal more capital than the company needs as a strictly manufacturing operation. With a large number of mills the cost of goods to customers is less if wholesalers handle the lines of several companies. Without wholesalers each mill would need a staff of salesmen canvassing the 20,000 potential customers."[36] Daniels always saw the company as a manufacturing operation. The quote indicates that he viewed the additional structure - a direct marketing operation - as requiring unnecessary expense. As a result, while the company was not "strictly a manufacturing operation", that was its dominant orientation. Dominion Textile restricted their direct sales to larger retailers. This attitude of senior managment remained a problem for several years.

By the 1930s, the company's Selling Department, in addition to two floors at the headquarters on Victoria Square, had sales offices in Toronto, Hamilton, Winnipeg, Edmonton and Vancouver. The Selling Department had two basic sections: the Print Department and the Grey and White Department. A third section, the Yarn Department, representing about one-twelfth of the total business, sold yarn to commercial machine knitters making underwear and narrow fabrics such as tapes and bindings, braids, and other commercial products.

The Grey and White Department had two main types of products, Grey fabrics and Household Cottons. The Sales staff was divided about evenly about these two distribution items. The Household Cottons sector comprised sheets and slips (all of which were white), and towels. These products were sold to wholesalers and in one or two instances, directly to retailers.

The Grey Sector marketed fabrics for tents, backing for oil cloth and industrial coated fabrics, and a variety of other uses including the Bag trade, at the time a large volume producer. In the 1930s producing cotton bags was a large part of the business. It represented a large part of the output of the Mount Royal, Merchants and Montmorency mills. Most bulk goods, flour, feed grain, wheat and sugar, were shipped in cloth bags. Cement was shipped in "cement duck" bags, containing one cubic foot of cement. Bag cloth production remained an important part of the company's business until the 1950s when goods were shipped either in bulk or in paper bags. Until the Fifties, bag cloths were important to rural people who would bleach the bags and recycle them as clothes, curtains or table cloths. The custom continues in the Caribbean where bag cloth shirts are now a tourist item.

By the early Thirties the color and design of plain dyed goods and printed goods were very largely influenced by New York styling. Canadian cutters, responding to their customers' demands, wanted American type fabrics and designs. The tariff made direct importations expensive and created an opportunity for Canadian suppliers to fill the void. The American goods were available, but higher priced. All fabric designs were either purchased in New York, or copied from samples submitted to Dominion Textile by Canadian cutters.

Britain had ceased to be a source of style goods. There, the cotton textile industry continued to be organized in horizontal combinations, separating spinning, weaving and finishing amongst separate companies.

In its first 30 years, the company's total Administration and Sales costs for its nationwide business were kept to the low level of 2.3% of sales. Part of the savings was due to the policy of not advertising. Following their manufacturing orientation, the company felt that low prices were the best advertisement. "The Company has not cultivated public opinion through expensive institutional advertising and propaganda. It has always considered that there is no legitimate excuse for expenditure of money in channels not directly connected with, and necessary to, the production of its goods. The sales prices of these goods are equitable prices ... . They are not prices inflated by costly advertising... ."[37]

In August 1937, just as the mill order books were again becoming full, a strike crippled operations of the company mills, including the subsidiaries at Drummondville and Valleyfield. The National Catholic Syndicates union was seeking recognition as sole bargaining agent at all company plants. The company saw the strike as the action of a militant minority of employees, fomented by the union. Plants were picketed to prevent employees from entering. In Montreal, the police broke up the illegal pickets within a few days. But in the smaller mill towns, where authorities had only the local police force, the mills were occupied by strikers. The union members in these mills maintained a blockade of plants for four weeks.

The strike was ended by the Prime Minister of Quebec. A compromise was reached, and for a period of a few months there was a pact between the company and the union covering all plants. When the agreement ended in the spring of 1939, the union again tried to call a strike. This time the company had prepared sufficient goods to meet customer demand for several months and moved them to a public warehouse. The union did not call another strike. The textile industry would, however, remain a prime target for union activism.

To the company, union demands were seen as a threat to management's flexiblity in making operating decisions, and potentially a serious problem. Blair Gordon explained his views to shareholders: "I think that any company that is faced with inflexible retrictions in the operations of its plants and business cannot last in business, and that is one thing we have to battle against, because there are interests, perhaps in the labour field, that try to cripple us and try to prevent us from adopting new methods of production, and so on. That is, perhaps, the biggest problem we have to face at the present time in operating our plants."[38]

In 1937 orders increased and the company had six months of full-time production, its best performance in nearly a decade. But in 1938, sales declined 18%, and the business outlook again seemed uncertain. This was more than a downturn in general business activity. U.S. producers were making serious inroads into two areas, prints and bag cloths. Sir Charles Gordon blamed reduced tariff protection and warned shareholders that the future looked bleak. "The management has had the choice between taking orders at those prices, or of seeing the business go elsewhere, with a consequent further loss in operations and employment."[39]

4.9 THE MANAGEMENT CULTURE OF FINANCIAL CAPITALISM

By 1933, ownership of the company had broadened to 2,067 common shareholders. The average holding was 130 shares, out of a total of 270,000. The list of Shareholders of Record, 1934, shows Canadians held 92.8% of the shares, and shareholders in the British Empire 4,5%, the U.S. 2.5% and others .2%.

The largest single shareholder was an insurance company. Of the ten largest shareholders, the average holding was about 3%. The list of principal shareholders included insurance companies, trust companies, and other fiduciary institutions holding trust funds. No individual shareholder held as much as 2%. The situation was similar with the preferred stock, the original amount subscribed by the thirteen Syndicate members in 1905. The largest single preferred stock shareholder was McGill University which had acquired them as endowments.

Shareholders' meetings, held at the company's headquarters on Victoria Square continued as small affairs. Only in 1937 and 1938 when fifteen shareholders attended were there more than ten stockholders present at a shareholders' meeting.

The Board of Directors continued to remain closely connected with the Bank of Montreal. While ownership of the company was widely dispersed, the directors still reflected an elite style. "On the days of the Director's Meetings we always had this string of Rolls Royces belonging to Sir Charles, Sir Hurbert and Sir Frederick Williams-Taylor, parked outside the office on Victoria Square. The three chauffeurs used to stand there swapping stories about what kind of wax they used and what kind of mileage they got."[40]

With these notable exceptions, the social background of Domtex managers was middle-class. By the Thirties, these managers, particularly the younger generation in training, were looking at the activities of their counterparts in the U.S. textile firms as models, not to Britain. The Canadian managers contrast with the description Channon (1973) gives of senior British textile managers. In Britain, class barriers reduced mobility, perpetuating the upper class elite in upper management. "As a result, little rationalization of production had occured, family firms were still very much in evidence, and industrial leadership was unaccustomed and often unwilling to engage in competition in the market place."[41]

In the 1930s, the standard of altruistic public service to the community which had given added stature to prominent business leaders such a Sir Hugh Allan and David Morrice still held. "Dr." D.A. Dawson, President of Dominion Textile's main competitor,, Canadian Cottons, Ltd., was known as the dean of the cotton industry in Canada. His doctorate was honorary, in recognition of his public service. A biography of Dawson noted that "of recent years, Dr. Dawson has left much of the detail work of his business to younger men, but is still to be found at his office every day bright and early and looks forward to many more years of active service."[42] The presidency of Sir Charles Gordon at Dominion Textile had much of the same flavor.

In the pre-war years, two men continued to dominate the company: Sir Charles Gordon and Frank Daniels.

Sir Charles Gordon

In the 1930s, most of Sir Charles' attention went to the Bank of Montreal. At the age of twenty-two Gordon had organized his own shirt manufacturing company in Montreal, where he is reported to have successfully combined the duties of plant manager, salesman and delivery man. His new business flourished and soon he was buying out other shirt manufacturers. By the 1930s, Gordon was a financier, and not a manufacturer. He left the details to others.

Gordon was a tall slim man, extremely genial and sociable, who gave the impression of strength and activity. He stated his opinions in a frank, succinct way. On a business level he was very competitive with Hurbert Holt, President of the Royal Bank of Canada, but personally they were friends. Gordon was a good judge of people and had the quality of being able to get people to work together. Even as President of the Bank of Montreal he was out of his office a good deal. Gordon was very involved in Montreal social life and gave great parties for senior staff members, at the Montreal Hunt Club.

Sir Charles would still arrive at Dominion Textile's offices every morning at 9:30 or 10. After reading the account book, which he could do upside down, he would see if there was any mail for him, and then walk the few blocks to the Bank of Montreal head office, trailed by his limousine.

Gordon was also a C.P.R. director, and often travelled to Europe on the Empress of Britain or the Empress of Australia. At Southampton he would disembark directly from an Empress to his own yacht and would then sail up to his large estate and castle in Torridon, Scotland, near the Isle of Skye.

Sir Charles died in 1939 while returning from England just after war was declared. He was bringing with him a substantial order for duck cloth.

Frank G. Daniels

In his eulogy of Frank Daniels at his death of cancer in 1933, Sir Charles spoke of Daniels' contribution, over the past twenty-five years, to the company. "It is a tribute to his foresight and judgement, to the ideals and policies which he put so well into practical effect, and to the splendid organization which he built up and imbued with his spirit that they should carry on." Daniels was Gordon's alter ego. Where Gordon had wide-ranging contacts in Canadian and international business, Daniels focused on the details of the operations.

Born in Montreal, Daniels first worked, at the age of sixteen, with the Car Service Department of the Canadian Pacific Railway. In 1893, Charlie Whitehead hired Daniels as office manager of the Montmorency Cotton Company mill. In 1897 he became Secretary-Treasurer of the company, and Assistant Manager to Charlie Whitehead. When Whitehead left Dominion Textile early in 1907 to form his own company Wabasso, Daniels succeeded him in his position of Mill Manager of the Montmorency Branch. Daniels and Whitehead continued to be friends. Whitehead was shocked by Daniels' early death.

In 1909 Daniels was transferred to Montreal as Assistant General Manager of Dominion Textile. He became

Managing Director in 1916, and in 1928 when Sir Charles was elected Chairman of the Board, Daniels became President as well as Managing Director, a position he held until his death in 1933.

Short (5' 4"), stocky, quiet and gruff, Daniels followed the management style of his time and rarely saw or talked to anyone else in the company except the General Superintendent of Manufacturing and the head of marketing and merchandising (who reported directly to him.) F.G. Daniels would be considered autocratic today, but this was the rule rather than the exception until after World War II. Because of his mill background, mill employees felt he knew all the operations intimately. Very intelligent, with a mathematical mind, Daniels could be stern and abrupt on the outside. While he was tough and demanding, several stories are told about Daniels that show a man ready to put purely business decisions aside to help employees. The formation of Industrial Specialty, the wood-working plant in Magog that Daniels converted to manufacturing spindles in order to save jobs, was one occasion. Another story is told of how in 1925 the Board of Directors decided that the Magog Print Works should be moved to Montreal in order to centralize the company's operations. The Mayor of Magog appealed to Daniels to reconsider the decision in light of the hardship it would cause the town of Magog and of the families who would be broken apart. Daniels relented and the Print Works stayed in Magog.

Unlike the Gordons, he was not very interested in Montreal social life. This may have been because he was very careful about money, only spending it on essentials. The same careful management was applied to controlling the mills.

He knew the manufacturing process extremely well. Manufacturing was his main concern; sales were secondary.

Daniels' specialty was buying raw cotton on the futures market. He also dealt in futures other than cotton and generally made money on them. Daniels played the cotton market well because of his intimate knowledge of the manufacturing process. He knew what uses could be made of different grades of cotton and how they could be adapted to different products. In the crash of 1929 however, Daniels lost a considerable amount of money on the futures market. After Daniels' death, there was little trading in futures by the company, it had been his specialty.

Sir Charles took an interest in, and encouraged Frank Daniels' son. Ryland Daniels was born in Montmorency Falls in 1907, the same year his father was appointed that mill's General Manager. He attended Ashbury College, Ottawa. During summers, while at college, he worked in the mill at Drummondville, and as a mucker in a gold mine in Timmins, Ont. He ended up as an assistant drill operator at the mines. On graduating from McGill in 1930 with a B. Comm. he joined the raw cotton department of Dominion Textile. At the time of his father's death, he was learning weaving and finishing at the Montreal Cottons mills at Valleyfield. Sir Charles then brought him to work at the head office.

G. Blair Gordon

G. Blair Gordon was the heir-apparent to succeed his father. Born in Montreal, he attended Lower Canada College, then McGill University, where he graduated with a B.Sc. in Electrical Engineering. He spent 1917-18 in Washington where his father, Charles Gordon, was Director General of War Supplies for Great Britain. He was also briefly in the Royal Flying Corps (forerunner of the Royal Air Force) in 1918-19. After graduating from McGill he worked as an electrician installing equipment for the Provincial Paper Co. in Port Arthur, Ont. The following year he joined Dominion Textile, as a machinist's helper. Shortly afterwards, in 1924, he became Assistant to the General Superintendent in charge of production, learning the technical problems of the cotton textile manufacturing process. His sales experience consisted of "working out pieces" for Eaton's and Simpson's, and big industrial customers.

Even in his early twenties when a "worker" in a company mill, Blair was welcomed in the company of the directors and senior executives, as the following vignette, written in 1935, indicates. "In his younger days, Mr. Gordon was somewhat of a hockey player. In this regard, an incident which happened during the period in which he was a worker in the mills gives a glimpse of his character. Each year the company arranges a dinner which is attended by the directors, executives and higher officials from the manufacturing organization. Upon one occasion some years ago, the assembled guests noticed a vacant chair, and also noticed the absence of Mr. Blair Gordon. It transpired that on that evening the Dominion Textile Hockey Team, made up of workers from the mills, was playing an important game. The boys from the mills needed his help, so the present Managing Director decided that on that particular evening he would wear a hockey sweater rather than a tuxedo, so that he could to help win that game, which, by the way, he was largely instrumental in doing."[44] The sketch summed up the thirty-four year old Gordon by emphasizing the future his birth destined for him, "Mr. Blair Gordon is destined to play a large part in the industrial development of Canada."[45]

Between 1927 and 1933 Blair Gordon was Assistant to the General Manager, F.G. Daniels, which exposed him to the problems of buying raw cotton and the sales and distribution of goods. Both these positions were specially created to groom him for the presidency. He was not "Assistant General Manager" but was given the somewhat ambiguous title of Assistant to the General Manager, F.G. Daniels.

In the company, Blair was very friendly, polite and courteous. He closely resembled his father - tall, blue-eyed and with reddish hair. He was less colorful than his father, but he thought and acted like his father's generation of individualistic financiers, rather than like many of his contemporaries who were salaried businessmen focusing on one business. The MacKenzie King, Turgeon Royal Commission episode is an example of how his actions could be interpreted as abrasive. Gordon insisted the government put a duty on Japanese rayon imports, or he would feel forced to cut back on rayon production. The government took no action, and Gordon carried out his threat. An angry Prime Minister MacKenzie King included an investigation of this action in the mandate of the Turgeon Commission. In fact, Gordon was right. After the war the government did have to take action against Japanese rayon goods driving out the Canadian business. Gordon was also concerned that unions might take over control of operations without regard to competitive and profit considerations.

When F.G. Daniels died, Blair Gordon was considered by the Board of Directors to be too young at thirty-two to become President. Instead, Sir Charles became president again and Blair was made Managing Director. The Canadian Cotton Institute commented on the influence of the British style of family management at Dominion Textile, noting that Blair Gordon was third generation textiles. "The story of the Gordon family and the textile industry somewhat resembles that of some of the great British manufacturing organizations, in which active direction continues from generation to generation."[46]

J.G. Dodd, Dominion Textile's Sales Manager for twenty-five years was a leading figure in the Canadian textile industry. Before joining the company Dodd had gained dry goods experience in Toronto and New York. It is interesting to note, in connection with the influences on Canadian managers, that Dodd considered his most valuable experience was his time spent as assistant manager of Dominion Textile's London office where he "became familiar with the closest and keenest form of textile merchandising in the world."[47]

The Gordon and Daniels dynasties were not unique to Dominion Textile. One of its major competitors, Wabasso, also remained managed by its founding family. In the 1930s, C.R. Whitehead, founder of Wabasso, but also earlier the founder of Montmorency Cotton Company, was still president of Wabasso. The Managing Director was his son, W.J. Whitehead. The same family succession was found at Hamilton Cotton Company. Founded in 1880, by the 1930s it was managed by the third generation of the Young family.

Family connections extended to employees as well. "In the early days there were a great many family connections in the business. Son often followed father. In fact, it was humiliating to have to advertise for help. "It was almost a loss of face for a company like ours to have to go out on the street or to advertise in the paper to find someone. You could nearly always find somebody who had a relative that needed a job and was an able person, by looking at your own staff, or, they had friends, or friend's relatives."[48]

In the 1930s the company continued to recruit technical personnel, unavailable in Canada, from the Lancastershire mills. It was common for the men who came to install machinery brought from the U.K. to stay on with the company, something actively encouraged by Dominion. Football clubs formed by these English immigrants became an important factor in the mill towns. It was common practice for the Montmorency mill to hire a good Yorkshire or Lancastershire soccer player, provided he also had experience as a second hand or an overseer.

The result was that most of the foremen in the mills were British, and the second hands, French-Canadian. 95% of the employees were French-Canadian. After the war when technical training was provided by both the company and government, the majority of the foremen were French Canadian. Senior management believed there was no resentment in the mills against the British technicians.

To try to fill the void left by the lack of technical training in Canada the Assistant Superintendent of the Magog Mill, Squire Blackshaw, a Lancastershire cotton man who had learned French, gave courses in textile production to employees. Blackshaw had to write his own text book, which was published by Dominion, first in French

(1938), then in English (1941). This helped to avoid the problem of going to Europe, particularly England, for technicians.

Between 1930 and 1939 substantial changes were made in the Sales Division, particularly the Print and Colored Goods section. This section put considerable work into studying the needs of the fast growing garment trade, and all sections of the garment industry. Sales studied ways and means of catering to the requirements of the cutters as to fabric and style, and to make determinations as to those areas which offered sufficient volume to allow for practical and profitable quantities of fabric design. The price at which garments are to be sold dictates the volume of a fabric design which can be profitably made. These decisions must be carefully determined in a small market such as Canada, which demands a product equal in appearance and quality to those available in the U.S. This factor means that haute couture fabrics are not produced in Canada.

On the cotton side of the business, despite the Depression, a great deal was planned and studied, but the effects of these changes were muted and then destroyed by the "anything goes" climate of World War II.

One of the things that developed despite the Depression was the synthetic yarn fabrics. Dominion Textile mills at Sherbrooke, and Montreal Cottons, aimed at volume line production at the lower-end field. By 1939, Dominion

Textile was the dominant producer of synthetic fabrics in Canada. Development of styling and sales was directed by E.F. King, who was introduced to styling and development sources in New York by Colin Mackellar. By 1939 King was in charge of the section and responsible for its merchandising and sales. In this role King had the opportunity to learn all aspects of this new and developing segment of the textile business. This training and background eventually made him the company's choice as the Canadian head of the 1946 Dominion Burlington joint venture.

PERFORMANCE

The financial records of the company during the Thirties present a very strange picture. For seven years in this decade the company did not earn enough from operations to cover operating costs and dividend payments. Most textile companies in Canada were unable to pay out dividends. Dominion on the other hand consistently paid out a dividend during the Depression.

This admirable record of never missing a dividend payment is one of the company stories known and proudly repeated by its executives today. Dominion was able to pay out consistently when other companies could not because of its "Surplus Account". The company had started this fund in 1910 as a reserve fund in which to accumulate money for future capital investment. During the latter part of World War I this account swelled to four million dollars. After the war the company had no need of this reserve. Its bank loans were paid, and there was no need for capital expenditures to expand production in the mature textile industry. The fund was invested in stocks and bonds and continued to accumulate during the Twenties. By 1930, the fund amounted to over seven million dollars. For most of the Thirties the company sold off securities in order to pay dividends and in some years to finance operations. This backs up the position of senior management that it was the company's responsibility to stay in operation, even at a loss, in order to provide jobs for its employees. Sir Charles reported to shareholders in 1935: "The policy followed over past years in building up an Investment Account is justified by the fact that, without the additional income from that account, results from manufacturing operations alone fall far short of dividend requirements, and neither regular dividend disbursements on the Common Stock, nor current wage levels could have been maintained."[49]

Dominion Textile out-performed all other cotton companies in the early Thirties.[50] The company felt the only way it could continue to stay in operation was to lower costs by reducing profits. In 1933 the net profit from manufacturing operations dropped dramatically to $367,215, while dividends of $1,417,342 were paid to shareholders. The interest earned on investments in the Profit and Loss Account was greater than income from operations. Beginning that year the company would dip into the Surplus Account for nearly two million dollars in order to continue to pay the dividend, although that year the dividend rate was lowered to the rate of 4.8% of the company's assets. For example, in 1936 the Net Profit from Operations was $657,982, to which was added $466,978 from interest on and profit from the sale of investments from the Proit and Loss Account, for a total of $1,124,961. But dividend payments on preferred and common stock amounted to $1,557,414. Thus the company relied on th Profit and Loss Account to pay dividends the manufacturing profits would not have permitted. In 1935 and 1936 the company continued its policy of paying an annual return of $5.00 per common share, or 5.25% on the net worth of the company. As well, taxes rose sharply in 1936 to pay for the new Liberal government's increased social welfare activities. These two factors meant the company again sold off more of its investments in the Surplus Account. In 1937, for the first time in seven years, the dividend payment of $5.00 a share was fully earned. But in 1939 again, dividends were paid out, but not earned from operations.

Throughout the Depression the balance sheet was highly liquid. The Current Account to Current Liabilities showed a ratio of 10:7, and a Net Working Capital position of $8,495,489 on assets averaging thirty-five million. The only place the company could make money was on the stock market, investing the Surplus Account, under the guidance of Sir Hurbert Holt, the Vice President.

In retrospect, the policy followed since the First World War of building up the Surplus Account was justified. It enabled Dominion to fulfill its responsibilites to its workers and shareholders.

CONCLUSION

Organizationally committed professional management, as Chandler described, and as the term came to be understood after World War II, was not developed during the 1920s and 1930s at Dominion Textile. Sir Charles Gordon, Sir Hurbert Holt, and to a lesser degree F.G. Daniels, were all presidents of other companies at the same time they were Presidents or Vice Presidents of Dominion Textile. Today this would be considered a conflict of interest. In Canada, between the wars, it was not, because the different companies these men were presidents of were not in the same business. Business for Dominion Textile was perceived narrowly as cotton goods. Senior management was not viewed as exclusively committed to a single organization. This is a managerial culture problem.

Chandler assumes, and Scott assumes, that managers commit themselves to organizations. In fact, in Canada, being a president denoted responsibility but not single-minded commitment. The President and Vice President accepted responsibility for, but were not responsible to the organization. These men had a personal identity, mission, and commitment to their own financial interests and personal careers. They did not create financial wealth for themselves by commitment and dedication to one company, but to many. Their own personal stature and positions in the community were increased by diverse commitments. The management culture at the top emphasized responsibility and involvement in many different interests and activities.

This was a result of the period in which they began their careers. Although untitled, families such as the Gordons and Holts were members of the Canadian elite and aristocracy. They were business lords.

An allocation of responsibility and power, is not the same thing as being a professional manager. One can have responsibility and power conferred by the Board of Directors, and financial strength, without being professionally a manager. Gordon and Holt did not rely solely on Dominion Textile for their positions and incomes. This world view and value system in fact delayed the development of professional managers. Operations was separated from ownership, control and responsibility.

Exhibit: 4 - 6

SEPARATION OF STRATEGY-MAKING AND OPERATIONS

Ownership, control

Overall-Responsibilty

Operations	sales
Production	cotton purchases

This division held at Domtex from 1905 to the Second World War, until the deaths of Sir Charles Gordon and Sir Hurbert Holt. It could work because production and operations were limited. Financing was limited. Personnel activities, hiring for example, was often made on the basis of kinship or friendship. The career development path was blocked - G. Blair Gordon was destined for the presidency while still in his twenties. The structural hierarchy could be circumvented. The purchase of raw cotton developed into the function of a separate company, but this organization could be superceded at any time by Sir Charles Gordon or F.G. Daniels, both of whom expertly followed cotton prices. The marketing element was developed gradually, taking as its lead changes in U.S. marketing patterns. In such a structure, a good man could be responsible for many different things.

Sir Charles Gordon and Sir Hurbert Holt did not consider, that for their own careers, staying with one company was any sign of ability. They seemed to view the actual operations as rather simple for competent businessmen. Their views resembled more those of A.F. Gault or David Morrice, that one hired competent full-time people to run operations. The real business of business was finance and responsibility of operations - not the operations themselves.

Chandler found two types of managers. "In traditional personal capitalism, the owners and the decision makers were the same; owners made both the short-term decisions about current output and transactions and the longer-term decisions about investments in facilities for the future. In the large, multiunit enterprise, however, salaried middle managers, who have little or no share in its ownership, have come to be responsible for coordinating the flow of goods and supervising the operating units; owners rarely concern themselves with the work of middle management."[51]

The first description applies to Dominion Textile's antecedents, from 1873 to 1905. The description of the large multi-unit enterprise applies only after 1953.

Chandler continued: "At the highest level, however, owners continued - often for extended periods of time - to have a say in critical policy decisions about products, services, volume of output, rate of return, and the allocation of resources."[52]

This interim stage of day to day Dominion Textile operations being managed by salaried managers, while the ultimate strategic decisions remained in the hands of top management, who were mainly involved in financial activities outside the company, lasted a long time - nearly fifty years, from 1905 to 1953.

In this transitional stage from owner-management, to professional management by full-time salaried mangers the executive officers had extensive outside interests. Sir Charles Gordon, among other activities was the president of the Bank of Montreal, and Hurbert Holt, President of the Royal Bank of Canada. These two banks were the pre-eminent financial institutions in the country. For most of their long terms as officers of Dominion Textile, Gordon and Holt gave only a small proportion of their time to the textile company. Their efforts were spent on strategy. Operating decisions were made by the full-time salaried officers.

Within the ranks of these managers there was a gradual change between 1920 and 1939. The manufacturing side continued to stress rationalization and efficiency. The main change was in the Selling Department. Here, managers came to seek out new ideas in marketing from the U.S., in response to new market demands. It would be from this sector of the company that the post World War II professional salaried senior executives (E.F. King, R. Perowne, and T. Bell) would receive their training.

The management culture which determined the strategy and structure of the 1920 to 1939 period resulted from, and rested on, several environmental factors which kept it in place.

[1.] The Canadian Government's Tariff Policies. The textile industry was the largest employer of any manufacturing industry in Canada. Between 1920 to 1939 the government, whether Liberal or Conservative, kept the tariff high enough to sustain this employment. This was especially true in the 1930s. Because of the Preferential Tariff, which placed a lower duty on British imports than on American goods, the main competition for Dominion Textile was from British goods. This gave the company an opportunity to learn the new marketing orientation the Americans were developing, without being in head-on competition with them.

[2.] The Lack of an International Dimension. Canadian production costs of raw materials, labor, and short production runs made Canadian-produced textiles higher priced than those of most other nations, and effectively kept Canadian textile firms from seeking export markets. The senior executives looked to the Canadian business community for the maintenance of their position. They perceived their business links to be with other Canadian industries, and not with textile manufacturers in other countries as was later to be the case. These two factors meant the management of the company could sustain the particularly Canadian type of management by financiers that it had started with in 1905.

[3.] A Structure Emphasizing Manufacturing. The structure of the company remained remarkably constant to the one worked out by 1909. There were exceptions - the Selling Department was expanded and new products were added, notably rayon and tire cord. But the structure was built around and emphasized manufacturing. Structure came to be perceived as a given, and acted as a constraint on strategy. In contrast to Chandler's paradigm, at Dominion Textile, 1920 to 1939 structure controlled and limited strategy rather than the reverse.

[4.] The Concept of Role and Responsibility. The financier-senior executives made a distinction in their responsibilities. They felt they were responsible for the company, but not exclusively to it. Their prime commitment was to their own careers and personal financial interest. The company was only one of many components involved in their business careers. Because of their many other business interests Gordon and Holt defined Dominion Textile's business in narrow terms - as a Canadian cotton textile manufacturing company. If they sought growth into new industries they created separate companies. This perspective delineated the strategy of the company which emphasized its purpose - to be an efficient manufacturing operation in cotton textiles.

[5.] The Structure of the Industry. The strategy and structure of Dominion Textile during this period was also constrained by the role the company played in the industry. The worldwide textile industry was slow to change, as were technological advances. New product areas did open up, particularly in rayon, but these were very much sidelines to the company's main business of cotton textiles. Dominion Textile, as the largest such company in Canada, had the advantage of economies of scale against its Canadian competitors. The company was primarily a manufacturer of goods for other manufacturers - garment manufacturers, converters, and buyers who processed yarn into consumer products. Because of this middle-man position, its strategy and structure were also constrained by these factors of consumers, other manufacturers, and new product areas.

During the 1920 to 1939 period there was also growing pressures to change. Externally, consumers were increasingly demanding up-to-date New York fashions. Internally the Selling Department were developing professional expertise which was making the company more than manufacturing agents.

The strategy of Dominion Textile from 1920 to 1939 was to defend its market position, retain its manufacturing and production capabilities, and to make minor adjustments to respond to changing conditions. It was a strategy designed to protect capital and resources through improved efficiencies, and marginal changes in marketing and products. The company was viewed in historical terms as doing what it had always done well in the past. Although environmental changes were fast changing the structure of the industry, markets, and products required, Dominion Textile as a major strategy relied upon its traditional strengths - a strong production capability, knowledge of the raw cotton market, a high protective tariff and government protectionism, and a work force which was skilled and well paid. The company took pride in the fact that it had not missed a dividend. It would take the company until 1953 to recognize that more was required in terms of a strategy for survival, and growth.

FOOTNOTES

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45 *Ibid.*

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CHAPTER FIVE

STAGNATION AND DECLINE: 1939 - 1953

MAJOR STRATEGIC-STRUCTURAL COMMITMENTS

- Trends since 1920 reversed by wartime manufacturing imperative.

- Consolidating control and dominance within domestic industry.

- Domestic dominance fails to insure survival in face of global textile imports.

Crtitical Events	Company Actions	Effects of Change
World War II: 1939-45 competition disappears	1939, President: G.B. Gordon	plants operate continuously at full capacity
government determines industry goals, production, prices	strategy: management is responsible for production &	few styling demands
military & civilians take all goods produced, consumer rationing	close co-operation with government	total emphasis on manufacturing
	Sales Dept. function becomes allocation	Marketing function atrophies
government business unprofitable; high wage rates	accept necessity of wartime demands	government subsidies
heavy demand for rayon during war & post-war period	further develop rayon capacity	plants run down
technological developments in rayon manufacturing	1946: joint-venture Dominion-Burlington later Domil (1952) subsidiary under E.F. King	access to U.S. expertise in rayon

1945-47 heavy demand for cotton continues	emphasis on efficiency & cost conciousness	manufacturing dominates pre-war marketing skills
industry run-down machinery difficult to obtain	uncertain as to postwar role; systematic program of refurbishing mills	machinery gradually replaced
1948: wartime allocation ends; duties on U.K. & U.S. imports abolished	1949: restructuring to emphasize selling function by Woods Gordon	awkward implementation further lowers morale
U.S. mills integrate sales function	unable to compete with U.S. costs	study U.S. methods
1949-51 deaths of 4 successive sales managers	unable to organize effective marketing operation	manufacturing orientation continues
union militancy, strikes	unable to avoid confrontations	rising labor costs
global over-production & price-cutting	perceive crisis & urgent need for change	financial losses 1950-53

Dominion Textile faced two very different kinds of industry environments in the period from 1939 to 1953. During World War II (1939 - 45) the consumers - the Canadian government and civilians, would buy anything the company could produce. Textile imports ceased. In the face of this heavy demand, Dominion Textile reverted to a manufacturing operation with the goal of maximizing production. The strategy adopted during the 1920s and 1930s appeared to have been appropriate to deal with environmental conditions. In 1939, these conditions changed radically.

The postwar period, 1946 to 1953, was one of boom, and then rapid decline for the company. Company sales continued unabated between 1946 and 1948 because there were still few imported textiles entering Canada. Government subsidized prices of textiles kept the price of textile goods to consumers low. In 1948 controls were removed. At the same time low priced Japanese goods, and high fashion American textiles began appearing on the Canadian market in larger quantities. By 1953 Dominion Textile faced a financial and a management crisis.

Throughout this period the company's management policies and culture were little changed. The small gains made by the Selling Department between 1920 and 1939 in developing a marketing emphasis, and production related to consumer wants, withered away during the war and post-war boom. These skills were needed again after 1948, but the company seemed unable to revive its marketing skills.

The mature Canadian primary textile industry blossomed, and grew during the Second World War, and the period immediately following, mainly because of the need to increase volume. In meeting these environmental demands, Dominion Textile and the Canadian primary cotton textile industry reduced its long-term capacity for survival in a competitive environment. The stagnation and decline of Dominion Textile appears to have taken place in spite of its possessing many essential components and ingredients noted by Chandler and others.

[1.] The people in charge of the company had come up through operations - Blair Gordon, Ryland Daniels and others. These people had spent their entire careers in the textile business and ran the most experienced manufacturing operation in Canadian primary textiles.

[2.] Dominion Textile had overcome its holding company status, and had twenty years of development as a company with many different plants. It was the dominant Canadian company in its industry.

[3.] The company was concentrated in one geographical area - Quebec.

[4.] Financially the company had survived the Depression.

[5.] Workers, plants, competencies, were in good shape. Even though unions had created difficulties, the managers had learned how to respond.

Why had Dominion Textile not become an aggressive, growth oriented company in the 1920s and 1930s, along the model described by Chandler? The reasons appear to be the following:

[1.] Management's perception of its role was still viewed as responsibility for production and plants. (The view that the corporation is <u>itself</u> a vehicle for growth would be E.F. King's contribution.) This approach to strategic planning is illustrated by the way the Surplus Fund was used. It was held in reserve as a protection against bad times, rather than a vehicle for leverage or growth. That the organization needs to rely on itself for development and growth was <u>not</u> a part of the Canadian business culture. Profits and company protection had been, since the beginning of Canada, a result of monopoly (Hudson Bay Company), government assistance (Canadian Pacific Railway), and protectionism (tariffs). Strategy was perceived in defensive terms. The business manager was being <u>socially</u> responsible when he had the productive capacity to satisfy government and social needs. The prudent businessman protected himself and the company against business cycles.

[2.] The changes which had taken place in distribution and marketing during the Twenties and Thirties, had not been integrated into Dominion Textile. The Sales Department had expanded and adapted to new demands in marketing by following the American model.

Despite the Depression, Dominion Textile had become more receptive to customer demands by developing a more flexible marketing operation. This development had not changed the basic structure and orientation of the company, nor been integrated into manufacturing.

[3.] The separation of responsibility, ownership, and control, from operations, was continued as a characteristic of business. The company was still in a transition period between having company strategy directed by financiers with responsibility, but not exclusive full-time commitment to the company, to having strategy determined by full-time professional managers.

[4.] The strategy of staying within one's own business was continued. This was supported by the external culture. Following the deaths of Sir Charles Gordon (1939) and Sir Hurbert Holt (1941), leadership passed to G. Blair Daniels. G.B. Gordon had fewer outside business interests than his father Sir Charles, but his position and income were only derived in part from Dominion Textile. He remained closer to the earlier model of responsibility rather than direct operations management of the transition period.

[5.] There was no need to make substantial or significant changes. The Montreal merchants were still in control; the Depression was over; every bust had been followed by a boom. The owner/financiers were wealthy, secure and comfortable. In order for the company to be viewed as an instrument of development, managers needed to perceive this as the major alternative they had to succeed. Domtex was only one string on the bow of those who remained responsible.

[6.] The structure of the company had changed very little since it had been rationalized after the merger of 1905. Between 1905 and 1907, the original holding company operating four separate companies was changed to a functional form. After reading Chapter 4 (1920-1930), E.F. King (later President in the 1960s) commented on the organization of this chapter: "You might consider putting "structure" before "strategy", because at that time the strategies had to be conceived from the structure."[1] In a stable environment with a structure already in place, and operating efficiently and effectively, one can in fact say that structure determines strategy.[2] The strategy which a company follows is determined by its structure. A similar condition exists in a monopoly which has derived the most efficient and effective operating level (structure determines strategy).

Between 1905 and 1953, Dominion Textile was structured the way most manufacturing companies were. Structure was a given, originally derived from the market and technology. It would not be until the post-World War II period that professional, salaried managers such as E.F. King would view structure as a variable, to be determined by strategy. Mintzberg describes the operating core of a company "wherein the operators carry out the basic work of the organization."[3] The Dominion Textile operating core was built around textile manufacturing technology. New product development had taken place outside the operating core. To develop a coherent strategy would require the integration of subsidiaries and diverse companies - but this was not done until there appeared to be a sufficient need and direction to do so.

I. WORLD WAR II

The company, which had adopted a survival strategy during the Depression, found itself in 1939 facing very different, new concerns. Plants which had been under-utilized were now called upon to produce non-stop, at top capacity, for the war effort. Competition which had been severe, especially from Great Britain and Japan, disappeared. The management teams and workers who had been kept intact by the company leaders through their concerns about social responsibility, were now able to respond to greatly increased demands for output, not only for civilian uses, but for the military purposes of Canada and her allies.

The success of Dominion Textile during the war period is to be measured not in terms of profitability, but in terms of its prior strategies of building, creating, and maintaining an effective production system which was able to be activated once more for social purposes. The period of the war was both a boon, and the source of major problems for Dominion Textile. It wore out its physical plant, ended the period of production dominance in strategy formulation, brought to an end its reliance upon British technology and technicians, and terminated the Adam Smithian ~~and~~ Ricardian values of production. It was a boon, for Dominion Textile as the war forced the company to face the issues of participation in a mature industry dominated by customer preference.

The war period, 1939-1945, broke apart the predominant coalition which had ruled the company since 1905, and ushered Dominion Textile, confused and uncertain, into the modern period. It took Dominion Textile until 1953 to understand the implications of the changes brought about by the war.

The war and its aftermath created unusual market conditions which interrupted the gradual evolution of management practices in the company. The Marketing sector of the company had been evolving since the mid-Twenties, and particularly in the Thirties. This evolution was interrupted for ten years by the unusual market condition during the war and the price support system that was in place until 1948.

WARTIME DEMAND

The Canadian primary textile industry, after fifteen years of under-use was revived by the 1939 - 45 war. Its production capacity, matured, then rapidly declined during World War II. The war brought a complete turn-around of industry conditions, from under-use of capacity and severe competition from imports, to guaranteed sales of everything the mills could produce. War meant the end of imports from Britain after 1939, and Japan and the United States after 1941. Suddenly, the only source of supply of textiles in Canada was the domestic suppliers. In addition to supplying all consumer goods, the Canadian textile industry also supplied the Canadian armed forces, and made large shipments of goods to allies, especially Britain.

Priority went to the armed forces. In 1940, the Canadian government purchased 18 million yards of woolen and cotton cloth that was manufactured into 400,000 service battle dress uniforms, 225,000 summer uniforms and 383,000 overcoats. In 1942 orders were received for one million British battle dress uniforms and 500,000 overcoats. Nearly 50% of the men's and Boy's wear clothing industry was employed at war work. The wartime aggregate output of Canadian textile mills peaked in 1943. After that a shortage of labor and wear on machinery lowered productivity.

The manufacture of textiles continued to be Quebec's leading industry in terms of employment, salaries and wages, and gross value of products. Over 50% of the 72,341 Quebec textile workers in 1943 were women.

In the first three years of the war, Brazilian cotton accounted for 64% of raw cotton consumed in Canadian mills. This was the result of the action of Blair Gordon, President of Dominion Textile. At the outbreak of the war, Gordon, remembering his father's coup in securing adequate supplies of raw cotton early in World War I, went to Ottawa and persuaded the government that cotton should be stockpiled. Dominion Textile not only negotiated the sale with the Brazilian government, but stored the enormous number of bales on its Montreal property, and helped carry the financing. The stockpile was shared with the industry as a whole.

The new product of the Forties was nylon. The fibre was developed in 1938 by the E.I. du Pont de Nemours and Co. as a result of research started ten years previously to study the mechanism of large molecular formation. Nylon was first produced in Canada by C.I.L. in 1942. All nylon production during the war went for military purposes, notably parachutes.

The dominant synthetic fibre during the war remained rayon, both the staple and filament types (acetate and viscose). This segment of the primary textile industry had developed steadily from the mid-Twenties on and had been the major growth area in textiles in the 1930s. In the late 1930s the company's rayon production nearly doubled, despite increasingly heavy competition from Japanese exports. The war meant foreign sources were unavailable and demand on domestic suppliers increased again. After 1941, rayon production was again up sharply, when C.I.L. made acetate staple fibre for the Canadian market, in addition to the filament yarn already being supplied. But throughout the war the industry faced supply problems.

5.1 WARTIME GOVERNMENT CONTROLS

Throughout the war, the textile industry, like many other Canadian industries was put under the central control of the federal government. The Wartime Prices and Trade Board was established in 1939 to direct production and determine distribution and prices of the goods.

When price controls were introduced in December 1941, the cotton industry was chosen to be the model in working out a plan for other industries to follow. J.G. Dodd, General Sales Manager of Dominion Textile, was appointed the first Cotton Administrator of the Wartime Prices and Trade Board. As a result of this legislation, prices for all consumer goods were controlled on the basis of 1940 manufacturers' prices. As the war continued, the same low prices bore less and less relation to rising current costs.

Despite the heavy production schedules of all Canadian mills, there was an ever increasing shortage of goods for civilian purposes, as more and more capacity was diverted to supplying the direct requirements of the Department of Munitions and Supply for the armed forces. In

1942, the Board ordered woman's and children's clothing styles frozen, and the number of styles reduced until the end of the war, in order to economize on production, eliminate unnecessary services, and to release manpower for the war effort. That same year, the Wartime Prices and Trade Board introduced consumer rationing to insure an equitable distribution of civilian goods. The criteria of style, and in some cases quality, no longer applied to the industry. Customers were thankful to get whatever quantity they could.

With the start of the war, wages began to rise. Basic wage levels were set by the provincial government's Fair Wage Board. In 1939 wages rose by 10%. In 1940 they were up again, 22.7% higher than at the peak of prosperity of 1929, up 41% compared to the Consumer Price Index. Wage rates were regulated by the Government War Supplement Plan, which set wages based on a 48 hour work week, plus a premium for overtime. By 1942, wages went up 28% from the start of the war. By 1943, weekly wages had more than doubled from the 1939 rates.

WARTIME COMPETITION

Prior to World War II, the domestic Canadian textile industry supplied up to 70% of Canadian needs.

The outbreak of war in 1939 would alter the competitive forces in the Canadian textile industry, but not in 1939 itself, the period of the "phony war". One surprising aspect is that for six months after the war began, a large amount of British goods were still exported from the U.K. to Canada, mainly print goods on order before the war began. Imports of cotton goods during the last three months of 1939 and the first three of 1940 were greater than ever. The Canadian market in 1939 showed a remarkable capacity to absorb a record quantity of goods from domestic and foreign sources. In May 1940, the British Expeditionary Force in Flanders was almost encircled by Nazi forces. In their scramble to escape from Dunkirk, the British abandoned their supplies. The flow of orders was reversed. Canadian companies could sell all they could produce to Britain.

The Canadian industry was also required to enter new product lines no longer supplied by exporters. Blair Gordon's project of producing netting suddenly became an important contribution to the war effort, when British and Japanese camouflage netting was no longer available.

Simply put, there was no competition in the industry, either from foreign or domestic producers. The market could therefore absorb anything that was produced. The government practiced supply management, starting in early 1940. In effect, markets were abandoned through rationing, controls, output restrictions, and price fixing. Competition as a price formulator was abandoned. The effect of this upon the textile companies were:

[a] Dominion Textile "reverted" to the pure

production strategy of the World War I era. The major strategic concerns related to production costs, supply, and machinery.

[b] The distribution and marketing expertise and processes that had slowly developed before the war served little purpose, and were allowed to atrophy.

[c] Plant utilization became a function of necessity. Production runs took advantage of economies of scale and were not concerned with styling changes for the market.

5.2 WARTIME STRATEGY

Blair Gordon, repeated his father's coup by going out and buying an entire year's supply of Brazilian cotton, over a million bales. He then went to Ottawa and said: "We're ready". He got this huge supply at 6 cents a pound. On the open market the price would have been double that. After the war began in earnest the price of cotton rose to very high levels.

The war intensified the manufacturing orientation of the company. The imperatives of the wartime needs of Canada required the use of the company's manufacturing capabilities emphasizing volume, and constraining marketing into new fields. It became a very closed system, revolving around increasing production quantity. As war demands heated up there had to be compromises. This led to fewer fabric lines, and larger volumes per fabric. When the Wartime Prices and Trade Board was formed in 1941, the process was accelerated.

Although this type of operation suited Blair Gordon's background and leanings, he realized this orientation was bad for business in the long-run. He recognized that following the war, there would be a need to look into the market to see what competitors were doing.

The marketing side of the organization flattened out. There was no fabric development, because the company didn't need to make anything new. In fact, under the strict regulation of the War Time Price and Trades Board, they couldn't. Fabric development activity was switched to developing the many fabrics required for the war effort.

Government business was not very profitable. As Blair Gordon explained to shareholders in 1941: "It is really a matter of each Company in the industry doing its share and taking on a certain amount of Government business, even at the expense of our more selfish interests. You can see that a company which ties up its equipment on government business is losing its connection with the trade to some extent, and we have gone a long way, I am afraid, in that direction. We've done our share and perhaps a bit more."[4]

While cotton production was strictly regulated, rayon initially was not. For a brief period several Canadian companies did very well on rayon sales. Dominion

Textile, under the orders of J.G. Dodd, the Vice President of Marketing, did not raise prices. Before too long the Wartime Prices and Trade Board established a Synthetics Control Board, headed by Mr. Dixon, Chairman of Courtaulds of Canada.

On the cotton side of the operations there was also leeway for adding to the prices as well. The price ceilings on consumer cotton goods in effect between 1941 and 1948 were below production costs. The government subsidized the company's production costs to make up the difference between the production and selling costs. Blair Gordon insisted the organization continue to operate the mills as economically as possible and "refuse to take the easy way of being lax about production costs." He reasoned that "any other policy than the one we follow would be folly, for every move made in these times in the direction of higher costs of production will exact a stern retribution in the days to come."[5]

During the war, all of the company's efforts were concentrated on making the most of what they had in plants and staff. There was little or no opportunity to think of making changes or additions, and no chance of putting then into effect.

From 1943 onward the company executives, unable to follow any other course than heavy wartime production, gave a great deal of thought to the company's post-war prospects. Even at its peak of wartime production the company was well aware that its postwar future was uncertain, since early in the war tariffs on British and U.S. textiles were removed. Blair Gordon forecast in 1943: "The future facing us after the war is a very interesting one in which almost anything can happen. We will probably survive, but may have to effect very radical changes in our set up to adapt to the surrounding conditions." [6] Prior to the war, the Preferential Tariff had determined that Britain was the major competitor. The company realized by 1943, that after the war, with no tariff protection, their main threat would be U.S. manufactures. Dominion knew it would be hard put to continue to manufacture and sell many of its lines, due to the small volume of sales in Canada, as compared with that of the U.S. The problem, as they were well aware, was that in order to keep its domestic market, they must manufacture a great variety of goods in relatively small quantities, whereas individual U.S. mills could concentrate on a relatively few lines in large quantities. The company had always operated in the Canadian market protected by tariffs. The prospect of dealing with U.S. and Asian imports without protection made Gordon apprehensive about the company's future.

One possibility the senior executives considered was the chance that a reciprocity treaty in manufactured goods might be arranged between Canada and the U.S. They reasoned that if that option (which would be made politically) developed, Dominion would concentrate on a few lines, to be sold on both the Canadian and U.S. markets. This would require fundamental changes in production and merchandising policies. If reciprocity did not come, the company could see no other option than to change to producing a wide variety of goods in small batches to compete with imports. The factor of whether or not there was reciprocity after the war would determine the company's strategy and the type of equipment they would acquire to replace their war worn machinery. If there were reciprocity, the company would have to specialize in the large scale production of certain types of goods in order to compete in the international market in textiles. The wide diversity of equipment, which had been the company's great strength by giving it flexibility in the domestic market, would be a handicap. They feared the change-over period would be trying. Gordon's conclusion was to wait and see. "It is not feasible to make complete rehabilitation and re-equipment of our plants in view of the uncertainties and indeterminate elements of the post-war situation."[7]

A major problem that emerged during the war was the continually increasing cost of labor, which was rising more rapidly in Canada than in the U.S. Before the war the price of cotton had been the most important factor in determining cost. During the war and after it was the cost of labor. Gordon was well aware that the new arbitrator of conditions would be the provincial government. "The general conditions under which manufacturing is carried out in Quebec are established by the Provincial Department of Labor and certain labor boards, and more and more during the past five years it has become their responsibility to balance the scales between the demands of labor and the policies of the Federal Government as regards wage increases and other factors. ... Half the battle will depend on the opportunity we are given to work out our destiny in the face of shortsighted and misguided opposition. I believe that if we were given a chance to operate our mills in the most practical and efficient manner possible, then there is a strong possibility that we can meet conditions as they arise after the war. Otherwise, this fine mill and others like it may well become monuments to the past glory of the textile industry. We may have to become more of a distributing and less of a manufacturing enterprise, and that of course would tend to reduce employment in our mills. ... The seriousness of the changes in trade unions will depend on Ottawa and our ability to contend with the situation as it may develop rests with Quebec. Let us trust for the sake of the company and many others; not only in the textile industry, that we find wisdom and understanding in both these high places during the critical times before us."[8]

Behind Gordon's rhetoric was the acknowledgement that labor costs would be a kingpin in future operations. Labor costs, increasingly would depend upon and be influenced by government legislation, both federal and provincial. This factor would have a very definite influence on the strategy of the future.

The company resolved that after the war it would have to maintain a flexible position relative to postwar technological and economic developments. "We will do our best through using modern machinery and efficient methods to translate high wages into as low a labour cost per unit of production as is practicable, but where the starting difference in wage levels is large, we can only gain to close the gap in cost of production. If, through revolutionary changes in the techniques of textile manufacturing after the war, wages were to become only a minor factor in the total cost of production as they are in many other industries, then our status could be entirely different." [9]

The end of the war meant the company, and not the government, would again be determining the company's strategy.

STRUCTURE

Senior management positions remained closely tied to personalities. The position of Chairman of the Board was created in 1928 for Charles Gordon. Following the death of F.G. Daniels, Sir Charles again became President, while retaining the chairmanship. After Sir Charles' death in 1939, Sir Hurbert Holt was named Chairman, while also remaining Vice President, a position he had held since 1908. G. Blair Gordon was named President, to succeed his father, while retaining the role of Managing Director. After Sir Hurbert's death in 1941, the post of Chairman of the Board was again left vacant, until Blair Gordon assumed it in 1961.

The structure remained as lean and functional as it had been in the Twenties. Companies did not compartmentalize functions and give each man a specific job title. Managers took on tasks that needed doing, rather than the later development of first being given a job title and then trying to do the job. People simply did not expect a title to go along with their job.

In addition to the senior Vice President, there was a Vice President of the Sales Department, J.G. Dodd. Sales was divided into several departments such as Print Goods, Household Cottons, and Yarn. Each had a head who was usually the most senior man having the qualities of leadership. Under J.G. Dodd the sales function had grown to having a greater voice in company affairs. In the 1930s, prior to the war, Sales was making great strides toward influencing the policies of the firm. Unfortunately, after 1939, the war and a series of deaths, lessened the necessity for, and the quality of, the leadership in Sales.

5.3 MANUFACTURING DOMINANCE

From early 1940 onward, the physical assets of the company were subjected to the heavy strain of 24 hour operations.

The plants had been kept in good repair during the Thirties, but by 1943, after three years of 24 hour operations were badly run down. Repairs and replacement parts were costly and hard to obtain. New textile machinery from the U.S., the U.K. and Europe was not available. Prior to the war Dominion had traditionally bought most of its equipment from Britain, and some from the U.S. During the war the company bought up hundreds of second-hand machines wherever they could find them, throughout the southern U.S. From 1941 to 1945 only $3.5 million was spent on new machinery and equipment in the mills, while $7.5 million was written off in depreciation. 1942 was the peak year for production. By 1943, as a result of worn machinery and of labor shortages, production figures began dropping and the company's decline began. Because the company gave the problem of national war supplies its complete attention, it became weakened and run-down.

During the war, rayon production continued the growth pattern of the late 1930s. In 1941 the Rayon Division opened a rayon staple spinning plant at the Sherbrooke Mill, in part to supply the growing demand for rayon garments by the women's division of the Services. One-quarter of production at the Montreal Cotton subsidiary also contained synthetic fibres.

At the beginning of the war all possible facilities were put into production. The old St. Annes plant, which had been used only as a warehouse and trucking depot after 1935, was re-equipped with new machinery to produce carded knitting yarns and to supply wartime demand for duck for webbing, belts,and knapsacks. The company could suddenly sell all the webbing it could produce to the government for military uses.

The Netting Division at Drummondville, which began as a stop-gap measure in the late Thirties, to fill lost tire cord contracts, proved valuable to the war effort by keeping the fishing industry supplied with nets, at a time when meat was in short supply, as well as a large quantity of camouflage nets to the government. In 1943, at the request of the government, the Drummondville subsidiary again expanded its production capacity of fish netting

The Verdun plant, closed since 1935 was sold back to the federal government for $675,000. The company had bought it for $800,000 and spent nearly half a million on repairs.

Early in the war Blair Gordon helped set up, with the assistance of several members of the Quebec National Assembly, Flax Industries Ltd. as a subsidiary of the subsidiary Drummondville Cotton Co. The intention behind the venture was to use an agricultural product grown in Quebec. The quality was not good, but it was used because high quality Belgian flax was not available. The company tried to impress on the agricultural authorities in Quebec the importance of quality, but the flax growers continued to concentrate on quantity rather than on improvement in quality. When Belgian flax came back on the market after the war, the company was forced to switch over to it because of its superior qualities.

By the end of 1946 the flax company had built itself into a strong financial position. The directors took what later proved to be a fatal step. They invested heavily in new processing machinery. The capital cost and installation problems of the new machines wiped out ~~the~~ financial gains made during the war. No dividends were paid on the Common Stock after 1946. After the war, production was mainly linen thread, supplied to Drummondville Cotton for weaving into double-knot salmon nets.

PRODUCTION AND SALES

By 1938 the possibility of war began to be felt on the company's order book. A general increase in trade, aided by a substantial order for Ducks from Britain resulted in 43% higher production in 1938. During the period of the so called "phony war", from September 1939 to the spring of 1940, the company received very few direct war orders from Canadian sources. But orders from the British Government and direct war contractors flooded in. By early 1940, Dominion Textile was exporting 600,000 pounds of cotton goods per month to the U.K., in part "to make up the terrible loss of supplies of all kinds which happened in the disaster in Flanders last month." [10]

Blair Gordon's foresight in securing the enormous supply of Brazilian cotton at the beginning of the war was a coup for the cotton industry in general, and saved the government a considerable amount of money. Dominion Textile stored this cotton at new storage facilities it built at LaSalle, Montreal and carried these large stocks of raw cotton on their own account against government needs.

Early in the summer of 1942, because of German U-boat activity, no more cotton could be shipped from Brazil. The extensive contracts for forward deliveries had to be cancelled. A company representative went to Brazil to carry out these negotiations. Dominion had to turn to the U.S. for cotton, despite its high price because of the premium on U.S. funds. An export subsidy on American raw cotton introduced in 1942 helped to modify the cost. Dominion, on behalf of the Department of Munitions & Supply, a Crown Corporation, purchased U.S. cotton for direct war use in the Canadian industry as a whole through its U.S. subsidiary Howard Cotton Co. The war also caused transportation difficulties in getting the U.S. cotton to Canada. Because Brazilian and Egyptian cotton were almost unavailable, the Drummondville Tire facility was switched to producing rayon tire cord.

The production capacities of the mills responded to the heavy demands made on them in the early war years. In the second World War, cotton goods were used for many more purposes than in the 1914-1918 war. The cloth produced was of a heavier type than regular production. Over 50% of the entire basic production was disposed of in primary form, namely as yarn and grey cloth. The balance was moved to the two converting plants, where, supplemented with purchases of grey cloth from the U.S., the total production yardage of converted goods was 48.5% higher in 1941 than the previous year. Between 1940 to 1943, three years of full-capacity production, peaking in 1942, production was mainly for the war effort, under direction of the Canadian Government. The Manufacturing, Selling and Technical Departments of the company worked closely with the Department of Munitions and Supply, and the Department of National Research in developing and producing the particular types of yarns and fabrics the war called for. By early 1940, 80% of the company's output was for the war effort. In 1941 and 1942, the direct and indirect war account, and goods for other purposes classified by the federal government as essential, constituted over 70% of the company's output. The company's actual rate of war production was eleven times greater than the 1914-1918 average.

In 1943, production and sales fell off and output was about 15% below the optimum point attained in the winter of 1942. The labor force was diluted with large numbers of untrained help, so the mill managers were not able to get as good results from these employees. Production was down again in 1944, in part due to a labor shortage. The number of employees fell from 11,000 in 1943, to 9,500 in 1944, partly due to enlistment in the forces and partly because workers left for other higher paying industries.

In 1940, the volume of sales was 47% higher in dollar value and 43% greater in physical quantity than during the previous year. Sales were up in 1940, not only because of war orders. There was also increased consumer purchasing power, particularly in the West, as a result of the end of the 1930s drought and return of successful wheat crops. Despite a substantial increase in the price of raw cotton, selling prices were only 3% higher. This was still 16% below pre-1929 prices.

In 1942, the federal government, through the Cotton Administration of the Wartime Prices and Trade Board, re-directed some production from war use to civilian goods. Because the prices were legislated at 1940 selling prices, there was a tremendous surge in the buying power of civilian customers in sheets, towels and yard goods. Output declined for direct and indirect war purposes. The civilian demand was partly due to previous shortages, but much of the demand was also the result of the low prices.

By 1944, civilian goods were selling at prices below manufacturing costs. The company felt the continued shortage in civilian goods was not due to decreased supply but to the greater demand due to low prices. The value of sales was down 14.9% due to ceiling prices. The difference was made up by government subsidy payments.

Production costs during the war were down because of 24 hour operations and long production runs of heavier type goods, which had a higher output per machine per hour. In the early years of the war, 80% of the output was for the war effort. This produced excellent production figures, but left many organizational functions such as sales and research to stagnate.

While the war put tremendous demands on the Manufacturing Department, it asked nothing more than the allocation of goods from the Selling Department. The company needed only two types of products, one for war supplies; the other for civilian consumption. Customers for the output was assured. Under wartime allocations customers did not complain about the goods produced, rather, they were grateful to get them. As the war continued, the function of the Selling Department was to dole out rationed supplies to customers. The company found its buyers were understanding.

The only fabric development was for the war effort. By ruling of the Wartime Price and Trade Board, companies could not make anything new for domestic purposes.

The Rayon Department showed steady progress from about 1932. The demand for rayon goods had risen sharply just before the start of the war. It took off to such an extent that when the war started, Dominion was thinking of starting an export business. E.F. King was sent to England to look over the market with the possibility of establishing an agency for selling rayon.

The mills not only operated on Saturdays, but on holidays as well. Until 1943 the company was able to hire enough workers to run day and night shifts in the mills. In 1943 the working force began to decline under the counter-attraction of jobs in the new aircraft and munitions plants. This was despite the textile industry being included by the National Selective Service Board as a restricted occupation. That year production and sales fell 15% below the optimum point reached in the winter of 1942. The labor force was reinforced with large numbers of untrained workers.

The armed services made heavy inroads on personnel. In some office departments as many as 50% of their members went into the services. Many of these places were filled by women, who by 1943 made up nearly 40% of the company's work force, up 10% from before the war. In all, 1,065 Dominion Textile employees, out of a work force of 8,000, left the company to join the armed services, including two future Presidents, Ron Perowne and Tom Bell. In 1945 the company was legally obliged to re-absorb all employees at jobs equal to those they had left.

During the war, life in the company's mills was little changed from before the war, and after. A submission by the United Textile Workers of America to the National War Labor Board, Ottawa, stressed the all-encompassing effect of the mills on the workers, who often began a lifetime of work at a mill at fourteen or fifteen. "There are towns and cities such as Valleyfield and Three Rivers where whole families work together in the mills, father and mother, children and cousins, grandfathers and granddaughters, to an extent not found in other pursuits. Their lives revolve around the mills, an expression exceedingly apt when you consider the prevailing ten, twelve and thirteen hour shifts - and the economic conditions established by the mills set the economic level of existence of whole families and whole communities."[11]

By the end of the war, Gordon was pessimistic about the company's ability to continue to pay the high cost of labor in production costs. "Wartime production has meant continuous runs of heavier types of goods which have tended to have a higher output per machine hour. The postwar outlook will be sad unless we can attain an output per man hour commensurate with our greatly increased wages."[12]

5.4 OWNERSHIP AND CONTROL

The ownership of Dominion Textile shares had become even more widely dispersed. In 1942, of the total issue of the 19,406 preferred shares held by the thirteen Syndicate members in 1905, 89.8% were held in lots of less than 500 shares each, by 687 shareholders. The 270,000 Common Shares were owned by 2,501 shareholders, of whom 2,369 held lots of less than 1,000 shares each. Twenty-eight shareholders owned lots of between 1,000 and 5,000 shares. In this group were several insurance companies and other institutions. The largest shareholder, an insurance company, held a little more than 10,000 shares, or about 4% of the shares. This did not change the fact that control of the company was held by few people.

The war showed clearly, for the second time, that in a crisis, Canada could not depend upon any other country to supply its essential needs in cotton. The war showed that the country, and its allies, needed domestic producers who could produce enough for the country's needs when imports were not available.

PERFORMANCE

Throughout the war, the Wartime Control Board determined the selling price of the company's goods. Wage rates were set by provincial governments. Dominion was caught in a squeeze between costs based on 1940 prices, wage rates which doubled by 1943, and a tripling of raw cotton prices. While income from operations more than tripled between 1940 to 1943, this only reflected an equal rise in production.

After the 1943 swing back to civilian goods, earnings were greatly reduced, because of the production of large quantities of goods sold at below manufacturing costs, thus cutting into the normal profit margin. Raw cotton prices and wage rates doubled during the war, but the company was obliged to sell its goods at 1941 prices legislated by the government. In 1944, this produced heavy operating losses, forcing the company to sell off some securities from the "Surplus Account", representing profits remaining from the First World War. The federal government made up the difference to the company (and other textile companies) between operation costs and selling costs, plus a profit margin, with a subsidy. Without the subsidy the company would have operated at a loss. The textile industry in effect operated at a profit level determined by the government.

Dividend payments continued at a steady rate throughout the war. Blair Gordon commented on the situation: "We are living in a wonderland where everything is Humpty-Dumpty and we carry on merrily enough losing many cents per pound on everything we turn out and then we receive adjusting payments from a government agency so that we can continue on our way. There must be an emergence into the world of reality and the sooner the better."[13]

II. BOOM AND BUST: 1945 - 1953

5.5 THE POSTWAR TEXTILE INDUSTRY

The Canadian textile industry was at its zenith following the war. Of the 708 primary textile mills, woven and knitted, sixty-one manufactured cotton. Within five years after the end of the war, most of these companies were showing operating losses. Within ten, several of the leading and long-standing textile companies would cease operations. Environmental conditions changed rapidly. Prior to World War II, Canadian producers supplied about 70% of domestic needs. Between 1939 and 1947 the industry was indispensible to the country, supplying almost 100% of the domestic demand. In 1948, this market share fell drastically as the civilian market wanted a variety that Canadian mills couldn't or wouldn't provide.

The long production runs of the war years had left the industry inflexible. It takes many months for a primary textile mill (spinning and weaving) to transfer from one fabric to another. The greater the volume having been produced per fabric for a number of years, the longer it takes.

The growth area of textiles continued to be synthetics. This section of the textile industry, like the others, faced a large backlog of demand from consumers. In 1946, Courtaulds (Canada) Ltd. erected a $7 million viscose rayon staple fibre plant at Cornwall. In 1949 another $15 million was invested in the facility in response to the extraordinary demand for viscose yarn. Canadian Celanese Ltd. spent $6.5 million on an acetate fibre and filament yarn producing unit.

In 1945, two textile training institutes, long demanded by the Canadian textile industry, were opened by provincial authorities: the St. Hyacinthe, Quebec, Textile School, and the Provincial Textile Institute at Hamilton, Ontario, were the first day class programs for training textile personnel in Canada. About half the students taking the four year courses offered by these institutions attended on scholarships provided by the various textile companies.

SOCIETAL CHANGES

During 1946 and 1947, there was sufficient demand in Canada to leave room for full Canadian production, as well as imports from Britain and the U.S. The wartime boom for the textile industry in Canada continued until September 15, 1947, when wartime price controls were lifted. Prior to that, the price controls kept textile prices artifically low. In 1946, 95% of Dominion Textile's output was sold at values below the cost of production. The companies were then reimbursed through government subsidies. Canadian cotton goods were subsidized at below world cost. Importers were subsidized as well, to bring their prices down to Canadian levels. After the war, U.K. producers did not find the Canadian market attractive. Lancastershire exporters, the main pre-war source of imports, found the Canadian market relatively unattractive by comparison with higher priced markets in other countries.

This situation was quickly reversed by the Canadian Government's Budget Resolution of May 18, 1948 which, in an effort to expand the sale of British goods and thus aid British recovery, suspended all duties on imports of cotton piece goods from the U.K. Through the Geneva Agreements, Canada made proportionate reductions on goods from the United States and other nations. This added nothing to Britain's position, but brought on severe competition among low-duty or duty-free goods on the Canadian market. From 1948 to 1949, importation of textiles into Canada from countries other than Britain and the United States increased 500%. The Canadian industry could not export its excess because high Canadian textile wages made Canadian goods high priced on the international market.

A potential threat was growing from the U.S., which by 1948 was reaching a condition of over-supply in the industry. Only dollar quota restrictions on imports from the U.S. served to prevent the Canadian market from being flooded with U.S. merchandise.

In the late 1940s and early 1950s, there was a shakeout in the labor movement, particularly in the Canadian branch of the United Textile Workers Association, where some unions were, for a time, dominated by socialists with strong communist leanings. Madelaine Parent and Kent Rawley were Marxist union leaders who had a very significant labor position within Dominion Textile until the UTWA expelled the pair and was reorganized.

Government became a major factor in Dominion Textile's considerations after the war. Ryland Daniels recalls that "we never though of Ottawa up until right after the war. Before that, somebody in the government just phoned Charlie Dunning [Sir Charles Dunning, a director]. But King and the Sales Department really took over the government relations."[14]

5.6 THE CHANGED COMPETITIVE ENVIRONMENT

World War II ended Britain's role as a competitor in Canada. Despite the suspension of all duties on cotton goods from the U.K in 1948, the British found other markets more attractive than Canada. Duties on U.S. goods had also almost been eliminated.

In 1949 a sharp recession hit the global textile industry. In the early 1950s, over-production in the U.S. created severely competitive prices in Canada. Secondary manufacturers and retailers in the U.S. reacted conservatively. They did not speculate, but kept inventories at a mimimum. U.S. mills sold a large quantity of low-priced and sometimes sub-cost inventories of goods in Canada. Canadians could not meet these prices as their labor costs cold not be reduced due to union agreements, whereas U.S. mills, in reaction to the severe competition, could lower their mainly non-unionized wages.

The marketing of textiles in North America and the U.K. had changed very little between the 1920s and the late 1940s. In the U.S, the majority of the textile industry, with the exception of the largest companies, were run by Southern gentlemen who owned the mills. The output was sold by their agents in New York who ran their own companies and had no ownership positions in the textile manufacturing companies. Some agents sold a mill's goods exclusively, some sold goods along with non-competitive items from other mills. The sellers held goods on consignment, or sometimes bought the goods outright, but they were not managed by the same group as the manufacturers. In the late 1940s and early 1950s, there was a big move in the U.S. to bring these two functions together.

By 1953, the Canadian textile industry admitted that Canadian textile manufacturers could not compete with American cotton textile imports. There was the perennial problem of not being able to meet the American diversification of fabrics and style, and of not having the population to allow economies of scale. In 1953, there was added a U.S. dollar discounted below the value of the Canadian dollar, and an over-supply of American goods. This meant American goods could be sold in Canada below Canadian production costs for equivalent goods. The Canadian mills lost yet more of their domestic market share. To put the problem in perspective, the difficult times were not confined to Canada and the U.S. Textiles, global industry, saw over-production and price-cutting worldwide.

5.7 POST-WAR STRATEGY

The actual operation of Dominion Textile in the post-war years was directed by Ryland Daniels, the Vice President and General Manager, rather than the President, G. Blair Gordon. Daniel's strategy was to continue "the company's established policy to supply quality merchandise to customers at reasonable prices, and to maintain jobs for our employees at as high a standard of living as is practical."[15] Daniels wanted to maintain the production orientation of the company, but in as protected a market as possible. The manufacturing strategy begun at the company's formation in 1905 he felt had to be carried out in a protected textile market. Daniels was attempting to return to the same strategy in the new postwar open-market textile environment.

In 1947-49, there was an effort to restore the Sales Department to the position it had achieved in the 1930s when it influenced the type and volume of goods. Unfortunately, a series of deaths in the top echelon of the department frustrated the effort to a great extent. The top management was not happy with the lack of marketing success, and thus brought in Woods Gordon as management consultants.

In looking to post-war conditions, Blair Gordon predicted in 1943: "The future facing us after the war is a very interesting one in which almost anything can happen. We will probably survive but we may have to effect very radical changes in our setup to adapt to the surrounding conditions."[16]

During the war, the company had planned to start a program of reconstruction and re-equipping plants to suit postwar needs as soon as the war ended. Construction costs were very high in postwar Canada and the little machinery available was costly. The company had to proceed slowly. The detailed work of planning the mill-by-mill modernization of the company's plants was done by Ryland Daniels, son of Frank Daniels. He found an ally on the Board in Sir Charles Dunning, a former federal Liberal Finance Minister.

"We began the day the war closed, because we had machinery on order before the war was over. That's when the company took a new tack - more towards American technical efficiency, concentrating on lessening manpower. We came down from over 13,000 employees at the end of the war to somewhere around 8,500 when I retired. We didn't do any expanding, building plants or anything like that, but our sales more than doubled."[17] Daniels, very keen on having efficient, cost-conscious plants, brought in R.E. Loper & Co. from the U.S. to do time study and cost control. Over the years, these efforts produced very good results.[18]

Daniels also brought in Julian Cummings as Vice President, Manufacturing. A successful plant manager from the U.S., he set out to further reorganize and control the mills. Cummings in turn brought in some former marketing associates to fill vacancies in the manufacturing organization.

Dominion's strategy between 1945 and 1948 was a continuation of the wartime pattern. Consumer needs, long delayed by the Depression and wartime rationing, continued unabated until 1948. By that year, there was no longer any real shortage of cotton goods in Canada.

In 1948, Dominion fulfilled a strategy plan started in 1905. One of the first major actions of the founders of Dominion Textile in 1905 had been to buy out the Montreal Cotton Co. They had not been able to buy all the shares, but eventally acquired the majority of them. After 1928, seven men on the board of Montreal Cotton were Dominion Textile directors. Two others were senior Dominion executives.

One of the major differences between the U.S. and Canada and Britain is the right of majority shareholders. In the U.S., if a company controls 51% of the shares, they control the company. The Carnegies, Rockefellers and du Ponts could shut down companies or phase them out when the controlled 51%. In Canada, the firm must acquire all shares before it is in complete control. Nor can companies be consolidated for tax reasons. As a result, companies hang on to subsidiaries as they write off taxes, or persuade minority shareholders to sell.

Over the years, while Dominion Textile and Montreal Cotton worked closely. Montreal Cotton was operated as a separate entity. The company's identity was preserved by the majority owners of Preferred shares who refused to sell or redeem them. In the early 1930's Montreal Cotton's selling function had been switched to Dominion Textile and the sales staff was relocated in Dominion's Victoria Square offices. Montreal Cotton's internal capital structure was rearranged in 1946. The previously uncallable preferred shares were made redeemable under certain conditions. In early 1948, Dominion Textile common shares, trading at $90 to $100 were split nine for one in order to bring them close to market equality with Montreal Cotton shares. Montreal Cotton shareholders were then offered a one for one trade. More than 90% of the Montreal Cotton shares not already owned by Dominion were exchanged. The rest came in within three years. The final step in the absorption was to call in the Montreal Cotton Preferred shares for redemption. To do this, Dominion bought an additional 170,000 Montreal Cotton common shares at $10 per share to pay for the redemption of the preferred shares. This final takeover process lasted nearly five years. The forty years it took for Dominion Textile to take over Montreal Cotton must rate as one of the longest gaps in business history between the development of a strategic posture in strategy formulation and its implementation.

Montreal Cotton was integrated into the operating core of Dominion Textile because it was the same kind of cotton textile manufacturing operation - what the Dominion defined as its basic business. Dominion left its subsidiaries in new sections of the industry, notably rayon, and tire cord, as separate operating units. In the late 1940s Dominion still defined itself in the original 1905 terms as a cotton textile manufacturer.

Dominion Textile's first major move after the war was a joint venture with Burlington, one of the largest U.S. textile companies. Burlington specialized in acetate, viscose and nylon fabrics, and tire cord. Its company policy at that time, and for some years, did not allow the use of natural fibres such as wool and cotton. Burlington had meteoric growth from 1925 on, especially during the war.

Dominion had been producing rayon fabrics since the 1920s, but it was not until just before World War II that demand became heavy. Rayon had taken off to such an extent that in 1939, Domtex had been thinking of a rayon export business. During the war the rayon business was the company's fastest growing sector.

The initial contact between the two companies was made by Ed King, who through contacts in the trade, heard that one of Burlington's Vice Presidents was in Montreal talking to dress manufacturers about setting up a plant in Canada. Burlington, which had already established plants in Cuba, Australia, Mexico and Columbia, questioned King about prospects in Canada. King knew their type of products would be welcomed by garment manufacturers in Canada. He went to Blair Gordon and suggested the advantages for both companies in a joint venture. King suggested it might be better to do business with Burlington, rather than have Burlington set up as a competitor.[19]

Both Blair Gordon and Ryland Daniels were very well aware of the developments made in synthetics during the war, and felt they might become important. They were also uncertain as to the future of all-cotton, whether it would remain predominant, or go into a decline. Nor were they certain as to what would take its place.

Gordon discussed the arrangement with Spencer Love, the Vice President of Burlington. Both partners agreed to invest $750,000 for half interest in the company. Dominion put in the Sherbrooke plant as their share of the equity, and turned over its manufacture and sale of rayon fabrics for domestic and export markets to the joint venture. Burlington supplied the technology, the top manufacturing people, and the working capital.

The new enterprise, named Dominion-Burlington, gave the American firm Dominion Textile's general management expertise in dealing with the Canadian market. Dominion, in turn, gained the technological expertise and manufacturing know-how of Burlington in producing synthetics and blends. That technology would have taken Dominion a long time to learn as a competitor.

This venture in a technology which was still new, was placed outside the operating core of the company. The feeling was that by being an independent operation the strategy and structure could be more adaptive to the product's technological requirements and specific markets. Nor would the new venture disrupt the cotton manufacturing core of the company. Dominion-Burlington in fact did develop a flexible, innovative strategy. The new attitudes toward strategy and structure that developed in this subsidiary would be later injected into the parent company when it faced a crisis of survival in 1953.

The operation was managed by the Canadians. Although Spencer Love, a Burlington Vice President was President of Dominion Burlington, he usually came to Canada only for the monthly directors' meeting. E.F. King, although Vice President, ran the operation.

King was told by Gordon and Daniels to take the people he needed, but that he was on his own. Among the personel King chose were Bud Veitch, a C.A. fomerly with Touche Ross, Charlie McLean, and Tom Bell, when he got out of the navy. In 1946, King moved the subsidiary into its own offices in the Ciba Building on McGill College Ave., separate from Dominion Textile's headquarters.

King wanted an organization separate from the parent company. Tom Bell, later President of Dominion Textile, but then a junior employee recalls: "he had very strong feelings about that. A part of it was that you had to grow up yourself, Anything we wanted from the company, we had to earn."[20]

In 1948, after three years of operation, the joint venture prospered.

The Dominion-Burlington operation however proved difficult for both partners. The two companies operated on different premises, based on their respective national markets. The Canadian market being so much smaller than the American made it difficult for the Burlington people to accomodate themselves to the much smaller volumes and the necessary multiplicity of styles. Spencer Love, the President of Dominion-Burlington was a very successful operator in the U.S., besides being a very strong-willed man. He felt that what was good in the U.S. was very good for Canada. This point of view must be greatly modified for success in Canada of any sizeable operation, particularly where fabric style factors are involved.

B.F. King took the position that Canadians had to change or refine American techniques to the Canadian market. Love did not want to use any natural fibres, the same as was the case in the U.S. operation. King felt the Canadian climate required wool blends. Despite these difficulties, substantial progress was made and a modern one storey building was erected in Sherbrooke to house all the growing manufacturing facilities.[21]

After several incidents, the two parent companies agreed the joint venture could no longer continue with the dichotomy of views as to what the Canadian market needed. The agreement between the two had been that if one company wished to withdraw, the other had the option of buying them out. Dominion decided it wanted a divorce from Burlington, and to continue in synthetics. In early 1952 it bought out Burlington and renamed the subsidiary Domil. The Board of Directors of Domil had three Dominion Textile directors, and King and Veitch of Domil.

Despite improvements in productivity, by the early 1950s Domtex was caught in the squeeze between the high cost of raw cotton and the continually lowering of prices by Southern U.S. mills, which had lower labor costs and greater economies of scale. "While the prices of American over-run goods, by that I mean extra production in the United States - has been up by as much as 30% or 40%, Canadian costs cannot be further lowered to meet this sale of heavy U.S. over-production in inventories."[22]

1953 was one of the most difficult years in the company's history. Gordon used the world "bombardment" to describe the constant impact on the Canadian market of American goods. To hold domestic market share the company again operated at a loss. Blair Gordon told shareholders in March 1953: "The actual imports were heavy and would have been even heavier had we not sought at every opportunity to meet the competition and retain the business in Canada. As a consequence, we booked orders and shipped merchandise at prices which in many cases showed no return. The American mill prices which we had to meet were often underly low in the first instance even in their own market, and American mills were therefore, in a sense, exporting some of their distress conditions."[23]

5.8 RE-STRUCTURING BY MANAGEMENT CONSULTANTS

The company began the 1950's with the same simple structure, of five executive officers, which it had for nearly fifty years. Blair Gordon was President and Managing Director, and acted as Chairman of the Board. Ryland Daniels was the sole Vice President, and also the General Manager. The three other executive positions were the Secretary, Treasurer, and Assistant Secretary-Treasurer.

Exhibit: 5 - 1

Executive Officers: 1948

President and Managing Director - G. Blair Gordon

Vice President and General Manager - F. Ryland Daniels

Secretary	Treasurer
L.P. Webster	R.A. Lang

Assistant Secretary-Treasurer - W.A. Eversfield

The executive was expanded to include three Vice Presidents. Gordon remained President, Ryland Daniels became Managing Director and new Vice Presidents reporting to Daniels were created in Administration and Finance.

In late 1949, in the face of drastically declining sales and the changing market patterns taking place in the U.S., the President, Blair Gordon decided that the executive of Dominion Textile must be re-structured to meet the changes in the market. To do this he brought in the managment consulting firm of J.D. Woods & Gordon to make a survey of the company. Management consultants were just becoming trendy. Walter Gordon of Woods Gordon and Blair were not related, but were friends. The Woods Gordon mandate was to help in the re-structuring and in choosing managers to fill the positions and thus help reconstitute the revival.

Until then there were two functions, manufacturing and merchandising. Merchandising also included marketing. The orientation of the Sales Department until then was merchandising. Woods Gordon recommended that marketing be separated from merchandising, making both departments equal and reporting upward, e.g.:

Exhibit: 5 - 2

Executive Officers: 1949

President - (G.B. Gordon)

Vice President & Managing Director - (R. Daniels)

Vice Pres. Finance | Vice Pres. Administration | Vice Pres. Manufacturing

Sales Dept. | Merchandising Dept.

While Woods Gordon set up different sales and merchandising organizations, few people in the company, at the time, really knew what the difference was, as the term "merchandising" was practically unknown.[24]

The purpose of the Woods Gordon restructuring was to give greater emphasis to the sales function of the company. The new structure still emphasized the manufacturing orientation, but the change was intended to give the company more of a marketing thrust. Unfortunately the reorganization did not improve the marketing operation, but added to the company's problems.

The Woods Gordon report may have been wrong organizationally, but it was correct in its emphasis. They were in reality arguing for a strategic re-thinking before the term was popular. The reorganization was intended to give greater attention to Dominion's customers. Technology in rayon, nylon, and blends had changed the industry. Technology had converted a commodity into a differentiated product. Dominion Textile however still viewed their efforts as producing a commodity, and did not understand their customers.

The Woods Gordon consultants felt that a professional manager could manage any aspect of a business. They administered I.Q. tests and placed personnel in positions according to their score. The result of this re-shuffling was that many people ended up in jobs they had no experience in, and in some cases no aptitude for.

The new head of Administration, now in charge of both Sales and Merchandising, was a man nearing retirement, who had been in the sales yarn business all his life. Yarn was a part of sales that was a quiet operation with little movement and change, but the new Vice President did not object to this arrangement. The result of this structural change was to create two factions, merchandising and marketing, who were so involved in infighting they offered little resistance to balance off the Manufacturing Department. Manufacturing would continue to emphasize the cost of goods rather than their desirability to consumers. The new Administration Vice President was not attuned to the changing emphasis in marketing and so saw no need to get across to Manufacturing that it would be cheaper to incur higher costs and produce a desirable product than to produce something that could not be sold. The desired effect of giving greater emphasis to selling did not happen, but rather there was a reverse effect - sales continued to decline. The situation was in fact worse than before the restructuring.

The Woods Gordon experiment nearly sank the company. Morale went even lower. For the organization, the early 1950s was the worst period, internally, as well as in performance, in its history. "The whole experiment very deeply upset everyone in the organization."[25]

The Sales Department was already demoralized before the Woods Gordon changes. In the year and a half before, it had seen four Sales Department managers die unexpectedly. Then the new head of Merchandising died, causing a further loss of continuity and expertise.

Following the fiasco Blair Gordon asked people he knew at Dan Mills what was needed. They recommended that additional high quality supervisory staff were needed. As a result, in the early 1950s Dominion Textile recruited a number of Americans, including Julian Cummings and Don Johnson into the manufacturing operation. Johnson would later return to Dan Mills and become its President. There was conflict between the Canadians and Americans. The Americans assumed the Canadian market worked on a very similar basis to the U.S. market. The Canadians had to explain and defend the differences betwen the two markets.

Dominion Textile believed its efforts in competing with American mills were thwarted because of economies of scale. They argued that even the largest American textile companies such as Dan Mills could specialize in certain segments of the market, and achieve economies of scale and high volume. The Canadian market was only one-tenth the size of the American, greatly reducing opportunities for volume production. A Canadian company had less than 50% of this market, the rest went to imports. American companies served 90% of their domestic market. Thus Dominion Textile believed that as the largest Canadian textile company, they had to serve as many Canadian market segments as was financially possible in order to keep business. They were competing against imports from all the American mills. This required a flexibility on the part of Dominion Textile in offering goods to these many segments, that its U.S. counterparts did not need.

Dominion Textile had mills with specific technologies and work processes already in place. In order to respond to a changing, dynamic market, differentiation needed to take place. Dominion did not have in place managerial expertise, a development process, or a capital plan to differentiate., while at the same time integrate. The result was that economies of scale were perceived as based upon existing production facilities, and technology. Alternative strategies of marketing (buying what one needs from others) were not viewed. The result was a confusion as to how value is added. Domtex was uncertain as to in what segments of the market it should risk investing. Nor did it have a marketing segmentation strategy. It longed for the security and comfort of the past. It had not learned how to survive as an independent, strategy-making company. Dominion Textile's past successes were making it difficult for the company to change to something new.

5.9 THE POSTWAR RE-TOOLING INITIATIVE

In 1945, the company was comprised of seven grey mills, two converting plants and a rayon mill, all in

Quebec. The equipment they had was run-down and uneconomic. At the same time they were very short of managers to plan and supervise the work.

The company had planned to build new plants and buy new machinery when the war ended. But in 1945-1956, the cost of both were high so they decided to wait a year for the prices to come down. Talk of new mills was quickly put aside. Planning, and placing some machinery orders however, began before the war ended. As late as 1948, textile machinery was in short supply, with delivery more than two years after the machinery order was placed.

Dominion Textile reacted to this environment by repeating the 1905 strategy. The company decided to model their plants on the technically efficient American mills, and to concentrate on lessening their manpower needs. The policy was not to expand or acquire new plants, but to concentrate on the existing seven grey mills and two converting plants already in operation. The new plan was to modernize each mill, starting with the largest plant at Magog. Most of the machinery in the mills until the end of the war was English-made, but after the war the British did not bring out any new machinery and the company bought American machinery, particularly looms.

The first step was to expand the Engineering Department. Attention was then turned to the more critical points in the manufacturing operation. During the war the company had been forced to buy millions of yards of grey goods for converting purposes, so the Magog Print Works could keep pace with its designed capacity. The company's first priority was to become more self-sufficient in weaving its own grey goods for finishing. It was the old strategy of: If you don't know what to do, repeat what you have done in the past.

But difficulty in obtaining equipment from textile machinery makers greatly delayed the renovation program. In 1946, capital expenditures were down, even from 1945. The mills were hard put to maintain production. It was not until 1948 that some new machinery was available for a physical overhaul of the Magog, Mount Royal and St.Annes plants.

During the war, it had been decided that postwar finishing operations would be concentrated at expanded facilities at Magog and close to the Colonial Bleachery in Montreal. Magog, the principal operation was the first to be renovated, at a cost of over $5 million. Between 1946 and 1949, a new building was constructed, the entire plant was air-conditioned, and new looms, spinning and carding machines were installed. The looms were new high speed American models, capable of turning out over a million yards of print cloth a week.

A major addition was made to the St.Annes yarn mill and considerable work on the Mount Royal Mill to modernize the machinery and operating conditions. The new Dominion-Burlington Mills Ltd. started production in 1946.

in the old Rayon Division of the Sherbrooke Branch. Later, it took over the former Colonial Bleachery which was renovated into a finishing plant. In 1951, a third unit was built in Sherbrooke to weave filament rayon in order to leave the other Sherbrooke plant for the manufacture of fabrics. The old Hochelaga Mill, built by Victor Hudon in 1873 was beyond renovation and was closed in 1953.

During the war, the Drummondville Cotton Co. Ltd. subsidiary had become a complicated affair, spawning subsidiaries of its own. In 1937, a partnership was arranged with the John S. Brooks Company of Dunville, Ontario - a company that wove nets for fishing on the Great Lakes, especially Lake Erie. In 1946, when John S. Brooks decided to retire, Drummondville Cotton bought him out. Following the war, the demand for nets was greater than the supply. But by the early 1950s the netting business was wiped out when the lamprey eel virtually destroyed the Great Lakes commercial fishing industry. The John S. Brooks Ltd. subsidiary was finally closed in 1963, long after it had ceased to be profitable.

In 1950, Drummondville Cotton bought another subsidiary, Bluenose Netting Co., an American company with a State of Maine charter, which acted as a warehousing and distributing agent for Drummondville twines and netting to the Maine Coast fishing industry. Within a year the operation was in difficulty because Canadian goods entering the U.S. were subject to a 25% to 30% duty. In 1950, a 10%

lower Canadian dollar had made the operation viable. When the Canadian dollar was at par, or above the U.S. dollar, the operation was not viable.

Two new subsidiaries were added in this period. In 1949 Domtex bought a substantial interest in Caldwell Linen Mills Ltd., Iroquois Ont., a manufacturer of terry towels. In 1950 it became a part-owner of Tre-mont Worsted Mills Ltd., which began manufacturing that year.

Between 1946 and 1952, Domtex spent over $22 million on capital account, mainly for replacement or modernization of existing equipment and buildings, and only a very small proportion for expansion. 1952 was a most difficult year. The mills operated at far below capacity. Despite curtailment of production, inventories of manufactured goods increased sharply.

The postwar period was one of contraction for the Canadian textile industry as it steadily lost its market share. Dominion Textile survived, while several of its major competitors such as Canadian Cotton did not, mainly because of its careful, methodical attention to its equipment and emphasis on productivity. However, in the face of a changing dynamic environment, the efforts of Dominion Textile from 1946 to 1952 repeated the same strategy adopted in 1905. In an effort to create viability and growth, it created an increased productive capacity without being sure of its goals, markets, domain, and future. This inability to do strategy before creating a productive facility almost ruined the company. It created an organizational structure built upon technology, mills, and processes, which oriented its strategy towards mass prouction of a limited variety, while the market wanted differentiated products and high variety.

PRODUCTION AND SALES

In the postwar world the company's sales were in five main products: yarns, industrial cloths, household cottons, colored fabrics and rayons. Yarns were sold mostly for further manufacture. Industrial cloths, a large part of the company's output, were sold mainly to industrial bag manufacturers, and also to rubber goods, oil cloth and window shade manufacturers. Household goods, sheets, pillow cases, towels, bedspreads and cotton blankets, were sold through wholesalers or directly to large retail stores. Colored fabrics were sold to manufacturers of women's dresses, shirt and childrens' wear, sports wear and draperies. Rayon sales were confined to lower and medium priced women's dress manufacturers. After 1946, through the Dominion-Burlington venture, the field of fabrication and distribution opened up considerably.

After the war the unusual wartime market conditions continued for a short period of time. In order to ease the change from a wartime economy the textile industry remained on allocation until 1948. The Sales Department did not have to sell. Customers came asking for goods and were given their allocation of civilian-type fabric as if it was a routine operation. In 1946 the mills were hard put to maintain production of goods at the highest volume possible. The limiting factor was the supply of skilled and unskilled workers. In the post-war world, hungry for consumer goods, the Canadian market was ignored by foreign producers. The government sharply restricted the company's exports and allowed it to make only token shipments to its regular pre-war foreign outlets.

Quite suddenly, in the spring of 1949, a recession in the U.S. brought a sharp reflection in Canadian orders. By 1950 the company's order book was sharply down. The under-supply conditions of 1940-48 were dramatically reversed to over-supply.

The drop in orders was also closely linked to the end of government controls in 1948. The Marketing Department, particularly in the Print and Coloured Goods area was in poor shape. Along with several unfortunate deaths in the managerial ranks, there had been a period of about eight years when volume production was the major goal. The lack of the necessity for using ingenuity created severe problems in the sales area. The necessity to return to manufacturing volumes and routines demanded by a normal peace-time economy brought about many problems in the Manufacturing Department. In addition to the two sets of problems there was plenty of scope for great difficulties in operation.

The situation was further complicated by weak leadership in Marketing and very strong leadership in Manufacturing. Dominion Textile brought in several Americans to the Manufacturing Department, and in the late Forties brought in two Americans with a sales background. One was named head of the Print and Colored Goods section and the other concentrated on Household Cotton. They had difficulties in adopting to the Canadian market and to the company's systems, but gradually became effective in their fields.

The American problem was adjusting to the small size of the Canadian market. In the U.S., if a company wanted to enter a new line it could get into it in a big enough way to make it profitable. In Canada, with the much smaller market, style goods in particular are a treacherous market. Canadian producers cannot support all the style demands of garment manufacturers. To do this would mean having only a few looms on a design. Yet people, no matter what price they pay for clothes, want them to have style. If a Canadian company attempted to meet all these demands it could not attain efficient levels of operation. Many of the style lines were unprofitable.

In the late 1940s, as the company was adjusting to peace-time production, productivity was the major focus. After the war, labor legislation reduced the work week to 40 hours. In the booming Canadian economy workers refused multiple shifts, and the company abandoned the night shift. A bonus system of pay was gradually introduced to try to get higher productivity per worker. Dominion Textile was a Canadian leader in incentive plans based on performance and on work measurement programs. Implementation of and adjustments to the program continued into the 1960s. It raised a series of problems with labor. Management, in getting the manufacturing facilities into higher efficiency levels was very consious of maintaining its right to make changes in assigning tasks. Its continued ability to make these changes was always a prime issue in labor negotiations. Employees systematically resisted wage incentive bonuses to increase productivity. In Blair Gordon's view: "Union tactics helped to bring about the decline of the New England textile industry and can do it here too."[26]

Dominion had very few problems with unions during the war, although most employees were covered by labor contracts, some with the United Textile Workers of America, and others with the National Catholic Federation of Textile Syndicates unions. Disputes were around such issues as an employee's right to miss work on a Church holiday. The company policy, since all its mills were in Quebec, was to give all employees the benefits of all Church Holidays except the Feast of the Epiphany, when they were allowed only time off to attend Mass.

In 1943 the government Conciliation Board recommended that Domtex recognize the United Textile Workers of America (A.F.L.), whose Canadian representative was Ken Rawley, in those mills which voted to join. By 1946, the UTWA and the company were adversarial. "Dominion Textile refused to negotiate with the union because of their intimidation of non-union employees and their refusal to allow independent auditors access to membership records needed by Mr. Justice Boulanger."[27] The company questioned the qualifications of the union leaders and blamed them for having instigated the first of a series of illegal strikes in September 1943.

The three Montreal mills were severely affected by strikes in 1946. The walkouts were legal, but some of the methods of intimidation used by the strikers were not.

In 1947 Rawley was imprisoned on charges arising from strikes in Valleyfield and Lachute. His wife, Madeleine Parent, became the UTWA acting Canadian director. In 1950, Rawley and Parent were denied credentials because of allegec communist sympathies by the Trades and Labor Congress of Canada. In 1952, after calling a strike against Domtex, Rawley was ousted as the Canadian director of the UTWA by the union's international executive. Rawley then formed a dissenting union, the Canadian Textile Council. He was arrested at the end of the 1952 strike at Domtex for trying to prevent workers from reporting to work. The new AFL-TLC Director claimed the ouster of Rawley and the signing of the new agreement ending the three month strike "had eliminated one of the bastions of the Communist trades-union strength in Canada."[28]

The 1952 strike was related to the control of the unions. Only after Madelaine Parent and Kent Rawley were removed by their own union and were replaced by Roger Provost and George Payette there was much less of an ideological type of conflict. The union became more concerned with bread and butter issues.

All plants had cafeterias where complete meals were sold at below cost. The plants also had first-aid rooms with full-time registered nurses and part-time salaried medical officers. Each plant also had a service club for recreation purposes and sports. At Magog the company owned the only sports arena in town, which was open to the townspeople. Each plant also maintained a company store selling the company products to employees at cost. The company pension plan, established in 1923, provided for retirement at age 65, with no contribution asked from employees.

In 1951 the company lost a large part of its yarn business, one of its major operations, to Far Eastern imports. Seemingly, over the Labor Day Weekend, yarn orders ceased. The yarn business had been the company's orphan. Yarn was produced in any weaving mill that didn't have enough business to keep their looms busy. The business would be switched every few weeks from mill to mill. Whatever the mills were running went to the Sales yarn section.

1951 was a difficult year. The mills operated far below capacity. Despite the curtailment of production, inventories of manufactured goods increased sharply. By 1952 the picture was even bleaker. "Our markets are being captured by sub-cost goods from American mills where high productivity has long been an established fact - and with union cooperation. If we hope to recover these markets we must at least try to match their effectiveness in economical production of quality matters."[29] Unfortunately there seemed to be no solution.

MANAGEMENT CULTURE

In 1950 Dominion Textile was very much a Canadian company. Over eighty percent of its common shares were held by Canadians, with most other shareholders in the U.K. and U.S. No individual owned as much as 2/3 of 1%. Institutions held 15.4% of the stock.

By the early 1950s Blair Gordon was becoming less interested in the operations of the company. Like his father he was a financier, not a businessman with an intense interest in the workings of the manufacturing or sales departments. By this time Gordon held directorships in about fifteen other companies. From 1952 onward he was Governor of McGill University, and President of four hospitals, the Royal Victoria, the Alexandra, the Verdun Protestant, and the Royal Edward Laurentian. Gordon was also a sportsman, with fishing, golf and tennis drawing his attention. Like his father, he was involved in Montreal social life and enjoyed evenings on the town.

The job of running the company fell on Ryland Daniels, whose interests were also similar to his father's. Both Daniels were manufacturing men whose main interest was in keeping the plants in excellent condition with the best machinery available. Ryland was a private person who in his time off would retreat to his country house near Brockville, Ontario.

Ryland also had his father's personal involvement in caring about employees. In the early 1950s, a long strike at the Magog mill extended into Christmas. Ryland Daniels suggested at a management meeting that money be made available to the strikers' wives and children. The idea was rejected by other executives, particularly the strike negotiators, because it would draw the accusation from the union that management was trying to buy off the strikers and that it might have the effect of prolonging the strike. Ryland accepted this reason, but went ahead with the plan. Through independent channels he had $10,000 sent through four or five hands, making it impossible to trace. The money reached three Magog priests to distribute in time for Christmas to the stikers' families. One parish priest eventually did find out the donor, and preached a sermon on Daniel's good character. The most telling aspect of the story, and of Daniel's character, is that twenty years later, when asked about the donation, he didn't remember doing it.[30]

As President Blair Gordon became less interested in the business, Ryland sought helpful advice from one of the directors, Sir Charles Dunning, President of Ogilvie Flour and head of the Seigniory Club. Dunning, a congenial and able man, had been Minister of Finance in the Liberal government of MacKenzie King. He had been defeated in 1930 and never went back into politics. He was useful to Dominion Textile because he knew many people in influential positions in Ottawa.

At head office, Gordon and Daniels, like their fathers, remained remote figures to most employees. Orders came down from the executive offices. Some junior managers such as Tom Bell considered conditions at head office stultifying. "If there had been a fire you would have had to call up to the top to ask permission to put it out."[31]

Annual meetings remained small affairs, held in the company offices, with 15 or 16 shareholders attending. Dominion's top executives continued to have few contacts with the market. The Marketing Department was in close contact with the changes in styling coming from New York, but there was little contact with the managment of American companies. Although it was one of the top ten textile companies in North America, Dominion did not belong to the American Textile Association as it had no American textile manufacturing company.

One is struck by the length of service of some company officers in the days before compulsory retirement. In 1953, John Peters retired as Vice President and General Manager of the subsidiary Industrial Specialty Manuf. Magog, after 63 years of service. Careers of 50 years were not unusual. Both C.P. Bishop (whom E.F. King replaced as General Sales Manager in 1953), and Sidney Webster the Purchasing Agent, served 50 years or more. Bill Donald, joined Dominion Cotton in 1895. In 1912 he was made General Mechanical Superintendent of all mills, a job he held until a few months before his death at 80 in 1944. This was common in all industries. People worked until they were sick or died. Retirement was not part of the culture.

Throughout this period Ed King continued to operate Domil (a much smaller operation) quite separately from the parent organization. The processing technology at Domil, particularly on the finishing side, was different from cotton processes. The lots were generally smaller, and the machinery somewhat different and required generally lighter handling of the fabrics. This made the requirements and the moods of the business different.

The management style that developed at Dominion-Burlington under E.F. King was different from that at head office, where everything was done by the book. When King took on Dominion-Burlington he was thoroughly familiar with marketing techniques, but he had not been in charge of a self-contained operation. King recalls that he learned on the job "how to give people enough scope so they could operate efficiently themselves and operate happily, so they didn't feel they were constricted too much." [32]

Tom Bell remembers King's leadership style as giving employees freedom to act. "We were allowed to make mistakes. When we made them we heard about them, but we were allowed. When I think back on it now - great."[33] As a leader King learned "it was a great lesson to me, that if you have a conviction in your own mind, due to your own experience, don't go against your absolute firm convictions, and it served me well later."[34]

During the war it was clear the Victoria Square buildings the company bought in 1920 were inadequate. After using every square foot of available space in the building and an Annex, additional space was rented in nearby office buildings for some departments. Shortly after the end of the war, land was purchased on Sherbrooke St. West, in a fashionable residential section, across from the Sulpician Seminary. But the company's priority was rehabilitation of the plants, and construction was deferred until 1950. It was hoped that the new head office building would give a sense of cohesion to the organization that had been spread around different buildings in the business district. In 1950, operations at head office badly needed a sense of purpose and unity. In the first few years of occupancy the very existence of the company was in doubt. This was at least a preliminary step toward cohesion, if only of physical proximity. In 1950 the company badly needed a cohesive policy as well, to face the onslaught of imports.

PERFORMANCE

For three years after the war, Canadian cotton goods were sold at below world cost and the companies subsidized to make up the difference. In 1947 for example, 95% of the company's output was sold at values below the cost of production. The federal government then paid the company the difference between manufacturing costs and selling prices, plus a moderate profit.

After seven years, price controls were removed on September 15, 1947, and the price of cotton goods in Canada returned to world prices. There was no sudden jolt for the company. U.S. and British suppliers still found the Canadian market relatively unattractive, compared to higher priced markets in other countries. The company continued to have excellent results throughout 1949. The major factor was the dollar quotas restricting the importation of U.S. goods into Canada.

Then in 1952, reflecting the tremendous loss of business to imports, the company operated at a loss. The performance figures clearly indicated that some radical changes were needed in the company's strategy if it were to survive.

SUMMARY

The wartime conditions of high consumer demand continued for Dominion Textile through to 1948, when wartime price controls were taken off. From 1939 to 1948 the manufacturing-financial orientation served the company well in its perceived social responsibility of doing their share on the home front to supply consumer and military wartime needs.

The marketing function which had developed slowly since the mid-1920s atrophied. Skills and attitudes which had gradually become increasingly important in the Twenties and Thirties were no longer needed in the sellers' market of 1939-48. Competition did not exist. Nor did product development and research.

The company's Old Guard of executives knew by the middle of the war that the conditions they would face in the postwar period would be very different. Since they were unable to predict what new directions the industry would take, they adopted the past strategy -- a reactive stance of wait-and-see. They felt the most obvious need was to replace the worn-out production facilities. This they began thoroughly and step-wise under the expert direction of a second generation, professional textile manager, Ryland Daniels.

In fact, few opportunities did present themselves, only problems. In the late 1940s, American mills began to export their over-production to the Canadian market, often at distress prices. The U.S. companies preferred to dump this excess, rather than dilute their own domestic market price. Canadian consumers welcomed the fresh American styling which they admired in American magazines. By comparison, Canadian producers offered uninteresting products and indifferent service.

In face of the onslaught Dominion Textile continued the 1905 strategy of seeking production efficiency in their existing operations. The feeling was that to survive the company must do what it had always done, be an up-to-date manufacturing operation, but now even more so.

Since textile technology is global, and was at that time a slowly evolving technology, productivity gains were sought in the increased efficiency of workers. Dominion's attempts to improve productivity were partly successful, and did help the company survive. But the cost was great. The drive for productivity clashed with union militancy.

In the late 1940s, Quebec textile workers became increasingly demanding, under the leadership of an avowed Marxist, the Canadian A.F.L. director Kent Rawley. Rawley rejected the company's requests for flexibility in promoting productivity. The labor situation became less explosive after Rawley was expelled from the union leadership. In these confrontations with workers, which extended into the long, bitter strike of 1966, the company executives gradually lost their sense of social responsibility towards their workers. The workers turned to union leaders to bargain for gains. Their attempts were successful. Quebec textile workers became the most highly paid textile workers in the world.

The growth area in the textile industry in the late Forties and early Fifties was the synthetic fabric rayon.

Blair Gordon and Ryland Daniels encouraged the company's efforts in synthetics, but turned the details over to Ed King, who had been head of rayon sales. A joint venture with the American giant, Burlington Mills, gave Domtex expertise and exposed it to the workings of a company already divisionalized. When the venture ended, through mutual consent, King became President of the rayon subsidiary, Domil.

Domil was not a very successful operation per se in terms of financial performance, but it was invaluable in other ways. The rapidly changing technology of synthetics provided an entrepreneurial training ground for two future Presidents, E.F. King and Tom Bell, each of whom would in turn, drastically change Dominion Textile. The experience gained in synthetics would later give Domtex the technical basis which would become predominent nearly two decades later.

The Fifties were the toughest time in the company's history. By 1953 Blair Gordon and Ryland Daniels had exhausted their repertoire of ways to deal with the postwar changes. In 1953, it seemed likely that Dominion Textile, along with its domestic competitors, would soon have to close operations.

FOOTNOTES

1 E. F. King, letter to author, Jan. 1984

2 J. W. Frederickson, and T. R. Mitchell, "Strategic Decision Process," (Academy of Management Journal, 1984, 27), p. 3

3 H. Mintzberg, The Structuring of Organizations, (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1979), p. 19

4 Shareholders' Minute Book, Blair Gordon, Annual Meeting, May 1941

5 Ibid. Blair Gordon, Annual Meeting, May 1945

6 Ibid. Blair Gordon, Annual Meeting, May 1943

7 Directors' Minute Books, Blair Gordon, Directors' Meeting, Sept. 1944

8 Canadian Textile Journal, reprint of speech by Blair Gordon, Magog Print Works, 1945

9 Shareholders' Minute Book, Blair Gordon, Annual Meeting, June 1940

10 Ibid. Blair Gordon, Annual Meeting, June 1940

11 United Textile Workers of America, submission to The National War Labor Board, Ottawa, 1945

12 Shareholders' Minute Book, Blair Gordon, Annual Meeting, May 1945

13 Montreal Star, May 29, 1945

14 Ryland Daniels, interview, 1981

15 Shareholders' Minute Book, Ryland Daniels, Annual Meeting, May 1948

16 *Ibid.* Blair Gordon, Annual Meeting, May 1943

17 Ryland Daniels, interview, 1981

18 E. F. King, letter to author, Feb. 1984

19 *Ibid.*

20 Tom Bell, interview, 1981

21 E. F. King, interview, 1983

22 Shareholders' Minute Book, Ryland Daniels, Annual Meeting, May 1952

23 *Ibid.* Blair Gordon, Annual Meeting, Mar. 1953

24 E. F. King, interview, 1982

25 W. F. King, letter to author, Mar. 1984

26 *Canadian Textile Journal,* Blair Gordon, Oct. 1950

27 Montreal *Gazette,* Feb. 8, 1946

28 *Ibid.* July 2, 1952

29 *Ibid.* Blair Gordon, June 25, 1952

30 Ryland Daniels, interview, 1981

31 Tom Bell, interview, 1983

32 E. F. King, interview, 1983

33 Tom Bell, interview, 1983

34 E. F. King, interview, 1982

CHAPTER 6

DEVELOPING A GROWTH PATH: 1953 - 1975

MAJOR STRATEGIC-STRUCTUAL COMMITMENTS

- Development of strong sales and functional units.
- Diversification through extension of dominance into new product lines within the industry.
- Evolve from functional to a divisional structure.
- Still socialized re product range - manufacturing for the Canadian market.
- Still relying on government and business ties for shelter.

Critical Events	Company Actions	Effects of Change
1953 textile industry over-capacity domestic market share 45%	Strategy: reshape company to face new market conditions; V.P. Sales: E.F. King	emphasize marketing effectiveness as well as manufacturing efficiency
dumping of low cost textiles in Canada	product divisions in Sales Department	change in management culture to professional managers
post 1954: heavy Japanese imports	new emphasis on sales, aggressive marketing	
failure of several large Canadian textiles firms	selected aquisitions: Caldwell (1957) Esmond (1960)	survive while several competitors fail
1957: government increases tariff, domestic market share 40%	1953-60 continue to refurbish plants, capacity the same: 1962: Pres. R. Daniels Vice Pres. E.F. King	plants technologically up-to-date

Technological development of polyester enlarges definition of textile industry	commitment to new technology, massive capital investment in 5 new plants to polyester & blends	mills state-of-the-art synthetic blends dominate sales
1962: GATT agreements, greater access into Canada by imports	1963: restructuring, more emphasis on product divisions in Sales Dept.	company performs well, heavy order book
1960s: union demands result in stiff negotiations	Labor Management Committee to discuss issues 1968: Pres.: E.F. King	better relations with unions
late 1960s: some industry experts predict knits will replace wovens	1969: buy Lana Knit to produce double-knit	double-knits a fad, then sales collapse
1970: Canadian government's natational textile, policy, J.-L. Pepin. Selective protection, restructure industry	interpreted as government acceptance of textile industry's decline; perceive company will stagnate unless changes in strategy & structure	short-term industry stability
new, specialized products developed in synthetic textiles	further diversify product line into new areas	expand product line, always textiles
specialized textile companies periodically offered for sale	acquires textile firms in growth areas; stay within own competency - textiles	buys companies in corduroy; duck, reject staple fibre production
early 1970s: declining Canadian market share in textile; developed countries; major competitor in synthetics, yarns; heavy clothing imports from developing countries	commission: Organization Study, 1970; Report: need to make company more adaptive to market by absorbing subsidiaries & become divisional discuss possibility of going international	company performs well 1970-75: gradual change to divisional structure 1972-2 divisions 1974-4 divisions wait for opportunity

The period 1953 - 1975 saw the development of Dominion Textile into a modern corporation. In this period Domtex took on many of the dimensions of a modern corporation, particularly a management culture which broke with the protective culture of the past, and which viewed the corporation itself, and its capabilities as responsible for its own future.

The management culture adopted by the organization had several major characteristics:

[1] marketing was viewed as a significantly different activity than selling ;

[2] the organization was perceived as more than a production unit;

[3] the responsibilities of managers were directed towards the organization's operations and totality, rather than relying upon the protectionism of traditional patterns to protect its existence. The organization looked to its own capabilities for its survival and growth. The Montreal-based managerial culture and systems of relationships which protected Domtex were no longer viewed as sufficient;

[4] the adoption of a view of looking to the market as a means to assure survival.

Early in 1953, Gordon and Daniels brought E.F. King back to head office, both as a director and as Vice President of Sales. King's return marked the company's reluctant acceptance of the changed postwar conditions.

King had long been an enthusiastic practitioner of agressive marketing. The Old Guard was admitting the conservative manufacturing orientation no longer worked.

King believed that what needed to be done was to adjust to postwar consumerism, and re-shape the company to meet the new market conditions. King was a contemporary of Gordon and Daniels, but his nearly thirty years of experience in synthetics, combined with his drive to do as well as possible, sparing no one, particularly himself, had attuned him to looking outward to the market for cues and directions. His approach contrasted with the closed, inward looking culture the manufacturing orientation had encouraged. The change to King's views was not however, a radical break with the previous managerial culture. At age 49, King already had 33 years of service in various departments of Dominion Textile.

The mid-1950s were painful years for Domtex. There were the inherent tensions caused by changing the structure from a centralized, inward-looking process, centered on manufacturing efficiency, to an open process of effective interpretation of consumer demands by grass roots sales teams. The crisis was serious - mainly competition from Japanese imports. Operating losses resulted. While there was resistance to the reversal of priorities, King was given the power to effect changes. His confidence in the way to survive was the beginning of a new organizational saga at Dominion Textile.

Through energetic actions, King established the saga that the executives of Dominion Textile were professional managers with the ability to take on whatever changes the environment dealt them. King became the role model, teacher, and mentor of the next generation of managers.

Through the measures advocated by King, Domtex survived through the Fifties, although it did not prosper. Many of its major competitors at the time in Canada did not survive.

6.1 STRATEGIC STAGES, 1953 - 1975

Strategy passed through several phases during the period 1953 to 1975. This expansion can be viewed as three evolutionary periods or progressions: the entry into synthetics, the building of plant capacity, and the broadening of capabilities by acquisitions and refurbishing of older mills to cover a wide product range.

This evolution was marked by three strategic stages:

[1] In the early 1960s it was clear to King and Daniels that synthetics would no longer stay the sideline they had been. Just to what extent the new generation of synthetics, especially polyester, would take over the market was uncertain.

[2] If Domtex were to become a large scale producer

of polyester/cotton blends, a massive capital investment would have to be put into new plants. Ignoring the old, closed mills of their defunct Canadian competitors, Domtex built five new mills.

[3] The third strategic stage, based on the re-furbished older mills, with the addition of the new blend mills, was the acquisition of small, mostly entrepreneurial firms, mainly in the new synthetics field.

By 1970, these strategies were reaching their limit. Dominion Textile remained the leader in textiles in Canada. Further growth would have to be in less profitable sectors. There were acquisitions which were proving unsuccessful and needed to be dropped.

The third strategy, of this period, was related to a very wide range of fabrics in a great variety of colors and designs. It remained in place from 1970 to 1975, but beneath the surface there was a gradual re-thinking of the "What Business Are We In?" question. In 1970, the year E.F. King became Chairman, succeeded as President by his protege Ron Perowne the Vice President of Marketing, Jean-Luc Pepin delivered the government's textile policy. These two different concepts of the textile industry were now gradually challenged by a third concept of internationalism, arising from the discontent of the new generation of senior managers.

The textile policy enunciated by Pepin was that textiles were a mature industry, if not one in decline.

Further growth was not to be expected, and would not be encouraged.

Within the executive ranks of Domtex this government view did not fit with the system of beliefs they had developed under E.F. King. At the same time, there was the company tradition of careful, conservative planning behind any action. These executives began a series of discussions that gradually evolved a complete re-working of the idea of the old firm.

The period after 1953 saw several changes whose cumulative effect resulted in a change to a new strategy/structure configuration as a response to the most severe crisis the company had faced. It appears the market forced Dominion Textile into becoming a marketing operation. However, it is the argument of this chapter that at the core of these changes was a fundamental shift in management culture. Chandler found that "most enterprises carried out their major structural reorganizations in the 1940s and 1950s."[1] He ties this change to changing technology and market demands. This is also true of Dominion Textile. It perceived that it had to redirect its marketing in order to be "light on its feet", to react quickly to the market. The fundamental basis of this change is the new perception, the result of a change in management culture, rather than of actions, technology or markets.

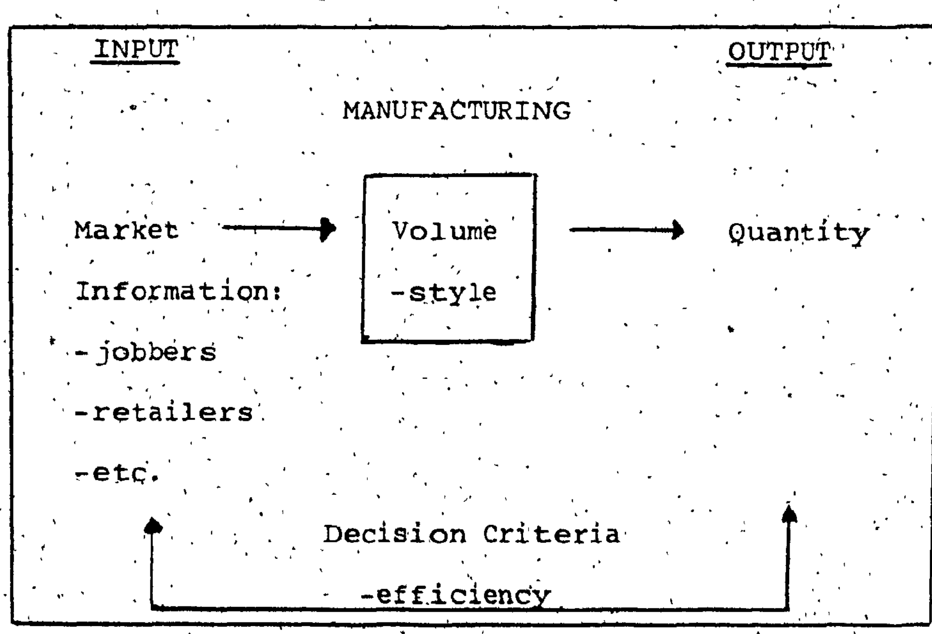
Domtex could not have responded to changing technology and market demands without a basic shift in values, beliefs, and attitudes brought by E.F. King. In order to respond to this new environment, a change in attitudes among managers needed to take place, traditions were broken, and a different perception of the world was required. King, as the President, moved Dominion Textile the 19th century anachronism, into the 20th century.

Strategy is a result, but not, as Mintzberg states[2] of actions, but strategy is the result of perceptions, goals, capabilities, capacities, aspirations, and managerial cultural value, and the responses which an organization takes to these variables. The period (1953 - 1975) was one of great changes at Dominion Textile. At the heart of the change was a new management culture which altered the perceptions and goals of the organization. These changes, in turn, resulted in a re-formulation of attitudes toward strategic decision-making, operational, and administrative systems. As a result of the change in management culture, the managerial and organizational capabilities of the company were enlarged. The tangible products of this redefinition of management culture were a series of new strategies, reflected by changing structures. An organization exists in the minds, hearts, and values of people. The period 1953 - 1975 brought about new beliefs about what Dominion Textile was and what it could accomplish.

Prior to 1953, strategy making could be viewed as a simple input, output relationship illustrated in Exhibit 6

- 1. The environmental stability for the decision processes related to maximization of output secured by tariffs, financial support by banks, tradition, and environmental systems relationships. Variations in output and market share were affected by business cycles, and tariffs or import policies. From 1905 to 1953 this simple model had been sufficient. It too had its own values; attitudes and beliefs derived from oral history, culture and traditions relating to the attainment of success.

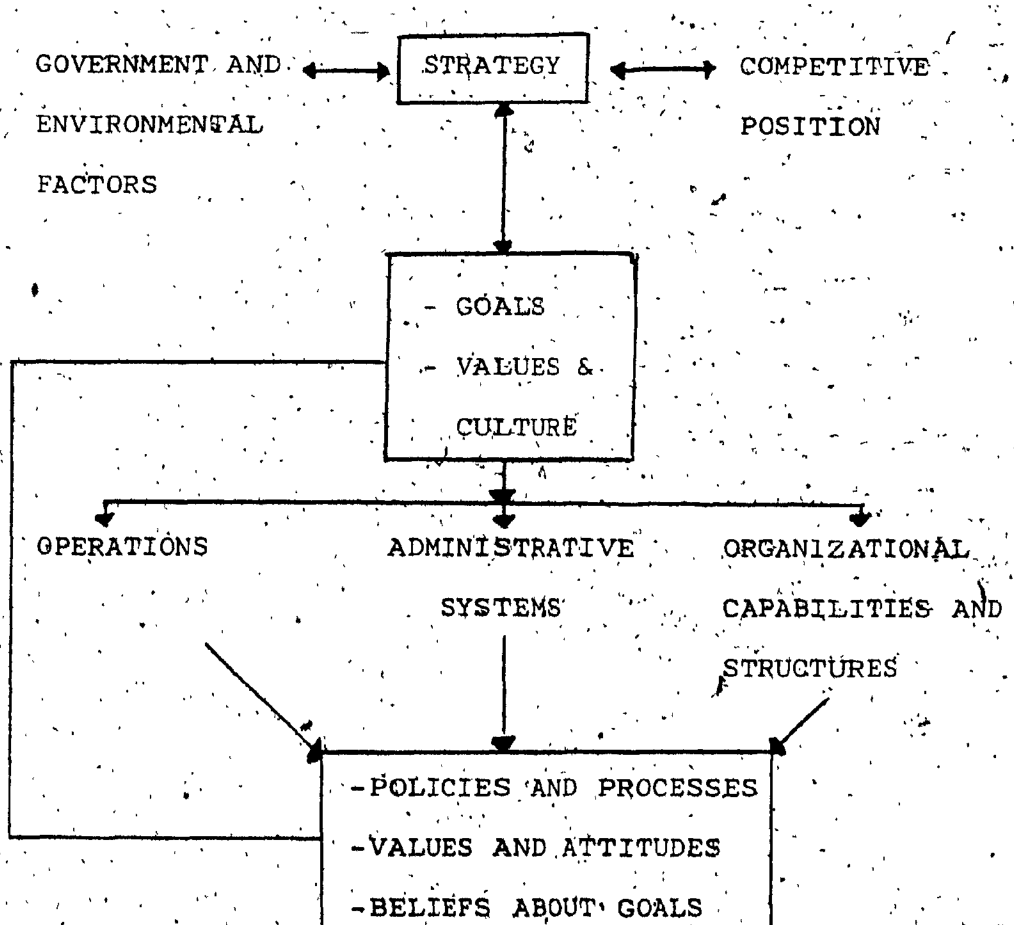
Exhibit: 6 - 1 STRATEGY MAKING PRIOR TO THE 1950'S



The environment which changed from being stable to dynamic, demanded choices. No longer could Dominion Textile, which had a dominant market share, avoid choices about products, domains, or competitive responses. The areas of choice moved from decisions about internal and operating processes, to include the nature of internal responses. In the 1953 world of uncertainty, Domtex could not rely upon traditions, or rational operating systems, but upon the leadership presented by E.F. King.

The strategic model which appeared to apply is illustrated in Exhibit 6 - 2. The need to make choices raised questions about goals, values, and managerial behavior ~~and~~ expectations. These would affect operations, administrative systems, and organizational capabilities and structures. The period 1953-75 were years of decisions for Domtex, which in retrospect saved the company and preserved the textile industry in Canada.

Exhibit: 6 - 2 STRATEGY MAKING AFTER 1953



6.2 INDUSTRY CHANGES AND STRUCTURE

The textile industry in Canada and abroad went through dramatic changes after 1953. This was due to major technological breakthroughs in equipment and facilities, the introduction of polyester, a chemical based product, and variable consumer tastes. The period saw the decline of "King Cotton", and the rise of chemically based fibres, especially polyester. These changes are examined in this section.

The Canadian textile industry, in the 1953-1975 period, continued to operate almost exclusively for the domestic market. The industry remained Canadian-owned, with 84% of capital being controlled in Canada, in striking contrast to 48% Canadian-ownership for all manufacturing and mining industries.

Industry concentration in primary textiles continued to increase during this period. Despite the large number of establishments, in some sectors of the industry, areas in which Domtex was mainly involved, there was an ever higher degree of industry concentration. Such concentration was essential for survival. On one hand, the Canadian product must satisfy customers, or forfeit business to imports. On the other hand, the scale of operations is much smaller than their competitors. Costs are directly associated with the size of the market.

In the 1970s, Dominion had only one other competitor in the sectors of cotton apparel fabric, sheets and pillowcases, and two competitors in towels and in polyester apparel fabrics. This concentration was a reflection of the importance of scale economies and the limited size of the Canadian market, or alternatively may also have been a reflection of the successful management of Dominion Textile compared to its Canadian competitors.

Despite the generally booming national economy in Canada in the Fifties, for the textile industry it was the worst decade in ~~the~~ entire history of the industry. Its small selective market called for highly diverse goods. The standard of living and manufacturing costs were almost the same as in the U.S., but with one-tenth the market. The protective tariff had been reduced by 36% since 1939. Canadian tariffs were the lowest in any manufacturing countries. This applied to all countries, including Japan. In 1957 the Canadian dollar was at a premium of 5% to the U.S. dollar, still further reducing protection.

In the early 1950s, at the same time the cotton textile industry faced over-production and low prices, there were new developments in synthetic textiles, until then dominated by rayon and nylon. The industry growth sector was in a newer generation of synthetics - Terylene, Orlon and Dacron.

The production of synthetic staple yarn was restricted by patents held by U.S. (du Pont) and U.K. (Courtaulds) firms. These firms set up branch plants to manufacture the staple or fibre in Canada. Because this was a chemical process, under patent, Domtex could not, and did not want to, integrate synthetic staple production into their operations.

Although production of man-made fibres is essentially a petro-chemical process, the establishments are considered part of the textile industry because polyester fibre is a reasonable substitute for, or additive to, cotton. In the production process the fibre is extruded as a filament yarn, which is then either chopped into staple fibre, or left in filament form. Staple fibres are spun into yarns by a different sub-sector (yarn spinners,) while filament yarns may be texturized in yet another sub-sector (texturizing or throwsters). The finished yarn is then woven or knit in the same manner as natural fibres, but under more exacting conditions. Domtex was unusual in that it operated in all sectors except fibre production.

1960 saw the introduction of several new products, of which polyester was the major one. Rayon could substitute for some cotton lines, but polyester was a reasonable substitute for many purposes. In the early Sixties the future of polyester was unclear. By the end of the decade, polyester/cotton blends would have a larger market share than cotton.

Starting up a blend operation was a considerable risk in the early Sixties. Domtex was the only Canadian firm initially to commit large capital amounts to this promising, but expensive, development.

The substitution of polyester cotton blends for cotton depends on consumer taste, which switches back and forth. Dominion Textile, through their U.S. contacts, knew of the danger of specializing in only one segment of the market. Dan Mills, which specialized in yarn dyed cottons was caught in these swings of taste during the Sixties and suffered considerable losses.

Polyester fibre radically changed the textile business. Its manufacture into textiles required new machinery, buildings and production techniques. The production of synthetics requires strict tolerances for temperature and humidity. New factories had to be built with expensive air conditioning and humidifying systems to meet these demands.

In the 1950s and early 1960s, cotton accounted for 75% to 80% of all fibres used in Canada and the U.S., with the rest being mainly rayon and wool. In the late 1960s and early 1970s these figures changed dramatically. By the mid-1970s the proportions were polyester 65%, cotton 35% and wool 1%. In 1982 the figures were 75% polyester and 24% cotton. Wool and silk accounted for about 1% and linen's share is miniscule. The total fibre industry employed 2.5 million Americans and 200,000 Canadians as chemists, physicists, computer scientists, engineers, designers, production workers, salespeople and marketers, as well as thousands more semi-skilled workers. One percent of the country's 1982 national gas and oil consumption was used for this production.

The wide-scale use of synthetic and blend fabrics after the mid-1960s further concentrated the Canadian textile industry. The limited size of the Canadian market was a significant barrier to entry to new firms, as was the required capital investments for new temperature and humidity controlled buildings. In 1970, man-made fibre installations required investments of about $300,000 per employee. Because of the different natures of cotton and man-made fibre manufacturing there is little integration between them anywhere in the world, and Canada is no exception. Yet the high demand for cotton/synthetic blends makes it preferable for a large company to integrate the processes, because of the high capital costs and risks involved.

Synthetics provided opportunities for entrepreneurs to form companies to produce new specialty products, making innovative use of synthetic fibres. This fragmented group of industries went through a shake-out period in the early Seventies. Many of the firms closed, or were bought out by larger firms, including Dominion Textile, which picked the firms it felt had the best growth potential.

The late 1960s saw the implementation of several new textile technologies resulting in another rapid rise in the world production of man-made fibres, especially those derived from petrochemicals, at the expense of cotton.

Particularly notable was the sudden surge in the popularity of double-knit fabrics, which occurred in 1971/72, creating a very heavy demand for the specialized equipment to produce them. Many supposedly knowledgeable people in the industry predicted that double-knits would soon replace woven fabric as the major type of cloth in use. Textile producers faced the dilemma of investing in the expensive, specialized double-knit machinery, by getting in on the ground floor, or holding off on the investment until the new product stabilized. Delays would perhaps result in missing out on this growing sector of the market, to be left as producers of traditional goods which were in little demand. Problems with the durability of the double-knit finish caused a sharp drop in consumer demand in 1972. Several companies which had made heavy investments in knits, such as Dan Mills suffered heavy losses, others such as DHJ (an American textile producer acquired by Dominion Textile in 1975) were forced into near bankruptcy.

The textile industry continued to follow cyclical fluctuations. An excessive world-wide expansion of production facilities in the early 1970s led to over-capacity, especially in the capital-intensive areas of man-made fibres and yarns. The textile industry is a leading indicator, leading the economy into a downturn and heading everyone out of the trough. The yarn business is the leading indicator of the textile industry.

The 1973 Oil Crisis caused dramatic changes in the world textile markets because of high prices and shortages of synthetic staple fibre, fuel and dye stuffs. Added to this was the devaluation of the dollar, and the spiralling cost of raw cotton. "The cumulative effect of these factors in world markets has been to remove price as the primary consideration and to substitute supply and continuity of supply as the first requirement. It would appear that for the first time in memory, most of the main components of the textile industry are in short supply, rather than chasing the customer at distress prices as had been the experience of the past."[3]

The Oil Crisis resulted in increased sales for Canadian textile producers. As with many other products and commodities, the prices of imported textiles and garments increased sharply as a result of successive currency revaluations. Unforeseen shortages, and uncertainty of supply, at any price, impelled many manufacturers and retailers who relied substantially on imported goods to seek alternative sources of supply, presenting new opportunities for domestic manufacturers with the capacity and flexibility to meet these drastically changed patterns of demand. The industry returned to previous conditions for the rest of the decade.

SOCIETAL

Societal pressures on the Canadian textile industry increased enormously between 1953 and 1975. Firms faced increased operating constraints from three major sources:

(a) internationally through the General Agreement on Tariffs and Trade (GATT), (b) a growing involvement by the federal government, and (c) from unions.

Government involvement in the form of special measures of protection for the textiles sector began in the late 1950s when Japan voluntarily undertook to limit its exports to Canada for certain textile products. These export restraints were formalized through bilateral negotiations in 1960, covering some textile sectors. In later years, other low-cost countries and products were made subject to such restraints.

In September 1957, in response to industry agitation over their 45% market share, the Minister of Finance, Donald Fleming, directed the Tariff Board in September 1957 to study and report on textile tariffs.

The government's position was that textiles were a mature industry and that growth would not be encouraged. The Clothing and Textile Board, an independent body set up by the federal government summed up this attitude. "During the twenty years since 1960, Canada has followed essentially a selective policy regarding limitations on imports from developing countries. Restraint agreements were concluded on a product by product, fibre by fibre, and country by country basis. This approach did not guarantee the domestic textile industries specific shares of the Canadian Market. The industries have been encouraged to concentrate on viable lines of production and to phase out the product lines which have the least opportunity to become competitive. The basic aim of the policy was to promote productivity and efficiency, and to assure a more orderly and stable development of Canadian textile and clothing markets."[4]

The recommendations of the Tariff Board's Report were a disappointment to the industry, which had gone to great trouble to explain the problems which they were facing, and for which they were seeking government assistance.

Despite this less than encouraging climate Dominion Textile, continued to make capital investments, but with some trepidation. Ryland Daniels told shareholders in 1960: "In the area of decision-making we are uncomfortably consious of the political climate in Canada for secondary manufacturing in general and for textile manufacturing in particular. Canada today, unlike all other important textile manufacturing countries offers little encouragement for subsistence, let alone growth."[5]

In 1962 Ottawa subscribed to the Geneva Agreement of GATT which gave greater access to certain markets for textile products from developing Asiatic and other low-wage countries. Following several years of import containment and small reductions, cotton imports in 1964 increased by 21%, setting a new peak in absolute quantity and absorbing just under 50% of the total Canadian market for cotton fabrics. Imports from Asian and Communist-block countries advanced sharply (35% and 69% respectively above 1963) and now accounted for almost 40% of total Canadian cotton textile imports. Government policy permitted this continued erosion.

Prior to 1970, the involvement of the Canadian government in the textile industry was limited in comparison with other importing countries. The Canadian market remained one of the most open in the world to import penetration. The industry's long-term prospects were being gradually eroded by imports, particularly from low-cost countries. These imports entered Canada at substantially lower prices than comparable Canadian products, in some cases below the domestic producer's average variable cost.

The first Multi Fibre Agreement (MFA) in cotton textiles was made in the mid-1950s when the impact of cotton exports of the emerging nations, Japan, Korea, Taiwan, were cutting into American and Canadian markets. Dominion Textile, as Canada's major producer, led the attempt in trying to have the same rules of the game from the Canadian government as the U.S. textile manufacturers got from their government. The efforts were to no avail.

In 1967 the Long Term Textile Agreement was renewed for three years. Canada, one of 30 participants, agreed with the basic concept of orderly expansion of exports by developing countries. At the same time, importing countries were given the right to restrict imports from any one country to a stated reasonable percentage of increase against those of a selected base period. The U.S. used these agreements to protect 90% of its market, Canada protected 50%. As more of the developing countries began exporting low-cost textile products to the Canadian market, the domestic industry claimed that the lack of firm government policy to deal with these problems created a climate of uncertanty in the industry, resulting in disruption and dislocation, which undermined further investment in expansion, modernization or restructuring, necessary to deal with the increasing import penetration.

Internationally, the long term agreement reached by GATT in 1967 was extended a further three years, but did not cover man-made fibres, as had been hoped, despite the increasingly significant portion of world trade in these fibres. The Canadian market was virtually wide open to foreign competitors, while at the same time, Canadian producers faced restricted opportunities in export markets.

6.3 INCREASED GOVERNMENT INVOLVEMENT IN THE INDUSTRY

From the late Fifties on, strategy making at Dominion Textile began with an analysis of the government's intentions. Domtex President, Ryland Daniels, commented on the change in 1967. "Government has come to be referred to as a silent partner in the world of industry and commerce. There is no question of its participation in business affairs in many and increasing ways. More subtly, government participates in business to the degree that its regulations and policies encourage or inhibit success. This creation of a national climate has become the principal determinant of whether Canadian business, individually or collectively, shall do well. The question seems to be: Just how successful does government want Canadian business to be?"[6]

Daniels was disturbed because the government now took 1/3 of the business revenue as taxes. "While this creates the second highest living standard in the world, it is not matched by productivity gains. Can this country build its economy to true greatness when it is taking out of the economy one-third of its annual product? It is admirable to strive to match or better the living standard, the national affluence, of older, larger and stronger nations, but how will this nation grow to full stature if, speaking in business terms, it is creating an overhead that will choke its own progress?"[7]

To point out the need for a government textile policy concerning imports, a joint committee of the Confederation des Syndicats Nationaux (CSN), the United Textile Workers Union of America and the Canadian Textile Institute, submitted a brief to the Federal Government in the summer of 1968. The brief indicated that for the industry to plan more effectively and fulfil its role, it was essential that a policy framework be established to replace the temporary expedients relied on in the past to correct the abnormal import situations. The government responded by directing the Department of Industry, Trade and Commerce to conduct another study of the problem and submit recommendations.

In 1970, the Canadian government introduced a national textile policy for the purpose of creating conditions in which the Canadian textile and clothing industries could continue to move toward viable lines of production, on an increasingly competitive basis internationally, by providing some measure of protection. This was based on a world-wide review of the textile industry by an American consulting firm, which made comparisons between the efficiency and the capital expenditures, etc., in the Canadian industry vis-a-vis other industries in the world. The report, which the government accepted, recommended increased protection for the industry in some product lines, but generally designated textiles in Canada as a "sunset" industry.

The government policy was at least in part, politically motivated. The industry was mainly centred in Quebec, and the Liberal Party's hold on power was dependent on its Quebec seats, and thus Quebec votes.The federal minister Jean-Luc Pepin saw his policy as being designed to save the Quebec textile industry, the largest employer in the province.

The policy, however, precluded the use of protection to encourage the maintenance of lines of production which the government deemed had no prospect of becoming viable in the future. In 1971 the government created the Clothing and Textile Board in order to improve procedures for detecting and preventing dumping and evasion of quantitative restraint agreements, and to provide technical and promotional support to the industry.

While the government may have seen this policy statement as a stabilizing influence to help textile companies with their long term planning, Dominion Textile interpreted it as a signal that textiles were regarded as a declining industry, and that the government accepted this decline. For Dominion Textile this policy statement provoked the most radical change in the company's strategy and structure in its history.

The Textile Policy did have a short-term stabilizing influence on the industry. By 1973, Domtex President, Ron Perowne felt: "As the principal instrument for the implementation of the policy, the Textile and Clothing Board has been effective in restoring a certain stability and confidence to the Canadian textile industry."[8] The longer-term survival of the industry as it existed was however doubtful.

The federal government headed the textile industry's pleas and became involved in training textile workers. The Canadian Textile Institute was founded in 1917 through the initiative of Frank Daniels. Its original aim, not achieved until after World War II, was to establish textile institutes to give Canadian technicians the training textile companies then had to import from Europe and the U.S. In 1954 the first graduates of technicians from the Textile School at St. Hyacinthe and the Provincial Institute of Textiles, Hamilton, were the beginning of a steady flow of technical talent. Even at that late date, because of the poor church-run educational system in Quebec, Domtex had many foremen who were fine mechanics, but who could barely write because of their lack of formal education. Before the technical schools, many of the foremen in the mills had mainly been English-speaking, and the shop floor peronnel French-speaking. The new schools assisted in developing a French-speaking supervisory group.

The Canadian Textile Institute, in addition to its original mission of technical education became, to a great degree, a lobbying and contact operation. As government involvement, nationally, and through international regulatory commissions grew, the Textile Institute gradually changed from a dinner-meeting, fraternal organization, into the lobby group of the industry.

DOMESTIC COMPETITORS

Several large domestic producers closed in this period, notably Canadian Cotton, Canada's second largest textile company, which ceased operations in 1959. Canadian Cotton went out of business, in part because it had not kept up its capital investments in the best equipment available, but primarily because it was acquired, and then dissolved, for its large non-contributory pension fund. Since the workers had not directly contributed to Canadian Cotton's pension fund, it belonged to the company. The company was bought by a group of investors led by Walter Gordon, who disbanded operations and kept the pension fund.

6.4 INTERNATIONAL COMPETITION IN THE CANADIAN MARKET

In spite of the well-meant amendment to the Customs Act in December 1953, dumping of below-cost textiles from the U.S. continued unabated. Ottawa agreed their efforts to prevent dumping had not succeeded, and the Canadian textile industry was left exposed to the vagaries of the U.S. economic situation. The government agreed that an industry which had only 50% of the domestic industry could not be considered a protected industry. Behind the wave of U.S. imports there now loomed another threat to Canadian domestic producers.

By 1954, Japanese goods were starting to replace imports from the U.S. and other countries. The Japanese trading practice was to concentrate on one section of the industry at a time, until that specific market was captured. Other manufacturing sectors would learn this technique, first-hand, ten or fifteen years later - in products such as electronics and cars, but in the 1950s one of the areas of Japanese effort was textiles. Japan in 1958 for example, concentrated on flannel shirting and virtually wiped out that market for Canadian producers. Japan was also able to get around quotas on fabric by exporting manufactured cotton garments. By the late 1950s, Japan's exports were so high, that at the urging of the Canadian government Japan initiated a voluntary program of quotas on certain specified areas, followed after 1963 by a more formalized quota agreement.

This type of export drive was not unique to Japan. In 1960, for example, Portugal and Israel entered the yarn market. Canadian producers were caught by a sudden and unexpected quantity of the lower-priced imports.

By 1957 the market share for Canadian producers had fallen to 45% of the domestic market, from a prewar share of 70%. The greatest volume was from the U.S. mills, but Japan and India also had an important share. In that year, Finance Minister Donald Fleming introduced his policy of selective limitations on imports to stop the erosion, but not to restore markets already lost.

Following several years of import containment and small reductions in the early 1960s, total cotton imports increased by 21% in 1964, setting a new peak in absolute quantity and absorbing just under 50% of the total Canadian market for cotton fabrics. In 1964 imports from Asian and Communist block countries advanced sharply (35% and 69% respectively, above 1963,) and together accounted for almost 40% of the total Canadian cotton textile imports.

During the 1960s, and prior to the introduction of the Textile Policy in 1970, the volume of imports of all fabrics and related products reached 38% of the Canadian market. By 1976 this had risen to 50%.

In the 1970s the competitive picture underwent further changes. The Canadian Textile Board reported in 1980: "There have been significant changes in international trading patterns over the years. Prior to the 70's, developing or "low-cost" countries concentrated their export efforts on cotton yarns and fabrics, whereas their current exports concentrate far more heavily on made-up items of apparel. During the 1970s, developed countries, notably the United States and the E.E.C. countries, emerged as major suppliers of man-made yarns and fabrics to world markets. Over the same period, Japan has largely lost its competitive position as a "low-cost" producer due to an appreciation of its currency accompanied by a sharp increase in wages and other production costs, such as for energy and raw materials."[9]

The Arrangement for International Trade in Textiles (ITA) concluded January 1, 1974 led to some liberalization of the world's textile trade, but did not prove adequate to deal with the problems of international textile trading. As a result, there were changes in international trading patterns. The most significant change for Canada was that before 1970 developing or low-cost countries concentrated their export efforts on cotton yarns and fabrics, in the 1970s their exports concentrated heavily on clothing. At the same time, developed countries, notably the U.S. and EEC, emerged as the major suppliers of man-made yarns and fabrics to world markets. In the same period, Japan largely lost its competitive position as a low-cost producer.

International competition tended to specialize in long-run lines, forcing domestic product-line diversification and higher costs. Import competition also put pressure on Dominion Textile to expand its style line, which added to inventory problems and manufacturing intricacies. This was brought about largely by the increasing pressures of competition from Asiatic and Communist Block countries. These countries penetrated into a few staple, long-run markets available in Canada, and forced the Canadian primary textile industry to further fragmentize their operations.

Canadian mills also had a difficult time competing because Canadian wages were higher than American textile wages. Equipment needed to be used over a range of goods instead of being specialized, and production runs were smaller. The Canadian textile industry had invested a greater amount of capital per production worker. Statistical information from the Annual Census of the U.S. Department of Commerce and Statistics Canada confirms that the value of plant, machinery and equipment per production worker is substantially higher in the Canadian industry.

The textile industry has always been global. Until World War II, the Canadian government, in view of the large numbers of workers employed, deemed the industry as valuable and needing protection. After the war the industry was judged to be in decline, an out-moded manufacturing operation that would be allowed to survive, but not to grow.

The environment Canadian textile companies have faced since the war has been hostile and open to world competition. Most large Canadian operations closed, or managed to survive as struggling specialty operations. The exception was Dominion Textile. In 1953 it was the leading textile company in Canada. At the end of this period, in 1975, for all intents and purposes Dominion Textile was the textile industry in Canada. How it attained this position can be analyzed in terms of its President, E.F. King.

6.5 THE KING ERA

It was apparent to Blair Gordon and Ryland Daniels in 1953 that the Woods Gordon applications of 1949, the series of deaths in the Sales Department, and the very strong Manufacturing Department management, created a situation in which there was a strong possibility that the company would fail. They knew that major changes needed to be made. Unsure of the direction to take, they selected E.F. King as Vice President and director, and gave him power to act. The return of E.F. King to head office in 1953 was a signal that the company would make the radical break from a top-down manufacturing orientation, to a from-the-bottom-up consumer-driven strategy. Later, a second major event would evolve after 1970 when it was decided to go international and to divisionalize the structure to deal with this.

Of all the events in the history of Dominion Textile, the one that company executives, in the 1980s, choose as being the most important was the return in 1953 of E.F. King to head office from the subsidiary Domil.

Ryland Daniels recalled the dearth of management in the company in 1953. "We had nobody left at Dominion Textile, except Johnson, who didn't last long, and old Mr. [Bill] Donald as the Chief Engineer. [Don Johnson rose to become head of manufacturing, but returned to the U.S. to join Milliken, and later Dan River, where he became President in 1977 and Chairman in 1980.]"[10]

King, in interviews, insists on downplaying the changes he instigated. In 1983, thirty years later, he explained away the changes he made as ones "anyone in that position would have made. I didn't make them alone. I had a lot of other guys helping me."[11]

The over-riding saga at Dominion Textile in 1984 among senior executives was that the changes King made saved the company, that King was the only man who could have done it. President Tom Bell, for example, says of this time: "He had the vision, and not only the vision, he was doing it by himself. Nobody else had the vision and believed that it could be done."[12]

The overall position of the company in 1953 was critical. After a long period of controlled production and very high demand, the sales department could not cope with the return to competitive conditions. The reorganization of 1949-50 had been a failure. The appointment of a man of long service, but limited experience outside of sales yarn, as Vice President Marketing, did not offer the strength and knowledge necessary to bring the Sales Division back to the competitiveness of 1939. The Marketing Division was split into two parts, Sales and Merchandising. The Sales Department was headed by a man of limited competitive sales experience. Merchandising was headed by a Woods Gordon man of no experience other than administration.

The Manufacturing Division was deeply entrenched and had strong leadership. Company policy was overly directed to the ideal that what was good for manufacturing was good for the company. Unfortunately, this was not always the case. The trade was not ready to accept second best in either quality or variety of fabrics and design. The situation was further complicated in 1953 by the death of the Merchandising Manager. In a series of tragedies, in five years, the five successive heads of Marketing had died suddenly. This unfortunately came at the same time wartime allocations were lifted and the Sales Division needed to be revived.

The company blamed their problems on the large quantities of U.S. goods coming in at distress prices from

Southern plants, which left Dominion short of orders. The tariff barely sufficed to redress the production costs, but not to make a profit. The problem of low-cost imports from Eastern countries made the question of tariffs and protection much more important issues. The company could no longer function on the manufacturing/financial nexus that Blair Gordon had inherited from his father. Gordon was basically a financial man who saw the industry as exclusively Canadian, operating behind tariff walls which the government found necessary to maintain in order to provide employment.

At the 1954 Annual Meeting President Blair Gordon was asked by a shareholder how long the company could be expected to carry on operating at a loss. Gordon pointed out that ceasing operations would mean 12,000 jobs would be lost, that "there is a natural inclination to carry on past the point where different measures involving radical changes in the conduct of business appear to be necessary." Gordon felt "we have almost reached that point in Dominion Textile, where unless there are changes, events cannot be delayed much longer." But he was loath to take action because: "The implications of such a step are so far-reaching and so fraught with economic consequences in many directions that even a prudent management can hardly be blamed for being reluctant to adopt such a policy."[13]

While Gordon and Daniels recognized the situation, neither had the background experience to bring about a re-alignment to the new market conditions.

E.F. King, as President of Domil Ltd., operated at arm's length from Dominion Textile, but knew the way things were going. He realized he had a good job and was very happy with it. King was very disturbed by the crisis in the parent organization. After much soul-searching, King decided to talk with F. Ryland Daniels, who was then Vice President and Managing Director. He outlined his view of the Dominion Textile position, and told Daniels: "I hate like hell to do this, but I'm going to make a proposition and believe me, I won't be hurt if you turn me down, because I'm afraid of what I might be getting myself into." Daniels asked what this was. King replied: "Look, I think I can pull this off. I'm willing to have a try at it, providing I go back as Vice-President of Marketing, that I have an absolutely free hand to do what I want with this marketing-merchandising thing, and that I am a Director." Daniels replied: "Certainly I'd like to have you here, and I think you can do it allright, but why the directorship ?" King's answer was: "Look, this is not all a marketing problem, its an attitude problem. In manufacturing there can't be good marketing unless there's an adequate up-to-date manufacturing psychology. I'm not criticizing the machinery. I'm saying you're not using it right. Now if I come into marketing there will be problems with manufacturing. Now Julian Cummings is a very good man, I'm not decrying him as head of Manufacturing, but we're going to be fighting, because there are things that have to be changed, and Julian is more of a manufacturing man than a marketing man, and you know what I mean, they don't like to change. If this company is to not go bankrupt in the next two or three years a whole lot of things have got to be changed here, a hell of a lot. If I'm a Director, I'm one step up. I've got a good job. I'm happy. I'm on top of my job. I've got good people with me, and I think I'm a fool. But I'm a Dominion Texile man." Looking back on these events King said: "I just have to tell this because its part of the history of the company. I don't know what would have happened if .... ."[14]

King made it very plain that it was to be expected that Julian Cummings, Vice President of Manufacturing would be very difficult to convince that a change in the strategy of the company was necessary. Unless the new Vice President of Marketing was also a Director, and therefore equipped with a little more punch, the process of change would be too lengthy and perhaps unsuccessful.

Daniels and Gordon discussed the situation and conferred with Sydney Scheurer, the New York cotton broker/consultant. Sheurer enthusiastically endorsed the idea. Daniels and Gordon got together, and after a further discussion with King regarding his plans, invited King to return to Dominion Textile as Vice President, Marketing, and to be appointed a Director at the first opportunity.

(The King saga is supported by most everyone else who was involved in the events. Managers who approved of the changes and those who found the new direction very hard to adapt to, all repeat they don't know what would have happened if Ed King had not moved back into the main company.)

In King's opinion, Dominion Textile had a very definite and highly useful place in the Canadian market. It would be necessary to search out the lines, in all areas, which offered the most reasonable manufacturing volumes, produce these volumes in a quality equal to top U.S. competition, style the goods in the most up-to-date fashion, and then aggressively search out the market and effect good delivery. This would require a very considerable degree of co-operation and understanding between the Manufacturing and Marketing people, and certainly an understanding on the part of Marketing that a disorganized, fragmented manufacturing program would surely result in chaos and heavy financial losses. On the other hand, Manufacturing would have to realize and accept the fact that anything other than changes brought about by careful, knowledgeable planning would bring about the same results.

King recalls that: "the immediate job was to reorganize the Marketing direction to bring it in touch with the market place and the competitive picture on a constant basis, and in time to anticipate the market needs, and to transform these needs into fabrication and styling in time to fill those requirements. King had a strong conviction that overall, the marketing people who had to throw the "snowballs" should be the people who made them. Maybe some would be too hard, or too soft, or too big, or too small, but there would be no "buckpassing". The installation of this philosophy was a long and difficult task, but eventually it paid off, and the company regained its position in the textile world as a well-run, competitive factor, operating in a small market under very difficult conditions."[15]

King remembers the move back as the most difficult work of his career. "I got to work right away and it sure wasn't easy - I nearly had a nervous break down after I'd been there a month or six weeks. There was such a terrific fixture of position that was so hard to change. I had to change a whole lot of things. I was very careful not to make too many, too quickly. But I kept the pressure on."[16]

King oriented the company from a manufacturing to a marketing operation. His approach to strategy was: "The market is where the money is made. It's not made in planning, it's made in planning how you're going to use your resources, when you've got your resources. But a plan doesn't make anything. You've got to get out there and do it. You've got to know where you're going, and you've got to take the chance to make a mistake. Nobody's perfect."[17]

King's move to head office was the beginning of a power shift away from Gordon and Daniels, to a triumvirate of Gordon-Daniels-King. After 1953, Blair Gordon's interest in the company declined, although he remained President. After 1955, Ryland Daniels acted as de facto President. Increasingly, decisions were made by Daniels and King.

Daniels and King had a different concept of the place Dominion Textile occupied in the Canadian industrial picture than Gordon. These two men were radically different in their orientation. Daniels, like his father, was a manufacturing man, King, was a enthusiastic practitioner of marketing. Their common interest was the survival of the company. To Daniels, this primarily meant massive investment in new plants and equipment. King concurred with this, and added that these facilities must be marketing-driven.

Daniels and King also differed from Gordon in that they felt that government intervention in the industry would soon be needed. But they felt before they could ask they must make themselves worthy. "We felt that the only way we could retain our position was to make very sure that we stayed up-to-date and do all the things ourselves that we could control before we could go to the government and ask for some help to protect the industry from what was starting to happen. I never waivered on this for one minute and I still think it's true to this day. I believe that if we had not embarked on the modernization of plants in place, and the planning of new modern facilities, Dominion Textile as such would not be in place today."[18]

At the 1953 Annual Meeting, Ryland Daniels introduced the new policy of emphasizing marketing, to shareholders. Announcing the company would take action against the inroads made by American goods, Daniels said: "A substantial portion of American textiles coming into this country is merchandise which is familiar to the Canadian customer as a result of years of reading American magazines. Even when these American goods were not widely sold in Canada, because they were needed to supply the U.S. market, the Canadian housewife became familiar with their trade names. These foreign products, accidently one might say, enjoyed overflow publicity in this country. This advertising bonus was a stroke of good fortune for American mills, at a time they are trying to dispose of part of their excess production in Canada."[19]

"To meet this we have stepped up the intensity of our long range programs to identify our trademark and brand names. We are on the point of launching an advertising campaign which for scope and concentration has never before been equalled in our industry. We are seeking to offset the fortuitous American advantage which has contributed to our problems. We are centring our efforts in a direct-line merchandising and selling drive based on the end use of the product. It means even more personal attention to the customer, to his problems and to the customer's needs, demands, and fancies."[20]

The focus which King brought to the company was limited to textiles. King shared similar views with Gordon and Daniels about diversification. When Blair Gordon was asked about Dominion's diversification plans by a shareholder at the 1961 meeting, he said he really hadn't even though about it, that it was not an issue and that the company would continue "to put out money into something we know."[21] The company's business was still interpreted as the mandate as seen by Blair Gordon's father, Sir Charles Gordon, with the marketing function more fully developed.

At the 1967 Annual Meeting a shareholder again asked: "Has any consideration been given to diverting into other industries other than the soft goods, as C.P.R. converted into mining." Ryland Daniels, the President, replied: "Well, I think our attitude generally has been that we stick to what we know best, and when we start getting diverted into things we know nothing about, then we are going to get into real trouble. It calls for an entirely different type of management. We are always looking for acquisitions in those industries that have a direct connection with textiles. But we are not interested in going into industries that do not have such a connection."[22]

King also rejected this kind of move. "We knew about the textile business. I don't believe in going into a business you don't know about or have time to study to learn about it. This is not a good policy. It's very glamorous to be rushing off in all directions, but if you don't know the business, you're at the mercy of someone. Don't commit your resources so you're cutting off your own nose. Something in your own business, that may be absolutely vital for the protection of that business may arise anytime, but you can't do anything about it because you're committed to something you haven't even thought out. You've got to be on your toes and if something comes along that would be good for the business, you do it. The people who make the biggest mistakes are the people who do nothing. You've got to keep on doing things. You make some mistakes, but the biggest mistake is not to do anything. But this question of committing yourself in great big gobs of money to something you don't know about and that you can't really follow, unless you neglect your own business. You know, I've seen financial plans that are out of this world. It doesn't happen this way. The strength of Dominion Textile over the years has been its continued dedication to the idea of flexibility, within its own field.[23]

6.6 THE DEVELOPMENT OF CAPABILITY

In the Fifties and Sixties Daniels and King focused on two goals: making the mills technologically up to date, and on making what customers wanted and aggressively marketing the products. These goals were followed incrementally, in response to changing conditions in manufacturing technology, new product developments, and the political climate in Quebec. The strategic decisions included:

- using productivity (capital investment) as a way of offsetting Canadian wage scales and costs;
- producing what the Canadian market wants, in competition with U.S. and foreign imports;
- competing with New York fashion trends;
- acquiring or expanding, whichever is cheaper;
- modernizing the existing cotton facilities;
- dropping old technologies;
- staying in Canada, but expanding out of Quebec;
- building plants to produce the new polyester fabrics;
- diversifying into new primary textile product lines.

Daniels and King concentrated in the Fifties and early Sixties on refurbishing the existing mills with the most up-to-date machinery to produce cotton textiles. To Ryland Daniels, modernizing the plants meant "We have sought to become better rather than bigger."[24] Daniel's aim was technological progress to reduce manufacturing costs.

Blair Gordon had followed a policy of putting all earnings into dividends. Daniels and King began spending a larger proportion of earnings on modernization, and later on new plants. According to King: "We felt that unless we could do it, and it certainly helped us later in our negotiations with the government to be able to say, right from Prime Minister Pierre Trudeau on down, if you can get competent people to say that our technology is not at a level with anybody else in our type of business, not one plant specializing in something, but a Burlington Mills, or the big mills in England, we won't ask. Sure we've got some old plants, anyone that's got more than one plant has some old ones. It paid off."[25]

Two acquisition opportunities in textiles appeared and were purchased. Caldwell Linen Mills, Ltd. established in 1923, a family-owned and operated firm, was purchased in 1957 to add to the company's line of terry towels. Esmond Mills, established in 1930, the country's major producer of cotton blankets was purchased in 1960.

When the E.E.C. was formed in Europe, E.F. King decided to see if this change provided an opportunity for Domtex. In 1960-62, for about three years, he spent about a total of three months in Europe, at two days to two weeks at a time, searching France, Germany, Belgium, the Netherlands and England, looking at different textile companies. King finally concluded, and told the Board: "While other companies have bought things, this is not for us. They're not waiting for us Canadians or Americans with their mouths open for U.S. or Canadian styling or types of fabrics. They're different. They want what they want, and we don't make it, besides which, it's a whole different world."[26]

In the late 1950s, Dominion's main domestic competitor, Canadian Cottons, ceased operations; as did several other long-time producers. As the domestic competitive market changed, so did Dominion's strategy. It had always been the company with the broadest product line, but as its other wide product line competitors dropped out Dominion's strategy in the late Fifties and particularly in the Sixties, deliberately became to produce a variety of fabrics, colours and designs.

The period 1953 to 1962 was spent putting the company in order, making it productive. Basically, there were no changes in the product policy until the mid-Sixties. The new marketing orientation initiated by King made the company more attuned to market needs, but it was an addition to the basic plan of manufacturing efficiency through up-to-date plants,

In the early Sixties the national economy was bouyant. Dominion was excited about new prospects. Their worry was that high wage increases would threaten the ability of the Canadian economy to compete. The company saw its purpose as one of conservative growth in the emerging boom. The problem was where the growth would come from. The market in the company's product lines was saturated. If the company stayed only in these lines its growth would be tied to the population growth. The other problem they perceived was the government's textile policy of containment.

NEW PRODUCT STRATEGIES AND ACQUISITIONS

The challenge in the early Sixties was the new technology of polyester, and polyester/cotton blends. In an expensive spurt, Domtex built three new plants to specifications to produce the new cotton substitute - Richelieu Fabrics, St. Jean, Quebec and Long Sault Fabrics and Long Sault Yarns at Long Sault, Ontario. Another state-of-the-art dyeing and finishing plant was built in St. Timothee, Quebec in 1969. All the new plants were subsidiaries mainly in order to take advantage of tax write-offs to new companies. The Ontario plants were the company's first move outside of Quebec in many years. The decision to locate in Ontario was connected with federal government grant programs and was also affected by the Quiet Revolution in Quebec, and its increasing nationalism. It was thought best to diversify dependencies over two provinces.

In 1965 Domtex made its only move outside the primary textile industry, and acquired Penman's Manuf. Co. a garment manufacturer, in order to protect its yarn sales to Penman's, which were threatened by a takeover from a competitor.

Penman's had been established in 1868 by John Penman, an American immigrant of Scottish descent. It had been closely associated with Dominion since 1905. Sir Charles Gordon and other Dominion directors had also been major shareholders and directors of Penman's. This had also been the case with the Paton Co., which specialized in woolen cloth, including the fabric for the scarlet tunics of the Royal Canadian Mounted Police. Neither Penman's nor Paton's was made a subsidiary, despite the similar ownership and management, because they were considered to be outside Dominion's business of producing primary cotton textiles.

Penman's was also a major customer of Dominion. By 1965 its products were seen by customers as conservative and old-fashioned. Sales had seriously declined. In order to keep Penman's as a customer, Dominion bought it and thus entered the apparel field, a new field for the company.

By 1970 Dominion Textile perceived itself as stagnating. "We have not and will not likely achieve the satisfactory levels of performance expected of us by almost any standard of measurement"[27]. For several years there had been no growth in sales. Throughput in terms of yardage was dropping, although sales figures were holding because of increased prices brought about by the introduction of higher priced fibres and finishes. The company also felt it was failing to earn a competitive rate of return on investment which was being reflected in the price of its stock. Rising costs were affecting productivity gains.

To counteract this, heavy capital investment was believed to be needed. The end of lower tax rates of the designated area companies was coming due. While senior executives knew changes were needed, they was also recognized that with a large manufacturing operation like Dominion, changes would be slow. Ron Perowne draws an analogy of the company's position: "A large enterprise is like a large ocean liner going full-tilt in the ocean. It takes a hell of a lot of ocean to turn it around. The mass and momentum means it takes time to effect a change."[28]

The company's response to stagnation was to further diversify the product line, particularly to get in on the ground floor where opportunities for growth and profit were indicated. In the late Sixties and early Seventies Domtex acquired a range of small, new companies all in the textile field: Tremont Worsted Mills Ltd, (1965); Lana Knit (1969); Fireside Fabrics; Exquisite Knitting Mills; Halifax Corduroy; Elpee Ltd.; Jaro, and Brianyl; (all in 1970,) Hubbard Dyers (1972) and the former Cosmos' Yarmouth industrial fabrics mill (1973), bought from the government of Nova Scotia.

Another minor acquisition was a 50% joint venture with DHJ, New York in 1971. This one step among the dozen or so acquisitions would be the one that would eventually change the direction of the company, although it gave no indication of doing so at the time. DHJ Canada Ltd. was a specialized marketing operation established to serve the Canadian garment industry with a range of interlining fabrics. The venture was intended to give Domtex expertise in the growing interlining field.

The products produced by Domtex and its subsidiaries covered many aspects of the textile business, from specialty products for industry, to goods ready for sale to consumers.

The acquisition picture is not complete unless one recognizes what was not acquired or what was not pursued to its fullest- double-knits and tufted carpets. Both of these were considered to be lines with high growth potential in the early Seventies.

Tufted carpet was a high growth area of the late Sixties that Domtex deliberately did not enter. Traditionally the carpet market was woven wool carpets. In the early 1960s the tufted carpet market, often made from synthetic fibres grew rapidly. Consumers welcomed this less expensive product, and wall-to-wall tufted carpets became a standard item in homes and offices. By 1968 the new process had 80% of the carpet market.

Carpet manufacturers sold mainly to retailers. The jobbers, while employees of the manufacturers, knew the retail trade intimately. The industry cycles are much wider and more pronounced that the cycles in the rest of the textile industry. Carpets are also somewhat loosely tied to the housing industry and the business cycles. The purchase of new carpeting can be postponed.

Dominion Textile was selling yarn and carpet backing to carpet manufacturers. The question was: "Do we go into carpet manufacturing in competition with our customers, or stay in the yarn business?" The manufacturing equipment for tufted carpets is a one purpose unit, and the distribution system is different from textiles. King made the decision to stay out of the manufacturing area, despite some "in house" disagreement. That decision appears, in retrospect, to have been well-taken.

Domtex did buy Elpee Ltd. a small entrepreneurial firm producing carpet yarns and backings in 1972. It closed the venture in 1974.

Almost all the big companies in the U.S. South went into double-knits, (Spring, Burlington, Dan River,) because they were concerned about the possible impact of this new product on their business. It was partly a defensive position, since if a company did not get in, and it took off in the big way as many people were saying it would, they would be left behind. In hindsight it seems easy to say that knitting would not replace weaving. At the time however, many authorities were saying that knits would be the future of the garment industry.

King was under a great deal of pressure from board members and senior executives to get into the new field, particularly from one board member with friends in the garment trade. Company salesmen also wanted to show knits. King agreed to enter the field, telling the board: "I don't personally believe that it's going to take over any market share of the cotton and blend fabric market. But if we got in a small way, we'll be on the inside, we'll know what's going on. We'll have people who are concentrating." To King: "It was no big deal in the first place, and it was no big deal in the last place."[29]

King, while unconvinced, agreed on a modest operation. "I never got swallowed up in the craziness that knitting was going to take the place of weaving. I never could buy it because a double-knit machine can't do what you can do with a conventional machinery. It can't give you the hand and the variations. One piece of double-knit goods, by and large, feels much the same as another piece, at least in the popular price field. That isn't the same in woven or synthetic goods.[30]

In the spring of 1969 Domtex and National Distillers of the U.S. bought Lana Knit from an entrepreneurial family which had been managing the business for six years. After a year, National Distillers was dissatisfied, and Domtex bought them out. Domtex operated 230 double-knit machines. The first few years showed good profits. There was a drop in sales in 1972 and the company pared down operations. But the trade picked up again for a year and a half. In 1974 there was a drastic decline in world double-knit markets.

Domtex did go into double-knit in a big enough way that the failure hurt. It reacted more quickly, and pulled out, faster than most companies did.

After Lana Knit, King bought Exquisite Knitting Mills from John Roman, an entrepreneur who had built up a corduroy firm, Fireside Fabrics, the only producer of corduroy in Canada. Roman had persuaded the Federal Government to allow the importation of greige corduroy duty free into Canada.

In 1970, with considerable help from the government, Roman built a new plant in Montreal for cutting and finishing corduroy, and also consolidated his other operations in the plant. In less than a year, in October 1970, Roman sold out to Dominion Textile.

The sale was initiated by Ed King, who called up Roman and asked if he would sell out. Roman was willing, provided he got a certain multiple of his average earnings over three years. All that remained was the not inconsiderable job for the accountants and lawyers to write out the details of a sale that had already been agreed upon in a telephone conversation. This acquisition made Domtex the sole producer of corduroy in Canada, and the third largest in North America.

The question arises as to why Dominion Textile never entered the production of staple synthetic fibre. Dominion had always been the dominant customer of the Celanese Co. operation near Kingston, and Courtaulds at Cornwall, the only suppliers of rayon filament yarn and staple fibre in Canada. Domtex has not integrated this type of operation into the company because they know there have been very few cases where a large successful textile manufacturer moved backward into manufacturing staple synthetic fibre and was successful with the two businesses. One company in the U.S. did both, and they closed off their staple operation after ten years.

The company feels that to remain flexible, to be able to react quickly to changes in consumer demands, it should not acquire its suppliers. A modern textile company is mainly a marketing operation, which means it must be able to choose whatever fibre the market requires, without being tied to a particular type. Integration with a chemical fibre operation would tie their hands.

Another reason offered by the company against backward integration is that producing synthetic fibre is part of the chemical business and involves a continuous flow process of turning raw materials into fibre. While the dyeing and finishing of textiles requires considerable use of chemical technology, the manufacturing process is different. Woodward (1965) noted this basic difference in the management of continuous flow and batch process type firms. Businesses involved in the production of basic materials, and those involved in both types of processes are structured differently, particularly the marketing arm. This makes it hard for managers in the two types of organizations to merge their manufacturing operations. The emphasis in fibre production is manufacturing; in textiles it is marketing. Chemicals are capital intensive, while textiles are labor intensive. The capital investment per job for chemicals to textiles, is in the ratio of about two to one. The distinction is now blurring, as textile companies have increasingly become users of chemicals.

6.7 STRUCTURE AS A TOOL OF STRATEGY

This period saw the biggest structural change in the company's history. It reflected the move to a more entrepreneurial strategy, to maintain, and later to increase the company's market power.

King's major condition for returning to the parent company in 1953 was that he also be made a Director. This gave him additional positional power with which to change the company's direction from a manufacturing to a marketing orientation. Most members of the company recall the switch in orientation from manufacturing to marketing as swift and dramatic. King recalls it as a slow process of changing the attitudes and actions of the various departments.

In 1953, shortly before rejoining Head Office, King had reorganized the 1,200 employees of the Domil subsidiary's sales and manufacturing divisions into three main product groups.

One of his first moves at head office, was to have the Merchandising Department absorbed into the Marketing Department, which was called the Sales Department. Then, in order to make marketing more responsive to the various sectors of consumer demand, he gradually introduced product divisions into the Marketing Department. These included divisions such as lingerie, men's wear which sold to men's trousers and shirts manufacturers, and ladies dress fabrics. The Product Divisions were subdivided into groups 1, 2, and 3, the areas defined by the types of customers being served.

Exhibit 6 – 3

Organization Chart of Dominion Textile, Inc., 1953

Board of Directors

President – Blair Gordon

Vice President and Managing Director – Ryland Daniels

Secretary – R. Archibald

- V.P. Sales King(D)
  - Product Divisions (1955)
    - Household Cottons
    - Converted Fabrics
    - Industrial Fabrics
    - Yarn
    - Tire Cord
- V.P. Administration Webster
- V.P. Finance Eversfield
- Manufacturing Department Cummings
  - Magog
    - Cotton
    - Print
  - Montreal
    - Merchants
    - Mount Royal
    - Ste Annes
  - Montmorency
- Industrial Relations Perowne

Subsidiaries

Drummondville

Montreal Cotton

Domil

(D) = director

The divisionalization process at Domtex began in 1953 at the marketing level only. King knew of this type of structuring from his contacts with Burlington, which as the largest textile company in the world, was far advanced in this process. During these changes morale in the Sales Department was terrible because of the many problems.

King only partially delegated authority. As he recalls: "Eventually we got amalgamated in marketing things so each section was making its own decisions, what fabrics they were going to make, etc. It was under proper supervision, of course, but under a lot of situations, I was the proper supervision."[31]

The actual number of employees in the Sales Department didn't change. But as King says: "They were a hell of a lot more active. The people that were there were working, or else they were replaced by someone who did work. They had the chance of taking a demotion. Most of those who had been section heads, we now called product managers. They were men that by this time were approaching their fifties. They had families, and that's the only place they ever worked. Their salaries weren't cut, but they weren't increased either, and over a period of time things levelled out. There was no harshness."[32]

King's counterpart in the Manufacturing Department, appointed before King's return, was another strong personality, Julian Cummings. He was an American, recruited for the company by Sid Scheurer who searched through many U.S. companies to find Dominion a head of manufacturing.

It was soon clear that a new method of operation must be devised to balance out the new requirements of Sales and the former methods employed by the Manufacturing Department.

PRODUCTION AND SALES

A planning operation was set up to act as a buffer, directed by both the Sales and Manufacturing Departments. The marketing men would file a forecast covering each fabric required for a 12 month period. Such forecasts would be reviewed every 3 months. The planning section would work this out with the mills and see if it could be done. They would give the Sales Department the time and volume constraints. Sales would then go back to the planning section for changes. But they would only get them on a gradual basis, not on again, off again, which would disrupt production patterns.

The planning section brought the two sides into a negotiated area of understanding, one side backed by the Vice President of Sales, the other side by the Vice President of Manufacturing. Both men stayed out of the dealings until things became critical. Neither King nor Cummings attended the planning section meetings. The two men met often in private. This plan worked well, and brought greater understanding between the Sales and Manufacturing groups. Importantly, while Ryland Daniels continued to oversee the business from the top, he stayed at a distance.

Exhibit 6 - 3

Organization Chart Dominion Textile, Inc., 1966

Board of Directors

Chairman of the Board - B. Gordon

President - R. Daniels (D)

Executive Vice President - E. King (D)

- V.P. Sales Perowne
  - Product Divisions
- V.P. Comptroller Kenrick
- V.P. Manuf. Cummings
  - Montmorency
  - Magog
    - Print
    - Cotton
  - Merchants
  - Ste. Annes
  - Mount Royal
- V.P. Finance Eversfield
  - Treasurer
- V.P. Admin.

Subsidiaries

Drummondville Cotton

Domil Tire

Salaberry

Long Sault Fabrics

Long Sault Yarns

Caldwell Linen

Esmond

Montreal Cotton

etc.

(D) = director

In the late 1960s when the company bought many going concerns, they were able to get into new fields fairly quickly. The acquisitions were deliberately left as separate operations. King, with his experiences at Domil in mind, did not want the mainstream business distracted by having managers "fiddling with side lines" which were producing very little compared with the main business. The feeling was that if and when these "sideshows" became important, they could be absorbed into the main company.

By 1977, the developing product areas had become divisions. At the 1977 Annual Meeting, President Tom Bell announced that the structure of the Canadian operation had been changed to a divisional form. Four divisions were in operation, and most of the subsidiary companies had been absorbed into the divisions, which were grouped around product lines dealing with similar kinds of buyers. The outcome, as Bell told shareholders was improved results. "The individual divisions each represent a profit centre and they are, in effect, competing with one another for capital and other resources on the basis of their respective performances. There is more opportunity for a greater number of people to examine their talents more fully and to become better managers."[33]

Using the organization charts as evidence, it would appear the company made a dramatic change from a functional to a divisional form in the mid-1970s. When the background of the changes is examined this is not the case. The organizational changes culminating in the 1977 announcement began in 1969. The changes were made incrementally, but not haphazardly. The change to divisionalization was the result of goal directed decisions that took nearly a decade to achieve.

The moves to divisionalization go back to 1962 when Blair Gordon retired as President, and re-activated the position of Chairman of the Board, not used since the death of Sir Hurbert Holt in 1941. Gordon was succeeded as President by Ryland Daniels. Edward King became the Senior Vice President. The transition was not disruptive. In the Sixties Gordon had been less and less involved with the company. The Gordon - Daniels - King triumvirate had been narrowed to Daniels and King as the chief decision-makers. The 1966 change made the Sales Department still more receptive to market demands. To implement this plan, King brought a long-time protege Tom Bell, then head of Sales at the Domil subsidiary, into head office as Director of Marketing.

Outside of Marketing, the basic structure had changed little since 1953. Four of the five Vice Presidents were in charge of functional departments - Sales, Manufacturing, Finance, and Administration. They functioned for their own specific purposes, with the President and Vice President acting as liason amongst them. King felt these functions needed more mutual interaction, and that the marketing operations needed to be brought up-to-date with continuing diversificaiotn and expansion. There was a growing realization that the company had changed through its growth strategy of building modern mills and the evolving polyester business, as well as through its acquisitions into new product lines. King recognized that some of the basic elements of the business were different.[34]

Dominion Textile was no longer just a textile manufacturer but was also a merchandising company. The acquisition of Penman's and Caldwell meant it manufactured directly for the consumer market. At the same time, in the consumer sales section of the Sales Department was a much stronger realization that the company should not rely only on their traditional distributors such as Eaton's and some of the other large Canadian retailing operations. A broader product base made it necessary to widen the distribution area. These businesses were different from the purely manufacturing operation the company had been in 1953, and new approaches were needed.

King promised the changes would make the company "as imaginative and as aggressive as it had been in this competitive business in the past."[35]

King, always conscious of the market, felt by the late 1960s that the day when the different products of the company could be treated together was long gone. The market would not allow it. The company was clearly led by the market, not driven by the product. To do this the salesmen had to be sensitive to the quite different needs of the customers. A structural change was needed to make the company more responsive to the market.

Exhibit 6 - 5

Organization Chart of Dominion Textile, Inc., 1968

Board of Directors

Chairman of the Board - R. Daniels

Secretary

President & CEO - E. King

Vice President & General Manager - R. Perowne

V.P	V.P.	V.P.	V.P.	V.P
Marketing	& Comptroller	Finance & Treas.	Project Research	Admin.
Bell	Kenrick	McCrae	Veitch	Webster

Dominion Textile's approach to change is described by Quinn as "logical incrementalism". When some managers in the company felt in 1970 that the organizational structure needed further change, they did so in a slowly evolving, step-by-step manner. Each change was evaluated before moving on to the next step.

Chuck McCrae who had recently joined the company, first as Comptroller and not long after as Vice President of Finance, felt the answer was to divisionalize. King appointed an internal group to study divisionalization in 1968. From previous experiences, he had a low opinion of management consultants. King knew the traumas involved in the change would be great. By having an internal group there would be a deeper awareness of the problems change would create, and a higher level of committment to make the changes.

Exhibit 6 - 6

ORGANIZATION CHART DOMINION TEXTILE: 1970

Board of Directors

Chairman of the Board & CEO - E. King

President - R. Perowne

- Vice President, Marketing - Bell
- Vice President, Operations - Earle
- Vice President, Finished Goods - Gambrell
- Vice President, Administration - Kenrick
- Vice President, Development - Kolb
- Vice President, Finance - McCrae
- Vice President, Grey Goods Manuf. - McDonough
- Vice President, Fibre Proc. - Smith
- Vice President, MIS - Veitch

Subsidiaries	Affiliated Companies
Penman's	Brianyl Ltd.
Caldwell	Esmond Mills Ltd.
Hochelaga Mechandising	Fibreworld ltd.
Elpee Ltd.	Lana Knit Co.
Jaro Manuf. Ltd.	

The group was given the mandate to study ways to bring all of the company's diverse actitivies back into the mainstream of the company's affairs, particulary by putting more emphasis on information for operating management. It was also hoped that the form of divisionalization worked out by the committee would reflect the culture of the organization, by contributing to the specific form divisionalization took. As McCrae observes: "I wrestle philosophically with it, whether the organization, the way you structure yourself, is what shapes you, your culture, or whether its the other way around. Possibly, the organization falls into place to reflect the nature of the people and their culture and what is going on around you".[36] In looking back over the change, McCrae feels outside management consultants might have brought divisionalizations more quickly, but feels it might have been less effective. To the committee, the preservation of their culture was a serious consideration in their decision to move slowly and to have the new structure continue to reflect their specific situation.

6.8 THE ORGANIZATION STUDY AND PLAN OF DEVELOPMENT

The committee appointed by King was composed of some senior and some middle management people, although all later became senior managers - Messrs Kenrick (Chairman), Bell, Earle, McCrae, McDonough and Veitch. King's instructions were to consider three questions: "1. Can we improve the overall efficiency of our Company by re-structuring our organization into integrated product oriented divisions as opposed to the fúnctonal type divisions now in operation? 2. If this is not considered desirable, are there other organizational alternatives? 3. What improved management techniques can be recommended apart from those dependent on the structural changes, if any, suggested above? In this connection do you have such illustrations as a separate distribution centre for small accounts or production co-ordination with other textile manufacturers."[37]

If the company was going to deal with the complexity of the differing nature of their products there was going to have to be some divisionalization. But as the committee studied the problems they faced, they found solving some of them almost insurmountable in the short term.

The report recommended the elimination of all subsidiary companies. In 1969 Dominion Textile controlled twenty-nine separate companies. How were these to be aligned into product divisions? These subsidiaries had been acquired at different times, and for differing reasons had been operated separately from the parent company. The process of working out taxes and solving all the legal problems would take a long time. Each of the companies had been acquired and retained as separate units for different reasons.

Domil had been created in 1952 from Dominion-Burlington, when Burlington Mills decided to withdraw from the joint-venture. The subsidiary had proven an important organizational learning experience. Under King it developed a marketing outlook different from the parent organization, which was still selling the company's traditional line of cotton goods. Autonomy gave Domil the chance to experiment with synthetic fabrics.

By the late 1960s Dominion Textile itself was heavily committed to polyester/cotton blends. The manufacturing processes of the two organizations were becoming similar, negating the need for Domil as a separate company.

After its acquisition in 1956 Caldwell had been left as a separate company as well. It specialized in towels, made to be sold directly to retailers - a new experience for Domtex. It was left as a peripheral company. People from the parent company became familiar with the new problems connected with producing towelling. By 1970 Caldwell was ready to be incorporated smoothly into the parent.

Penman's had been acquired in 1965 in order to retain a captive customer. It was one of the largest buyers of the company's sales yarn. At the time, another textile company was also interested in acquiring it. Interestingly, Penman's had previously been led by Sir Charles Gordon and some other members of his family and friends. Penman's had to be continued as a separate public company because minority shareholders still existed. It would require time for Dominion to acquire their shares.

Montreal Cotton had been left separate for tax reasons. As a result of strikes in 1966, there had been enormous tax losses that had to be recovered before the company could be wound up. In Canada, unlike the U.S., companies cannot be consolidated for tax reasons.

Other subsidiaries, Richelieu Fabrics, Domil Fabrics, and Long Sault Fabrics and Long Sault Yarns had been created under tax legislation as designated companies in order to get the full benefit of accelerated depreciation. The tax-free holdings that were created had to run their course of 3 1/2 to 4 years, in some cases five years, to get the full impact of depreciation.

Gradually the original entrepreneurs of the subsidiaries such as Fibreworld, Jaro and Lana Knit were bought out. By mutual consent, none of the original entrepreneurs stayed with Dominion Textile. Most of them couldn't live in the larger organization, with its constraints in budgeting and reporting. The managers from Domtex had, during the period since the acquisitions, learned the new operations. As they were integrated, the Domtex control system secured effective control.

Not all companies were absorbed. Jaro for example remained basically independent. It started to become integrated into the main operation when the parent company became more involved in geotextiles and non-wovens in the early 1980s.

As well, there were labor contracts, power contracts, leases and trust ventures which had to run their course. So while divisionalization was the goal, there were problems that could only be dealt with over time. The company policy was that they should be corrected with the idea that ultimately the structure would become divisional.

At the same time, the members were concerned with a structure which would provide for future growth possibly on the international arena. The committee, although it did not include this in its report, was aware of two major factors: the Jean-Luc Pepin report, and growth limitations in Canada. Although it would take an additional five years for the company to decide to go international, because they felt that government policy limited any future Canadian growth. Tom Bell, later President, remembered the textile policy acting as the catalyst that started Dominion Textile thinking of entering international markets. The company had been monitoring the government's thinking on the future of the textile industry. "There has always been a concern about Ottawa, supported by their actions, that as the years go by that the textile industry was going to be forced to get smaller and smaller, and that's what in fact happened. So at that time when we read the Pepin pronouncement, we felt that our best interests would be served by maintaining our strong position in Canada, but getting ready to move outside, because how much bigger could we get in Canada in an industry in which the government was using terms like "mature industry" and "plateaued consumption"? But that in fact was happening.[38]

Bell, Vice President in charge of Marketing was the instigator of the strategy to go international, and "the needler toward decentralization".[39] The two went together.

Bell felt the answer to problems he felt he had with marketing was divisionalization. "I was working closely with Ron Perowne and as I took over the marketing job from him I began to realize that I couldn't handle it properly the way the company was organized. I began to talk about divisionalizing for the company's well-being".[40] He found a ready ally in Charles McCrae, Vice President of Finance. McCrae, a relative newcomer to the company, brough new ideas on how the structure could be changed.

The differing views of the committee members the report came out with a spectrum of recommendations. McCrae recalls: "It wasn't a compromise because they couldn't compromise. Everybody had such strong opinions, and there's no real answer to it. We came up with eight grades ranging from a highly functional structure to a divisional structure. The committee then consciously picked the middle point, number six, as their target. We have gone through several iterations since."

Exhibit 6 - 7

STRUCTURING POSSIBILITIES: ORGANIZATION STUDY, 1970

I. EXTREME FUNCTIONALISM

⇓

II. DIVISIONALIZATION, SALES ONLY

⇓

III. DIVISIONALIZED MARKETING

⇓

IV. DOTTED LINE PLAN - Marketing Divisionalized with Manufacturing Connection

⇓

V. MARKETING-MANUFACTURING DIVISIONALIZATION

⇓

VI. STRONG DIVISIONALIZATION WITHIN INTEGRATED CONCEPT

⇓

VII. MAXIMUM DIVISIONALIZATION WITHIN INTEGRATED CONCEPT

⇓

VIII. ENTIRELY AUTONOMOUS DIVISIONS

The Organizational Study would be referred back to regularly in the coming decade. With some modifications it proved the blueprint for the great changes that were made. The spectrum of possible organizational forms were seen in the 1970 report as:

I. Extreme Functionalization

The company would be divided according to functional or specialized divisions such as marketing, finance, manufacturing, personnel, engineering, etc., most led by functional division heads. Major decisions would be made by the CEO, sometimes in consultation with several of the functional Department Heads.

[This position was not seriously considered as an option. The structure the study termed Extreme Functionalism in fact describes the company's structure from 1905 to 1953.]

II. Divisionalized, Sales Only

The sales organization would be divided by product lines with marketing services on a functional basis, but manufacturing and all services centralized into functional divisions.

[This change in the Sales Department had been introduced after 1953 by E.F. King.]

III. Divisionalized Marketing

The marketing organization would be divided by product or customers to a maximum practical degree, operating under central policies, with broad latitude for decision making in the Marketing Division only. Manufacturing and all the service functions would still operate as functional divisions.

IV. The Dotted Line Plan - Marketing Divisionalized With

Manufacturing Connection

The marketing organization would be divided by product. The Manufacturing Divisions (Grey and Finishing) would be grouped as much as possible by plants or units that feed the Marketing Divisions. A dotted line connection would exist between Manufacturing and Marketing at various levels. Most services would be provided from functional divisions, with some dotted line connections where possible. The delegation of decisions would broaden. Central controls would be less rigid, but overall leadership would still be provided by the functional division heads.

[The company chose to implement the structural changes gradually. In 1970 it began to develop these dotted-line relationships]

V. Marketing-Manufacturing Divisionalization

In this structure the company would be divided into automomous entities along product lines. Each Operating Division would have a Division Head and separate Manufacturing and Marketing arms. While certain restricted functions in Marketing and Manufacturing would be controlled by functional divisions, most services would still be provided by functional divisions. Although this structure would increase delegation, significant decisions would still be made by the Chief Executive Officer, or by a group of executives.

[Having achieved satisfactory dotted-line relationships, Domtex next moved gradually to this structure. In 1972 two divisions were created.]

VI. Strong Divisionalization Within Integrated Concept

The Division Head of an Operation Division would be responsible for Manufacturing, Marketing and several service functions. A strong centralized body would continue to provide services to the divisions. This structure would give the Division Head an increasing degree of autonomy in operational decision making within the overall corporate policy. Managers would receive the decision making powers necessary for successful day to day operation.

VII. Maximum Divisionalization Within Integrated Concept

All manufacturing, marketing and service functions would be assigned to divisions. Only those functions where there would be a severe loss of co-ordination and heavy increases in cost, which if they were separated, would be left on a functional basis. This alternative would involve a high degree of delegated decision making. Each constituent unit would be independent, except for the basic rules of control.

[This stage was met by the company in 1974 when all operations were divided among four divisions. The details of working out this arrangement took several years to settle. In 1977, President Tom Bell made his announcement to shareholders that this phase was achieved.]

VIII. Entirely Autonomous Divisions

Only occasional services would be performed by the central body, on request. Each division would manufacture, merchandise and advertise its own products, and would hire and train its own employees, staff and specialists, as well as negotiate its own labor contracts. The Division Head would be responsible for the performance of all the functions, the same as any company. Controls would only be sufficient to measure profitability and to co-ordinate financial reporting to the parent company's shareholders.

[The company further changed the structure between 1977 and 1982 to this last position. In 1982 the divisions were made separate companies with their own Presidents.]

The study's recommendations are reported in detail because they would guide the company in changing its structure for the next decade. When a certain stage was reached, the report would be referred to again for broad guidelines for further evolution.

According the the 1970 Organization Study, the incremental approach "would enable us to watch an elementary form of federalism at work so that the Company could benefit by the experience gained at several levels of management. It would provide the Committee with the time necessary to complete a detailed study of federal divisionalization and come to a firm conclusion. If greater federalization proved desirable, time would also be available to clearly define the responsibilities delegated to Division General Managers and lower levels of management, as well as to work out the controls required to enable them the freedom they would need to do an effective job." And finally, "We do not burn our bridges behind us."[42]

The committee recommended a two-tiered approach to structural changes. Position No. VI was chosen as the targeted objective. "If we do not depart fairly radically in our study from our present structure, we would never be in a position to truly explore all the advantages and disadvantages of such an approach, even if we later decided that we could not go as far as No. VI down the path of federalization."[43]

Position VIII was considered impractical in 1970 because it would break down, to too great a degree, the co-ordination effect of head office. The committee felt the company's operations needed a co-ordinated approach to the federal and provincial governments, and to labor agreements. Plan VIII would have a too disruptive effect on the manufacturing plant processes which were interconnected to the product divisions, with many plants providing products to several product divisions. Nor would a federal system work while there were still many small subsidiary operations which would now have to duplicate most of the functions carried out by head office.

Among themselves the six men on the committee hammered out a new concept of what Dominion Textile meant. The committee knew their plan was causing anxiety in the company. Tom Bell remembers: "What we were doing in those dotted-line things was formulating new companies without people realizing it. Some of them did of course. Some of them could see their jobs were going to be altered, and resisted like crazy. Others who could see an improvement in their jobs were enthusiastic. It took time. It was a very dramatic change."[44]

Arthur Earle wrote the committee report titled Organization Study. The members then faced the tough task of convincing King and Perowne. Bell remembers the confrontation. "We had a meeting down at Hovey Manor [a country inn near Magog,] and the six of us trooped in. The jury was King and Perowne. And because we thought we were going to have a tough time, we all came in wearing old wartime helmets, because we thought we were going into a battleground and the shells would be firing all around. We started off at least on a jocular note. Then we spent several days reviewing the presentation. We went from one end of the spectrum to the other and chose the middle path of a dotted-line relationship with manufacturing and marketing."[45]

For their part, King and Perowne deliberately made the committee go over the plan in fine detail and questioned then closely on all the ramifications. The Battle of Hovy Manor proved a very useful exercise. It forced the committee to justify and carefully plan their proposal. It welded a strong personal committment to the plan by the participants, and turned their document, the

Organization Study, into a strategic plan of battle. It left the six participants, who would be the senior executives carrying out the plan with a feeling of mission.

The 1953 changes had come about because of the vision of one man, Ed King. This time, while spearheaded by Tom Bell, change proceeded through a process of concensus building. "Maybe we took too much time to affect the change, but when you're changing a culture, which is what we were doing, and we're still doing it, and you're not changing the people, because basically we worked with the same people, it takes time."[46]

The study recommended that the short term goal be Plan IV, the Dotted Line Plan. Marketing would divisionalize both Sales and Product Development by product lines leaving other marketing services on a functional basis. Other divisions would be earmarked as relating to the same product line as a divisionalized group in Marketing. Executives would encourage this dotted-line relationship. Production Planning and Quality Control personnel would be earmarked for specific product divisions. Later, accounting personnel would be added. The Dotted Line Chart of the Apparel Team shows how the functional and divisional aspects were to be melded.

This would create four operating divisions: Apparel Fabrics, Consumer Products, Industrial Products, and a Yarn Division. Each Division would be staffed with a: Vice President and General Manager, Director of Marketing, General Manufacturing Manager, and a Logistics Manager. As well, all divisions except Industrial, (which were produced in the same plants as apparel fabrics) would have an Engineering Manager and a quality assurance function. The allocations were complicated because plants produced for several divisions.

The expansion of the product line in the Sixties had resulted in a clearer distinction between different types of customers. The move to divisions would make the company more responsive to the market. Sales Yarn is primarily sold to industrial knitters. Style and color are important, but salesmen primarily have to know how to sell to knitting manufacturers. This involved technical selling - knowing that a yarn will run on a particular firm's machines. Consumer Products sells sheets, towels and leisure clothing to retailers, large chains such as Simpson's, Eaton's and Zeller's as well as to smaller retailers. The Apparel Fabrics Division sells to garment manufacturers. Except for a few big manufacturers like Levi, these customers are not interested in technical specifications like strengths, but in style and color. They are keenly interested in the latest in fashion styling. The Industrial selling group is small. They sell technical characteristics like strength. Their customers are other manufacturers who are going to add value to the product. Sales people must understand what the other manufacturer's problems are in order to know what to build in to the product. This is quite different from the other types of selling. Technical selling needs businessmen to run it.

The committee felt this structure had advantages over the extreme functionalism of the existing structure. "The group believes that the greatest advantage of federal divisionalization can be achieved because the small organizational unit provides a medium, in which personnel of all specialties (marketing, manufacturing, accounting, etc.) are more likely to pull together for a common goal. More opportunity exists for all parts of the management team to be oriented towards the business aspects of our endeavours and understand how their particular specialty fits into the whole to achieve the overall goal of profit."[47]

It was felt the new structure would overcome the problem of an executive seeing the company in terms of his functional specialty. "The development of managers at all levels would be greatly enhanced by providing more people with an opportunity of 'seeing', or having responsibility for, larger segments of the business, by switching the emphasis from our present functional structure. Personal and full responsibility for an operation is an effective manner of developing an individual's potential as a business manager. By exposing as many people as possible to a wide range of general management problems, we would fit them for greater responsibility in the future. This is a major problem at present in our company."[48]

The new structure was also viewed as a useful management tool, especially in view of the expected increasingly sharp competition from low wage countries. It was imperative to be able to make each segment of the business a profit centre. The profit measurement data could also be used to motivate management personnel to improve their performance.

The Organizational Study saw the company's problems as wide ranging. Through structural changes, many of the company's other problems could also be better dealt with. "Sales volume is static or declining, overall return on investment levels are unsatisfactory, expenses are increasing in several major areas, product mix is becoming ever more complex, a shortage of well trained personnel (at the middle management level) is apparent in some areas and so on. While some of these problems will disappear or become less apparent with improved market conditions, others appear to be more chronic in nature."[49] Having recommended divisionalization, the Organization Study Committee then backed off, feeling its implementation must be deferred because of several major obstacles. The company lacked the systems to monitor the performance of multi-functional groups. They feared that the move into divisionalization would lead to expensive experiments, unless there was the ability to measure their efforts. They recommended that: "Decentralization, therefore must only be carried out after the company is able to establish the controls, reporting systems, etc., required to make it effective. These systems will not exist in Dominion Textile for some time to come."[50]

Nor did the company have the necessary information on which to base divisionalization. The company Management Information System was just being developed. It was decided that this should be a priority, with information reported on a divisionalized product-line basis so that product performance could be compared. Thus financial reporting was begun on margins on products, by plants, and by divisions - an enormous undertaking. Henceforth organizational contracts were dealt with keeping in view the ultimate goal of divisionalization.

Another major obstacle preventing an immediate change to divisionalization was personnel. When the committee laid out the divisionalized organization chart and started putting people in the new positions, it soon became clear that the company lacked sufficient people with the experience to fill them. To carry out Plan IV, (Strong Divisionalization,) of the report would require that fourteen senior corporate positions be filled, at a time when the company had eight senior executives. These were now perceived as holes in the organization. Having four or five divisions where there had been one, meant they needed four or five Presidents of Manufacturing when at the time they had only one. Not only would it be impossible to fill these senior positions immediately, but there would be problems in finding or developing competent people at to fill new positions at other levels. But the company knew from experience it was unlikely to attract suitable recruits from either the U.S. or from other Canadian textile companies.

Instead, the process would again take time. New people would have to be brought in from other industries, and existing personnel groomed with additional experience and responsibility, with the organizational holes in mind. The earmarking of people again was not an insurmountable problem, but it required time. The feeling was that the only way to build these managers was to give them broader responsibilities in smaller, narrower areas, but with full responsibility. This policy of giving added responsibility was not immediately apparent from the organization charts, as the new responsibilities were often assigned by dotted-line relationships. These new ties got people working more closely together on some aspects. For example, some of the service organizations began relating to the Manufacturing and Marketing departments in new ways.

The gradual movement toward the goal of divisionalization had two thrusts. One was to achieve a more specialized approach to marketing, the other to realign the responsibilities over certain areas so that responsibility was spread out on a wider base, with these new tasks to act as training and proving grounds.

This re-structuring would relieve the President from day to day decision making. The organization committee had considered the solution of creating an Office of the President. This offered advantages in bringing in different viewpoints and reducing the pressure on one person to be an expert in dealing with diverse groups. The plan was rejected, partly because of the cost, which could only be born by a very large company, and because "it muddies the placing and accepting the responsibility at the top level of the Company."(5) Rather, it recommended that Group Vice Presidents be used to relieve the pressures on the President.

From four Vice Presidents in 1968, there were seven in 1969 and nine in 1970. In 1971 the nine Vice Presidents were regrouped. E. F. King, now Chairman, and Ron Perowne, President, set up "Group Operations" which put all like operations under one person. Tom Bell headed Operations, Chuck McCrae, Finance and Administration, and Arthur Earle, Services. These three Group Presidents supervised the work of the two or three Vice Presidents in their function. Instead of the one-on-one relationships that had gone one for sixty years, there was now a line of three people between operations and the President.

Another reason the Committee recommended the change be implemented slowly was that they were concerned about the shock an abrupt switch would have. "The Company has operated on a functional basis for so long that everyone is attuned to this process. An abrupt switch in philosophy could have a very serious effect on our operations. A conditioning period would be required in any event."[51]

To begin the move toward divisionalization, a second report was commissioned in 1970, to analyze the tax implications of corporate re-organization. It outlined the steps necessary to wind up all 29 companies into one Canadian company, with only a few subsidiaries existing for other purposes. This report concluded with the recommendation that Dominion Textile should enlarge its perspective with the aim of ultimately becoming a Holding Company, with one or more operating divisions or companies clear of that. By 1983 the company was two-thirds of the way to that aim.

Bell, then the Senior Vice President, continued to work on divisionalization after the committee was disbanded. "There was no way I could see this company moving from where we were in 1970 without divisionalization. From the early 1970s on I was certainly motivated by the feeling that I could not handle my job the way my predecessors had with what was before us. There was too much for any one person to properly direct. If, in addition to what we had been doing, we wanted to grow, we had to have more people in the act. What came home to me was that in the course of a day I would be trying to make intelligent decisions on the yarn problem, the industrial problem, an apparel problem, or a consumer problem, was that the moods of these problems are different, even though they are textile."[52]

Exhibit 6 - 8

<u>Organization Chart of Dominion Textile, Inc., 1971</u>

Board of Director

Chairman of the Board - E. King

President & CEO - R. Perowne (D)

Group V.P. Operations V.P. Finance & Admin. V.P. Services

V.P.s T. Bell (D) C. McCrae (D) A. Earle

V.P. V.P. Manuf. V.P. V.P. V.P. Fin. V.P. Dev. V.P.

Mktg. Grey & Fin. Admin. Finance Plants Research

Fibre

Wilson McDonough Veitch Michaels Gambrell Kolb

Smith

Comptroller Gen. Counsel Secretary

McAslan Brady Beck

The move to divisionalization was gradual and step-wise. "After embarking on divisionalization we decided, because we are a conservative group, to move slowly. We said, we are functionalized now, we are not going to be divisionalized tomorrow. We started to take some steps, grow, and get the experience, and to condition the non-believers. You take for example positions in manufacturing, where one person had the responsibility for all the plants. Then we come and say that is not the way it is going to be, there are going to be four groups. We start off with two guys, and we went to four. People would think, my job is reduced. In numbers it was. But in order to concentrate and spend your time, become a better manager, the opportunities were enhanced. Attitudes have changed. Some people haven't been able to handle it as well as others, but the failure percentage has been small. This speaks well for our ability to get the message across, and for people to accept that a change of attitude was required."[53]

First, in 1972, two divisions were created, Consumer and Apparel Fabrics , and Sales Yarn and Industrial Products, with two General Managers responsible for selling, marketing and production. The functions of financial control, industrial engineering, quality control, purchasing and transportations still remained with head office managers, with a chain of command that led to the President, not to the divisional General Managers.

By 1974 divisionalization encompassed the marketing and manufacturing segments, as well as some of the support functions that went with them, but they were not totally released. Subsequently divisionalization was moved to a second phase, and some financial functions were moved, so the divisions had functional comptrollers and a few other service functions. But basically, all of the operations services, all major human resource services, and all financial services were still highly centralized by the strong head office.

By 1975, the company had a divisionalized structure, although not completely. The differences between the divisions were becoming clearer and more distinctly defined. But in 1975, the move to divisionalization had to go into a hiatus. Time had to be taken to digest all the new ventures and products. The Consumer Products Division now had Esmonds (blankets), Caldwell (towels) and Penman's (leisure wear) under its wing. This required a period of digestion while the division became familiar with their products. The Apparel Fabrics Division had gone into denim and corduroy, requiring the undramatic working out of business end details of marketing, cost and profitability.

CORPORATE PLANNING

A formal corporate planning function for the company was first proposed in the 1970 Organization Study as part of the far ranging recommendations which included changes in structure and financial control. The study strongly recommended the creation of the position of Vice President, Corporate Planning. This position would co-ordinate activities with the Finance and the Research and Development departments at head office.

The mandate of the Corporate Planning Vice

President included: "Updating company objectives. Chair a corporate planning committee made up of several senior executives who can relate the company's short term objectives to long term objectives. Relate the company's activities to the economic and social environment, nationally and internationally. Work closely with the Development Research function to see that their activities are compatible with the corporate objectives. Handle mergers, acquisitions and other financial arrangements, drawing assistance from other parts of the organization as required."[54]

An advantage resulting from the re-structuring of the company was that responsibilities for the day to day operations were clearly defined and delegated to the divisions. The Chief Executive Officer and other members of senior management groups could now concentrate on the planning function, and on developing the necessary teamwork between the product divisions and functional specialties.

After the adoption of the dotted-line structure the organization Committee disbanded, to be replaced by periodic strategy sessions, some of them at country inns. These sessions had a dual purpose. They allowed the executives to concentrate on ideas, away from daily problem-solving. The go-away sesions to Laurentian resorts were also seen as a perk, where executives, sometimes with their wives, could fraternize away from the home base.

The sessions were mainly informational, for executives to hear about and discuss the problems the company had, and the philosophical points of view senior executives had on human resources, strategic planning, government relations, about organizations in general, and what the executives thought their role was. "Some of it was meaty, some of it was deliberately, let's put our feet up, blue sky kind of thing."[55]

In the early 1970s Domtex considered expansion to Western Canada. This would have meant a large-scale plant in the West, and would require moving grey goods there for finishing, only to ship these goods back East to be sold. It was the old Canadian problem of the country occupying a three hundred mile strip between two oceans. Transportation, they felt, could only get more expensive as the cost of energy rose.

Another conclusion was that by 1974 the company had expanded, perhaps over-expanded, into what they hoped were the growth product lines.

The restructuring of the company, and the new emphasis on strategic planning allowed the executives to consider a wider choice of options. Gradually, discussions included the idea of going international by buying into the U.S. market. "We said, what are we going to do? If we're going to get any bigger we're going to have to go outside Canada. We're the largest in Canada and its getting increasingly difficult to expand. We want to look outside to expand. Where do we want to look? We're competitive by nature, and we want to look where the best is. Of course that's the U.S. We speak the same language, we have a lot of the same habits, so we should be able to adapt to their culture without too much problem, rather than go out and sell in French or Chinese. We'd like to stay in the textile business, but we'd like to broaden our base if we could, of products, of geography, or of both. We'd definitely like to change the numbers game. Instead of being 10,000 people doing $300,000,000 of business, we'd like to be 300 people with $1,000,000,000. We'd like to get our of being more labor intensive to being more capital intensive, more market oriented. And we want to do bites that we think we can handle without sapping the core of our organization. And then the DHJ thing [1975] came along."[56]

In 1974 Edward King retired as Chairman of the Board, after 54 years of continuous service. At the same time, Ryland Daniels retired as a director, with 44 years of continuous service. King's vision of Dominion Textile had been that of a Canadian company with up to date production facilities, very much in tune with the demands of the market. He was skeptical of any attempt to dilute the proven strength of the company with ventures into new markets of unproven value. With his retirements other visions came into focus, which saw the company in international terms.

MANUFACTURING AND TECHNOLOGY

By 1953, all the pre-war machinery had been replaced. Dominion Textile was always placed a heavy emphasis on the use of the most modern machinery that was available. It certainly wasn't always the first, although occasionally it was, but it was in the forefront, adapting itself to changing textile technology.

In the Fifties, except for extensions and additions, the plant buildings had not changed since they were built, between 1873 and 1907. The basic structure of these four or five story buildings could not be changed. Because of the movement and weight of the machines, the buildings were heavily reinforced with pillars. The space between the pillars, a bay, was small and could not be altered. When machinery was replaced, its placement and the plant layout were severely constrained by the bays. By the late 1950s these structures were no longer adaptable to use with the increasing vibration from greater machine speed.

In the late Thirties, market demands required considerable changes in the dyeing and finishing techniques. With the advent of synthetic goods this requirement became more important. Therefore the company, in order to maintain its special position in the market, spent a considerable amount of money in this direction. From the mid-Fifties onward, new and improved techniques in various areas of grey goods manufacture offered new possibilities to the company, both in the older plants for possible renovation and in new plants.

Technology in the textile industry changed very slowly, and remained so well into the Sixties. A factor that started off change in technology was the personal health question of people working in the plants. In the 1940s there was increasing attention to the problem of brown lung, caused by breathing lint. Until the 1940s there was very little vacuum suction on machinery. Most operations were open, beginning with opening the cotton bales, and machinery was not covered. Lint stayed in the air. The first area of technological change was the vacuum extraction of lint, and covering of the picking operations.

The first big change, made in the mid-Fifties was in the carding process. For a hundred years, cards had been running at an unchanged rate per hour. In the Fifties, a British patent produced a crush roll which produced equal pressure across the roll, speeding up the whole carding process. Dominion Textile was the first North American company to use the process. Textile people from Lancastershire travelled to Canada to see the new process in operation. The irony is that while the British were doing tremendous research on new machinery, and developing new processes, they were poor at marketing them. While the British invented the new machines, the Americans actually adapted and produced them.

After the Second World War most of the looms and printing machinery were either American or Swiss, no longer British. Dominion Textile favoured the Draper and Crompton-Knowles looms from the U.S. In the early 1980s they still considered the Draper loom to be as good a non-high speed loom as was available, producing 200 to 210 picks per minute. Only new shuttleless loom speeds exceeded that.

The first shuttleless looms came in the early 1960s, but they took a long time to become cost efficient. They were very expensive, around $25,000. At the same time, the Draper looms were $4,000 to $5,000, depending on the attachments. The electronic controls, now part of shuttleless looms were not on the early models, meaning production was not as efficient as on later models.

In the early 1960s, the cost of machinery increased tremendously. The machines, coming mainly from Switzerland, nearly doubled in price when the Swiss franc changed from $.33 Canadian in 1973, to $.67 in 1975. Even without inflation, currency fluctuations alone doubled the price.

The cost of a standard loom in 1966 was $10,000 to $12,000, depending on its flexibility. By 1982 it was $100,000. In the mid-1960s the tools of an average textile worker cost about $20,000. By 1982, the cost of creating a new job in textiles was $250,000 to $300,000.

After the war Dominion followed a policy of buying only multi-purpose machines, although they were more expensive, rather than single purpose machines. In the 1960s they would only buy machines which could process both cotton and polyester, as well as a range of blends of the two. The converting operations were also designed to be flexible. This extra expense proved advantageous, as over the years the demand for textile products would swing between cotton and polyester. Unlike some of its competitors, Domtex could deal with both ends of the cycle.

The experience of Dan River in the U.S. proved this point. Domtex was aware from its American contacts and from its own American-trained personnel, of developments in the large American companies. Dan River's Danville, Virginia mill, the largest in the world, operated efficiently only in yarn-dyed goods (the warp or milling yarn is dyed before weaving). But yarn dyes come and go in fashion. To deal with these cycles, Dan River had to buy other old mills in the South-West, and integrate them into their business to balance off style cycles. Dominion tried to buy machines that could be flexible enough to bridge these changes. While the large U.S. mills such as Dan River could specialize, Dominion had to follow a policy of flexibility. It was the only way a large textile operation in Canada could survive.

The company's approach to research was to restrict it to problems of a practical nature such as building up data on cotton fibres, developing the best methods of processing and carrying out production, and improving finishing and dyeing. In the Fifties and Sixties, the Fabric Development Section was constantly experimenting with new ways of production, to keep abreast of world-wide developments, and to adapt them for use in Canada. The

Quality Control Department's purpose was to maintain world-wide standards of quality.

Dominion Textile was the Canadian pioneer in the production of man-made fibres. Although Domil Ltd. was not very successful financially, it proved particularly useful as the pilot plant for polyester/cotton blends. Domil brought Dominion Textile into various phases of man-made fibres, and established them as a factor in polyester/cotton blends. Tom Bell of Domil received his first batch of the polyester staple, Terylene, in 1952, and began to experiment. In 1954 Domil had made the first trial runs at marketing polyester fabric in Canada through the Arrow Shirt Co. While Domil could not make enough of the synthetic fabrics to be profitable, the product was developing.

Domil had been badly hit by U.S. and Asian imports. Although it had the prominent position in the Canadian market, the market it faced was very open to world competition. To be competitive, it had to produce too wide a variety of products in too limited a field, and so could not get volume production.

Tom Bell, Sales Manager of Domil, and Ed King, Vice President of Marketing at Domtex, became convinced the only way to be competitive was to have complete units that were dedicated to the production of polyester/cotton.

The changeover to polyester and blends demanded that new factories be built. Dominion did not buy up the factories of defunct companies, notably those of Canadian Cotton Although they could be bought cheaply, they were no bargain to Domtex, because they were no longer functional. In the late Sixties the Bruck Co. facilities in Quebec were offered to King, but he quickly refused.

The new buildings had to be designed to the strict specifications demanded by the production of synthetics. The blend business depends less on new spinning and weaving equipment than on the ability to control humidity and temperature. Synthetic fibres could not be spun and woven in the old mills. An important part of the synthetic fibre technology is the building itself, which must strictly control the flow of air and water around the manufacturing process.

In 1958 the company built its first new mill since it was formed in 1905, at Salaberry, Quebec, although additions had been made to existing mills. The company, at that time, had fewer spindles and looms in operation than in the late Thirties. In spite of the lean times, the company built the yarn mill as modern as any in the world. It was designed to face the tough import competition. The company announced to shareholders that "the mill represents a direct counter-attack on imports coming into this country under today's depressed textile conditions, an attack aimed at proving that Canadian textiles can match and better those of any country in quality and can be produced at competitive efficiencies if given reasonable tariff protection."[57]

The company had to take back these brave words. Salaberry was originally designed as a broadcloth mill. But when the company looked at the costings, against those of the Japanese, they realized they could not compete. The construction was continued, but as a yarn mill. At the same time Salaberry was built, yarn was produced at whatever mill had the spare capacity. As a result, yarn quality was variable due to the changes in the area of manufacturing. After Salaberry was completed, yarn production gradually developed into one of the company's strengths.

Salaberry also served as an example. "When we got going and saw the advantage of the modern equipment, we found that a great many of our old buildings were not suitable for the proper placing of equipment - Salaberry was the first modern mill built from the ground up."[58]

Ryland Daniels summed up the company's efforts in the Fifties to the Montreal Institute of Investment Analysts. "We have been forced to work at top speed and with the greatest ingenuity during this difficult decade. We have had to invest heavily in new capital equipment, in technology and in training. During the past thirteen years we spent $57 million on capital improvements, as well as large sums on repairs. ... The efficiency increases they have brought about to date have kept us in business. The outlays must therefore continue."[59] The changes of the Fifties made Domtex as technologically efficient as its major world competitors and accounted for its survival through the difficult times of the Fifties. These investments gave Domtex a solid manufacturing base on which to add the new developments of the Sixties.

The challenge of the Sixties was the new generation of synthetics. E.F. King had been involved in Dominion's synthetic operations in rayon from 1926 to 1953. He was as much a pioneer in this field as any textile executive in Canada. King insisted that more new plants be built in order that the company might be in a position to compete more effectively in all areas of the business, particularly in the fast-growing polyester/cotton area. This was a major decision because it committed the company in the future to the polyester/cotton business, away from the cotton business, and into the synthetics. The management convinced the directors, that if the company was going to be in polyester that it couldn't compete with imports if synthetics, were made by the batch process used at Domil. Therefore additional money had to be spent on plant and equipment. King was convinced that polyester/cotton blends were the future, that 100% cotton shirtings would decline.

Domtex built five new plants in four years in the early Sixties. The design ideas for the new plants came from all over the world. The stimulus for the Domil yarn plant (1963) came from the Gherzi organization of Switzerland, who were building plants of unusual design in Europe. The new fibre polyester required exact heat and humidity tolerances. The Gherzi design built air-conditioning ducts into the structure.

When planning the Richelieu fabric plant (1964), company engineers followed another innovative design evolved by Lockwood Green Engineering. The American design used an envelope system, with service bays down both sides of the mill.

Richelieu was the first major expansion in Canadian cotton textile productive capacity in forty years. At first the mill produced cotton yarns and fabrics, but it was designed so it could be adapted to produce blends. The plan was that this flexibility would allow the production of the fibres the market demanded.

Premier Jean Lesage of Quebec told the press on the opening of Les Textiles Richelieu, "The work of many members of the cabinet has greatly contributed to the decisions reached by the Board of Directors of Dominion Textile Company."[60] The provincial government may well have given the project their approval, but the impetus came from E. F. King.

The Long Sault fabric plant (1965) was a combination of both designs in that Domtex tried to take the best from both concepts. Over the years the company found the American system better suited to the extreme changes in climate in Canada. The 40 foot bays on either side of the plant gave extra protection from extreme summer and winter temperatures. At the Gherzi-type mill in

Sherbrooke the first twenty feet of space from the wall causes problems in summer and winter.

The Long Sault plant had $10 million invested in an under-floor tunnel system. The very sophisticated air-conditioning system controls temperature and humidity to extremely low tolerances, in order to improve the productivity. Air is sucked in underground, filtered, washed, cooled, and brought back out and mixed to make sure the humidity is always at the same level. If the humidity is not at 32%, but goes off a percentage, the productivity in the spinning department goes down.

The two Long Sault mills posed a problem in training workers. Because of changing technology, skills had to be created from scratch. All the new Domtex plants had school facilities to teach new employees and upgrade the skills of existing ones.

The new $20 million St. Timothee Plant (1969) at Beauharnois, Quebec, the largest single textile unit in North America to be built from the ground up, was built to handle dyeing and finishing of polyester/cotton. This meant polyester became a cotton-type of product from the manufacturing and marketing point of view, and was the beginning of the end for Domil. The dye ranges at Beauharnois, which cost $5 million, take two fibres, polyester and cotton blends, which require two totally different processes to dye. The machines dye the polyester, wash it, then dye the cotton. This is done to extremely exacting tolerances, at 135 metres a minute. Computers have made the job of dyemaster an exact science.

The Beauharnois mill included an $800,000 residual water purification plant, for which the company received the "distinction to industry" award of the Association Quebecois des Techniques de l'Eau.

Polyester caused a re-organization in other traditional mills as well. In 1967 Domil was reorganized to spin and weave polyester blends, as was the Gault plant in Valleyfield. Magog also produced considerable quantities.

The new mills required a year or more each to work out the details of efficient production. In 1966-68 the company had difficulty in maintaining production levels during the changeover to man-made fibres.

The process picked up momentum between 1965-68 with the development of a durable press finish the company marketed as "Truprest". Dan River introduced the permanent press process in 1964. It proved an immediate success. The treatment involved applying resins to cotton or blends. The finishing process ends after the garment is made up and cured in ovens.

Domtex strongly promoted its brands, Texmade, Caldwell and Penman's. By 1968, man-made fibres and blends accounted for 23% of all sales, and close to 35% of apparel sales.

The company spent additional money on the equipment for the new mills "so to enable the company, should the market demands dictate, to switch from all cotton processing to blends of cotton and various man-made fibres with the least possible delay and expenditures of capital funds."[61]

In 1966 Domtex installed 26 shuttleless looms in the Sherbrooke plant, the first in Canada.

In 1969, Domtex formed a joint venture with Workman Bag Co., called Fibreworld, to manufacture polyolefin industrial fabrics. Workman had produced industrial bags from cotton for over fifty years, but was now entering the new field of synthetic industrial bags. In the early 1970s Domtex increased its research into the development of the industrial fabric segment, a fast growing part of the industry.

As the new mills came on stream, plants too old to renovate were closed: a Valleyfield mill (1968), the Merchants mill (1967). Hochelaga, the original mill of 1873 was phased out in 1953. Skilled employees were gradually given jobs in other plants.

Until the late 1950s the Drummondville Netting Co., together with its wholly-owned subsidiary in Dunnville, Ont. was the Canadian fishing industry's main domestic source of nets. But Japanese technology caught up with Bluenose netting. No tariffs or quantity control measures protected this Canadian industry. Japan first took the Canadian export market, then the domestic market. The Dunnville plant was closed and liquidated in 1963.

PRODUCTION AND SALES

Between 1930 and 1958 the Canadian domestic market share had slipped from 75% to 45%. The great flood of imports left the company short of orders, and caused them to reduce both the number of employees and working hours at the mill. In 1953, Domtex was forced to close all its plants in Quebec, close to 60% of Canadian cotton spindles, for several weeks. Wages in the Canadian mills were slightly higher than in the U.S., but productivity was lower.

In 1953, the company was still recovering from a 97 day strike, affecting 5,700 workers, the previous year. Several incidents in this strike had turned violent. When workers attempted to enter the Valleyfield mill after the union leaders had signed an agreement with the A.F.L.. They were attacked by members of a break-away group lead by Kent Rawley, who had been expelled from the A.F.L. as a Marxist. The Valleyfield constabulary, reinforced by the Provincial Police Anti-Subversive Squad, broke up the pickets and arrested sixteen, including Rawley.

6.9 GOING TO THE MARKET

With the return of Ed King in 1953, the main thrust of the company turned from manufacturing to marketing. King took a more venturesome approach than Gordon or Daniels.

In 1955, Domtex began an aggressive national advertising campaign with stressed the company's "Tex-made" trademark as Canadian-made quality products. The product line was designed with greater attention to styling and quality. A major thrust was made in U.S.-type colored goods made on the new continuous process dye range at Magog. The campaign helped reverse declining sales. By 1956, because of these strenuous efforts, and despite increased pressure from imports, sales again reached 1950-51 levels.

King's own activities set the lead in going out and getting orders. In the mid-Fifties, the company had difficulty convincing the trade that Domtex was seriously embarked on new programs of style, quality, and service. For example, when King sought out orders from the Great West Saddlery, a large retailer in Western Canada, he was told on arrival at the company President's office, in Edmonton, by the secretary that the President did not want to see him. King replied:"I've come all the way here from Montreal, and I'm going to stay in this lobby until he does." The President agreed, but when King entered his office, he didn't rise, but greeted him with: "What do you want?" King said: "I want an order from you." The President told him: "You're out of your mind." King answered: "I don't think so. I want an order from you for 75,000 yards. If they aren't entirely to your satisfaction, you'll never see or hear from me again." The President replied: "You're taking a helluva risk boy." King said: "I know, but I'm not taking as big a risk as I would have two or three years ago." King made the sale, and Domtex continued to sell Great West $5 million in goods a year.[62]

The basic philosophy of the company became to get out and find out what the people want, make it, and aggressively market it. King sums up this approach: "I didn't go around to everybody, but I went to a hell of a lot. That's part of the secret of good operations. Get out in the market and know what's going on. It's fine to rely on your very good people. But God helps those who help themselves. You see, if you know, as against you think you know, if someone gives you a story, or when you want to do something, you've got your convictions. If someone is resisting it and you're getting your reasons for changing it from him, you're getting your reasons second-hand. You've got to be sold yourself to sell others."[63]

King went all over the world to sell the company's products. "People used to say, he's on another holiday. But I've had breakfast in London, lunch at the Amsterdam Airport meeting customers there, and dinner in Denmark. You want to try that sometime and see how much of a holiday it is. This to me is what is so lacking today. Too many executives stay secluded in the big corner office, never talking to customers. Besides doing an awful lot of good with customers and the public, it does a lot of morale building with your own people if the president is not just a figure head that nobody gets to see or talk to. You go into big companies today and you see the girls and guys up in the elevator with great armfuls of computer reports, that thick. They sit in offices reading reports, when they should be out on the bloody street finding out what is going to happen. They're all looking at history. I know what happened yesterday. I want to know what is going to happen tomorrow. That's where you make money, talking to people who are going to make it happen. Because I sold Ideal Dress a million dollars last year doesn't mean to say that because there's a financial cash flow forecast of a 20% increase that I'm going to sell Ideal Dress $1.2 million this year. You have to go and talk to them. Is he satisfied and buying from us, or is he switching to someone else? What are his problems? What can we do for him? What does he want? You've got to be six months ahead on style. You can go to New York and get styles and show them to your best customers and they say "I wouldn't touch that." But three months later, they've been to New York and say, "Have you got that?" I'd go to the drawer and pull out the thing I'd shown them. You've got to be there. There is no excuse for not being there."[64]

Several of King's actions on his return to head office have become company legends, such as the story of the third shift and the real start of the export business. One of the first steps King felt had to be made to increase productivity was to run three shifts instead of the two that were then standard in Canada. In the U.S., three shifts were the norm. While it was recognized in the company that productivity would rise if the machines were run continuously, this was not done because there was no market for third shift production. In particular there was a lack of orders for the Mount Royal mill, due to the decline of the cotton bag business.

In the mid-Fifties, the U.K. was still a large exporter of grey and finished broadcloths and print cloths to Commonwealth and other developing countries. Dominion Textile, particularly in the Magog Cotton Mill and the Mount Royal Mill, was running a two shift operation of such types of fabrics. Costs were out of line, making it even more difficult to compete with finished goods imports.

King decided to try and carry some "coals to Newcastle" in the form of offering Grey Goods in Manchester, the hub of the industry. He offered the Canadian goods at very competitive prices, in order to promote a volume sufficient to bring the Magog Cotton Mill to a three shift basis. Having some connections through pre-war visits, contacts were made, and eventually very substantial quantities were booked in a single fabric.

The English order was for somewhat different manufacturing specifications from that used in Canada and the U.S., requiring a slight change in the yarn used in the filling. This change caused a loud outcry from the manufacturing people, inured as they were to combating any change. When King called Dominion's head of manufacturing to start the order, the response was: "We can't do that.

Why don't they take what we make?" King then called Ryland Daniels and told him: "If we take this order it will be $15 to $20 million a year. I've taken this order. Either we start making this cloth right away, or my resignation goes to the Board, and if the Board wants to know why I'm resigning, I'll tell them."[65] He persisted on the basis that the entry into this field could prove to be a valuable balancing factor at the momement, and be expanded to other areas in the future. This proved to be a fact, and many millions of yards of grey and semi-bleached goods were sold in the U.K. in the next few years.

Of the incident King says: "That was one of the reasons why I wanted to be a director. The British orders were never a big money-maker, but it used up machinery. This is the sort of thing you've got to do, and you've got to have the authority to do. The marketing people have got to have the authority, or, the guy at the top has got to understand what brings in the money. You can have all the cash flow and stuff, and all sorts of forecasts, fine, but if the money isn't coming in, you ain't got no cash flow."[66]

Reaching new customers in the Canadian market however meant a large increase in the number of small orders, and increased differentiation within the plants. The company's product policy was low over-all cost, combined with above average quality, a policy which favored concentration on a few lines. The problem therefore was that to increase the volume, the company had to take small, diverse orders, which did not fit in with the product policy. As Ryland Daniels explained to shareholders in 1954: "We are concentrating on the task of giving the Canadian secondary manufacturer, whether he be in the dress, shirt, gloves, coated fabrics, work clothing, and a host of other fields, as well as the Canadian wholesaler and retailer, the type of goods they require on a high standard of quality, properly packaged and priced competitively with goods of all nations, and much of this is done at a financial sacrifice which is reflected in our Annual Statement."[67]

Gradually sales figures improved, except in 1958, when a world recession forced the company to operate four days a week, and on two, rather than three shifts.

In the Fifties the company faced severe American competition, and later in the decade, devastating competition from Japan on its staple bulk items. The Japanese would go after a specific product and with exaggeratedly low prices would capture that market, resulting in a loss of market and increased costs for Domtex. In 1957 the new Montreal Cotton mill in Valleyfield was forced to switch from broadcloth to sales yarn because of increased Japanese competition. The Richelieu fabrics plant also suffered from this competition. The plant was designed to manufacture all cotton combed broadcloths. As the plant was brought into production, Japanese products cut the heart out of this volume line and the plant had to be modified to produce diverse lines, at a greatly increased cost. The same thing happened with the Long Sault and Beauharnois polyester-cotton blend mills. As the mills started up the Japanese moved into that market with high quality and lower-cost goods. The result was decimation of Domtex production schedules, higher costs, and loss of market.

This problem would be repeated. Until 1965 the company's main profit-making item was white bed-sheets. That year the market became fragmented when Poland began exporting 140,000 dozen white sheets per year to Canada, eating into this profitable line. Domtex was pushed into the fancy colored goods segment, which was not as profitable and more complicated in manufacturing and inventorying. This type of competition made it imperative that Domtex move into polyester/cotton blend sheets in order to stay ahead of international competition.

Domtex generally bought its cotton in the U.S. Between 1964-66 it also bought from Russia. In 1964 Russian cotton was hand-picked. When the Russians put in mechanical harvesters the grade and staple fell off. Not only did the quality go down, but the price went up, to pay for the machinery. The experiment, from Dominion Textile's point of view, terminated within two crop years.

6.10 TOWARDS A PORTFOLIO BALANCE

The acquisitions of the Sixties widened the already considerable product line of Domtex into what was felt were growth areas. In the acquisitions Domtex formed joint ventures with, or bought out small successful entrepreneurial firms who had shown expertise in their textile specialty. Some of the acquisitions were successful, others were not and were closed or sold.

Lana Knit one of the leading Canadian manufacturer of double-knit was acquired in 1969 in a joint venture with National Distillers, U.S.

In 1970 Domtex bought controlling interest in Elpee Ltd. a small producer of coarse synthetic yarn for the tufted carpet and upholstery fabric industries. The plan was to have the plant operated by its entrepreneurial founders, two young men, graduates of the St. Hyacinthe Textile School. The original owners soon left the company however. Elpee was closed in 1974 because carpet manufacturers were turning to set up their own manufacturing facilities.

Fibreworld, a small producer of polyolefin carpet backings was bought out from its entrepreneurial owners during 1971-72. In 1973 the field of polyolefin and non-woven fabrics took off. These products were used in an ever-widening variety of end uses, particularly backings for tufted carpets, then in heavy demand. The facilities at the Fibreworld plant at Hawkesbury, Ontario, had to be enlarged. Like all the other small entrepreneurial companies purchased, the founders of Fibreworld stayed on for a while, then left the company.

Brianyl (1970), was a small joint venture with Textiles Briand of Lyon, Mose Tari, a Montreal industrialist, and Domtex, formed to supply texturized yarn to the pantyhose and knitting industry.

In 1970 Domtex acquired controlling interest in Jaro, a small producer of non-woven fabrics, in Woodstock, Ontario. Jaro's founder, Bjarne Jacobson, a textile consultant, at first headed this small subsidiary, but soon left Dominion, as did all the entrepreneurial founders of the other acquisitions.

Another Canadian acquisition was the Yarmouth industrial fabrics plant in 1973, formerly owned by the defunct Cosmos Imperial Mills, from the Nova Scotia government. The Yarmouth plant had a long history. Founded in 1883, it was sold to the U.S. textile machinery engineering firm, Lockwood Green. The mill was purchased in 1926 by the Young family of Hamilton Cotton. The plant was completely remodelled in 1966 with help from the Nova Scotia government, to specialize in duck, tarpaulin and conveyor belting. Although the plant was relatively new, Domtex still needed to refurbish it to bring it up to their standards of efficiency.

In addition, the company had its subsidiaries of long-standing. Drummondville had developed into the major independent producer of tire cord in North America.

The Penman's subsidiary, acquired in 1965, was changed considerably. First, in 1969, Penman's manufacturing operations at Coaticook were phased out and redistributed between the St. Hyacinthe and Paris plants. The mill at Coaticook incidentally, had been bought by Dominion Cotton in 1890, had been part of Dominion Textile in 1905, and had been sold to Penmans in 1907.

In 1972 the Domtex had the heaviest customer orders until then in its history. When this continued into 1973, the company reduced the number of lines it produced and concentrated on maximizing the output of goods. The high 1973 domestic demand resulted because of world shortages. Foreign exporters ignored the small Canadian market, and cut off supplies, as had happened during the World Wars and the periods of world-supply shortages that followed. Many argued that the value of a domestic textile industry was again proven.

The bulk of sales continued to be to garment manufacturers. By 1973 the demand for industrial fabrics was increasing. These products were sold to other manufacturers for further processing, or for incorporation into their manufactured goods. They included such varied goods as bandages, conveyor belting, shoe linings and abrasive fabrics.

6.11 THE NEW CULTURE AT WORK

The success of Dominion Textile after 1953 lay with its increasing productivity, involving a combination ~~of~~ the new marketing orientation leading good manufacturing management.

An important factor in increasing productivity was the Wage Incentive Plan, a bonus plant introduced in the late 1940s. For the next twenty-five years, until 1973-74, productivity was able to keep pace with wages. After a slump in 1973-74, the company got into newer and better machinery, and productivity improved again.

The measurement of productivity is the number of kilograms per 100 man hours of work. In 1966 the company got 495 kilograms per 100 man hours; in 1975, 871 kilograms, and in 1983, 1,300 kilograms.

With the gradual re-structuring of the company from 1970 onward it developed a control system which treated each division as a profit centre. This allowed a closer fit between buyers and production. It provided better answers to questions. What segment of the market should they strive for? What should the pricing structure be? Should a particular segment be rationalized with other companies, or should it be more vertically integrated? What possibilities were there for improving profit by curtailing overhead?

The gradual move to divisionalization had the effect of increasing overhead costs. One of the major advantages of the functional structure was the efficiency with which specialized services of all types (accounting, engineering, quality control, product development, manufacturing expertise, etc.) were carried out. When the provision of special services and duplication of services were spread across several divisions the costs rose.

The details of the change took years to sort out because the majority of the plants were producing products for several divisions. In the early years this partly off-set the benefits of identity with a multi-functional team and a certain segment of the market.

While Domtex has always been the largest Canadian producer of textiles, even in staple items such as sheets and towels it cannot be so big that every retailer has to buy from them. When the large Canadian retailers, Eaton's, The Bay; and Simpsons are running White Sales, competing retailers will rarely offer exactly the same item that another is advertising. There will always be something different about what is advertised - one special is twin size sheets, another is one double bed size. If one retailer's special is on florals, another's will be on solid colors. Retailers rarely run head-on competing sales of identical items. This puts pressure on the producers. It results in Dominion Textile producing retailer's house brands - Eatonia, Haddon Hall, Harmony House - identical products but with different packaging. This pressure limits the size of the market any company or product can get.

American styling continued to set the trends in Canada, but initially with a lag time of six months. Domtex could buy from the same New York studio, at the same time, even sometimes in advance of the Americans, but unless Canadians had first seen a style on the American market they wouldn't buy it. Being the only Canadian company, Domtex had the advantage of entry into every studio in New York and could look at all the lines chosen by U.S. firms. Even if it were included in the Domtex line from the start, Canadians would not buy unless they saw it first in New York. As time went by, the lead time closed on this phenomena. This diversification of styles eventually got out of hand. Trying to compete against all U.S. companies, and an emphasis on styling, in order to keep Canadian customers, also created inventory and control problems. Before the war, Dominion had carried 30 to 50 styles. In the 1960s it carried 500 to 800 styles a year.

In 1962, a U.K. subsidiary, Dominion Textile Company (U.K.) was established as the company's selling agency in its largest export market, and to act as a listening post in the Common Market. In the early 1970s the company's exports constituted nearly 10% of its total sales, but the product mix fluctuated. For example, in 1972 its exports of tire cord and yarn declined, but the reductions were offset by a substantial increase in corduroy sales. The exports were to thirty-two countries, but mainly to the U.K, and other Commonwealth countries.

Export sales increased again from \$19 to \$21 million in 1973, due to the company's participation in the spring and fall Interstaff trade fairs in Frankfurt.

LABOR ISSUES

The tough economic conditions in the Fiftes and Sixties produced protracted labor contract negotiations. As union structures became more rigid, the rules of conduct were tightly constrained. Since one of a union's tenets is security of employment for employees with seniority, it became increasingly difficult for the company to take more flexible types of action, such as running a plant three days a week instead of laying off employees.

The company negotiated almost continuously with the C.S.N. from 1956 to 1960. For a long period there was no contract. Negotiations finally ended through conciliation - a form of non-compulsory arbitration conducted by federal government mediators.

A strike in 1960, from early December to February 1, 1961 with the C.S.N. was mainly about the issue of job loads.

In 1964 the company negotiated contracts with there different unions, the U.T.W.A., C.S.N., led by Marcel Pepin, and the Q.F.L. under Roger Provost.

The most bitter strike of this period, in 1966, lasted six months. In the Spring of 1966, Domtex negotiated mainly with two unions, the U.T.W.A., which controlled about 40% of the company workers, and the C.S.N. which had about 60%. Domtex settled with the U.T.W.A. after protracted negotiations. In keeping with the intense inter-union rivalry of the time, the C.S.N. announced they would get a better settlement for their members. The C.S.N. was advised by Domtex that this was impossible. The battle was on, and continued for six months.

It was a very costly process. Domtex being more or less obliged to maintain employment for the 40% of its U.T.W.A. workers if it was to be in good faith, and losing the production of the other 60%. The labor situation being what it was at the time, any other measure would have insured an impossible situation between the company and the two unions. The company reasoned that neither union, in future, would be in a position to settle if it felt the other could do better.

The bitterness of the strike mirrored the political tensions in Quebec society at the time, punctuated as it was by F.L.Q. terrorist bombings. Following the strike, for example, one employee was sentenced to seven years for several crimes, including placing explosives at the Drummondville Plant.[68]

The strike became a political issue in the 1966 Quebec provincial election, which meant it could not be settled until the election was held in late June. The new Union Nationale Minister of Labor, M. Belmar, let the strike simmer over the summer. The settlement reached in September was for two cents more an hour than the company had offered in April. The strike badly hurt the company. From a $10 million profit in 1965, it had a $10 million loss in 1966.

The strikes of the 1960s greatly reduced management's feeling of social responsibility for workers. Ryland Daniels found the militancy of the unions, and the increased demands of federal and provincial governments unreasonable, that "Canada is pricing itself right out of both world and domestic markets because of demands of labor and spending of government. ... Gradually a change has evolved so that business (still pictured in striped trousers) is given the bulk of the responsibilities, whether real or imagined, while state, labor, and that amorphous body "society" lay claims to the rights."[69]

Following the strike, King, now President, organized a "Labour Management Committee" to try to open up more lines of communication where subjects of mutual interest could be identified and discussed between senior executives and union leaders. This committee finally got the federal government interested in the industry, and led to the formation of the first textile policy in 1970. The committee is still a very potent instrument in meeting with government.

King's approach to employees was more open, whereas previously the corporation kept its secrets. "He was the first to decide that the only way we could at least give the workers some appreciation of that fact that we weren't a cold-blooded, hard-boiled company was to give them information, and Eddie went out of his way to do that. He was the first one to go out of his way to try to make them understand the problems of the company. He was hard, but he was fair."[70]

The unions, on their side, gradually became more professional, and personalities became less of a cult, and important in labor relations.

Looking back on this decade of severe labor unrest, Frank Brady, then the company's chief negotiator, feels Domtex was one of the first companies to feel the effects of a new era of industrial relations in Quebec - unrest that later appeared in public service sector strikes. "I think that what we are seeing now, certainly in terms of labor in the private sector, that we were probably the leading edge of developments in the labor market, and we are now seeing in the quasi-public sector many of the birthing pains that we went through twenty and twenty-five years ago. When you look at the 1966 strike and so on, today it is relatively more settled in the private sector than it is in the public and quasi-public sector."

Until 1963, Domtex hourly workers had received wages slightly less than those paid to American textile workers. In 1964, Daniels told shareholders: "A matter of considerable significance is that our employees will now receive in wages and fringe benefits more than the average for the cotton textile employee in the United States." The company felt squeezed by these developments. "Your industry is one in which the upward pressure of labor, and other costs cannot freely be passed on to the customer. Textile manufacturers from all over the world are bidding for a share of this market, and this competition acts as a firm lid which very successfully resists these upward pressures. The sales price index for cotton textiles is almost unchanged from 1956."[72]

In the prosperous early Seventies, Domtex found it increasingly difficult to recruit and retain skilled workers. Labor turnover and absenteeism were serious problems. The company accelerated its recruiting and training programs. At the same time, the Canadian textile workers remained the highest paid in the world. The 1975 contract gave the company workers a further 40% rise over two years.

6.12 OWNERSHIP AND MANAGEMENT

Annual Meetings continued to be small affairs. For example, in 1952, 33 shareholders attended. In 1953 senior executives of the company attended for the first time. Between 1953 and 1969, attendance ranged between 38 in 1954, to 61 in 1961. Attendance rose somewhat in successful years, and dropped when results were poor.

These affairs remained small and perfunctory until Ron Perowne became President, and made them much more open. Under Ryland Daniels they had been especially brief. He liked to keep the proceedings trimmed to a bare-bones report. What was printed in the Annual Report was not repeated - "They can read that." Perowne however found this format dull and uninformative. He changed the presentation to shareholders to include exhibits of what the company was making, and started a bar and served hor d'oeuves after the meeting, "so that shareholders can meet us and see what kind of people we are."[73] Dominion Textile quickly got the reputation of having one of the most interesting and pleasurable annual meetings in Canada. More shareholders attended than for much larger firms. Attendance increased to such an extent that, starting in 1979, the meeting were held in the Ballroom of the Chateau Champlain.

In the Fifties and Sixties, J.W. McConnell, a director, was the largest single shareholder, but he never seems to have used this to influence the board.

King felt that the Board should give full weight to the opinions of management, after a full presentation of all aspects of a proposal. If management's proposals were found basically unsound, then changes in management should be made to protect the survival of the company and its stockholder's investment.

In the late Forties and early Fifties at the same time as the pre-war management style continued at the senior executive level, there was a recognized need for some change at lower management levels. The same thing had happened in the company after the World War I, when young veterans had returned to the company. Ron Perowne, rejoining the company in 1945, after five years in the navy, remembers the mood in lower management as being respectful, yet impatient. "After the war, young guys were frustrated because they'd been denied getting ahead, and they'd had real discipline in the army and navy. But you hoped you had a few brains, and things were starting to change. You wanted to get away from that straight-jacket atmosphere. You started to cut some branches from the trunk. You started to ask questions. This wasn't a sudden process, but it evolved. It was a process."[74]

During the Fifties and Sixties the company was able to hire many Americans - Julian Cummings, Dale Van Der Voort, Charlie Johns, Hood Gambrell, Troy O'Brien. There was a wealth of people from the U.S., particularly on the manufacturing side. The present Chairman of Dan River, Dave Johnson, followed Julian Cummings as Vice President of Manufacturing. While their new ideas were appreciated, they did not change the company. E.F. King recalls: "They had to be harnessed to quite different Canadian facts of manufacturing life. It took some time, but it gradually worked out."[75]

The company, as far back as the Twenties, had always recruited Americans for the Manufacturing Department. Their absorption brought into the company the new ideas developing in the U.S. E.F. King, after 1953, carried this learning process further. He urged his people to make connections with the leaders in their field in the U.S. to exchange points of view, and thereby keep up to date with happenings in that much larger and more broadly-based market. He hoped Domtex people would collect and consider ways and means which could be adapted to the much smaller, and in many ways more conservative, Canadian market. King recommended that contact be on a personal, one-to-one level.

With the opening of textile technical schools in 1945, the company developed a complex program of bursaries, in-plant training programs, staff and management courses and government supported plans for the unemployed. Domtex also financed specialized technical training and extension courses for many of its employees at Laval, Sherbrooke, Montreal, McGill, Sir George William's (later Concordia) and Bishop's universities. Some employees were subsidized to attend North Carolina State and Clemson in the U.S. Even in the Sixties some supervisory personnel came from Europe and the Southern U.S. The Canadian market was too small to support textile machinery manufacturing. Technological changes in textiles came from outside Canada, but the company felt they must always keep abreast of these changes.

At the beginning of the Sixties, the company began to actively recruit university graduates and offer practical training programs in textiles, hoping to attract people able to deal with the entirely new problems of the future. By 1970 recruiting had become an important consideration in the company's adaption to change. More was being demanded of plant managers as well. These managers, primarily oriented toward production, now had to face new roles arising from pressures such as legislation on clean air, and safety and health routines.

In the 1960s Domtex began to find it difficult to recruit qualified personnel. Part of this was due to the rapid expansion in the number of executive positions. Another problem was that as the number of Canadian textile companies dwindled, so too did the possibility of recruiting personnel from other Canadian textile companies.

Through King, and later Bell, Dominion-Burlington/Domil had transferred what it learned to the parent company. It was King and Perowne's hope that when the company acquired new satelite organizations, Esmonds, Fibreworld, Jaro, Elpee, Penman's, that they would be a great training ground for new managerial talent. The thinking was that the mergers would be beneficial for both sides. Unfortunately for the company this didn't happen. "In the 1960s, the more subsidiaries that came into being, the more you had to delegate. We were looking at it as a way of developing more Eddie Kings, who would get weaned here and get further experience in all the aspects of management in the subsidiaries. That if you make decision A, it has a relationship with the Bs and the XYZs. But we have not been as successful as we'd hoped. If you were to trace who were heading up the various subsidiary companies - Penman's, Caldwell, Elpee, Fibreworld, most never made it with the parent and left the organization. In terms of our pluses and minuses, we have found people out there, and some of them are doing well in the subsidiaries. But they have not been sufficiently strong in the weaning process. It hasn't worked out that we can bring them back here to senior positions. Where we've delegated authority there's not too many who are vying to knock Tommy Bell off his throne tomorrow. And no question, that's a concern we have. So despite the delegation, the day to day operations are still done much more at headquarters than they are out in the Penmans' hinterland - or Caldwell, or Esmond, or Hubbard. With these subsidiary companies we have not as yet been truly successful in getting a potential inventory of management personnel that can vie for top seats in this company."[76]

A dominant feature of leadership at Dominion Textile has been its continuity in passing down a sense of values and the philosophy of the company, many of these derived from King. Although Edward King was ~~only~~ President from 1967 to 1969, and Chairman until 1974, he, and later the values he stood for, dominated the company from the mid-1950s for the next twenty or more years.

After Blair Gordon brought in King in 1953, he stepped out and played a very diminished role, turning operations over to Ryland Daniels and King. The trust and confidence existing between Gordon, Daniels, and King was based on much more than business contacts at the senior management level. Blair Gordon and King had been friends since the 1920s, when they had adjacent desks at head office. King, although not an alumnus, would play hockey for Blair's fraternity hockey team at McGill. Later they would play tennis together on the tennis court at Sir Charles' Westmount home.

King developed his successors, Perowne and Bell, from the early 1950s onward, by encouraging them to be involved in the most important activities of the company. Daniels and King brought in Ron Perowne and made him General Manager of the main company, but left the subsidiaries reporting to them. There was a triumvirate again. Then Ryland Daniels started backing out, and King and Perowne ran the company. King brought Bell to head office to run the marketing operation, and three men formed a triumvirate again. Gradually Perowne came to run the company, with King playing a diminished role. After 1970 Perowne and Bell ran the company until late 1982 when Perowne played a diminished role by deliberately taking himself out of decision-making. The result of this continuity in leadership has been a strong sense of the company's values, traditions and history at the senior management level.

After 1982 Chuck McCrae and Alex MacAslan worked with the President, Tom Bell, as the new triumvirate. It was expected that this triumvirate would continue for several years until Bell nears sixty-five, when he will begin to play a smaller role and another person will be brought into the team. The feeling is that the job is too much for two people, particularly if one falls ill.

While Blair Gordon remained as President of the company until 1961, and was Chairman of the Board from 1961 to 1967, his role by that time was that of a figurehead. Blair belonged more to his father's generation. "He was of that generation of businessmen who made a deal without even a hand shake. If you were discussing something with him and said, "Let's do this", and Blair would say "O.K.", that was it. There was no contract, not even a handshake."[77] This was a characteristic of the textile industry of his father's era and dated back to practices in England long before that.

Gordon passed on the decision making power to men who were very close to his own age, men who had been with the organization as long as he had. In King's case, although he was younger than Gordon, it was longer.

Blair Gordon is still remembered by the Press for the parties he gave in the Fifties and Sixties. Two to three hundred journalists, some by train from Ottawa would party at the Ritz. Gordon would entertain the day shift journalists from 4 p.m. through until 11, get a bit of sleep, and come back at 2 a.m. to Slitken & Slotken, a favourite Montreal bar of the Press, to greet the evening paper journalists. The Gazette started to complain because its staff would go to the early party as well and turn up drunk. There are still newspaper men from Montreal who remember those times as the best company parties in Montreal. Eventually the parties got too big, and too rowdy, and were abandoned. For a while it had been a workable and useful technique of handling press relation, mainly because of Blair Gordon, leaning on the piano and chatting individually with each one.

Gordon's behavior and actions became increasingly confused and unpredictable. In 1961 he agreed to become the Chairman, and to turn the presidency over to Ryland Daniels. It was only in the early Sixties that the role of Chairman became a permanent feature of the Dominion Textile hierarchy.

To many employees it was a relief when Daniels took over. For many years he had, in fact, been running the company. Ryland had seen his father die in his early fifties and felt he would retire early, and enjoy life. He never did, because of his strong sense of responsibility, and the demands of the company. The Daniels' family estate represented a larger share of the company than the Gordon's did. Ryland saw it as his duty to protect that large investment. Daniels always kept his life quite private. One of his objections to being President was that he would get on the president's cocktail list. Daniels was a manufacturer at heart, who had rebuilt the company's plants after the war. He often relied on others for information and judgements. After 1953 he asked a great deal of Ed King, particularly for innovative ideas and the drive to accomplish them.

6.13 Edward F. King

The modern corporation of Dominion Textile is the creation of Ed King. King belonged to the Old Guard of the company, but had changed his thinking as society evolved, and so was also the beginning of the New Guard. The Old Guard were unsure of King, and of his tough ideas, but at the same time he was held with great respect. Although King's tenure as President, from 1968 through 1969, was very brief when compared to his predecessors, his influence on the decisions made by the company was pervasive, before and after those dates.

King's father, Bill King, had emigrated from Dublin around 1880, after finishing high school. He had first worked on a farm near Magog, but hearing that an addition was being built at the Magog mill went there carrying a hod, and was hired. Later, he was transferred to the Colonial Bleachery in Montreal, and eventually became the Chief Clerk of the Print Department at head office. The progress of Dominion Textile was always a topic of conversation at the King family dinner table.

Edward King was educated at St. Michael's Academy, a brother's school in Montreal. For fifty cents a month, King took an extra course in business, started by one of the brothers, and learned Pittman shorthand, book-keeping, and stenography. University was considered too expensive, so King went to work at Dominion Textile after graduating from high school. His first job, in 1920, at the age of sixteen, was as office boy at the Verdun Mill. He acted as secretary, carried the paymaster's cash can, passed out pay envelopes, and delivered the mail between the mill and head office, travelling by street car.

In 1922 King joined head office in the Product Development Office. King felt his knowledge of manufacturing was superficial. "I never became a manufacturing man because that wasn't my bent. But I never intended to be a manufacturing man." Still, King wanted experience in manufacturing. He asked C.P. Bishop to ask Frank Daniels, the General Manager, if he could work in the mill from seven to noon, and then do his job at the mill office. Daniels however, would not give his approval.

King's father-in-law, Ernie Bradley who became manager of the Print Works at Magog, was a textile dyer and finisher from Lancastershire. Bradley had first gone to Brazil, then later to India. During World War I, when there was pressure on the Print Department, a friend from Lancastershire who had moved to Magog, sent for Bradley. King's brother Morrie also worked for Dominion Textile.

In the early 1920s King had a fortunate experience with the Managing Director, Frank Daniels. Daniels needed a stenographer to take minutes of a Board Meeting. This work was always done by male secretaries because language at the meetings could sometimes get rough. King anxiously took in seven steno notebooks. The arrangement was that Daniels would elbow King when he wanted something taken down. The outcome was that several years later, when Daniels wanted someone to work on the small rayon operation, he recalled young King, and appointed him to be in charge.

King's solid, but not privileged background, and his early jobs with the company, gave him a special conviction in dealing with employees. An example of this was during the bitter strike at Magog in the mid-Sixties, when he was Senior Vice President. As a group of strikers marched on his house, King sent his family to a neighbor's, but he stayed at his door. The strikers taunted him that he was rich and privileged. King faced the strikers and told them that everything he had he'd worked for, and that they could do the same.

In 1945 King was chosen by Blair Gordon to represent Domtex in the Dominion-Burlington joint venture. He was given a considerable degree of freedom in dealing with Burlington. King was Vice President, to President Spencer Love of Burlington. The freedom given to King by Dominion Textile, reflected the confidence Gordon had in King's decision-making skills as a result of his previous performance record: King was required to be very flexible in this operation, acting as the go-between for Burlington and Dominion. Burlington, the largest U.S. textile firm, while advanced in divisionalization and a professionally managed company, was much more under the direction of one man, its President Spencer Love, than was Dominion Textile. When Dominion-Burlington was dissolved, King was named President of the operation, Domil Ltd., now a Dominion Textile subsidiary.

King, brought in a new professionalism, different from the Old Guard. A senior executives explains this influence: "King was very innovative in that he wanted the best. He created something that has lived with us and is still a Holy Grail around here, that we must know what is going on in every area of the company and around the world. That created an impact on present and future operations."[78]

Another King characteristic that is mentioned frequently, is his good judgement of people. A typical comment is: "He was both acrid and kindly. He was prepared to act as a father to any of us who needed advice, but he was also very objective about the task that was set. He was asked for judgement, and he gave it."[79] King explains why he acted this way. "One of the things I was blessed with, and I don't know where I got it from really, but whenever I got a job, the first thing I started looking for was my successor. Now people say, that's sort of funny. Didn't you want the job? Sure I wanted the job, but I wanted a better job, and I always had the idea that if I somebody behind me who could take over my job I'd be ready for another job. I don't think too many people think that way, but some do. I think people should be given opportunities in other avenues. I know it means some disruptions sometimes, and your selection of people has got to be very carefully made, because you can get a lot of disruption if some guy who is picked to do a certain job, out of his ordinary run, and his head gets so swollen he's a pain in the neck."[80]

In 1975, after his retirement as Chairman of the Board at age seventy, King was still retained to interview and assess some of the people who worked for DHJ.

King was still making decisions in the early 1970s. The President, Ron Perowne was ill in 1972 and King, then Chairman of the Board, returned as Acting CEO, carrying out the job with his usually high level of activity. For example, during this time, at the age of sixty-seven, he still found time to rent a Volvo, and with his wife tour northern European corduroy plants, looking for possible acquisitions.

Ron Perowne, remembering the early Fifties in the Sales Department, says of King's style: "He was tough. He'd give you enough rope to hang yourself. He always said, and he was right, and its a great management trait, and he had many of them, don't let a guy get too comfortable, always keep a guy 5 or 10% off balance. Never let a guy feel he has it made. He scared the hell out of a lot of guys, there's no question about it. He said to me when he was trying to bring me along, never, never, never let anybody feel too comfortable, because if they feel too comfortable they will rest on their oars too frequently, and you might ultimately hurt them more by pretending they are doing everything great. A pat on the back and a kick in the ass are good things. In terms of his fundamental philosophy, and my fundamental philosophy, because I followed in his footsteps, was that maybe he was of a ratio of three pats to 2 1/2 kicks, mine might be one kick."[81]

6.14 RONALD PEROWNE: PRESIDENT

Ron Perowne graduated from McGill University with a B. Comm. in 1939. He had worked summers at Dominion through the help of his family's Town of Mount Royal neighbour, C.A. Bishop, the head of yarn sales. Perowne, from his late teens, was a well known Montreal amateur athlete - in tennis, as McGill University quarterback, as an All-Star Intercollegiate award winner, and in 1939-40 as a member of the Montreal Royals hockey team. "I was lucky. There wasn't television in those days, but my name and picture were in the newspapers quite frequently. I was named Montreal Sportsman of the year, as the athlete that brought the greatest credit to the city and displayed good sportsmanship. These's no question this helped. I was lucky, and I always acknowledge that."[82] This quality of being a team player and the camaradèrie associated with sportsmanship would serve Perowne in Industrial Relations and later in the Sales Department.

On graduation in 1939 he applied to Dominion and was surprised to be interviewed by Blair Gordon. Gordon proposed that Perowne be Athletic Director of Gordon's alma mater, of which he was now Governor, Lower Canada College, a private boy's school. In return, Perowne could have a summer job at Dominion Textile, and after two years would be given a job with the company. Perowne was only partly able to fulfill the agreement, because in 1940 he joined the navy.

On V.E. Day, as his ship came into Halifax Harbour, Perowne wrote to Gordon saying he planned to get married and would very much like to get started at Dominion Textile. Gordon wrote welcoming him back, and assured him of a job as soon as he was discharged.

Perowne first worked at the Merchants Mill in St. Henri, in various departments, to learn the manufacturing process. A year later, Gordon asked him which section at head office he would like to join. Perowne chose Personnel, which he felt would be a growing field, and started out as a clerk. In 1950 he was made head of Industrial Relations. This was during the period of the company's toughest union negotiations, and a period of bitter strikes spearheaded by the militant Marxists Madeleine Parent and her husband Kent Rawley.

In 1954 Perowne had a call from King, a man he had certainly heard of, but barely knew, asking him for lunch. Nearly thirty years later both report the conversation of that meeting in virtually identical words. King asked him to join the Sales Department. Perowne protested that he knew very little about sales. King's reply was: "I know, you'll sink or swim."[83] King placed Perowne as the head of one of three groups in the Apparel Fabrics Division, with the former head of that group, Jack Andrews, as his assistant. King had concluded that Andrews, whom he had inherited, was not right for the job. After clearing this with Ryland Daniels, King called the heads of the Sales Department into his office and announced that Perowne would now be the Product Manager of Division 3, and that Andrews would be his assistant.

In 1955, Perowne became Sales Administrative Assistant and afterward worked daily with King. In 1966, when he was forty-nine, Perowne was called to the office of the President, Ryland Daniels, and asked, with King present, if he would be President when the time came.

Ron Perowne has continued to emphasize the special feeling of commitment employees give to the company, of being part of the company tradition. "We don't want someone who has just gone through a formal education and has not exposed himself or herself to a lot of situations. We want people who are involved and surround themselves by becoming part of whatever the life around them is - whether its school, church or family life. Maybe savvy is the important part. The leader has to have brains, but also a lot of savvy. We've been pretty fortunate on that part of it. We tend to get people who deal themselves in. We pride ourselves, that for a large organization, we have many people who have textiles in their veins. If you could measure it, and there is no way you can, we have more people who bleed Dominion Textile to as high an extent as any organization."[84]

King, Perowne, Bell and other senior executives have come from somewhat similar backgrounds - not privileged, but with very solid values of conduct in both work and to the community. The senior executives still feel the sense of commitment to a code of business ethics and of social service that marked their predecessors. The recruitment and socialization process has sought out this type of person. "Yes, we inherited the code, but we knew it before we ever became associated with Dominion. We all happened to be fellows that associated and participated with our own age groups in various things." This code gives the company a strongly entrenched sense of buiness ethics. "One of the characteristics of this company, and maybe we don't put out brochures or banners about it, is one of integrity. This has never been a company, where in order to get orders you have to buy them under the table. We don't do that."[85]

Another trait of the executives is the emphasis the company and individuals place on family life. From the Chairman on down, there is a strong belief that a good family life complements good company life.

6.15 TOM BELL: PRESIDENT

Tom Bell joined Dominion Textile July 2, 1940, three days after he finished high school. Like Perowne, he served five years in the Royal Canadian Navy, joining while still in his teens.

Bell rejoined the company on being discharged after the war. He was soon picked out by King and brought to work at Dominion-Burlington on fabric development. He was involved in the subsidiary's viscose and wool suitings experiments, the start of the blended suitings industry in Canada. At Domil, Bell built up an extensive knowledge of the synthetic side of textiles. While he was aware of the cotton side of the business, he became the company's expert in the new processes needed in spinning, weaving and dyeing in the polyester field. He also experienced all the growing pains at Domil, when polyester was not being accepted.

Bell's experiences under King at Domil in the late Forties and early Fifties gave him responsibilities and experiences he probably would not have had at head office. The role he played at Domil was anything but static. As President of Dominion Textile, nearly thirty years later, Bell would find it easier than most to initiate and adjust to change. "Eddie King in the few years he was there, my direct boss, pushed me into more things than I knew what I was doing. I'd start off on one thing and before a few weeks were by I was doing two or three others. We were working nights and Saturdays. In those days at Dominion Textile they didn't work Saturdays, but at Domil we did. All the group were in there. So I got into a lot of things, quality control, fabric development, style, selling without being a salesman, merchandising without being a merchant. I visited Greensboro in 1946, a young kid going down and talking about quality control, going to New York every three weeks by myself, talking with all the stylists, many times going with Eddie King."[86]

Domil under Ed King operated like a small entrepreneurial firm in the dynamic enviroment of synthetic textiles, giving Bell a wide range of experience in textiles. "Although I was primarily in marketing, because of my quality control and product development responsibilities I had to know what was happening in the plants. I had to know what they were doing and how they were doing it. Without becoming an expert I got to be pretty knowledgeable. I got to know the tricks these guys could play, because I lived with them. I lived on both sides of the street."[87]

In 1963, Bell was Sales Manager at Domil when King persuaded him to come to head office to work as Assistant General Sales Manager to Ron Perowne, the Sales Manager.

Bell feels the present decentralized structure of the firm, of which he was an instigator, gives the same scope to current employees. "I get very discouraged, disappointed, and disillusioned when someone tells me they haven't got opportunity, and particularly since we decentralized, to hear that the atmosphere in which I grew up in isn't so relevalent as it should be to make people enjoy their work by allowing them to reach out and be included and do more than just the prescribed job description without looking for a job title to go with it. But then that's the way I was brought up, the way I was built. That's what I still believe."[88]

Tom Bell steers away from complicated statements of purpose, sometimes to the annoyance of executives who wish for an elaborate enunciation of purpose. To Bell: "What is our philosophy? What's the company philosophy? I think the philosophy is well-known without even being enunciated. When I read some of those philosophies in annual reports I think, what the heck is it? You want to be the best at what you're at. Well everybody wants to do that. You want to make the most money for your shareholders. That's the philosophy we have."[89]

PERFORMANCE

From 1950 through to 1955 the company was again sustained, as it had been for seven years in the Thirties, by the fund created from World War I profits. Dominion Textile was living on the profits of the past.

In 1952 business was so bad the company had no taxable earnings after depreciation. The major factor that created some taxable income was the interest received on holdings of government bonds in the investment portfolio. Again in 1953 there were no earnings from operations. In order to pay out dividends of 39.7 cents a share, $523,017 was taken from the Surplus Fund whose basis was the World War I profits. These losses so worried the company, that the management was willing to reorganize itself.

The company's balance sheet however, remained highly liquid, allowing it the opportunity of moving on favorable opportunities, if they appeared. In 1954 the loss from operations was $805,153, again offset only by revenues from investments in the Surplus Account of $756,639. In September 1954 the company omitted a 1 3/4% quarterly dividend payment, the first ommission in its history since it began paying dividends in 1906. This period, rather than the Depression, must be considered the lowest point in the company's history.

In 1955 the company again had major losses. Despite agressive selling the profit picture showed no improvement. "We have consumed more raw cotton, produced more goods and paid for more hours of labor than in the comparable period of last year, but our shipments have been substantially less than our production, and the price situation has shown little or no improvement."[90] The profit margin was squeezed out between the cost of production in Canada, and prices set by the sale of distress goods from the U.S. Fixed costs accounted for 20%, while 80% of cost rose proportionally with volume. Volume had to rise 25% to get a 4% reduction in the cost of production. But to get this volume the company had to reduce profits by 5%, thus losing earnings. There was clearly a limit on how far volume could be strained.

In 1956 the combined effects of plant modernization and aggressive selling were felt on the balance sheet. In 1957 net earnings had increased to $1.18 per share, compared with $.86 the previous year. Net earnings were $3,212,927, or 3.02% on net sales of $106,991,369, a narrow margin of profit. That year the company spent over $7 million on improving the plants. Net earnings in the recession year of 1958 were a marginal 2.24% of sales, and in 1959, 2.82%.

The strategy of renovation and building paid off in the Sixties, which were a period of steadily rising income and profits. The loss in 1967 was due to the six month strike in 1966.

In 1970, despite the economic downturn, there was an improvement in operating income, resulting from efficiencies in the manufacturing facilities, lower fibre costs, the new cost control system and improved inventory management.

The sudden heavy demand on domestic production resulting from the 1973 oil crisis brought Domtex record high earnings of $15.8 million before taxes in 1973, and a jump to $33.1 million in 1974.

In 1975 as the international textile market stabilized and imports were again available, inventories of finished goods were higher, while the average selling price showed a steady decline. The volume of shipments was off 20% from the previous year. Double-knits and automobile product sales were particularly low. As the year ended, orders were increasing and the company was moving toward full production. The 1975 profits were below those of 1972, a warning to the company, that as the Canadian market returned to equilibrium Domtex probably faced a period of slow growth.

On the surface, in 1975 Dominion Textile may have appeared to be a mature firm, overwhelmingly dominant in its otherwise declining industry. Underneath, new configurations, a latent strategy of expansion, and new structure to deal with it were evolving.

In business policy, the first commandment has been that strategy determines structure. Much is made of whether intentions or actions indicate the existence of a strategy. In the fine details of the changes at Domtex, between 1970 and 1975, one sees the iterations between strategy and structure. It was the intention to be more flexible that started the move to divisionalization. The changing structures gave the company greater confidence that it could deal with a major strategic change, and that in turn increased their readiness for it.

By 1975, the senior executives were predisposed to act when the opportunity was perceived as advantageous.

The textile industry had changed greatly since 1953. It had always been a global industry, but by 1975 the tariff reulations which contained competition were fragile to the point of breaking down.

Instead of waiting for this to happen, Dominion Textile prepared to buy into a new industry niche where its long-term technical expertise and professional management would find new opportunities. By confidently pro-acting they hoped they would confound the government experts.

Ryland Daniels spoke of government as the company's silent partner back in the Sixties. By 1970, Dominion Textile was treating government policy as a constraint which severely restricted its strategy-making. The executives wrestled with the problem of how to deal with this barrier to the company's growth, and therefore to their own development as well.

SUMMARY

Chandler's work is based on comparative studies across industries. One of Chandler's conclusions is that industries with through-put technology were more likely to develop a modern corporate structure than labor-intensive industries such as textiles. Labor-intensive industries adopted the modern corporate structure when they also became marketing operations. "The new mass producers became modern enterprises only when they integrated forward by creating their own extensive organizations for sales and distribution. They rarely adapted this strategy of growth, furthermore, unless existing marketers - specialized manufacturers' agents, as well as the new mass marketers - were unable to sell and distribute their output as quickly as it could be produced by the new techniques."[91]

This passage describes the changes at Dominion after 1953. The marketing middlemen, the wholesalers and jobbers had gradually lost their market position in the Twenties and Thirties. Dominion Textile, between the wars, had developed a marketing operation ~~that was~~ effective, for its time. World War II, unsuccessful attempts at reorganization, and a lack of direction in the Sales Department after the war had left the selling function weak and ineffective. After 1953, Domtex took steps to better respond to the market. The reason for the change, however, was not the change in the market. The market was a stimulus, but it did not account for the response.

Chandler is concerned with summarizing the changes in strategy and structure he has observed in his large sample, and is less concerned with the underlying reasons for these changes. "The inherent weakness in the centralized, functionally departmentalized operating company .... became critical only when the administrative load on the senior executive officers increased to such an extent that they were unable to handle their entrepreneurial responsibilities efficiently. This situation arose when the operations of the enterprise became too complex and the problems of coordination, appraisal, and policy formulation too intricate for a small number of top officers to handle both long-run entrepreneurial, and short-run, operational administrative activities. To meet these new needs, by 1975, the innovators built the multidivisional structure with a general office in order that executives could concentrate on entrepreneurial activities, and with autonomous fairly self-contained operating divisions whose managers would handle operational ones. ...

Furthermore, awareness had to be translated into a plan for meeting the new conditions, and then the plan had to be accepted by most of the senior executives. Since such a program dealt with the relations between persons rather than with technological or mechanical development, the working out of the plan was more complicated than merely bringing a new product or process into effective use."[92] Before there could be a new strategy, there had to be a new awareness, a new perception of the environment, and a concensus about these perceptions by some segment of the management group. At the heart of the process is the management culture, whose perceptions of the environment, and the goals it sets for itself within that environment are a reflection of that culture.

Schein calls this phenomenon Organizational Culture. "Organizational culture is the pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with problems of external adaptability and internal integration, and that have worked well enough to be considered valid, and therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems."[93] The term Management Culture is used here, because in this research as shown at Dominion Textile, culture arose from a small, dominant group of executives, who then reworked the operations of the company to reflect their perceptions and goals. While the culture of the operatives may change little because of the imperatives of the technology, the culture at the senior management level can change considerably and very quickly. As Schein explains, it is "possible to have a managerial culture, an engineering culture, a science culture, a labor union culture, etc., all of which coexist in a given organization."[94]

Schein's model of Organizational Culture illustrates how the basic assumptions of the dominant management group at Domtex become translated into artifacts and creations.

Exhibit: 6 - 9 Levels of Culture and Their Interaction [95]

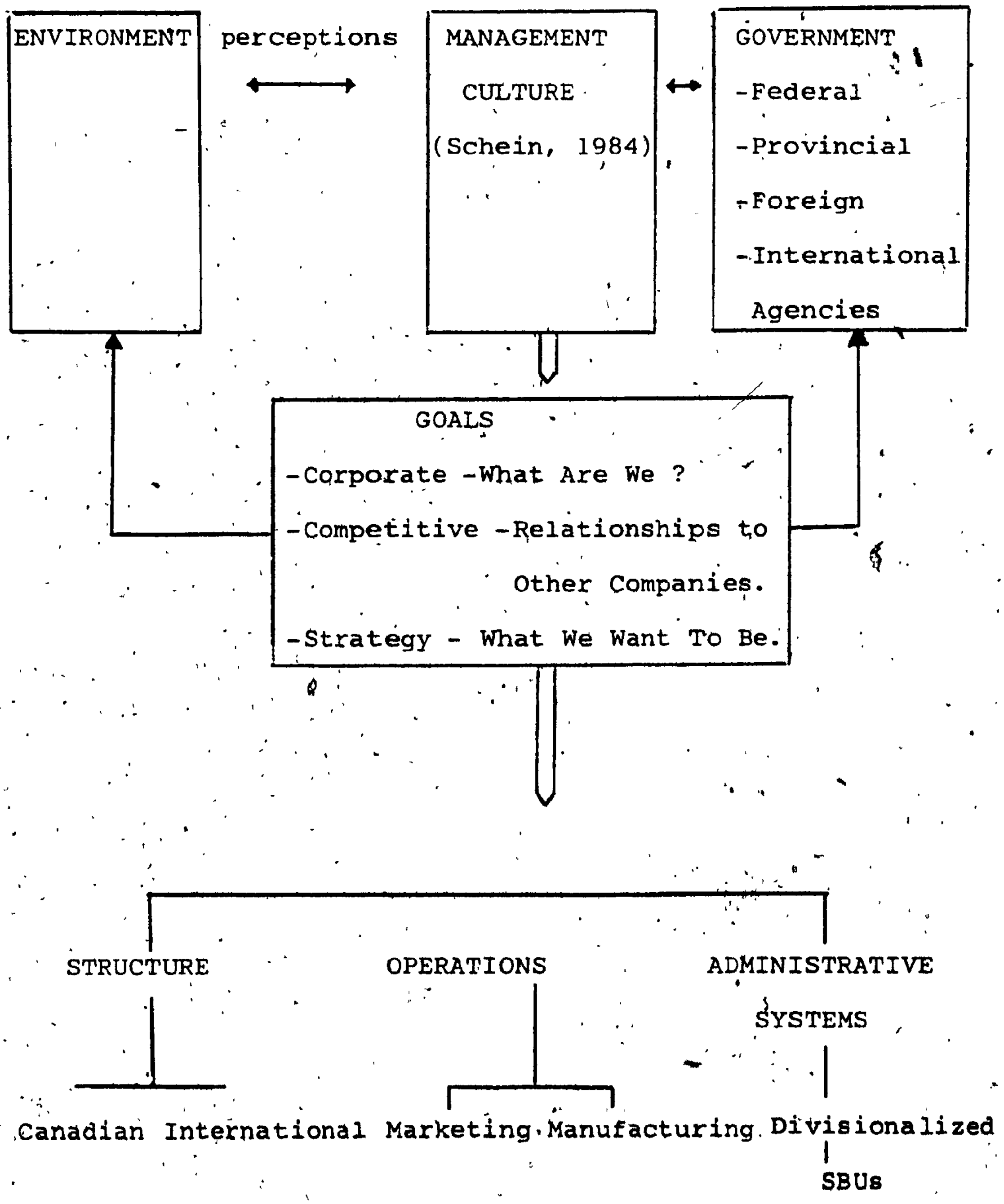
Artifacts & Creations	Visible but Often Not Decipherable
	↑
Values	Greater Level of Awareness
	↑
Basic Assumptions	-Taken for Granted -Invisible -Preconscious

Unfortunately, because these underlying assumptions are invisible, and often pre-conscious. The dominant group itself does not usually articulate this agreed upon set of precepts. Researchers often ignore this phenomenon because it is too subtle to quantify. There is a tendency for researchers to concentrate on either the sociological aspects of managerial culture[96], or to assume its presence and concentrate on the artifacts as manifested by strategy and structure.[97]

This research indicates, that at Domtex the corporate strategy and structure is the creation of a corporate culture. A model that seeks to illustrate the linkages between these concepts cannot be both accurate and simple. It must encompass the important work on strategy formulation and strategic decision-making. The research findings also show that the input of government on these processes is too important to exclude. The study of

Dominion Textile indicates the relationships amongst these several processes are:

Exhibit: 6 - 10 <u>MANAGEMENT CULTURE AND STRATEGY</u>



The management culture is defined by a dominant given group. "A given group is a set of people [1] who have been together long enough to have shared significant problems, [2] who have had opportunities to solve these problems and to observe the effects of their solutions, and [3] who have taken in new members. A group's culture cannot be determined unless there is such a definable set of people with a shared history."[98]

The history and development of Dominion Textile reflects the cultural values of the dominant group, who were also people of their times. In the history of Dominion Textile there appears to be three dominant groups, each headed by an individual: (1) Andrew F. Gault, (2) Sir Charles Gordon, and (3) Edward F. King. These can be briefly noted as the production culture, the financial culture, and the managerial culture. These management cultures differed in several basic ways, given that the organization of the technical core, in all three cultures, was by its nature bureaucratically organized.

King was the link between the former and modern cultures. His success in the Gordon culture resulted in his being given authority to change the basic orientation of the company. The culture King initiated has been further developed by his successors Perowne and Bell. The new management culture initiated and fostered by King, was adopted by a selected group. The new group further developed additional precepts, which further developed and reinforced the group's sense of purpose. "Thus for each stage of the problem-solving cycle, there will emerge solutions characteristic of the group's own history, and these solutions or ways of doing things based on learned assumptions will make up a major portion of that group's culture."[99]

Exhibit: 6 - 11 THE EVOLUTION OF MANAGEMENT CULTURE

	PRODUCTION	FINANCE	MANAGERIAL
Corporate Purpose	output at lowest cost	profitability for survival	-established by management for corporate purposes -the Domtex person
Dominant Purpose	production	generation of financial wealth	-competitive -survival
Major Emphasis	price/cost	efficiency and effectiveness	-marketing and customers
Managerial Values	efficiency	economy	-responsiveness to customers -commitment to firm
View of the corporation	a production unit	a source of wealth	-a means for personal identity and personal goal accomplishment

These old and new management cultures differed in several basic ways, given that the organization of the technical core, in both cultures, is by its nature bureaucratically organized.

Schein suggests that: "One should also study whether organizational cultures reflect in a patterned way the nature of the underlying technology, the age of the organization, the size of the organization, and the nature of the parent culture within which the organization evolves."[100] The answers to these questions in the Dominion Textile case are:

[1] The management culture is to a considerable extent a reflection of the technology. As technology became increasingly complex, new values of adaptability, flexibility and increased attention to the planning and financial functions of the company were adopted.

[2] The organization's age and its culture are not correlated, because "culture is a solution to the problems a group faces."[101] Within a few years of its founding, Dominion Textile became a bureaucracy. The trend after 1953, which accelerated after 1970, was to decentralize activities and increase local autonomy. The divisionalized structures helped to shore up and support the bureaucratic components of the organization demanded by technology. The need to be adaptive and responsive increased bureaucratic and centralized control of production processes; while

decreasing centralization in marketing and product distribution. Divisionalization became a way to secure the benefits of decentralization and centralization simultaneously. The glue, however, which appears to hold Domtex together is a culture and set of values and beliefs which, formed initially by a small group, have become a dominant set of values.

The initial decision to be responsive to the market created in Dominion Textile the needs and imperatives to create a managerial culture, administrative systems, and operational processes similar to those found in other types of companies. The role of government in the economy, and the Jean-Luc Pepin policy of 1970, appears to have shortened the learning process at Domtex. The power possessed by E. King, remade Domtex over in the space of 25 years, (1953 - 1975). By 1975 Domtex had in place a modern managerial culture, a corporate strategy, and an outlook for survival.

A significant variable which made this transition possible without outside intervenors, was a corporate culture built around the determination to survive. The often repeated phrase heard at the company of "we've never missed a dividend", carries with it the implication - and we don't intend to. To the executives there is the added incentive that after this long they are not going to be the ones that close the enterprise down. Executives know they have a long tradition, and they are determined to pass it on. Such simple actions as the President inviting a long-term employee to tea in his office on her last day of service, or the Chairman leading all head office staff in carol singing at Christmas, are done in a spirit of long-standing codes of conduct, and a keen awareness of tradition.

[3] There seems to be no correlation between organizational culture and size. In 1905, Dominion Textile had over 8,000 employees. This peaked at over 14,000 during the early years of World War II, and again in the 1970s. But size, measured by the number of employees has not affected the organizational culture. While the organization has stayed the same size, the managerial culture, strategy, and structure, have all shown significant change.

What has affected the company and therefore the culture is the relative size of the company to the size of the industrial complex of the country. When the company was founded it was the largest company, in the largest manufacturing industry, in the country. This position has steadily declined, so that in the Eighties, Dominion is ranked around the 70th largest Canadian company by the Financial Post. This decline has been reflected in the type of treatment the industry receives from the government. When the industry was seen as essential to the national economy, it was carefully protected through legislation. When some sectors of government opinion considered the textile industry as being of little consequence to the long-term economic development of the country, the protective measures were, to a large extent, withdrawn.

[4] A factor not mentioned by Schein is the affect of geographic dispersion on management culture. This of course is partly dependent on communication technology. But in the 1905 - 1920 period, when the culture was most dominated by the values of the Montreal business community, the mills were dispersed throughout Eastern Canada. Gradually mills outside Quebec were closed, and a homogenous, centralized culture giving more predominance to salaried head office managers developed. This would change gradually in the 1960s as mills were again more geographically dispersed, but communications would still allow a strong head office culture to dominate the branches.

This would begin to change again after the 1975 acquisition of DHJ. At first Domtex relied on expaitriates to manage the acquisitions, while seeking out locals they could work with. Company executives seek out compatible locals as part of the strategy of decentralization. At the same time, they acknowledge that the managerial culture will inevitably change to reflect the diverse backgrounds of the new managers. What these changes will make to the managerial culture is uncertain.

When the culture changed after 1953, several other things also changed - the company's perception of the environment, its role in its industry, and its attitude toward corporate structure (are there different ways to organize?) There was also a fundamental change in the goals of the managers - what they wanted out of corporate life. As a result of their management culture, organizations have different perceptions of their environment, industry, corporate structure, and managerial roles and behavior. Daft and Weick call this interpretation, "the process of translating these events, of developing models for understanding, of bringing out meaning, and of assembling conceptual schemes among key managers. ... Interpretation gives meaning to data, but it occurs before organizational learning and action."[102]

Many models on the strategy process do not include a consideration of management culture and its affect on the organization's perceptions and goals. "Perhaps the process of interpretation is so familiar that it is taken for granted, which may be why little research on this topic has been reported. But interpretation may be one of the most important functions organizations perform."[103] Many models (those of Chandler, Scott, Wrigley etc.) assume away culture and take for granted a unanimity of interpretation and goals. They also assume away organizational and managerial capability. This study indicates that the strategy/structure linkage is at the end of the process - not at the beginning. The life cycle process models have to be expanded to provide for drive, desire, and motivation.

In Chandler and Scott, these are assumed to be provided by the market. This research supports the view that the drive is culture, capability, desire and motivation.

The determination of organizational goals is more proscribed by the international, national, and industry environment. The Harvard Paradigm, or LCAG Model of Learned, Christensen, Andrews and Guth, describes the analysis process take by senior executives in determining their goals to guide future action. The Harvard Paradigm implies these decisions are based on managerial values as well as on market considerations. The model developed from this research suggests that there are behavioral reasons to link the dominant or given groups's need for both external and internal survival. Linking the Harvard Paradigm to perception and culture helps explain the systematic variations in choices made by organizations.

The question of why Dominion Textile did not adopt, at an earlier date, a strategy similar to the one by E. F. King was not because the conditions were absent. The capacity was available, and there were people who knew how to formulate strategy. The reasons that Dominion Textile waited until E.F. King to respond was that management lacked the will, desire, values, and beliefs to accomplish something special for Dominion Textile. The problem with the Harvard Paradigm is that it assumes a common or known culture which cannot be implemented and converted into a strategy because people in the organization do not have the goals. The main difference between Dominion Textile prior to 1953 and after is E. F. King and the cultural change which he brought about, and how he perceived, interpreted and communicated to others his views on the world around him and the opportunities facing Dominion Textile.

The effects of government policies on business organizations are often assumed away. This research has found that a consideration of the role of government is a necessary component of business strategy models. Recent comparative studies by Chandler and Daems[104] of the development of European corporations, have placed a greater emphasis on the role of government and of national culture in shaping modern corporations. This study has found the policies of government to be an important component in shaping the strategies of Dominion Textile.

There have been numerous studies on the process of Strategic Decision-Making. Some findings report the process to be the result of developing programmed responses when problems are routine (Simon, 1960). In this study, the process models of Mintzberg (1976) and Quinn (1980) best describe the process of implementing strategic decision-making. What is not clear in the studies of Mintzberg and Quinn is again the underlying assumptions to account for the variations in choices made by organizations. The model derived from this study provides the motivation to account for the actions which Mintzberg and Quinn observed.

On reading Chapter 4 (1920 - 39), E.F. King commented that perhaps the discussion on structure should preceed that on strategy since "in those days what we did was limited by what we could do within the structure."[105] This contrasts with the company's current practice, where structure is a process whose particulars are changed almost daily. This research indicates that the Chandler model of strategy determines structure is a feature only of the modern corporation, that previously structure was perceived by management as a given. Only when Domtex managers saw structure as a malleable tool of strategy could the company develop into a modern corporation.

FOOTNOTES

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4 Government of Canada, Textile and Clothing Board. _Textile and Clothing Inquiry._ (Report to the Minister of Industry Trade and Commerce, June 30, 1980, Vol. 1)

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7 _Ibid._

8 _Ibid._ Ron Perowne, Annual Meeting, 1973

9 _Textile and Clothing Inquiry,_ 1980, p. 38

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11 E.F. King, interview, 1983

12 Tom Bell, interview, 1983

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18 E.F. King, interview, 1983

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20 *Ibid.*

21 *Ibid.* Blair Gordon, Annual Meeting, 1961

22 *Ibid.* Ryland Daniels, Annual Meeting, 1967

23 E.F. King, interview, 1982

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25 E.F. King, interview, 1983

26 Organization Study, Dominion Textile, 1970

27 *Ibid.*

28 Ron Perowne, interview, 1983

29 E.F. King, interview, 1983

30 *Ibid.*

31 *Ibid.*

32 E.F. King, interview, 1982

33 Dominion Textile, Annual Report to Shareholders, 1977

34 E.F. King, letter to author, Feb. 1983

35 Montreal *Star*, June 27, 1967

36 C. McCrae, interview, 1982

37 Organization Study, 1970

38 Tom Bell, interview, 1983

39 *Ibid.*

40 *Ibid.*

41 C. McCrae, interview, 1982

42 Organization Study, 1970, p. 22

43 Organization Study.

44 Tom Bell, interview, 1983

45 *Ibid.*

46 *Ibid.*

47 Organization Study, 1970

48 *Ibid.*

49 *Ibid.*

50 *Ibid.*

51 *Ibid.*

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53 Tom Bell, interview, 1981

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77 J. Armstrong, interview, 1981

78 A. Earle, interview, 1983

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80 E.F. King, interview, 1983

81 R. Perowne, interview, 1983

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83 E. F. King, interview, 1982; R. Perowne, interview, 1983

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86 T. Bell, interview, 1983

87 *Ibid.*

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89 *Ibid.*

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91 Chandler and Daems, *Managerial Hierarchies*, p. 23

92 *Ibid.*

93 E.H. Schein, "Coming to a New Awareness of Organizational Culture." *Sloan Management Review.* Winter 1984, 25, 2), p. 3

94 *Ibid.*

95 Schein, 1984, p. 4

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97 Mintzberg and Waters, "Tracking Strategy in an Entrepreneurial Firm."

98 Schein, "Organizational Culture," pp. 5 - 6

99 *Ibid.* p. 10

100 *Ibid.*

101 *Ibid.* p. 9

102 R.E. Daft, and K.E. Weick, "Towards a Model of Organizations as Interpretive Systems," (*The Academy of Management Review.* Apr. 1984, 9, 2), p. 286

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105 E. F. King, letter to author, Feb. 1984

CHAPTER SEVEN

THE MULTI-NATIONAL CORPORATION

DOMINION TEXTILE AFTER 1975

MAJOR STRATEGIC-STRUCTURAL COMMITMENTS

- True multi-divisional structure with genuine (dissimilar but complementary) diversification.
- Diversification across North America, tied to realization of declining domestic influences. Further structural change toward holding company form.
- Becomes true international competitor.

Critical Events	Company Actions	Effects of Change
textile industry increasingly global, Multi-Fibre Agreements, GATT	1975: T. Bell, Pres. Growth must come from outside Canada	Business downturn, sales decline
Canadian market open & competitive	further decentralize operations	structure increasingly divisional
1975: DHJ, U.S. near bankruptcy, for sale, interlinings, denim & knits	buy DHJ, strategy of geographic & product realignment & consolidation	create International Division
Changing consumer tastes	drop knits, expand denim operations	phase out less competitive lines
1976: political tensions in Quebec, Parti Quebecois	compliance with government legislation, e.g. Bill 101	difficulty in recruiting staff
increase in social & government problems	much of President's time involved in societal problems	1977 fully divisionalized 1979 record sales

1980-83 recession, inflation, increased imports into Canada	1981 Asset Redeployment Program	less efficient plants closed
U.S. textile environment more favourable, lower wages	continued investment in U.S. companies, become a North American company	1980: buy Linn-Corriher 1982 Mirafi
1982: Canadian Industrial Renewal Board	takes grants to improve three Quebec plants	renewal of Quebec mills
1982: Caisse du depot major shareholder	continue structural chants	divisions become 3 companies with own Presidents
rapid changes in textile technology	more autonomy to companies to respond to their respective environments, move to Holding Co.	International division of foreign firms
developing countries expand their textile industries	use textile expertise world-wide, narrow product line to more specialized products	1983: management consulting business international

The development and growth of Dominion Textile after 1953 was substantial and spectacular. In quick succession the company moved through three periods, each with distinctive strategies:

(a) a strategy which emphasized being a market driven company serving the Canadian market.

(b) a strategy which emphasized growth through the acquisition of international divisions.

(c) a strategy of being a multi-national company with a world based strategy.

A discussion of the causes and roots of these changes was begun in Chapter 6. This chapter focuses on the later developments of this strategy, especially the formation of a multi-national corporation in 1980. In 1980, Dominion Textile effectively became a fully developed and mature organization. How the company attained this position is the major focus of this chapter.

The strategy-structure relationships which Dominion Textile developed in 1980, placed strategy first and structure as a reflection of strategic goals and purposes. Chandler notes that having strategy direct structure is an indispensible characteristic of a fully developed and mature organization. By 1980, Dominion Textile executives had accepted a culture, and adopted strategies for the corporation, and for each of its many businesses, which required the creation of structures and administrative systems which would support these efforts. The distinguishing characteristic of the strategy-structure relationships by 1980 was that the corporate executives were prepared to adopt and accept goals first, and then create structural and administrative systems to support these efforts.

As organizations have historically changed their strategies, they also need to develop structures appropriate to the new strategy. In the case of Dominion Textile, the company attained an appropriate strategy-structure relationship at many times during its history. Until 1953, any differences between strategy and structure created minimal inefficiencies and few difficulties. The strategy of Dominion Textile until 1953, was applicable to a commodity-type business.

In the early years of Dominion Textile, the dominant culture limited the adoption of a strategy which extended beyond being in the cotton textile business and producing as efficiently as possible. The culture also limited the development of a management cadre, or professional management staff, in areas other than production. Chandler proposes that organizations develop as they respond to new markets and products. The case of Dominion Textile illustrates that managers do not always respond to opportunities. The past successes of a company limit the development of personnel capable of changes. Traditions, standardized control measures, repetitive behavior, and the existing managerial culture may limit perception and innovative responses. A change in culture, including attitudes and values, along with perceptions about the organization's role and managerial roles, and new goals, is needed to develop managerial and organizational capability.

The development of Dominion Textile illustrates that with the application of a "visible hand", a company can stop growth and development at any time. Only in retrospect can one describe corporate development by Scott's model. What is ignored in this model, and which is evident in the case of Dominion Textile, is that without a managerial culture which devlops viable goals, implements a viable and effective strategy, there is no developmental cycle. The organization will survive as long as its appropriate strategy arises from the technology of production. It appears in the case of Dominion Textile that structure created strategy from 1905 to 1953. Except during the latter few years (1949 - 1953), this was an appropriate strategy.

Structure as the determinant of strategy, or strategy determining structure does not seem to make any difference in conditions where a generic mass production strategy for external responses is appropriate. Technological considerations and efficiency criteria support the strategy, and managerial efforts are directed towards maximization of output and of returns. This strategy - structure relationship appears appropriate in a stable environment (whether natural or contrived), with a commodity type product, where consumer preferences related to availability and quantity, and where there is a lack of substitutes (Dominion Textile 1905 - 1946). Efficiencies or lack of performance can be traced to variations in any of these conditions, which are temporary or reversible once recognized.

A different approach to development becomes necessary when the environment is changing and dynamic, and managers are limited in their abilities to respond to all opportunities. There are alternative uses of of resources, different market segments and domains, different technologies, and choices about responses. Under these conditions unless strategy drives structure, the organization will fail. Effective strategic responses are related to the goals, values, beliefs, and expectations which arise from managerial culture (Dominion Textile after 1953). Only when this took place did the organization proceed to select a strategy which involved choices, and a structure which was created to support these choices. As long as management perceived that there were no alternatives, structure followed production technology. When there are perceived viable choices and alternatives, along with pro-active values and goals, one can assert that structure will follow strategy in a prescriptive fashion.

The acknowledgement of choices and alternatives became part of the scenario of Dominion Textile after 1953.

In areas of uncertainty and choice, which become evident in Dominion Textile after 1953, strategy - structure relationships become important. Until this awareness took hold by a change in management values at Domtex, structure, and thereby strategy, was driven by the technology of cotton manufacturing. It was easier to think of structure as a given which dictated strategy.

The Chandler model, as a result, is a choice model, rather than a universal life cycle development model. Managers must want and desire to pro-act, and believe that they have the capability to use the organization as an instrument for development. In the case of Dominion Textile, this view was late in coming, and was adopted only after 1953.

The second major influence on structure is the predominant culture which drives managers, and within which the organization functions. The Montreal business culture drove the structure of Domtex from its founding in 1905 to 1953. Culture provided for a division of responsibility, allocation of authority, and protection by relationships.

7.1 THE PRESENT STRATEGY: 1975 - 1983

In the Sixties, Dominion Textile had reacted to the declining market share of the textile industry in Canada by expanding its product line into the most profitable product areas. In order to meet import competition, the company had re-structured the Sales Department in the Fifties. Sales was further decentralized in the early Sixties. By being light on its feet in reacting to changing customer tastes, Domtex was able to keep, and expand its share of the Canadian market.

Tied to the flexibility in sales, was a continuing program of heavy capital expenditures that kept the mills as technologically up-to-date as any textile company in the world.

This strategy worked through the Sixties. But by 1970, it was clear to some company executives that this formula could not continue successfully throughout the Seventies. The strategy had its natural limits. There were only so many new product areas that were profitable. Costly mistakes resulted from high capital start-up costs. Styling variation had its limits in increased costs of short production runs. Styling flexibility presented the dilemma of decreased margins for increased sales.

The signal to some Domtex executives interpreted as meaning they must again change strategy was the textile policy announced by Jean-Luc Pepin in 1970. Although the policy was designed to protect the industry from another onslaught of imports, which it did, the policy also acted as a warning, urging the industry to maintain the highest levels of technological efficiency and rationalize its product line into the most profitable sectors.

Domtex faced another dilemma around 1970. It was becoming evident that textile technology, which had always been slow moving, was going to change rapidly, from a labor intensive operation, where each addition of machinery required a proportionate increase in labor, into a more through-put type of process. The important components would be state-of-the-art machines, plants, and technicians.

The dilemma was that the textile and clothing industries were traditionally the largest employers in Quebec. The Liberal Party of Canada, which for the most part has formed the federal government in this century, had its strongest support from Quebec. In the Seventies the Liberals owed their tenure in power to Quebec voters, often to the chagrin of other regions. The Liberals had a strong interest in preserving textile jobs. As the labor component in producing textiles dropped, so did the political expediency of offering these jobs protection.

There were other political factors which required a response from the company. The Quiet Revolution in Quebec, began after the death of Quebec Premier Maurice Duplessis in 1959. During his nearly twenty-five year regime Duplessis, in coalition with business and the Roman Catholic Church, had emphasized the traditional values of church and family. After Duplessis' death, successive Liberal and Union Nationale provincial governments frantically stressed industrialization in the province. This new policy of hurriedly catching up, resulted in social and labor unrest. During this change of emphasis in the Sixties, Quebec experienced a new prosperity. At the same time a new sense of identity, that stressed Quebec nationalism, was being forged to replace the lost values of the rural, family and church orientation.

The nationalist impulse culminated in the election in 1976 of the Parti Quebecois, whose platform stressed the Quebecois identity (which some claimed, was at the expense of minorities,) social welfare legislation, and independence from Canada.

The socialist and nationalistic orientation of the Parti Quebecois was inimicable to many Montreal-based corporations doing business on a national or international scale. Many corporations moved their head offices out of Quebec. Dominion Textile did not, and made every effort to comply with the new laws. The company's major mills were in Quebec, making a move impractical. Company executives generally perceived themselves as Quebecers, and felt that the roots of the company and the lives of the employees were too deeply a part of Quebec to be moved.

Another environmental trend of which executives were mindful was that the textile industry, which had always been global, would become increasingly so through GATT regulations. While textiles is the oldest manufacturing industry engaged in by man, it is also more advanced toward being a good produced and traded globally, more so than autos or computers for example.

Between 1970 and 1975, Dominion Textile executives were becoming increasingly aware that their strategy of producing a wide variety of designs and styles had a limited life. From 1970 on, debates within the company revolved on what new strategy-structure configuration would best meet the changed socio-technological environment. The constraints on change were that the company would stay within its field of expertise - textiles, and that a new international strategy would be implemented by the existing personnel.

Also between 1970 and 1975, the structure had been evolving to a divisional form, in anticipation of the changing demands the company knew it would soon face. Structure was now perceived as a flexible tool which is custom-tailored by a company to fit its intended strategy and present personnel.

An important factor in Dominion Textile's response was their pride in their long history. Beneath the frequently heard comment in the company, "We have never missed a dividend," was the implication of always being able to respond successfully to change. Executives saw it as their responsibililty to pass on the record untarnished. They also saw themselves as flexible, professional managers, whose expertise in textile was not limited to the Canadian environment.

By 1975, Domtex executives were predisposed to try their skills on the American market. Entry could be either through building facilities from the ground up, or through acquisition. Domtex decided to enter quietly through acquisition, rather than confront the American industry with new production facilities. Implementation of this strategy required only an opportunity.

7.2 TEXTILE TECHNOLOGY

The textile industry, the basis of the Industrial Revolution in Britain, is the father of industries. It is often regarded in Dickensian terms, complete with dark satanic mills, the poorhouse, and crime in the London underworld. It is difficult to get across the distinction, that while this is an old industry, at the same time it is an exceedingly modern business that is now rapidly changing technologically.

R & D in textiles is derivative. Machines come mainly from Switzerland, with some from Japan. The same designs are used world-wide. The primary textile business has not generally created its own machinery processes. Innovation has always come from the machinery manufacturers. Every four years there is a world exhibition of machines in Europe, and every two years in Greensboro, N.C. The European exhibition is huge, with close to 1,500 exhibitors.

A problem for Canadian producers is the high cost of machinery due to inflation and high interest rates. "One of the major elements affecting the Canadian textile and knitting industry is the cost of new machinery and equipment, most of which has to be imported into Canada. This cost factor has become even more significant as the value of the Canadian dollar has declined over the past several years."[1]

Because it is highly competitive, the textile manufacturers do not get into research, although there have been a few exceptions. Burlington, the largest U.S. textile company had a research unit, but closed it in the early 1970s. Spring and Milliken still continue their research. The most innovative North American company, Milliken, has done original work jointly with machinery manufacturers. This seems to be the result of the personality of Roger Milliken, the owner of the company, who would probably have been an innovator and an inventor in any field.

Textile technology until the late Sixties had been introduced gradually. In the Seventies, radical new processes became operative, making them essential for a company's survival in the global industry.

The speed of machinery, particularly looms, has increased tremendously. The speed of a shuttle crossing the loom is measured in picks. In 1960 the average shuttle would put in 200 metres of cloth per minute, by 1982, 11,000 per minute. In spinning the measurement is in kilograms, per week, per position, per spindle. In 1965 the average output was 3.2 kilograms per week. By 1982 it was 22 kilograms. There are now new processes which will increase output to 40 kilograms and above.

Between 1965 and 1980 at Domtex plants, output per man-hour increased 68%, and resulted in a 35% reduction in the portion of the sales dollar expended for salaries, wages and employee benefits.

Exhibit 7 - 1

Technological Progress in Spinning[2]

Kg / week / Position based on 33 Tex Yarn

Equipment	Year	Productivity
Ring	1965	3.2
	1982	3.8
Open-End	1975	15.1
	1982	21.8
Jet Spinning [a]	1981	31.0
Friction [a]	1983	43.0

[a] not used commercially

One of the most significant technological developments in the late Seventies was in open-end spinning and shuttleless weaving using air jet, water jet or projectile weft insertion. Shuttleless looms could now be used for more processes, although they needed adaptive attachments. On standard looms, attachments must be bought separately. Fittings became available to shoot the filling across by air, which brought loom speeds up from 200 to 300 picks per minute. This was all important as it determined how much cloth could be woven on a loom. When the factors of factory floor space, machinery costs, and labor were considered, high speed looms become an important factor in productivity.

Exhibit: 7 - 2

Technological Progress in Weaving[3]

(Meters of Weft Inserted per Minute)

Loom Type	Date	Rate of Insertion
Shuttle 50"	1965	250
Shuttleless 100"	1970	780
Improved Shuttleless 100"	1981	1,100

A limiting factor in putting looms above 200 picks is the noise factor, especially the "crack" noise as the shuttle goes from side to side. Machinery is also worn out more quickly at high speed.

Yarn evenness was improved by the installation of newly developed chute feeds to replace lap-fed cards, and by the use of electronically controlled auto levellers on drawing frames.

With the new, already proven technology, textiles are longer a labor intensive industry. For example, when the Long Sault plant opened in 1966 it required 800 workers, whereas in 1984, with production more than tripled, it needed only 150 workers. With the new proven technology, this plant could be operated, on three shifts, by 17 or 18 people.

Exhibit: 7 - 3

Mills of the Future[4] Blend Fabric Production

	In Place Technology	Proven & Available Technology	Future Technology
Carding Kg/Hr.	25	75	300
Spinning Kg/Min.	22	30	400
Weaving Kg/Min.	1,000	1,400	27,000
Weft Insertion, No. of Employees Req'd on 40 hr. basis to produce 100 km of cloth/week	126	93	18

Federal government figures show that from 1970 to 1980, employment fell 0.2% a year in the textile industry, and 0.4% a year in the clothing sector. At the same time, productivity rose dramatically. Output per man-hour in the textile industry rose 37% from 1971 to 1979, compared with a 16% increase for all manufacturing industries.

The new technology meant different types of jobs. Tom Bell, President of Domtex saw the technological advances as bringing radical changes. "We are having a new industrial revolution, It is happening at a time when inflation is making capital cost so extreme - you just wonder how you can do it. These changes are going to be good. They are going to help us have a better environment in our work stations. We are going to have different kinds of configurations of work. Machinery will have to be handled in a different fashion. The jobs are going to be more interesting. They won't be as mundane, but they will demand more of different people. The technician is going to be a more important guy than the operator, or what we call the fixer. With a hundred thousand dollar machine you have to make them run and keep them running. The preventative side is more important than the reactive side."[5] The basic nature of the industry was changing from being labor intensive to capital intensive. The emphasis was less on batches than on continuous operations. As Woodward (1965) implied, this change in production methods will bring about changes in structuring the operations.

7.3 GOVERNMENT INDUSTRIAL POLICY

The federal government's textile policy has continued to follow the outlines of the 1970 Pepin policy aimed at re-structuring the industry to produce those goods that can be made most efficiently, while providing temporary protection from foreign competition. Government policy emphasized the rationalization of production, and indicated that any special protection beyond the tariff would be conditional on the industry's improved performance. Suggested, but not made clear, was the idea that the government would allow the contraction of less technologically competent segments of the industry.

The government set up the Textile and Clothing Board (T.C.B.) to implement the policy. The T.C.B.'s mandate was to conduct hearings into which sectors of the industry were being injured by imports. It could make recommendations for protective measures. In 1976, these measures were toughened to cover all imported clothing. The industry remained opposed, but was now mostly resigned to what they saw as the designation of textiles in Canada as a "sunset" industry. Tom Bell did not expect the government's attitude to change. "We've had a textile policy since 1970. It gets updated periodically when a new minister comes in. We get chopped away at, but our beliefs haven't changed. The fundamental thrust of the government hasn't changed. We think we're getting the short end of the stick, the opposite of how the Americans get treated by their government."[6]

Government action impacted more on Dominion Textile than any other Canadian textile company because it was the industry leader. In the U.S. the A.T.M.I. (American Textile Manufacturers' Institute) spoke for the whole industry. In Canada Domtex played the leading role in the industry. As a result the company paid a great deal of attention to government policy. Government policy plays a large part in its strategic thinking.

The whole area of government relations was more intense in Canada than the U.S. . American companies carefully monitor and react to government policy, but not to the same extent needed in Canada. In the U.S. the textile industry is large and therefore considered to be of greater importance by government.

The textile companies moved part of their representative organization, The Canadian Textile Institute, to Ottawa in 1982, in order to have a permanent force of people in Ottawa who knew government people. The organization wanted to develop day to day contacts with bureaucrats, particularly with the ministers and various bodies created specifically for the industry such as the Textile and Clothing Board, and Task Forces that are periodically created.

When the C.T.I. began in 1917 under Frank Daniels' leadership, its purpose was to improve the technical education of mill workers. These goals were mainly achieved with the opening of textile courses at St. Hyacinthe and Hamilton in 1945. Since then the Institute's role has been to explain the textile industry to the government, and to report back to the industry on the government's plans.

Dominion Textile worked closely with the C.T.I. Periodically, senior executives of Dominion served as the Institute's President. But the CEOs of Domtex deliberately stayed away from taking on the chairmanship. To Tom Bell:

"there are those in the industry who don't like it, but we feel we are so large that if we got associated with the chairmanship of C.T.I. it would be associated with the chairmanship of Dominion Textile, so we deliberately stay out of that."[7]

Dominion Textile was not as closely involved with the U.S. government because the American market was so large and the company's position as sixth largest in North America modest, compared to its position in Canada. Domtex, through the membership of their American operations was the only Canadian member of the American Textile Manufacturing Institute.

In the 1970s, the policies of the international cotton regulatory group, the Multi Fibre Agreement, increasingly affected the company's operations. Dominion's aim in these arrangements was to try to operate in the international textile world with essentially the same rules as the Americans and Europeans, the major players in international textiles. Dominion Textile participated in negotiations, and tried to have the rules applied equitably to Canada. Internationally, the U.S. government was very supportive of textiles. The lobbying by the American textile association, particularly by the Southern Textile Lobby, for good terms from the MFA was very intense. The U.S. producers had a freer hand than in Canada, where because of the 1970 Textiles Policy, the industry was required to present their cases for damage much more fully than Americans. In the U.S. there was no inquiry step.

The MFA is basically an international quota negotiating agency. The system developed first in textiles because it is an old industry and has always been international in scope. It is likely that in the future, this type of agreement will extend from textiles, sugar and wheat, to goods such as autos and computers, as these industries also become global and the disruption of production by regional inequalities becomes too serious not to regulate.

In 1975 the textile industry faced a depressed environment world-wide. In Canada, the industry was not only hurt by the general business downturn - people were buying fewer clothes - but added to this cyclical problem, foreign textile manufacturers were again flooding the Canadian market with low-cost fabrics. Countries like South Korea and Taiwan were selling at below their own costs of production, even in their own domestic markets. In some other instances prices were fixed at levels below the cost of the raw materials going into them. Prices were about 9% below 1972 levels.

Since foreign textile manufacturers control 50% of the Canadian textile market. The Canadian textile industry felt the very existence of the Canadian industry was at stake. Imports reached a critical level in 1975 when they gained 60% of the domestic market. About 80% of these imports came from Korea, Hong Kong, Taiwan and China.

In reaction to reduced orders, Domtex, in early 1975 closed down 14 of its plants, 10 in Quebec, and laid off 3,500 workers for a week. The outcry against the flood of imports was not limited to Domtex. Gerry Bruck, chairman of Bruck, which paradoxically was controlled by a large Japanese conglomerate, stated that the industry appeals for government protection were not based solely on self-serving interests. "If you take the view that all low-cost imports are good, then you wind up not having any secondary manufacturing industry in Canada. We provide a lot of jobs and we create more jobs. It's as simple as that."[8]

Bell pointed out the cyclical nature of this invasion of low cost products. "It is not as if their low-cost items come here and could be a permanent thing. These foreign producers are opportunists. Only two years ago they were charging higher prices than we were. They were in need of foreign exchange and they charged what a buoyant market could bear."[9]

Bell also reminded the government of the importance of the textile industry in Quebec. "Also remember that the textile industry is a very big employer. About one out of every four workers in Quebec is in some way involved with the business - whether in the manufacture of tire cord, fabrics or of finished goods like men's suits and shirts."[10]

The textile industry, through the Canadian Textile Institute, and the three unions most affected, the

Federation Canadienne de Travailleurs du Textile, the Textile Workers' Union of America, and the United Textile Workers of America, sent a fifty page brief to the Textile and Clothing Board. The board an independent body, set up in 1971 by the federal government was designed to mediate between the industry's lobby groups and the government, in order to make balanced recommendations based on the interests of the Canadian consumer, as well as those of the industry. The brief stated that "Immediate protection measures are necessary to prevent serious market disruption," and urged that measures must be taken "because damage now being caused will be difficult to repair."[11]

The government at that point took action under Article 19 of GATT, and put in a series of global restraints from all sources. It asked the Textile and Clothing Board for a series of bilateral arrangements. The Board made recommendations to Trade and Commerce Minister Alastair Gillespie, who before he could take action needed the approval of the Commons interdepartmental committee on foreign trade relations. This committee's function was to make sure the quotas the textile industry wanted to impose on foreign imports did not transgress either the letter or the spirit of the General Agreement on Tariffs and Trade.

The actions taken by the Federal government had a positive effect in helping to stabilize textile markets. In 1977, imports were reduced to 1975 levels.

In 1980 the Textile and Clothing Board conducted another exhaustive survey, lasting a year, covering 44 sectors of the industry. It heard 150 briefs, and held 132 public or private hearings from Halifax to Vancouver. The Board praised the industry in terms of efficiency and price. "Productivity gains through technological development have been impressive during the period and are expected to continue, making the Canadian Textile Industry comparable to any other in the developed world." [12]

The Federal government accepted the 50% import penetration in textiles. This was the highest of any industrialized country with the exception of Sweden, which followed a policy of phasing out textiles. But Sweden found that without a domestic textile industry, import prices rose. It then attempted to rebuild the domestic industry in order to lower prices. The U.S. and the E.E.C. hold imports to 12% and 22% respectively.

The government's attitude toward the textile industry remained a worry and concern of Dominion Textile, and directly influenced their long-term decisions. While the company proceeded with its investment policy, it was with considerable anxiety. The problem for the industry was that the government did not state its long-term policy, but would only commit itself for a five year span at most.

Any capital decision is difficult to make when an industry is uncertain about the government's intentions. When a commitment is made on expansion, machinery delivery takes one to one-and-a-half years before the machinery is in transit and at least another year to get it in place and working. These commitments must be made with only five years to work with. A senior vice president, Alex McAslan pointed out the difficulty this caused in planning. "Maybe we magnify the problem because the government has not said they intend to close down the textile industry. They have said they expect us to be more productive, more competitive, have lower costs, etc., and in return they will provide a base for us. But if it's a lowered base than we have today it puts us in a very vulnerable position."[13]

In 1982 a Clothing and Textile Board report recommended that quotas on a vast array of imported products be imposed for ten years, and that the growth in the level of imports be severely restricted. In response, in October 1982, the federal government appointed Paul Demarais, President of Power Corp., to chair the Canadian Industrial Renewal Board to help modernize and consolidate the Canadian textile industry. As a result, Federal Industry Minister, Herb Grey, promised $250 million in aid, $125 million as seed money to encourage investment in modernization, and another $125 million to assist workers displaced by modernization.

Within days, Dominion Textile announced it would spend $55 million over three years to modernize four Quebec plants. Other companies in the industry also responded with capital spending programs.

In July 1983, Industry Minister, Ed Lumley, announced the Clothing and Textiles Board would set up a private-sector task force to study "a development strategy" for the declining domestic textile and garment industry. The government was alarmed by the increase in the market share of foreign clothing from 28% in 1981, to 40% in 1983. Since changing import quotas would take time, the government ordered tightened customs inspections on clothing imports - a process limited only by the ingenuity of the mere twenty-six inspectors.

The Multi Fibre Agreement also causes serious and growing concern, because it does not deal with the cumulative nature of the disruption caused by ever increasing numbers of developing country suppliers. In 1980, for example, Canada had twenty bilateral agreements in effect, none of which was comprehensive as to product or fibre coverage. In fact, five of the agreements cover no more than two product categories. Canada continues to follow a selective approach to special measures of protections against injurious imports by initiating action only when serious injury was found to have been caused or threatened. The product-by-product, country-by-country approach taken by Canada, with arrangements usually of only one year duration, increased the number of negotiations and frustrations.

THE QUEBEC ENVIRONMENT

The Quebec provincial governments have put increasing pressure on Quebec-based industries, particularly following the election of the Parti Quebecois in 1976. The dominant class in Quebec became composed of basically public employees, bureaucrats, the civil service professions, clinic and college administrators and academics, along with union leaders and editorialists. The groups' salaries came from the public purse and union dues. The new establishment excluded minorities, including English-speaking Quebecers, and the business community in general, because their goals did not coincide with those of the government. The political expression of the new dominant class the Parti Quebecois, favored independence. Their goals were politico-cultural, rather than economic. Their instinct was to centralize power, to have the state direct the economy, and to regulate more and more aspects of public life.

The presidents of several Canadian companies, including CIL Ltd., Sun Life, Northern Telecom, and Allied Chemicals, with head offices in Montreal found the new social climate inimicable to doing business and moved their companies to other Canadian cities, particularly Toronto. About this trend, Premier Rene Levesque said in 1977: "I think the departure of business is a positive trend. You have to break some eggs before the omelette appears."[14]

The presidents of the companies remaining in Quebec adapted their organizations to the change. Tom Bell of Dominion Textile was very concerned with adapting to the social changes. "What bothers me is how you bring that society into the society of business?"[15]

UNIONS

Unions broadened their involvement with the worker. They hired economists, environmental experts, and specialists in quality of work programs to take a much closer look at conditions in the plants, how changes could be made, and how they would impact on employees.

In addition to these new concerns, unions continued to press for various types of demands. The rapidly changing environment and union demands added to operating problems. For example, in January 1984, some of the Consumer Product Company finishing, making-up and weaving operations were moved from Magog to more modern facilities at Beauharnois, less than an hours' drive away. Because of seniority rules, of the 120 workers left at Magog, 100 had to be retrained. Some of these workers chose to exercise the option of early retirement. The high number which needed to be retrained resulted from the union agreement which protects seniority. For each person moved in a job, four others must also be changed to observe seniority. Instead of training twenty workers in new jobs, the company needed to re-train practically the whole staff, and at the same time maintain production and quality schedules.

A major difference between the U.S. and Canadian industry is that the Canadian textile industry is 90% unionized, while only 10% of the American textile workers are in unions. The big Domtex plants in the U.S., such as

Swift, are not unionized. Partly due to this difference, U.S. costs are 20 to 25% lower. While there has been some pressure to unionize the U.S. workers, the overall trend is reduced union membership. In Canada, there is the opposite trend. Union membership is growing to include public and para-public workers.

The differential between Canadian and U.S. textile wages continued to widen. The devalued dollar helped to balance this difference, but Canadian wages were increasingly out of step, a factor recognized by the government. "The Canadian textile industry invests heavily in highly automated equipment to decrease steadily the labor content of its unit of output. Wages represent the most important cost disadvantage of the industry."[16]

By late 1983, the federal government's attitude to business seemed to be that it, and not the executives of Canadian corporations shall decide which industries shall prosper, and which shall not. Ottawa in 1984, started the hearings of the Macdonald Royal Commission on Canada's Economic Future. The commission began its country-wide "debate to decide which industries are best suited to lead this nation into the next century."[17] According to the Financial Post the Canadian government's attitude toward business "will probably breed a form of minor terror in some board rooms, industry associations, and government institutions."[18]

The appointment of the Royal Commission was viewed by many businessmen, as an extension of the Canadian government's position, which it has held since Confederation, that government bureaucrats and their appointees are the most qualified to direct the strategies of Canadian companies. In the U.S.A., strategic decisions are made by corporate officers within an environment influenced and formed by government. Dominion Textile executives perceived the level of government involvement, and the effort to select industries for development, as interference with the strategic decision making process. There is increasing concern that strategic effectiveness is directly related to where a company stands with reference to government policy, rather than the competence of executives and company capabilities. The leadership of Dominion Textile was particularly sensitive to this issue and feared that being classified as a "sunset" or declining industry would not only reduce the limited level of government support by tariffs etc., but might in fact place them in opposition to government industrial policy.

In 1983 the federal government set up another committee, this one to study free trade in certain commodities with the U.S. . In the early 1980s, studies of the textile and clothing industries by think tanks such as the C.D. Howe Research Institute, the Economic Council of Canada and the Harvard Institute for International Development among others, concluded that the trade barriers against imported clothing and textiles should be phased out. In mid-1983, the government called a group to investigate the implications such a move would have. This group had not yet reported by late 1984.

CANADIAN COMPETITION

The openess of the Canadian market greatly reduced the size of the domestic market for Dominion Textile. Company executives felt the federal government regarded the textile industry as something that could be traded away, that because Canada is a trading country, textiles were used as a bargaining item in the interest of preserving its trading connections with other countries in other areas. As a result, in 1982, 59% of textile products sold in Canada were imported, leaving a domestic market share of 41%. The Canadian textile industry although it had changed rapidly in the last decade had few barriers to entry for competitors, domestically or internationally. New machinery has resulted in rapid gains in productivity, but these machines were available to any company or government, world-wide. Capital was provided world-wide by governments, as well as private industry. Substitutes were readily available.

The major Canadian problem, given that its machines are as up to date as any in the world, is that its labor costs are 20% higher than those in the U.S. In Korea and other Far Eastern countries labor costs are 1/10th of the Canadian. Industrialized countries such as Japan are not increasing their pressure on the Canadian industry as much as they did. Japanese costs have moved up so much that Japan is no longer a major force in the Canadian market, and South Korea may soon follow a similar path.

There is now a new wave of developing countries behind them - Malaysia, Sri Lanka, The Philippines - that are increasing their production. Behind that is another wave of countries, the North African countries, Tunisia, Senegal, and Bangladesh.

Import competition is also severe from the U.S. and developed countries. Americans tend to regard the Canadian market as part of their own.

Wherever competition comes from, the Canadian textile industry is in a double bind. When production is capital intensive, as in weaving or dying, U.S. producers can still compete in the Canadian market, despite the tariff, because of economies of scale. They produce for a market ten times Canada's. U.S. production runs average 35,000 yards or more. Canadian producers try to have runs of at least 5,000 yards, but this means concentrating on high volume lines. When production is labor intensive as in the garment industry, the textile industry's major customer, developing countries can compete successfully on the Canadian market because of low wages. Finally, since the labor-replacing machinery used in primary textiles is available globally, low-wage countries which purchase it have a double advantage on export markets.

7.4 DOMTEX STRATEGY

The company's strategy paralleled the government's textile policy stated in 1970 of "phasing out the product lines which have the least opportunity to become competitive", and "to promote productivity and efficiency". While the company's strategy agreed with these guidelines in its Canadian operations, its managers did accept their role as harvesters of a declining industry. Rather, they sought out new opportunities on the international scene. This meant a gradual strategic switch from being producers of a wide variety of designs and styles to more specialized operations.

Under E.F. King, company executives had come to see themselves as dynamic, up-to-date managers, and rejected the widely-held assumption that textile executives operated in a protected, complacent environment.

The president, and company executives continued to see their field as textiles. "We always said that textiles is what we did best, and we would stay in textiles. We might look at other things outside, but they would have to be pretty damn secure, if you can find something secure, because otherwise we would be detracting from our management of our basic business. We felt that if we were going to keep our textile skills honed to a fine edge, whenever there was an opportunity to use our skills elsewhere we would do it."[19]

In 1975, Dominion Textile announced they had made a bid to buy DHJ, an American textile firm with two-thirds the annual sales of Dominion Textile.

Domtex had formed a joint venture in Canada with DHJ in 1971. DHJ had already operated in Canada with a partner, but they needed a partner with more capacity and experience. Domtex was a major supplier to DHJ in Canada. In return, Domtex bought marketing expertise in interlinings for a minimum capital investment. The initial contacts between the two were a result of personal friendships, begun years before, by DHJ and Domtex managers. In late 1974, Domtex knew DHJ was over-extended through commodities buying because the Domtex subsidiary, Howard Cotton in the U.S., had acted as an agent for some DHJ purchases.

In looking back on this momentous decision, Ron Perowne did not recall that making this jump from a national to international corporation was made with much hesitation. The strategic decision to purchase DHJ was made within a week. Behind this seemingly quick decision lay years of discusssions among senior management in which their interpretation of the environment was hammered out and a new strategic stance was determined. DHJ fitted into the new vision of the new over-all strategy being formulated. The strategic decision could and had to be made quickly.

The strategy of going international gradually evolved in the early Seventies. Between 1971 and 1975 the go-away strategy sessions centered on the problems the company faced with the purpose of answering the question, "Where do we go from here?"

The problems revolved around two dominant themes, government and unions. The executives felt that the continued attitude of the government to the textile industry meant that if they were to continue as a company operating only in Canada, they would have to get into other businesses besides textiles. The alternative was to go international, and stay exclusively in the textile industry. Of these alternatives the executives felt they should learn more about the international textile business before they went into a different industry.

The other area of major concern was the union situation. The impedimenta of union contracts were seriously affecting productivity. When the company laid a worker off, union regulations required that the job be offered to another designated worker, and that person's job be in turn offered to another designated worker. This resulted in tremendous training costs, as all the newly shifted workers learned new skills. These impedimenta resulted in additional costs in changing over production, particularly serious in a manufacturing industry such as textiles, which must be light on its feet in responding to changing consumer tastes.

Another area of discussion was in the problems caused by the company's success. The executives agreed that the company had reached its optimum size in the Canadian market. Domtex was the largest textile producer in a small national market in an industry with slow growth. To become larger would have meant more than just expanding the business. It would bring accusations of approaching monopoly. The small size of the market put a ceiling on growth. The company could never reach a billion sales in the Canadian market alone.

President Ron Perowne felt the pressure of being the clear industry leader, and faced the limitations on future growth. "We had been growing. Canadian Cottons, Hamilton Cottons, Cosmos Cottons, had gone out of business, and Wabasso was sort of withering on the vine. So we were becoming more and more Mr. Textile Industry in Canada. We had saturated the Canadian market. A number of fingers were pointed at us as though we'd got absolute control, as though we could ordain anything we wished to have happen - which we cannot do, could not do, and will not be able to do. But we were very mindful of our situation."[20]

Alex MacAslan recalled, "We were big enough in Canada. To go out and buy Wabasso would just bring a lot of grief on our heads. If you become the only supplier of a product in Canada you have more than just business problems to deal with. You have a responsibility to the market place and the customer, and the government puts its finger on you for that responsibility. We have that problem at the moment. We're the only supplier of certain products. If we don't make any money on them, what do we do? Should we get out? Do the customers need us? If any product is not made in Canada it can be reclassified and then the doors are open to imports. And once they're open they'll never be closed. We needed to expand our base into bigger markets than just Canada." MacAslan adds, "If the company had been number two, we would probably have tried to be number one."[21]

Expanding internationally also seemed to offer a wider and hence more secure base. MacAslan remembered the feeling among executives that, "If we wanted to continue to grow and supply our shareholders with increasing value in their investment, we had to look at geographic markets other than Canada. It wasn't that we felt the textile industry was going to disappear in Canada, but it gives us another foot to balance on here. If things go down here, they can go up somewhere else."[22]

Another factor mitigating against a single textile producer having too large a share of the market were the buyers. Apparel fabrics, the largest sector of Dominion's sales, were sold to garment manufacturers. Each garment manufacturer wanted to produce a distinctive product for their particular niche or customer. Particularly if a manufacturer produced a quality garment with a quality cut, make and trim, he did not want to see the same fabric and color used by another manufacturer who chistled on cut, make and trim. Rather, he preferred to import, because his business demanded his product be distinctive. Ron Perowne emphasized this point, " We recognize that we can't get so big everybody has got to buy from us."[23] Nor could the company provide all the variety demanded by garment manufacturers - economies of scale would not permit the company to produce such a large number of small lots.

It would be incorrect to say that in 1975 the company's strategy was to go international. Rather, the company was disposed to go international, if a suitable opportunity came along. Dominion had several criteria on their shopping list for an acquisition. A prime factor was language. Dominion had refused several invitations to move into the Far East. Perowne recalled, "We said, and I think correctly, if we're going to learn to creep before we walk, and walk before we run, let us not make major investments of plant and machinery in countries we cannot communicate with, and that's language."[24]

The U.S. seemed the most likely possibility for expansion. The environment for capital investment in the textile market there was more attractive than in Canada. Not only was there a bigger market, but it was more highly protected. Other fundamental attractions of the U.S. were a lower wage structure, building costs, and costs of operating the business.

THE DHJ ACQUISITION

Within weeks of in-company discussions about expansion outside Canada, in May 1975, DHJ became available. Domtex had to act quickly to acquire DHJ as a going concern before it was in the bankruptcy courts. Domtex wanted to buy the company while its know-how was still intact.

Ron Perowne did not remember having doubts about the purchase. He recalled the short time between learning of the availablility of DHJ, and making the offer to purchase, as one of reviewing past discussions on the matter and deciding if the situation fit what was wanted. "We said, we're as big as we can get. Where do we get our training in the future? They speak our language. Its gets us into denim and interlining. It's got an international window on a heck of a lot of countries, including South America. They were going belly-up. We had our antenna up and there were no rescue teams that were going to pull them up. So we said, let's make the move."[25]

Dominion Textile had been involved with DHJ in a small way in a joint venture in interlinings for a few years, and knew some of the people in the company. They were also creditors of the company because Domtex had arranged to buy some cotton for DHJ though its subsidiary Howard Cotton Co.

Dominion Textile could see that DHJ was going out of business. With the permission and approval of the Board, Chuck McCrae set up a financial team to examine the situation and put together a proposal to buy. The financial formula which involved settlement with numerous creditors before the deal could be signed, was the largest single settlement made until then in the U.S., outside the jurisdiction of the bankruptcy courts.

Tom Bell remembered the DHJ reaction. "They couldn't believe it. They thought I was kidding."[26]

DHJ filled the criteria on Dominion's shopping list. One was language - DHJ's main operations were in New York and Georgia. DHJ was in textile fields Dominion was not in - denims and interlinings. Through DHJ, Domtex acquired the Swift denim operation which was the fourth largest denim producer in North America. The DHJ organization was highly skilled in certain non-woven textiles, while Domtex had only a small nonwoven plant in Woodstock, Ontario. Except for Swift, they had relatively little machinery, and that was a big attraction. As well, DHJ was international, with an extensive network of wholly-owned operations and joint-ventures with local partners, with offices in Europe, Asia, Africa, Australia and South America, which Domtex hoped would give them a window on many countries, with little capital investment in those countries. DHJ was a marketing operation. Domtex hoped to increase their sales, with very little capital machinery investment.

DHJ was a way of backing into the U.S. market without going into direct competition with the industry giants - Burlington, Stevens, Springs and Dan River.

Domtex felt the acquisition would compliment both operations, that the technology and know-how of both organizations would be enhanced. It was also felt the acquisition would not weaken the whole structure of the Canadian operations.

For the next year, the energies of Dominion were focused on getting DHJ on a sound footing.

THE HISTORY OF DHJ

DHJ was started in 1946 as Dubin-Haskell Lining Corp. by two New Yorkers, Haskell and Dubin. They were joined by Jacobson in 1951, and the named changed to DHJ. All three men had made a considerable amount of money from the company.

Herb Haskell was a flamboyant, charming man who drove a Rolls Royce and a Porsche, travelled in the company's Lear Jet on frequent trips to Freeport, and kept a pro golfer on the company payroll, as well as his wife, sister, and brother-in-law. These expensive pastimes ate into the company's profits. Dubin and Jacobson had left the partnership because they didn't agree with acquisitions made by Haskell.

DHJ was world-renowned in interlinings, particularly those used in various types of men's shirt construction. The growth of the interlining business came with the development of the little or no-iron polyester shirt. Before the development of polyester, commercial laundries or housewives provided the starch and finish to all-cotton shirts. In polyester shirts, interlining in the collar, cuffs and front placket provides the needed stiffness. This has to be expertly matched to the particular cotton and polyester blend used in the shirt.

DHJ was near bankruptcy. It had moved over from being a marketing organization, into a manufacturer, at the wrong time. To Ron Perowne: "DHJ got into trouble because they moved out of their own field. We weren't in the same business as they were, but we knew of them. This is true of people in the textile industry, particularly when you're dealing with garment manufacturers, is knowing when you should stay within your own bowl, whatever that bowl may be. Don't get over the rim and try to get into somebody else's bowl. We've seen it with other companies who were good and made a lot of money making certain types of garments, who said, why should we be buying from Dominion Textile? Why should we be getting the grey goods converted, bleached, dyed, finished or printed by them? Let's go into that business ourselves. DHJ which was highly successful and renowned in the interlining business got out of their bowl when they bought Swift. They got it for a song because Swift was having all kinds of problems. DHJ brought in John Boland to clear up the mess. He had started work and was doing a very good job, of which Dominion Textile was aware. But DHJ had gotten too much on their plate. They had the big Swift operation. Then they decided to have their own grey goods manufacturing operation. But they bought in when prices were high, and inflation started to creep up."[27]

A drawback to the purchase was the DHJ double-knit operation. Domtex had already divested their own company of about half of their double-knit machines, and planned to do the same with the DHJ double-knit operation.

DHJ had bought a large number of double-knit machines. These machines had not been leased directly from the manufacturer, but had been financed. When the bottom dropped out of the double-knit market in 1973-74, DHJ was left with machines, on which it was paying dearly for financing.

An attraction of DHJ was that the company could be bought gradually, basically by paying off its creditors, although the arrangement was not quite self-financing. The purchase price was $9.2 million, plus additional debt responsibilities. But basically Dominion Textile acquired DHJ for the management it put into it. The arrangement was that all people who had claims against DHJ would receive certain funds over a stated length of time - if they would stand by and wait. If the creditors didn't want to wait, Dominion wouldn't buy, and the company would go bankrupt. This style of financing called for a great deal of imagination, a wide departure from the company's previously staid approach. Domtex paid $8.9 million for the company shares, and promised to pay off its $50 million in debts over a two and a half year period.

Many of DHJ's creditors were expecting to lose on their contracts with DHJ because of the impending bankruptcy. They were willing to gamble on the promise of repayment by the little-known Canadian company. After two years, Domtex re-negotiated these loans, and eventually paid them off. DHJ also had close to another $50 million in leases. Domtex was still paying on the longer term contracts in 1984. Thus the true cost of DHJ was closer to $100 million. The $8.9 million was a 10% down payment.

The purchase was dramatic, increasing the gross sales of Dominion by over 50%. In 1974 Domtex grossed $336 million, and DHJ $191 million. Another attraction were the ratios. Dominion Textile had 12,000 people; DHJ had 2,500 people around the world.

Domtex gained control of DHJ following a bitter struggle with Herbert Haskell, then chairman of the company. Haskell attacked Dominion Textile, arguing "Domtex had inside information on its operations that was not revealed in its bid."[28] He accused Domtex officials of having "raided his company even though DHJ and Domtex have had close business ties for some years."[29]

The deal made, Tom Bell and Chuck McCrae went down to New York to do the in-fighting. Tom Bell spent the first six months after the acquisition in New York. Chuck McCrae joined him and stayed on as president to manage the operation.

During his stay in New York, Bell realized he had grown away from the day to day business operations management. As he became more familiar with what was going on in the U.S. business world, he realized that he and his Canadian executives could stand up to the best American textile executives and run a business successfully in the United States. Bell returned to Montreal convinced it was tougher to run a business in Canada than in the U.S. In Canada, a successful textile company must deal with a great deal of variety and be in a range of businesses. Bell caught a vision that Dominion Textile could do things in the United States. He had believed this when he went into the DHJ deal, but in his six months in New York he became convinced personally.

At the time they bought DHJ, Domtex thought they were buying people who knew what they were doing in their particular fields. This was true as far as the Swift operation was concerned. John Boland ran Swift as a tight efficient operation. But during the early Seventies, Swift had changed hands three or four times before it was bought by Haskell, causing Boland problems. In buying DHJ, Dominion Textile mainly wanted Swift. They felt the $9 million they paid for DHJ was justitifed by Swift alone.

But at the New York headquarters of DHJ, Domtex soon found out that the expertise they had assumed was in the organization, had left with its entrepreneurial founders. Ron Perowne remembered the management problems

"You usually find that smaller companies have been brought up by people who are entrepreneurial by nature. Dubin, Haskell and Jacobson, kept it to themselves. They knew what was going on. They were smarter than probably any ten of us put together. But they didn't delegate, so when they were out, we were left with fellows who had never had to make decisions by themselves. There was a gap."[30]

When Domtex purchased DHJ, they planned to discontinue a number of unprofitable or marginal operations and to reduce overhead. It was immediately clear that these tentative steps would be inadequate. The cutbacks would have to be drastic.

DHJ also had an interlining plant at Hackensack, N.J., and a double-knit operation in Monroe, La.

The first problem was what to do with the Munroe interlining plant. Perowne remembered: "we made some grave mistakes with that thing. But one of the good things that has been a blessing about Dominion Textile is that we don't fall in love with love so to speak. We don't say we're big shots and have all the answers. You can never solve a problem unless you know you've got one. We are by nature looking for problems instead of saying "That's great, that's lovely".[31]

It came as a surprise to Dominion executives just how international DHJ was. "Our move to being an international company has forced us to deal with the foreign exchange markets, problems like Mexico. First there's a boom, then they devalue. We have a number of our international operations that in themselves are doing well. But by the time we take the lira, and transfer it into U.S. funds, and then into Canadian funds, there will be considerable foreign exchange gains or losses, and in recent times it has been losses. As we become increasingly international, this involves more of our business, and we have no control over it."[32]

Shortly after the DHJ acquisition Ron Perowne, commented on the company's future expansion plans. "Unless the Canadian industry is provided with the same type of safeguards as afforded the U.S. textile industry, I see a steady erosion of investments here."[33]

This strategy did not mean that Domtex saw its main business as developing outside of Canada. In the next five years its most significant investments would be made domestically. In 1984 the Canadian business still dominated the company's sales.

THE INTERNATIONAL STRATEGY

Dominion had chosen to be only in the textile field. Until the acquisition of DHJ it grew by widening its product line. As a result, the company had bought up numerous entrepreneurial firms in what seemed to be growth areas. With DHJ, the company could move away from producing a wide product line, and use greater selectivity in identifying and pursuing new opportunities, if these fields could be specialties in both Canada and the U.S. Perowne reported in 1976 that: "we intend to pursue those markets where we can establish an important position for ourselves and can be adequately compensated for the uniqueness of the products we make and sell."[34] The U.S. operations specialized in niches - denim, interlining, yarn and industrial fabrics, similar to other U.S. textile.

Due to their expertise in the U.S. markets, Dominion could be the leader in the same fields in Canada as well. Domtex started a denim operation in Canada for the first time in 1979 because it was able to draw on the expertise of the Swift plants. It was more profitable to specialize on an international level than cover the whole product line ~~in a small national~~ market. The result was that the company could concentrate its capital expenditures on its specialities.

The repercussions on the Canadian operations is that small, unprofitable lines can be phased out. The new product strategy thus becomes "geographic and product balance."[35]

In the late 1970s, Dominion instituted a formal revision process in order to help planning. The premise was that the company now had a substantial share of the various Canadian textile markets. Company executives felt that a larger share would mean that the company would become a virtual tool of the federal government. Even as it stood the company had to be very careful if it wanted to drop a product.

DHJ opened up many new opportunities for Domtex. One of DHJ's contracts was as a consultant to operate two new textile mills built by the Tunisian government. DHJ had run the operation out of Georgia, using Southern personnel. It was a considerable problem for the French-speaking Tunisians to understand the Southern inflection of these Americans, speaking either French or English.

Domtex quickly changed the headquarters of the operation to Montreal. In 1976, a small group of French-speaking Canadian consultants went to work in Tunis. Since that time the company has had someone on site. Through this venture Domtex acquired confidence in their ability to do things in foreign countries. The successful Tunisian collaboration resulted in inquiries from different countries about whether Domtex would be interested in doing consulting work in other areas of the world.

The total output of the Tunisian denim operation was distributed in Europe by the Domtex controlled Swift Textiles A.G. Together with the Swift operations in Georgia, Dominion Textile had quickly become one of the world's largest producers of denim. Under John Boland, Swift produced high quality denim, gave a high level of service, and steadily increased its customer base.

The company's business in China came about as a natural outgrowth of its interlining business in Hong Kong, and because of the accessing over the years by the company of basic fabrics from China. Domtex had been a steady purchaser of fabrics from Hong Kong for over twenty years, as part of their purchase plan in both Hong Kong and Europe. This gave them contacts with the suppliers of certain fabrics. When China wanted to get into the interlining business, they contacted Dominion Textile.

Although the international division had hoped for years to form a joint venture with China, the prospect had seemed unlikely, because the country did not enter into joint ventures. This unlikely hope kept a few company managers working at the plan, with the result that a rapport developed with Chinese technicians. As a result, Domtex ultimately, in 1981, ended up with a small deal to provide technical assistance and some equipment to a Chinese factory that produces interlinings. In return, DHJ (Hong Kong) received interlinings to be distributed to its customers in several East Asian countries.

By the late Seventies, the DHJ operation was operating fairly smoothly. Dominion felt ready to acquire another U.S. company.

In 1980 the opportunity came up to buy the U.S. yarn manufacturer Linn-Corriher. Domtex bought it because it gave them an option in an area they were good at. Tom Bell felt: "we have been very successful in sales yarn here, and we felt sales yarn is probably a business we should be in a much broader horizon than just Canada. So we bought Linn-Corriher."[36]

As with DHJ, the knowledge that Linn-Coriher was willing to negotiate a sale was inside information. A Domtex executive heard, through contacts first formed thirty years ago, while doing graduate work in textiles at North Carolina State, that the family was anxious to sell. "That comes about, you don't create it. There has to be some understanding and good faith between the two parties, because they don't reveal a lot of facts until there is some good faith. Why do people get married at a particular time? The important reason is the readiness factor. You cannot dissuade a person who is ready to get married. In fact, if may accentuate his perceived need to get married. The perceived need is the same in companies."[37]

The same type of thinking led to the acquisition of the U.S. yarn operation Mirafi in 1982. Dominion saw this civil engineering fabric business as an extension of the company's specialty fabrics operation, with broad North American and world application.

In March 1981, the Tunisian government put out bids to bring three other major textile facilities up to the level of the original two plants. After some discussion, Bell and Perowne approved Dominion's participation. The acceptance of the bid left Domtex feeling "half-pregnant, we're in it and we're not in it."[38]

With their foot in the door, Domtex had to decide whether they wanted to develop a business in management consulting to developing textile industries.

During the Fifties and Sixties the company had developed sophisticated service groups who were successful within the company. A feeling developed that this expertise could be sold around the world. When Alex McAslan took over Operations Services in the early Seventies he had the same idea. He found some financial support for the plan with the World Bank in Washington. But the plan remained dormant because several top executives, heads of operating units, were afraid the plan would divert some of the company's attention away from the core operations. Domtex was primed, but without opportunity.

Tom Bell recalled: "we held off on that, I would say, for twenty odd years. Anyone who headed Industrial Engineering tried to convince the CEO of that time that Dominion was losing by not going out in the textile world and competing and consulting with them. Our arguments up to until very recent times have been we've got too much to do in our own shop. When you fellows in Industrial Engineering can convince us that you've got everything under control in Dominion Textile, until that time you look after us."[39] In consulting in Tunisia, "we learned that we could do it, and do it very well. There was no question in anybody's mind that we had the ability to do it."[40]

By 1983 the company was more willing to contract out some of the manufacturing operation technicians since, because with changing technology, the company did not need as many plants to produce the same number of goods.

In April 1983, the senior executives of Domtex decided to proceed with developing an international consulting company. Dominion's target was mainly companies, or state-owned companies with a sophisticated operation, who could be helped in certain specific areas where they might be weak, for example, in preventative maintenance programs. The potential market was countries like Tunisia, who had the latest equipment and university graduates from textile schools, but who lacked several generations of textile experience in how the organize to make the operations more productive.

The plan had became practical in the eyes of senior management. "With the change of the organization, with more and more of the operating divisions producing their own Industrial Engineering, while we still retained our central core, we felt that the time had come to try it. We're just babes in the woods right now, and we've taken a few contracts. We're proving that we can do a pretty good job."[41]

Bell did not see going into this service business a result of having slack resources, but rather "with a management attitude, my own as much as anyone elses. As the company becomes more decentralized, head office managers have more time to consider new ventures."[42] The main reason for the push into consulting came from the company's successful experience acting as consultants in Tunisia.

THE STRATEGIC PLANNING PROCESS

In the late 1970s, much time was spent in the strategic planning process, especially the deployment of resources. In the 1980s, increasing attention was paid to strategic analysis, under Chuck McCrae and Andre Cote. Each division was divided into several Strategic Business Units. Each S.B.U. determined its place in the market in which it operated, which included its leadership or minority position, and its strengths and weaknesses. When each S.B.U. had analyzed its competitive position, it stated the kind of policy or strategic plan it would like to follow, including financial planning and budgeting. For example, cotton and polyester yarn was S.B.U. #1 in the Sales Yarn Division. It defined its industry as global, with numerous international participants supplying the Canadian market. "Market Segments" defined the different types of customer categories who bought from the company. The "Growth Rate" was inferred from past figures, the key influence being the increasing cost of labor and material. The maturity of the industry was analyzed and the S.B.U. estimated its expected market share. This position was plotted in relation to the company's principal competitors in a matrix chart form, similar to that used by General Electric. Under "Strategic Thrust", the S.B.U. outlined the policies it intended to follow, backed up with some financial data. These intentions however, were not in the form of a timetable. The factor of government policy was not examined separately, but in terms of its effect on imports, one of the main competitive factors.

S.B.U. plans were then studied on a corporate level. Since the company could afford to do what every unit wanted, the priorities were established at Head Office.

This system was developed by Chuck McCrae, Executive Vice President, Administration and Resources, with advice from a U.S. business professor who consulted with the company on a one-on-one basis. Dominion pointedly did not bring in a team of management consultants. The academic met several times with the senior management group to explain the importance of this type of planning. This plan was then discussed with several management consultants. The senior planners however developed the program.

In 1981 the Canadian Government released a paper on its industrial strategy to the year 2000. The government would promote high tech industries, rather than the "sunset" manufacturing sector. Tom Bell's response was: "We do not accept the relegation of the textile industry to the kind of sunset role that is advocated in some quarters. The calamitous change in Canada's economic prospects over the last twelve months surely demonstrates the need to develop the positive environment that will encourage investment in established, as well as new, industries. Too much dependence upon "mega projects" and vaguely identified high technology industries, with their high price tags and need for extensive subsidies clearly puts the economy at risk."[43]

The number of factors involved in strategy making in the Eighties has grown exponentially. "The pace of change has accelerated and external pressures have increased so that now we face a world of new studies in technology, new and unrecognizable cost structures, and new difficulties of a dozen sorts."[44]

One of the pressures was the Quebec legislation making French-only the legal language of work in Quebec. Bill 101 sent off another another wave of corporate head office movement out of the province. Dominion Textile complied with the legislation, although the company found the language laws a threat to corporate management because of the uncertainties in having to negotiate complex linguistic agreements covering head office operations. The company's position in 1977, the year of Bill 101 was: "we certainly have no desire, and presently have no plans, to do otherwise in the future."[45] But as Bell pointed out in 1978, "Five years ago, half of this Company's total sales revenue was derived from within Quebec. Today nearly 70% of the Company's sales are outside this province. This fact must be fully appreciated when discussions about language rules are undertaken."[46]

After the 1977 Annual Meeting Ron Perowne used stronger words. "In case our politicians have forgotten, Domtex is now an international company and over a third of its sales are outside Canada. Most of the sales in Canada are outside Quebec. There is not much to keep it here except some aging plants, a sense of responsibility to its workers and the hope that our rulers will get more helpful."[47]

As the percentage of sales outside Quebec continued to grow, so did the problems of operating a sales force that was officially conducting business in French, to customers who were mostly English-speaking. In the early Eighties the company gradually moved part of its sales offices to Toronto.

Senior executives at Dominion felt it was possible, as the world became more international, that by 1990 there will be some kind of free trade in textiles between Canada and the U.S., similar to the E.E.C. This already exists in the Canada-U.S. automotive agreement. This trend was probably slowed by the recession in the early Eighties. The governments would have to agree on the level of imports allowed, which are now at 55% for Canada and 12% for the U.S. President Tom Bell was open to free trade. "We have been saying over the years that we believe that as a company Dominion Textile could survive and do all right in a free trade environment, as long as the conditions are spelled out clearly, and enough time is given to adapt."[48] This change would need five to ten years advance warning to change capital spending patterns. "Of the money we spend now, if there were going to be free trade, we wouldn't spend it the way we do. We also say, if you want free trade, O.K., but don't be surprised if we don't spend any more money in Canada on new plants. Why should we come in with a unionized organization when we can get union-free shops and labor a dollar an hour cheaper. That way you can build a plant at 25% less cost. Why should we? So long as the governments up here are prepared to accept that, don't worry about Dominion Textile, we'll take it on."[49]

While it was exploring the future, at the same time the company's emphasis was on maintaining a strong business base in Canada. In 1983 President Tom Bell maintained: "the heart of the Corporation remains in this country. It is here we have developed the manufacturing and marketing expertise in textiles enabling us to demonstrate that we are as competent and capable as anyone in the world."[50]

Company officials had anticipated government thinking. In late 1983, the federal government invited Domtex to participate in "A Study of the Economic Impact of the Potential Elimination of Tariff and Non-Tariff barriers to Trade Between Canada and the United States for Textiles and Clothing Products." This special study was conducted by the Textile and Clothing Board. The government tentatively plans other reviews in other manufacturing sectors.

Tom Bell told shareholders in October 1983: "The textile and garment industries in Canada have been studied over the years by a variety of government agencies and commissions "ad nauseum." I want you to know, however, that Dominion Textile welcomes this particular approach for the findings from this study and any subsequent recommendations will be of vital importance in determining the focus and thrust of Dominion Textile's next half-billion dollar capital spending program. ... Whatever the conclusion, it should be clearly stated so that businessmen can get on with their jobs in the most responsible manner."[51]

7.5 INTERNATIONAL STRATEGY AND STRUCTURE

The gradual change to a divisional structure relieved President Tom Bell of the need to monitor local decisions. He now had four vice presidents/general managers in charge of operations, people he had confidence in, and who were learning about and improving the operations of their divisions. The new structure gave Bell the slack to feel he could go into the American market. That is, the changed structure permitted a radical departure in strategy. "If we hadn't been geared at that stage, I don't think we could have handled it."[52]

Tom Bell, who became President of Dominion Textile in 1975, just after the DHJ acquisition, was named president of DHJ. Chuck McCrae, Vice-President, Finance, Domtex, was given the same position at DHJ. Bell was in New York, full-time for six months in 1975. While formally the structure stayed the same during his absence, in practice, without Bell's usual continual monitoring, it continued to evolve. This bonus of divisionalization was gratuitous, it had not been planned that way.

DHJ was run from New York as a separate company. In 1976 DHJ was re-structured into three divisions, International, Swift (denim) and Knit Goods. McCrae was then appointed President and CEO of DHJ.

The plan to divisionalize Dominion Textile was not completed until November, 1977. The company then had time, after absorbing the DHJ acquisition, to examine structure again, and perceived the same problem as in the late 1960s. The central core of the organization still had a life of its own and was again building up a bureaucracy. This was seen by several senior executives as a dangerous development, since it took the company away from the marketplace where decisions should be made. It was feared that the growing central core would stifle the operating people and take on too many decisions that were better made in the field.

Bell, now the President, returned from six months of dealing with DHJ in New York, convinced he didn't need to exercise day-to-day supervision in Canada, but that he had to have an organization around him that could deal with these matters itself. When he came back in late 1976 he felt that divisionalization should go further. In January 1977 Bell felt the company was ready for full divisionalization and separated operations into four divisions, each with a separate General Manager.

Head office functions were organized into three areas: Corporate Services, Financial Services, and

Operation Services. Corporate Services' responsibilities included human resources, legal matters, public relations and relations with the federal and provincial governments. The Finance division was responsible for policy and information processing, setting financial targets and measuring the performance of the corporation and its component units. Operations Services, formed in 1978, had the responsibility of providing, within the corporation, a broad range of technical and physical services through its sub-units - Quality Control, Purchasing, Engineering, Fibre Procurement, Distribution, Real Estate, Insurance, Environment and Energy.

At first it was felt that the plants were all part of one system that supported and complemented each other and could not be split. The company had only two finishing plants that all grey plants fed into. But divisions were never-the-less made. At the beginning it was not very clear where the lines of a division were. These evolved over a period of time. In 1977, each General Manager acquired a Comptroller. The Corporate Comptroller, Steve Weir, then became responsible for the performance of the overall corporate resources, but not for the cost performance of a division.

These changes in structure also changed the role of the President. Until divisionalization he had been closely connected with matters such as the cost system and control systems, margins, timetables or selling prices. He no longer had time for his former concerns, as his responsibilities were to co-ordinate the Canadian, U.S. and international businesses.

Bell was now viewing the diverse activities of DHJ from a regional perspective. In order to deal with the German, Italian or Brazilian ventures, these had to be seen through the perspective of these countries. A few years after divisionalization was achieved, Bell found it no longer worked to the company's advantage. By 1980 he felt that the company could be successfully run across borders by product groups, that the Swift denim business or the European business should be run from Montreal. "You can monitor it and set policies for it, but you have to have confidence in the local people and let them operate in their jurisdiction. In terms of decision-making, it can't be made here for what is going on in Georgia or North Carolina. The laws are different, the moods are different - attitude and people. The people from one state to another are different."[53]

The move to have the structure reflect this thinking was gradual. The headquarter's of the international operations were moved from New York to Montreal in 1979. "I wanted to feel that the person who was in charge of International was in touch with headquarters and myself so that we could develop a fast interplay and build the international operations."[54]

Although Dominion tried after the acquisition of

DHJ to integrate the American operations into the divisional structure of the Canadian head office in Montreal, they found it was not a workable proposition. The difference between the U.S. and Canadian government regulations in such matters as equal opportunity laws, environmental regulations, etc., meant that someone in the U.S. has to worry about this, as well as financial control. To be effective, it was found best to operate the Canadian and U.S. operations separately. Separating the U.S. and Canadian operations was seen by management as a further step in divisionalization, as part of the company's philosophy of being responsive to the market.

By 1980 the Canadian divisions had become clearer and the details of absorbing the subsidiaries worked out. A move arose to push divisionalization further. The question was - why stop? The 1970 Organization Study Report was again examined. The concensus was that it still held and was applicable. It was now time to take the final recommended step - that of turning the divisions into separate companies, and the head quarters into a holding company.

This step of making the divisions into legal entities presented some of the same problems as divisionalization, but now all the functions of head office had to be duplicated for each company. All the functions being performed centrally had to be re-examined with a view to seeing whether they could be performed as well by the intended separate companies - giving due regard for the cost and practicality. The problem once again was of finding personnel with the necessary ability. The job one executive at head office was doing, would now require three people in the three new Canadian companies.

As part of this decentralization, in 1980, an International Division was established, grouping all of the subsidiaries and affiliates, throughout the world, engaged in the interlining business. The European companies, which have exclusive marketing rights to the denim produced in Tunis, were also part of this division.

In 1982 the Executive Vice Presidents of the three divisions became Presidents of their own companies. The number of divisions had been reduced from four to three when Industrial Fabrics was joined with Apparel Fabrics. But while the three divisions had become separate structually, they were not yet legal entities. At the same time the Canadian and U.S. operations were separated.

The corporation's operations in the United States - Swift Textiles Inc., Linn-Corriher Corporation and Howard Cotton Company were owned directly or indirectly through a U.S.-based subsidiary, Moco Inc. Moco was also given control of Dominion's 100% interest in DHJ Industries Inc., whose international interlining operations were carried out by the International Division. This re-structuring was to help these units deal with local markets.

Exhibit 7 - 4

Structure: Dominion Textile: 1982

- Chairman Board of Directors - R.H. Perowne
  - President and C.E.O. - T.R. Bell
    - SR VP Group VP McAslan
      - VP & GM Consumer Products Braid
        - VP Penmans
        - VP Mktg
        - VP Manuf
      - VP & GM Apparel Fabrics McVey
        - VP Fin. Plants
        - VP Grey
        - VP Manuf
      - VP & GM Industrial Products & Sales Yarn McAslan
        - VP & GM Admin.
        - Chairman & VP Swift & Linn-Corriher
    - SR VP Corp. Plan. McCrae
    - SR VP Ind. & Govt. Brady
    - VP Mktg. & Admin. Mirifi
    - SR VP Opr. Serv. Earle
      - VP Ind. Eng.
    - SR VP Fin. Div. Ferrier
    - SR VP Hum. Rel. & Intl. Gagnon
      - VP & Asst. GN Intl.
      - VP Mktg.
      - VP Sec.

The name Moco, was the brand name of prints first manufactured by Montreal Cotton at Valleyfield in the 1880s. In 1982 the name was changed again to Dominion Textile (U.S.A.) Inc.

The number of Canadian divisions was reduced from four to three. To reflect product development in new fields of textiles, notably geo-textiles, the Industrial Products Division in Canada was split. The traditional woven fabrics in cotton and polyester, with industrial applications were made in the plants as apparel fabrics, so this was grouped in the Apparel Divisions. The Canadian geo-textiles operation was then grouped with the Mirafi geo-textile division in the U.S. This was the only Canadian operation under U.S. direction. The Canadian operation was so small, and innovation so rapid in this field, that it was felt the Canadian operation should be close to the research being done at the Mirafi headquarters in North Carolina.

Alex MacAslan was appointed Director of Operations in charge of both the U.S. and Canadian companies. International Operations reports directly to the President, Tom Bell.

In the U.S., Swift and Linn-Corriher each had presidents. John Boland, who was President of Swift, was appointed Chairman of Swift. He co-ordinated both Swift and Linn-Corriher, seeing that resources in the U.S. were equally distributed, that taxes were taken care of, there was a proper succession of management, and that policies

Exhibit 7 - 5

Corporate Structure: 1982

Chairman of the Board - R.H. Perowne

President & C.E.O. - T.R. Bell

- Director Operations A.R. McAslan
  - Canada
    - Pres. Apparel & Ind.
    - Pres. Consumer
    - Pres. Sales Yarn
  - Dom. Tex. U.S.A.
    - Pres. Swift
    - Pres. Linn-Corriher
    - Pres. Mirafi
      - Fibreworld
- International W.M. Gagnon
  - DHJ Canada
  - DHJ USA
  - Europe
  - Hong Kong
  - South Africa
  - Mexico
  - Brazil
  - Argentina
  - Chile
  - Columbia
  - Venezuela
- Senior VPs
  - Corp. Plan. C.A. McCrae
  - Ind. & Govt Relations F.P. Brady
  - Opr. Serv. A.P. Earle
  - Fin. Div. I.C. Ferrier

set by the Canadian head office were followed. Different government regulations in the two countries made it necessary to separate the American companies from the Canadian divisions. John Boland, President of Swift Textiles, was in charge of the U.S. operations.

By 1984 no one had been appointed to head the Canadian and the U.S. operations. Both were directed by Alex McAslan at head office.

The ever increasing importance of government on the company was reflected in the 1982 re-organization. Bell put senior vice president Frank Brady, a lawyer and former plant manager, to work full-time on government matters.

In 1983 divisionalization was extended further. The structure continued to evolve. The senior executives considered whether to turn the central company into a holding company. By January 1983, Dominion Textile was two-thirds of the way toward becoming a holding company. By 1986 it was expected to be there.

The aim was to turn the Canadian head office into a holding company with separate leaders for the Canadian, the U.S. and the international operations.

The evolution toward a holding company structure was based on the assumption of Dominion Textile's senior executives that the existing tariffs between the U.S. and Canada would remain stable for the rest of the decade. This structure made the divisions more responsive to their respective environments. It also spread out possible threats from any one country or province. A unilateral action on the part of the federal or a provincial government would be disruptive, but with the holding form the repercussions would be more contained, within only a segment of the whole company.

Exhibit: 7 - 6

Dominion Textile 1990? Holding Company

Chairman

President — Head Office Executive

Sales Yarn U.S.A & Canada	Apparel Fabrics Canada	Consumer Products Canada	Mirafi Industrial U.S.A. & Canada	International world-wide

After 1976 the role of the President was considerably changed. Chairman Ron Perowne found President Tom Bell's responsibilities were altered from the problems he faced. "I've been with the company for forty-four years. In terms of the changes and pressures, Tommy's regime has been the most difficult. Society is so complex. In terms of every individual, family, company, the social measuring sticks about what is right and wrong are upset. Until about five years ago, by and large, you were either right or wrong. You were master of your own destiny, whereas in the Eighties, when you make major decisions, the success or failure is much more dependent on the luck of the good Lord being gracious unto you. You don't know what is going to happen. You can't even guess. You listen to all the economists. One says this and another says that - like all management consultants when they bring in the report, on the one hand it's this and on the other hand it's that. You take your choice."[55]

The amount of time President Tom Bell, had to spend on social problems was much more than King had. Perowne explained: "I was about half-way. Bell spends a great deal of time away meeting with publics that most of the people in this company have almost never heard of - federal and provincial government boards, the Caisse de Depot, institutional financial analysts. It takes up a lot of time. Always overhanging is the language problem of Quebec. All these elements of outside forces that have per se nothing to do with how well you manage, are greater for all corporate heads, no matter what business you're in."[56]

Chuck McCrae sees the President's role as being "to interpret the external and internal environments to each other, what's happening out there, how does that impact on our company in the broadest sense, and interpret that into policies which the individual managers can carry on."[57]

The company's executive succession plan fits its tradition of gradual change to preserve the company's heritage. "When the Chairman retires at sixty-five, the President and CEO should become Chairman and CEO for two years, and appoint the President and COO. But that

President is not the CEO. The Chairman and CEO is helping the President, making sure the guy is fitting in right and getting comfortable, that he can take it. After two years the President also becomes the Chief Executive Officer. The Chairman remains on the Board until seventy - the company-imposed mandatory retirement age."[58]

The company did not follow this plan in 1983 when Ron Perowne reached sixty-five. In 1983 the President, Tom Bell, faced so many problems: economic recession, rapid growth, inflation, international currency fluctuations, high interest rates, structural changes, plant rationalization, language laws, the Caisse de Depot, that it was felt unwise to move a new man into the job at that time.

MANUFACTURING AND TECHNOLOGY

The acquisition of DHJ, and the opportunities it offered, changed the company's policy in its Canadian manufacturing operations to one of phasing out older plants, and somewhat narrowing the number of products. Perowne explained the policy in 1983: "As the Company's plants reach obsolescence they are not being replaced here in Canada. In the absence of positive, meaningful action on the part of Ottawa the erosion will continue, as the burden of social dislocation grows. Overhead and expense associated with massive fluctuations in plant activity and employment levels, are becoming increasingly impossible to bear. These remarks are in no way intended to imply that

Domtex has become disenchanted with the Canadian market. On the contrary, the Company will continue its aggressive efforts to increase its sales in Canada and further improve its market share."[59]

In fact, after 1975 the American investment would take up most of the company's energies for several years, and not just because DHJ presented many unforeseen problems. President Ron Perowne told shareholders the reason at the 1976 Annual Meeting: "There are more favorable textile climates outside of Canada and, as you well know, we made the decision last year that we had to spread our investments outside this country. Thus in fiscal 1976, mainly as a result of our acquisition of DJH, almost 40% of our sales were achieved in markets beyond Canada."[60]

DHJ had looked like a bargain. As it turned out, it was not quite as cheap as it seemed. It took more time and effort than the executives had imagined.

DHJ had built up a highly successful business supplying specialized products and technical services to the apparel industry. This was primarily through the processing, distribution, and sale of interlinings and interfacings. The company acted as a converter, buying greige goods from a variety of textile mills and finishing these goods, in their own facilities or those of other companies on a commission basis. The final products were in the form of piece goods or diecut pieces, which were then sold for use in the manufacturing of finished garments.

DHJ recorded substantial sales increases during the five years preceding 1975, mainly due to acquisitions in the textile manufacturing industry, which diversified its product line, and also its problems. Sales increased from $67 million in 1970, to $191 million in 1974. These acquisitions changed the primary nature of DHJ's business from that of a converter, to include the manufacture of double-knits and indigo-dyed denim.

Shortly after Domtex bought DHJ, the U.S. government closed down the Hackensack, N.J. interlining plant because of the pollution it caused. If Herb Haskell knew this action was pending, he hadn't bothered to inform Dominion Textile.

The double-knit operation had proven to be DHJ's nemesis. It was unable to manufacture double-knit goods at a profit. By 1975 the bottom had fallen out of the double-knit market. Haskell had leases to the year 2003 on the Hickory, N.C. machines and building. These contracts had been one of the reasons he had faced bankruptcy. As well, DHJ had made substantial advance commitments for the purchase of greige fabrics in anticipation of rising prices. These obligations resulted in large losses following a market decline in the selling prices for fabrics during 1975.

Among the U.S. manufacturing facilities of DHJ, the one promising plant, and main drawing card, was the Swift denim operation. While the company was in bad shape financially, Domtex felt it was buying the expertise of its manager, John Boland. The expansion of the Swift facilities in Georgia, which had been planned before the DHJ acquisition, continued. It was totally financed by Swift itself through internal cash generation. The Swift operation produced high quality denim, a more difficult process than most in textiles. It sold its output to big buyers such as Levi, Cooper (Lee) and Blue Bell, and had steady sales.

The International Division was exclusively in interlinings. They did not manufacture the product, but provided expertise to both manufacturers and garment makers. The expertise was needed because interlining must shrink at the same rate as the fabric it stiffens, or the material puckers.

In order to reduce losses, in August 1975, operations were stopped at the Monroe double-knit plant, and all double-knit knitting and finishing operations were consolidated at the more modern operation at Hickory, North Carolina. A DHJ fusible coating operation was moved to Monroe, La., to rationalize operations. A second double-knit plant in Monroe was operated for another two years before it too was closed in 1977.

In 1978, after futile efforts to make a success of the remaining double-knit plant at Hickory, Domtex concluded business prospects would not improve, and closed the operation, and its involvement in double-knits.

The interlining machinery was transferred from Hackensack to the empty double-knit plant in Monroe. Domtex then installed bleaching, dyeing and finishing facilities for DHJ's interlining fabrics in the Monroe plant in order largely to eliminate the necessity of DHJ having its interlinings finished by commission converters. The Hackensack assistant manager designed the new interlining machines, although Dominion Textile's Canadian engineers told DHJ the plans would not work. E.F. King, at his last director's meeting before retirement, recorded his opposition to the Monroe converting plant.

The new plant was very difficult to bring on stream. The machinery could not be made to work. A year later, in 1978, the whole plan had to be scrapped.

The variety of products produced in Canada was narrowed, and certain products, particularly ones which had a tie-in with the U.S. operations were emphasized. Low profit margin operations were phased out.

Double-knits were equally unprofitable in Canada. In 1975, the Lana Knit plant in Montreal was closed. Also in 1975, the old Mount Royal Branch mill, bought in 1911 was closed.

Tremont, producing worsted spining wool for such fabrics as jersey, was closed for several years, and in 1982 sold to a knitting trade firm.

The tire cord unit at Drummondwille was re-equipped in 1976 in order to respond to increased demand for radial tires. In 1977, aided by a $1.2 million grant from the Department of Economic Expansion, and $8 million denim facility was installed at Drummondville.

In 1981, Celanese closed its spinning operations in Cambridge, Ontario, in order to become purely a chemical producer of staple fibre. Domtex bought the modern plant, and consolidated the Penman's operations at Cambridge.

ASSET RE-DEPLOYMENT PROGRAM

In mid-1981 Domtex examined its Canadian manufacturing operations in light of "the ravages of the incredibly harsh recession." The result, "The Asset Redeployment Program", determined to "concentrate our future investments in fewer and more modern plants and on a somewhat narrower range of products. We have concluded that certain of our operations are not likely to attract and hold investment in the future and accordingly some older plants which cannot be economically upgraded to modern operating standards will be closed. ... Two plants in Ontario and three in Quebec are being closed, while the new Penman's plant in Cambridge, Ontario is being prepared to consolidate all of the Penman's manufacturing within one modern facility. ... To survive and prosper we will require plants that are competitive in the North American context and can maintain the levels of output that our markets demand through use of modern high speed equipment and seven day operations. It is towards that end that these actions are being taken."[61]

In 1983, Domtex accepted a grant from the Canadian Industrial Renewal Board, under which the Board contributed 20% of the capital expenditures to modernize four plants in Quebec, to a maximum of $30 million.

Bell welcomed the program as a signal of a change in the government's attitude toward the textile industry. He told shareholders in 1982: "in the period since June 1981, with the announcement of the Special Adjustment Progam for the Textile and Clothing Industries in Canada, and its subsequent formation of the Canadian Industrial Review Board (C.I.R.B.) the Canadian government's textile policy entered a significant new phase. When this program is examined against the background of the government document entitled "Economic Development for Canada in the 1980s", major considerations emerge which can profoundly affect our choice of strategies and the allocation of our resources. We do not accept relegation of the textile industry to the kind of sunset role that is advocated in some quarters."[62]

Until 1965, all Dominion Textile plants were located in Quebec. In 1965, partly in response to the growing nationalism of the Quebec government, the company built some of its new plants in Ontario. After 1975, in reaction to both the federal and Quebec provincial governments' policies, Domtex widened its geographic dispersion further and acquired plants outside of Canada. By 1983, Domtex had twenty-four manufacturing facilities in

Canada, 15 in Quebec, 8 in Ontario, and 1 in Nova Scotia. Seven plants were located in the U.S., 3 in Georgia, 3 in North Carolina, and 1 in Massachusetts. Seven plants were outside of North America, 6 in Europe, and 1 in Hong Kong.

The management consulting business means the company is operating at two levels of technology. The level in North America is state-of-the-art, and the other for its clients in developing countries who, although they may use the same equipment, are a generation behind in the technical expertise to best use the machines.

A Domtex supervisor in Tunisia felt a sense of deja vu in dealing with Tunisian workers. "You know, I keep making parallels between the province [Quebece fifty years ago, and Tunisia today. The things that are happening are practically the same. I remember one time where we put in some weavers' jobs, and I was at a meeting, and all the foremen were there and the plant manager. I was listening to them and I was closing my eyes, and I was back thirty-five years, hearing the same comments, the same arguments. You can see it - then you can trace the mystery back - how it happened."[63]

7.5 CHANGING THE PRODUCT LINE

Imports had caused havoc with company sales in 1974. By January 1975, Domtex had laid off 3,500 workers, one-third of its work force. Government action against specific exporting countries helped curb the flow. By April 1975, most workers were recalled. The new labor contract that year saw wages rise 37%.

As early as 1976, the American operations, less vulnerable to world textile cycles, helped provide the balance in income the Canadian business needed. That year, foreign imports jumped from a 50% to a 60% market share. The federal government eventually took action, but not before several Canadian textile companies went out of business.

The gradual structural changes were a reflection of the three different product policies the company developed after 1975. In Canada, Domtex moved to realign and consolidate its operations, moving very gradually from the product policy of the Sixties of producing a wide variety of goods. In the U.S., a number of product lines were discontinued, resulting in a concentration on three basic products: interlinings, indigo-dyed denim, and double-knits.

The DHJ international operation in interliings had been built around the entrepreneurial personality of Herb Haskell. DHJ owned: DHJ Industries Deutschland Gamb H, Bielefeld, West Germany, DHJ Industries Europe S.A., Paris, Dubin-Haskell-Jacobson Distribution SPA, Milan, DHJ Switzerland, DHJ Austria, and Dubin-Haskell-Jacobson de Argentina, S.A.C.I., Buenos Aires, Argentina. Haskell had also developed affiliates in Brazil, Chile, Columbia, Hong

Kong, Japan, Mexico, Portugal, Singapore, South Africa, Spain, the United Kingdom, and Venezuela.

Haskell had set up this organization in a very ad hoc way. He would send an agent out to set up a joint venture to produce interlinings. The man in charge of the Brazil venture, for example, had operated a textile plant in Guatamala. When he was expelled by the government, Haskell financed him in the Brazilian operation. The Argentinean business was run by a Cuban expelled by Castro, who had worked for Haskell in New York for a while.

In 1980, Domtex merged the North American interlining operation of DHJ Industries Inc. with another company in the same business, Facemate Corporation of Chicopee, Mass. . Dominion held a 50% interest in the new company, DHJ-Facemate Inc. Facemate was an old, well-managed interlining company. Unfortunately, after the merger, the professional managers of Domtex found it difficult to work with the three entrepreneurial managers of Facemate. The problem was resolved when a bolt of lightning struck part of the plant. Domtex took their investment out in the form of the insurance payment for the destroyed section of the plant, and left the three managers to run Facemate as a separate company again. The sale of its interest in DHJ-Facemate Corp. put Domtex out of manufacturing interlinings in the U.S. That left Domtex in 1980, with only one U.S. plant, Swift Textiles, which was at that time run out of Montreal by the International

Division.

Dominion's second U.S. acquisition, the Linn-Corriher Corporation, Landis, N.C., an eighty year old family owned and managed firm, was a substantial producer of polyester/cotton yarn for the American market. It operated two modern spinning mills, and a yarn dyeing plant. The acquisition fulfilled Dominion's policy of expanding its manufacturing involvement in the U.S., and of diversifying both the product line and the geographic scope of the company's activities. Linn-Corriher continued to operate under the same name, with the same management, supplemented by technical and managerial assistance from Dominion Textile.

In 1982, Domtex acquired, from Celanese Corporation, its third U.S. company, Mirafi a civil engineering fabrics business with headquarters in Charlotte, North Carolina. Domtex saw this as part of their policy of expanding into specialty fabrics with broad North American and world applicatons. Celanese Corporation had pioneered the market for geo-textiles for use in ground stabilization and drainage. Mirafi was the acknowledged industry leader in geo-textiles. The recession in the U.S and the accompanying high interest rates had seriously depressed the construction industry, which in turn, hurt the geo-textile market. Dominion was gambling on improved demand as the economy recovered.

Geo-textiles are fabrics used in civil engineering works for ground stabilization, drainage and erosion control, and are sold to the construction industry, railroads and resource industries. Domtex felt this field had enormous potential. They were informed on developments in the field because they owned a small non-woven operation, Fiberworld, in Canada.

Domtex has very large plants with production line equipment that required huge volumes with a minimum of downtime. Their product is a good quality and well styled fabric that will be sold at popular prices.

In styling changes, Domtex worked toward change. The major department stores and chains tend to make their commitments on staple merchandise months in advance in order to have a fairly long lead time to make and get deliveries from imports. A part of the Canadian company's business is to see there is a change in styling and colors. The domestic producer can usually provide these changes more rapidly than importers.

Domtex soon found several differences between operating their Canadian plants, and those of DHJ, stemming in part because the U.S. textile industry was largely non-unionized. Domtex paid $1 an hour more for labor that does DHJ. In Canada there were 11 statutory holidays, while in the U.S. there were only 6. Vacation time in Canada was two to six weeks, in the U.S., one to two weeks. Domtex paid a shift premium, DHJ did not. Domtex had a pension plan, DHJ did not.

The factor which in the early Eighties somewhat offset the high wages was the lower exchange rate of the Canadian to the U.S. dollar. "The thing that is our support but has nothing to do with our ability to manage or not manage, is the Canadian dollar. That Canadian dollar, for 99% of the manufacturing industry in Canada is the thing that's keeping Canadian industry alive. If the Canadian dollar were to go from 80 cents to the point which it was about August 1976 when it was running at a slight premium to the American dollar we would be in great, great trouble."[64]

In the late 1970s, for the first time in many years, Canadian textile and clothing mills were operating at 100 % capacity, or close to it. This was the result of a combination of circumstances, particularly a weak Canadian dollar, which made imports more expensive, and the elimination of the sales tax on clothing in Quebec, as well as a major change in the current round of international trade negotiations with offending countries.

The move to rationalize product lines had produced a dilemma. The federal government urged manufacturers to streamline product lines for reasons of economy of scale. The result was that customers complained of a lack of variety. Dominion did not make many fewer products than they had twenty years ago, but the product was more specialized, and new lines had emerged. As divisionalization proceeded, each division examined its own line and moved in and out of areas until a satisfactory segmentation of products was reached. Each division was now able to pay more attention to its lines, moving out of some and concentrating more heavily on others. Domtex used the expertise it gained in the U.S. market by specializing in the same products in Canada.

In 1977 part of the Drummondville plant was converted to make denim. Dominion had not gone into this specialty before, because it required an expertise they felt they did not have. Now this operation could be guided by John Boland of the U.S. Swift operation. The shift in the late Seventies into high quality denim and corduroy also proved a profitable decision.

Another example of the synergy possible when operating on an international scale, is in geotextiles. In 1980, Domtex had broadened the Industrial Products Division line, introducing Penroad geo-textiles. This meant the Canadian operation had access to innovations whose research costs were only justified because Industrial Fabrics served the North American, and not just the Canadian market. Generally, Domtex could offer the Canadian market goods it would not be profitable to develop only for the small Canadian market.

The number of styles, which had risen to around 800 in the Sixties, was cut back to just over 100. The new heavier weight lines of corduroy and denim could be produced mainly on consignment or to-order basis. This reduced the cost of styling, inventory, and close-outs. Dominion moved away from its old specialty of prints, which had a low margin of return. After 1973, the favorable climate created for yarn manufacturers under the government's textile policy encouraged Domtex to increase yarn production capacity, to the extent that yarn became a company specialty.

Penman's also undertook a change in products. The Penman's name was synonymous with underwear in Canada for a hundred years, but Dominion gave up this line entirely and became a major producer of leisure wear. Penman's became part of the Consumer Products company. It was the only company held by Dominion Textile that sold to retailers, all other holding companies sold to other manufacturers.

In the recession of 1981-82, as production exceeded shipments, the full-scale overtime schedules of the 1979-81 period gave way to short-term operations, and eventually to the layoff of about 2,000 hourly and salaried employees.

Throughout the Seventies, labor relations at Domtex were generally harmonious. The 25 collective agreements covering approximately 10,000 plant employees were negotiated, maintained, and renewed during the decade, without any significant work disruptions.

This peace came to an end during labor contract negotiations in the recession of 1982, when all of the company's major collective labor agreements came up for renewal. The economic climate made negotiations extemely difficult. The union called for work stoppages at several key Quebec plants, the first major stoppage since 1966. The disruptions resulted in a higher proportion of off-standard goods, which were sold at prices below cost.

In April 1982, 400 (Toronto Globe & Mail), to 2,000 (Montreal Gazette) members of the Centrale des Syndicats Democratiques (CSD), who worked at company plants in Quebec, marched on Dominion Textile's head office on Sherbrooke St., Montreal. They broke windows and spattered the building with eggs and paint. In the following month, slowdowns cut production by as much as 70%. In May, 2,000 workers were laid off because of acts of vandalism to buildings and equipment. The signing of the contract ended the unrest and pressure tacts.

By late 1982, the economy began to recover and the company order book, led by sales yarn, began to pick up. Customers remained cautious and kept their inventories to a minimum. The increased volume allowed the company to recall the majority of employees laid off.

In 1983 the company used the term strategy to describe the importance it placed on a major effort to communicate with workers on a much better basis than in the past. The industry and the company were changing so rapidly, technologically and in product mix, that the company was very concerned about what the effect would be on the work force. As a company executive explained: "We've allowed the unions to speak to our hourly workers for over thirty years, and now we're reaping the results:".[65] It is felt that if the head office doesn't develop a dialogue with employees in the Eighties and Nineties, the company may not survive.

Four times a year a video-tape was prepared in which Tom Bell and other executives explained the situations the company faced and how its planned to deal with them. Solutions to problems individual workers found, were explained by the employee. The central figures in the program were the plant managers who held meetings of about fifty people and led discussions following the video-tape sessions. The company hoped this would help to build a closer rapport betweem employees and management.

7.7 MANAGEMENT CULTURE

After 1975 the ownership of Dominion Textile changed radically. In the late 1970s, for the first time, Domtex had a single large shareholder, David Sobey, president of Sobey Stores who had bought 10.4% of Domtex shares. No other individual holding exceeded 1% . Sobey's holdings, however, were soon surpassed.

The major shareholder in Domtex became the Caisse de Depot, the Quebec government insurance and pension fund. The Caisse had become the biggest stock market player in Canada. In 1983 its assets of $16 billion included a $624 million equity stake in six Canadian banks, and holdings of

40% in Domtar, 7.5% in Alcan, 12% in C.P., 30% in Brascan, and 14% in Dominion Textile, among others. Sixty-six percent of the Caisse's portfolio is invested in Government of Quebec and Hydro Quebec issues, at lower than market interest rates.

The New York Times reported in 1983: "as the Caisse has increased its investments, many Canadians have grown fearful that it could obtain control of some of the nation's largest companies. ... But to many Canadians, worried about the political stability of the nation the stakes are larger still."[66] Since the goal of the Quebec government was separation of Quebec from Canada, some Canadian companies whose major shareholder was the Caisse were nervous. Prime Minister Trudeau introduced legislation in 1983 that would block any province from acquiring more than 10% of any inter-provincial or international transport carrier. The legislation was aimed at preventing the Caisse from acquiring more shares in Canadian Pacific.

This change in ownership concerned Domtex. Chairman Ron Perowne expressed the company's concern in 1983: "five years ago we hardly knew how to spell them, now the Caisse de depot is our major shareholder, as well as Alcan, Provigo, C.P. and Domtar. We really don't know. If the Caisse de depot were to move in and take over Dominion Textile, I'll guarantee you that would destroy what has made this company reasonably great over the years, just like that. That's an enormous burden for the guy who was the last man. That leads you into doing a lot of things to protect that part of the flank, that part of the corporate body. You can be tempted to do things that might not be in the best long-term interests of the other shareholders. Especially, how do you get this company organized so they cannot get control of the whole thing ? The more time you spend on these issues, the less you have to spend on how do you spin the yarn better, how do you weave it, get the right colours, pay attention to you business ?"[67]

Domtex was well aware of what pressures the Caisse de depot could bring on the Board through one of their Directors, Alex Hamilton, then president of Domtar. Within a year of electing two Caisse appointees to the board, Hamilton, and most of the other directors retired or resigned.

In the spring of 1983, the Caisse sought representation on the Domtex board. President Tom Bell rebuffed the proposal. "We have told them that our interests aren't served by any representation on the board by any government agency."[68]

In 1983, the management of Dominion Textile was wholly Canadian. This situation was of serious concern to senior management. It was not the result of company policy. They would much preferred to have some American-trained personnel. It was in part the result of policies followed by the Quebec government that has made recruiting outside Quebec difficult. The British technicians, once hired in large numbers, had retired. The last American, Hood Gambrell, Vice President of a Finishing Plant, and a graduate of Clemson, retired in early 1983.

Following their election to power in Quebec in 1976, the Parti Quebecois had, through certain pieces of legislation, greatly increased the company's difficulties in recruiting. The problem of getting trained personnel to move to Montreal was so serious, that it was one of the pressures leading the company into increased international activity. "The tax situation, language problems, and education restrictions in Quebec have meant that after the Parti Quebecois election we have had a tough time finding any one to come here."[69]

To senior managers such as Alex McAslan, the problem was a serious threat to continued successful operations. "No Americans are involved in Dominion Textile anymore, and that is a loss for us, because textiles is a big industry in the U.S. We are not able to attract manufacturing people from the U.S. textile industry to come and work for us. We've become ingrown, almost incestuous. We don't have the leaven of bringing in people like a Springs Mills does, because they won't come and live in Canada. The tax is too high, completely out of line with what they're used to. The complexity of Quebec society is too much for them. They don't want to be forced to sent their children to school in French. The standard of living of a textile executive in Montreal is not nearly so grand as a textile executive in

North Carolina or Georgia, so they won't come. Its a sad situation, because we could benefit a lot by these peoples' experience and different ideas."[70]

The tax difference means that some Dominion Textile managers located in the U.S. have a lower salary, but higher take-home pay than does the President of the company.

The majority of company executives in the early Eighties had worked for most of their careers with Domtex. There was considerable social contact between the managers, and a high degree of trust. Communication was constant and personal, which helped in the acceptance of new ideas and the willingness to give them a trial. Executives with experience in other fields, such as Earle, McCrae and McAslan helped to broaden the scope of thinking. McCrae, for example, was instrumental in the move to divisionalization, and the acquisition of DHJ.

Domtex executives continued to participate in community service organizations, but not in the club life that was important to their predecessors. Chairman Ron Perowne explained the change: "I've never been a club guy. I belong to the Mount Royal Club [as did all the founding director of the company but one], Tommy Bell is also a member. I use it very little."[71]

Another feature of the executive group in the early Eighties that distinguished them from their predecessors was their close contacts with American textile executives.

These ties were first encouraged by E.F. King in the Fifties. Other personal links were forged when Canadians attended American textile colleges. The process was accelerated by the DHJ acquisition. "This changed the people, not the names, but the outlook, the attitude toward the business."[72] As a result, there was little difference between the Canadian and American management styles.

According to Alex McAslan: "we have very good relations with U.S. textile people on the senior executive and middle management levels. Our personnel officers exchange views with their counterparts in the U.S. firms on a one on one basis. We informally call them up. We have them here on plant visits, and go down and visit them. We're part of the club, although the initiative is more on Dominion Textile's part. The American firms still see Dominion as a little bit different and are quite open with them. American companies are not so free with themselves. Their doors are a little more open to Dominion Textile than to each other. Domtex has taken a low key approach to its American prescence. For a long time we didn't advertise ourselves particularly in the U.S. We don't belong to the AMTI, the American Textile Association in the U.S., Swift and Linn-Corriher do, but Dominion Textile doesn't. Tom Bell goes to the meetings, but registered under Swift and Linn-Corriher. They know who we are. They call us a competitor. Maybe those doors will close a bit tighter later, and they'll see us as more of a competitor, but right now they are ready to share views, although, not company secrets."[73] Domtex is hardly a minor player in the U.S. It usually rates as the sixth largest North American textile company.

In its international operations, for a start, the company used Canadian expatriates, but then tried to recruit local managers when possible. This will mean the management culture must in fact change. As operations become increasingly multinational, the heritage of the Gordons, the Daniels, and Ed King, will not be passed down through decades of apprenticeship. Internationalism means this tradition, which is tangible in the company today, will become diffused. Still, in the early Eighties, in the Canadian operations, the long and successful history of the company gives its executives the feeling that they were passed on an organization nearly as old as the country, and they must adapt it to present conditions, and again pass it on.

One of the values the company discovered in going multinational was that Canadians do some things very well. The company was accustomed to operating in two languages, and found this advantageous. They also discovered their managers spoke languages other than French and English, which was a bonus in their international business. Company executives feel they have many skills, knowledge of equipment and market, knowledge of styles, but are not in the political arena with the Russians, not a former colonial power, and not the U.S. They feel this is an advantage, that they are an example of what developing would all like to be, an emancipated colony.

McCrae explains this change in culture: "Canadians are adaptable, as predatory as anyone else, us, not our government. When you get out there, you realize that you can do it, that you can operate plants successfully in quite a number of locations. Your perception of yourself changes as you get out there. We operate in the States, we operate in many countries under a variety of governments. We operate in China, with no government involvement. We worked out the arrangement ourselves, but the goods are moving. That's what we find when we get down to its - the basis of our skill is commerce."[74]

Dominion Textile operated in the tough, competitive, Canadian open market. By 1980, most of the textile production in Canada was done by seven or eight companies. The Canadian textile market has been the survival of the fittest, and Dominion Textile had proven the fittest.

PERFORMANCE

The early performance of DHJ was, as expected, terrible. DHJ had a loss of $25 million, including close downs and inventory write offs, for the year ending May 31, 1975, the same month it was bought by Domtex. Ron Perowne summed up the DHJ financial story for fiscal 1976 as: 1st quarter - massive hemorrhaging, 2nd quarter - minor bleeding, 3rd quarter - discharged, 4th quarter - walking without aid. All sectors of the company suffered a decline in 1975. Lana Knits and Penman's had losses. DHJ made its first contribution to earnings in June 1976.

By 1978, Tom Bell could report that Domtex had met all of its obligations to DHJ creditors under the original creditor's agreement. "DHJ is still struggling, and its balance sheet is still not as strong as we would like, but it is fighting the good fight and has contributed to our consolidated earnings in each of the last two years."[75] Bell was the first to admit that much still needed to be done.

The stabilizing effect that operating internationally provided was evident in 1977 when operations outside Canada had helped to shore-up results when the domestic textile industry was inundated by imports. The next year, a strong performance in the Canadian operations more than offset a decline in earnings from the U.S. and overseas subsidiaries.

In 1979 the company again reached new records in sales and earnings. All facets of the Canadian operations performed strongly. Swift Textile was a substantial contributor to Dominion's consolidated earnings.

Tom Bell told shareholders in 1980. "If a shareholder had invested $1,000 in Dominion Textile shares on June 30th 1970, and reinvested all dividends received in additional shares, the value of the original investment would have been $7,305 at June 30th 1980: This represents a compound annual return of 22% per year."[76]

1981 was another record year. Sales and net income were up 14% and 23% respectively over 1980.

Business conditions declined suddenly and severely in late 1981. The reason this time was not imports, but the international recession. Customers stopped spending money. The protection and balance the company hoped would come from geographic and product diversification was of little help. None of the Canadian Divisions were immune from the effects of the recession. Those products most directly related to consumer spending and vulnerable to import competition were most seriously affected. The Industrial Products division, helped by export sales, was the least affected, but suffered never-the-less as construction, automotive, resource and a host of other industries the company supplied also cut back due to the recession. The U.S. operations and the International Division also had a difficult year.

In fiscal 1982 sales declined $100 million and the company suffered a net loss of $.38 per common share. Despite the losses, Domtex paid dividends in 1982. "Dominion Textile has paid a dividend on its common shares for 75 consecutive years, and there is no intention of breaking that record."[77]

Fiscal 1983 showed a gradual improvement as the recession eased. Sales increased by 7.2% and the net profit was $1.41 per common share.

Dominion Textile's gains and losses between 1975 to 1980, combined with the necessity of being very specific in its strategy as a result of the recession, resulted in a strategy that was very different from its strategy less than a decade earlier. In 1982, Tom Bell outlined the three segmented strategies of Domtex. "We have analyzed and evaluated each segment of our operations over the past two years in order to most effectively allocate our resources among the various options available to us. As a result, we have developed a strategy with three principal thrusts."[78]

"Its first is to rationalize and modernize our Canadian operations and develop the important segments into self-sufficient, highly competitive businesses. We have already met with the Canadian Industrial Renewal Board to outline this far-reaching program and, depending on our assessment of the government attitudes towards the textiles and clothing industries over the longer term, we are prepared to undertake significant capital expenditures over the next five years to carry it out.

The second part of our strategy calls for moderate and selective investment in the United States textile markets. Emphasis will be placed on those products where we already have a strong market posititon in both Canada and the United States and specialized products which have a greater degree of technical output.

The third thrust will be directed towards expanding our overseas activities in a variety of ways. Our international network has already given us wide experience in managing joint ventures, consulting, licensing and the sourcing and marketing of a broad range of textile and related products which places us in a unique position in the textile industy throughout the world.

These plans require some critical investment decisions and our allocation of resources will have to be appraised in light of the social, economic and political developments in Canada throughout the balance of the 1980s."[79]

Domtex was straddled between two different strategies, one in the U.S. and one in Canada. The third segment of the overall strategy seemed less important. Domtex could not compete in manufactured goods internationally because of the wages and social conditions that existed in North America, compared to those in newly industrialized countries.

Domtex was redefining itself as a North American company. This was the route where growth seemed possible. Otherwise the company was limited by the size of the Canadian market. The trend was to global trade. Without the move into the U.S., the company felt it would face low or negative growth. The Canadian base provided the solidity of nearly eighty years of successful operations. The U.S. market offered growth, although opportunities do not present themselves on demand.

Whether Domtex becomes a totally specialized operation depends on the Canadian government and whether it wants free trade in textiles with the U.S. At present (1984), the Canadian government is revealing contradictory attitudes. One is to study free trade, the other, through the Industrial Renewal Board, is to help refurbish the textile industry.

In trying to guess what Ottawa will do, judging from its past record, one expects the government to continue to mark time while its boards, hearings and Royal Commissions make studies, but essentially do nothing. Jean-Luc Pepin, when Minister of Industry, Trade and Commerce summed up this approach as: "It's not what you do, it's what you seem to be doing."

In the face of these mixed signals, Domtex elected to follow a dual strategy in Canada and the U.S. The one thing Domtex could not do was wait until the government decided what its position will be. "We'll run our business the best way we know. That means that some of the decisions we may take turn out to be wrong if the government changes its policies. You can't stand still. You try to do the best you know how."[80] Until the Canadian government resolves its own internal dichotomy, Domtex feels it needs to follow a dual strategy and take the best opportunities that arise.

In view of the government's duality, Domtex positions itself by producing goods in which they can have a strong market position both in Canada and the United

States. It is easier to be specialized in the U.S. than in Canada, because of the size of the U.S. market. The specialized products produced in the U.S. are also produced in Canada, giving the Canadian goods the advantage of American expertise and R & D. Thus the expertise of the U.S. Swift plant in Georgia is utilized in producing denim in Canada, as well as Tunisian-produced denim for the European market. Sales yarn is produced both in Canada and the U.S. as are geotextiles. But the consumer fabrics and the wide variety of apparel fabric produced in Canada cannot be duplicated by the U.S. operations. The Canadian market in textiles means a company must choose between being large and producing all things for all people, or being small and exploiting a few niches.

Domtex intends its future U.S. acquisitions to continue to be in specialty products. This is a difficult market to be in Canada because there are not enough applications in this market, whereas a U.S. plant can be run in specialized applications to produce two or three things. Ultimately, Dominion Textile's growth depends on developing specialties in the United States.

Summary

The development of Dominion Textile from 1953 to the present conforms to the life cycle model proposed by Scott, and initiated by Chandler. Dominion Textile had become a multinational which was divisionalized by product, area, and customer. It had expanded from a primary producer to becoming involved as an intermediary (interlinings), and with consulting.

The development of Dominion Textile raises several issues about causes and effects in life cycle theory:

[A] The observation that companies have grown as managers have responded to markets is an ex post observation of successful companies. The adoption of a market oriented strategy cannot be assumed. The development of this orientation at Dominion Textile required a change of culture among managers, the appointment of E.F. King, and a crisis of survival which became evident in 1953. The life cycle theory of Scott appears to be applicable to describe corporate development only if one assumes that <u>all</u> managers are responsive to market conditions.

The history of Dominion Textile illustrates that managers can successfully operate a type of strategy, mass production, without necessarily being market driven.

[B] The concept of corporate growth, and what managers perceive as a satisfactory rate of growth, is so broad and lacking in content as to be misleading. Dominion Textile was content with its growth, measured in quantity output for many years. It later relied upon % share of the Canadian market, and variety of products. Growth was further refined to include expansion outside of Quebec, new technologies, and plant locations and buildings. Growth into the U.S.A. and international markets was influenced by availability of alternatives, Canadian government policy, operating problems, imports, and the global nature of textiles. The assumption that all managers want to grow through divisionalization is not sustained in the case of Domtex. Growth appears to be precipitated as much by adverse circumstances as positive inducements in the case of Dominion Textile.

[C] The assumption of linear or normal development as proposed in life cycle theory is questionable. Domtex executives agonized, struggled, and wrestled with the problem of corporate development and change. Mistakes, failures, and false starts are part of the history from 1953 - 1980. Faced with uncertainty, bounded rationality, and limited perceptions, the company erred in manufacturing double-knits and interlinings. These mistakes were not large enough to be fatal, but illustrate the importance of the quality of decision making. Corporate development, as Mintzberg notes, is the result of a succession of decisions taken over a period of time. There is a corporate learning process which takes place, and which was noted by President Bell.

[D] Technological change is a major factor in the development of companies. In the textile industry the introduction of synthetics, geo-textiles, and manufacturing technology, significantly changed the commodity characteristics of the industry. Consumer preferences could only be met by significant technological reponses. Organizations which had the capacity and will to make technological change, were also able to respond to product innovations. Dominion Textile either purchased technological innovations from manufacturers, or acquired the expertise through acquisitions. The willingness of managers to tolerate discontinuities and ambiguities, while at the same time responding to changed positions and work characteristics are indispensible for development.

Life cycle theories when applied to Dominion Textile tend to hide the role and importance of what Chandler calls the Visible Hand. A detailed examination of life cycle theory is undertaken in the next chapter.

FOOTNOTES

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61 Annual Meeting, 1976, R. Perowne, President's Report

62 Annual Meeting, 1982, T. Bell, President's Report

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74 C. McCrae, interview, 1983

75 Dominion Textile, Annual Report, 1978

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CHAPTER EIGHT

CONCLUSIONS

The life cycle and development of Dominion Textile as examined in this thesis can be described by the following stages or periods which have formed the titles of each of the chapters:

1.	Origins and Early Beginnings	1873 - 1904
2.	Formation and Rationalization	1905 - 1919
3.	The Development of Structure and Purpose	1920 - 1939
4.	Stagnation and Decline	1939 - 1953
5.	Developing a Growth Path	1953 - 1975
6.	The Multinational Corporation	1975 - 1983

The development of a multinational corporation has within it three distinct strategic periods:

(a) A strategy to become a market driven Canadian company (1953 - 1970).

(b) International expansion (1970 - 1975)

(c) The multinational divisionalized structure (1975 to present)

These stages or strategic emphases were accompanied by significant changes in managerial perceptions, values, and beliefs about the role of the corporation, goals and objectives, and expectations. These elements and dimensions of managerial culture have been examined in each of these periods.

This chapter re-examines the hypotheses developed in Chapter One, and relates this study especially to Chandler's hypotheses. In general, the hypotheses of Chandler are supported in the study of Dominion Textile. The company has gone through stages of development similar to those identified by Chandler in the study of American and European firms. The Dominion Textile study reveals that the Canadian environment and managerial culture impacted the characteristics of these stages, and influenced managerial actions and practices. These dimenions and characteristics as applied to Chandler's hypotheses and Dominion Textile are examined in the following sections. In addition, other strategic-structural models are examined with reference to Dominion Textile.

8.1 CHANDLER'S HYPOTHESES

This study's findings differ with Chandler's in several areas. There is enough difference to warrant additions to the hypotheses that are not noted by Chandler. Chandler's eight hypotheses are compared to the findings of this research, and evaluated.

<u>"The first proposition is that modern multiunit business enterprise replaced small traditional enterprise</u>

when administrative coordination permitted greater productivity, lower costs, and higher profits than coordination by market mechanisms."[1] Chandler found that: "for some the process was evolutionary; for others the new organization was built with ... speed and care ... ."[2] Chandler ties the speed of the change to technology. The change to modern management came first in firms which could use through-put techniques.

The Dominion Textile data indicates additional factors affect the rate of change. Dominion Textile took nearly fifty years to adopt modern managerial methods. The merger of 1905 did not result in a change to modern managerial hierarchies. The strategy of the company remained the same - to operate a manufacturing organization which processed raw cotton. The goods were then assigned on commission to jobbers to be sold. The company's role between 1905 and the early 1950s was supported by the national business climate - an agreement worked out between government and the business community. The company operated in an environment protected by a tariff wall from most textile exporting countries, including the United States. The exception was British textiles which were given preferential tariff rates for political reasons. Government intervention kept the domestic cotton environment relatively tranquil. Internally, domestic competitors emphasized co-operation, each occupying product niches. In this environment there was little incentive for the management culture of Dominion Textile to change. This culture, appropriate to the industry environment, continued with little change from 1905 to the 1950s.

Dominion Textile became a modern business enterprise only in the 1950s. The environment after 1948 was characterized by changing customer preferences, and a shift in the government's treatment of the industry. Customers were increasingly influenced by fashion originating in the U.S. In order to respond to fashion changes, the company gradually added a marketing operation to its manufacturing function in the 1920s and 1930s. These efforts atrophied during heavy wartime and post-war demand for textiles. In the early 1950s the company felt compelled to make a radical adjustment to new environmental conditions by changing to the marketing concept orientation. In the late 1940s the government's attitude toward the domestic textile industry changed. While the industry was no longer seen as vital to the nation's economic growth, it was to be allowed to continue on, for political reasons - the textile sector was the largest employer in Quebec. These politico-economic changes in the textile industry's environment provoked a reaction in the company, resulting in a reassessment. E.F. King was brought back to the parent company to effect the changes. His new managerial approach gradually, but not without resistence, changed the management culture of the organization. Under King's direction the company became a professionally managed hierarchy.

This change was not, as Chandler found, only a result of administrative changes made to achieve greater stability for the firm in the market place. The Dominion Textile data shows that ~~this~~ change to modern management also required a fundamental change in the organization's management culture. Chandler has not reported this change in managment culture, presumably because a similar culture was common to his American subjects. Yet one infers from his work the new management culture was spread through American firms. For example, one infers from Chandler's Pierre S. Du Pont and the Making of the Modern Corporation[3] and from Alfred P. Sloan's My Years With General Motors[4] on which Chandler assisted as the consulting historian and research associate, that the spirit of the new managment culture was passed from Du Pont to Sloan. As Sloan related, in 1921 the almost simultaneous change to modern management at both Du Pont and General Motors was the result of a common managment philosophy developed and shared by the two companies.[5]

The second proposition is simply that the advantages of internalizing the activities of many business units within a single enterprise could not be realized until a managerial hierarchy had been created."[6]

Chandler found that in the U.S. "The existence of a managerial hierarchy is a defining characteristic of the modern business enterprise."[7] Without it, a company formed by mergers remained "little more than a federation of autonomous offices."[8] Dominion Textile operated for nearly fifty years (1905 - 1953) in a middle ground between these two configurations. It had centralized functional administration by salaried career managers, but not professional management. This prolonged situation was a result of the Canadian business culture in which Dominion Textile operated, a culture with two characteristics not found in the U.S. primary textile industry. Dominion Textile operated in a national industry environment in which the government set the boundaries of competition. Imports were excluded from the Canadian domain except for British goods, allowed to compete for political considerations. Within the Canadian primary textile industy, companies concentrated on certain product. Dominion Textile, the largest company in the industry, had the widest product line.

The company's position of being more than a collection of autonomous units, and yet not a modern managerial hierarchy was also sustained by the Canadian corporate elite - which limited the need to create hierarchical structures. Dominion Textile was an integral part of this establishment. Its Board of Directors were a representative sample of the establishment in industry, banking, and government. The company's senior officers, Sir Charles Gordon (President of the Bank of Montreal) and Sir Hurbert Holt (President of the Royal Bank of Canada), presidents of Canada's two largest banks, gave only a fraction of their time to the company. The company's close connections with the small Canadian business community hindered the development of a modern managerial hierarchy.

Dominion Textile eventually moved to a modern managerial culture after 1953, when the government was no longer willing to protect its domain, and when the company's very close ties with the financial community and other industries had losened. By then, the sense of community and common interest among the Montreal business elite had weakened. The change to a modern managerial culture was effected by E.F. King who, while a long term officer of the company, sought out U.S. examples of business conduct on which to base his policies. King transmitted this new culture to the next generation of company managers.

The Dominion Textile case suggests that Chandler's second proposition is, in the case of a Canadian company, contingent upon the extent of government protection of the industry, and upon the prevalent managerial culture in which the firm operates.

<u>"The third proposition is that modern business enterprise appeared for the first time in history when the volume of economic activities reached a level that made administrative coordination more efficient and more profitable than market coordination."</u>[9]

Chandler has explained that this hypothesis is contingent on expanding markets, and new and advancing technology. In the Dominion Textile case, neither of these contingencies apply. Dominion Textile was formed in 1905 by merging four companies who faced a static technology and declining markets, and ruinous competition among each other. The purpose of the merger was to stabilize the market rather than to consolidate it in order to take advantage of increased market opportunities.

Chandler has described how the first modern managerial hierarchies were developed. Many companies in the manufacturing sectors cannot take advantage of high throughput technology, and still developed modern managerial structures - at a later date. In the Dominion Textile case, modern hierarchies were developed after 1953 in response to a declining market, in order to implement modern marketing techniques. Government played a leading role in determining market share by no longer sustaining the primary textile industry's domestic domain.

The Dominion Textile data records the case of a company dealing with a relatively static technology in primary textiles, which developed a modern managerial hierarchy in response. The industry conditions were the reverse of those Chandler describes. Industry conditions aside, the change to modern management at Dominion Textile was the result of a decision to respond to, and pro-act with, the market. Several leading Canadian primary textile companies which did not make this response ceased operations in the 1950s. Dominion Textile adopted its modern structure when it was abandoned by the federal government, betrayed by its intermediaries, and no longer protected by the establishment's cultural network. There appear to be more paths to modern managerial hierarchies than the way described by Chandler in hypothesis 3. The Dominion Textile data illustrates a case of declining markets as the reason motivating the change. The reason for the change was a modern managment culture which revised the company's assessment of its environment, and not a particular set of environmental conditions.

"The fourth proposition is that once a managerial hierarchy had been formed and had successfully carried out its function of administrative coordination, the hierarchy itself became a source of permanene, power, and continued growth."[10]

This hypothesis is partially substantiated by the Dominion Textile case in some instances. The reasons for continuing the company's operations varied throughout its history. The events of 1905 are in accord with Chandler's description of a company prior to modern managerial systems. The company's formation in 1905 was precipitated by a crisis - severe competition in a declining market among primary cotton textile companies. The members of the Syndicate, the founding directors, with the exception of Charles Gordon, had considerable financial interest in the preservation of the mills as going concerns. They created

Dominion Textile in order to protect these financial investments. The salaried managers of the founding companies had no influence on the process.

By the time of the Depression in the 1930s, the company had established career managers who carried out operations, but did not formulate strategy. In the 1930s, Dominion Textile operated for seven years without a profit on operations. The senior executives continued to pay dividends by using funds accumulated during World War I. The executives felt paternalisticly responsible for the workers. Gordon and Holt, leading members of the Canadian business establishment also felt it was their social responsibility to the Canadian economy to continue to operate the company. The careers of Gordon and Holt were not limited to any particular industry. Their multi-faceted careers would not have suffered to any great degree if Dominion Textile had closed - except in the esteem these men were held in by the business community. Sir Charles Gordon also had family considerations which prompted him to keep Dominion Textile in operation. In the 1930s he was grooming his son Blair to succeed him in the presidency of the company.

This critical event does not support Chandler's contention. The company had not acquired a life of its own. The career managers did not control its destiny. Dominion Textile was kept operating because its senior officers, Gordon and Holt, saw the firm as part of the economic and social fabric of Canada. Keeping this company going contributed in their eyes to the the welfare of the country.

By the 1950s, this culture had changed. In the crisis of the 1950s, Ryland Daniels and Edward King saw the survival of the company in terms of their life-time careers. Permanence had passed from being a family and social responsibility to the situation described by Chandler - "the hierarchy itself became a source of permanence, power, and continued growth."[11]

Chandler's focus on the bureaucratic structure of organizations as a force which assures permanence is not substantiated in the case of Dominion Textile. The source of the drive to survive was not the structure, but the change in culture. The modern corporate hierarchy in the 1950s resulted from a change in managerial culture and values. Prior to that, the hierarchy's function was the allocation of resources, and a shared sense of responsibility.

"The fifth proposition is that the careers of the salaried managers who directed these hierarchies became increasingly technical and professional."[12]

Chandler found that business bureaucracies with "hierarchies requiring specialized skills, selection and promotion became increasingly based on training, experience, and performance rather than on family relationship and money."[13] Dominion Textile developed a middle management cadre that fulfills Chandler's description, but was not a modern managerial hierarchy. The salaried managers who directed Dominion Textile between 1905 and 1953 were technical and professional, but their career development was personally and culturally determined by the norms set by the Canadian business elite. The goals of this external elite, to which Sir Charles Gordon, Sir Hurbert Holt, and Blair Gordon belonged were to seek stability within the business community, under the protection of government tariffs. The company promoted to senior management men who shared the values and promoted the predominant internal and external culture.

In contrast, after 1953 the company managers became truly professional. No longer protected by government policies, and in competition with other industries for the attention of the financial community, the company under E.F. King changed to a modern managerial hierarchy in order to survive. The new internal culture set new policies intended to align the company to market demands, and to pro-actively seek new market opportunities. The company found role models for these new policies in the U.S. primary textile industry.

The Dominion Textile case indicates that in addition to Chandler's criteria of specialized skills, and promotion based on performance, must be added the factor of competing in a free market environment. Chandler's hypothesis 5 is also contingent on a change in managerial culture and values. This requires a reassessment of the environment in terms of pro-active strategy making. When this is combined with Chandler's criteria, there can be said to be modern management.

"The sixth proposition is that as the modern business enterprise grew in size and diversity and as its managers became more professional, the management of the enterprise became separated from its ownership."[14]

Chandler describes this as a changeover from management of a company by its owners, to direction by the representatives of financial capitalism. "In time, the part-time owners and financiers on the board normally looked on the enterprise in the same way as did ordinary stockholders. It became a source of income and not a business to be managed."[15]

Chandler's description does not encompass the Dominion Textile case from 1905 to the 1950s. In Canada, with a smaller scale of business activity, fewer businesses, and a small number of chartered banks, the distinction between the manufacturing and banking sectors was blurred. In its first half century Dominion Textile had close connections with banks, especially the Bank of Montreal. The company was founded by financiers and bankers. The connections were continued by Sir Charles Gordon and Sir Hurbert Holt. These bank presidents did not look on Dominion Textile as "ordinary stockholders". The financial capitalists, Gordon and Holt, directed the strategy of the company until World War II. They tied Dominion Textile to the close Canadian trinity of business, banking, and government.

Chandler's sixth hypothesis is contingent. It assumes a business is operating in a free, large-scale market economy. Just as the American system of government separates political power among Congress, the President, and the courts, each part having checks and balances, so in the American business environment, businesses, banks and government were distinct entities. Where the market is small, and the government fosters a mixed economy, as the Canadian government always has, there is less pressure on organizations to develop modern managerial hierarchies. In the Dominion Textile case, when the company ties with banking and government weakened, it became a modern hierarchy. This Canadian example suggests a new area ~~of~~ research - the effect of attempted direct involvement by government can have on a company's strategy and structure.

"The seventh proposition is that in making administrative decisions, career managers preferred policies that favored the long-term stability and growth of their enterprises to those that maximized current profits."[16]

The Dominion Textile case illustrates this hypothesis, but indicates there is a difference between the actions of companies with salaried career managers and those with professional managers. The strategy and structure chosen by the executives between 1905 and 1953 differed from those chosen by senior officers after 1953. The "old guard" was distinguished by its personal, rather than corporate intervention into social and business affairs. Sir Charles Gordon, and Sir Hurbert Holt defined Dominion Textile's business very narrowly. When opportunities for expanding the business arose, they pursued them as individuals. In 1909 Gordon became president of Penman's, a woolen fabrics operation, a step that was in keeping with the individual, rather than corporate orientation of industry leaders. It was not until the 1960s, when a new generation of managers with a professional management culture defined its business in broader terms, that Penman's was acquired by Dominion Textile.

Another difference between the old style of top management by financiers directing salaried career managers, and the professional management style begun in the 1950s, was the degree of risk-taking. The "old guard" sought stability in the domestic market in alliance with the business community and government. They felt their first responsibility was to the shareholders. After the mid-1950s, the professional managers extended the horizon of their planning to eventually include international operations. A greater percentage of the company's earnings were invested in renewing the plants, and in developing new processes such as synthetic blends. The goal of planning was the long term survival of the company. The professional managers of Dominion Textile, after the mid-1950s, illustrate hypothesis 7. The company expanded into marketing to protect its outlets, and took on new products and services "... in order to make more complete use of existing facilities and personnel."[17]

The company's actions in the 1970s also illustrate Chandler's hypothesis 6. After 1970, believing they would soon face a declining domestic market, the senior executives followed an international strategy. They chose growth into international markets, rather then a harvest strategy on the domestic market. These pro-active decisions however, were contingent on the development of a professional management culture, and not simply on the hierarchy of career managers.

"The eighth and final proposition is that as the large enterprises grew and dominated major sectors of the economy, they altered the basic structure of these sectors and of the economy as a whole."[18]

The new enterprises, through consolidations, while not replacing market mechanisms in generating goods and services, sought through administrative co-ordination to control the flow of goods and services from the production of raw materials to sales to the ultimate consumer. Dominion Textile followed these goals. The company was founded in 1905 to co-ordinate the activities of several competitive firms in order to give some stability to the industry. By the 1960s, Dominion Textile was the primary textile industry in Canada. This market dominance did not give the managers a secure market position as suggested by Chandler, rather it served as an impetus to make the Dominion Textile managers want to broaden their base by expanding internationally.

What the Chandler hypothesis, based on the U.S. experience, does not note, is the role government may play in determining industry structure. The Dominion Textile managers always had to deal with non-market constraints, as well as those imposed by market forces. In theory, the foreign share of a domestic maket is a function of: (i) the tariff rates; (ii) cost differentials between foreign and domestic producers; (iii) the pricing behavior of domestic firms (whether monoply or not); and (iv) the value of the Canadian dollar. While the Canadian government can set tariff rates and to some extent determines the value of the Canadian doll~~a~~r, it cannot influence the other factors. Thus while it is not strictly true that the determination of the foreign share of the market is not se by the tariffs, in fact, through its tariff policy, the government influences which industries are favored and which are not. No matter how concentrated the Canadian textile industry became under the dominance of Dominion Textile, the size of that market was strongly influenced by government tariff policies. Th economic policies of the Canadian government determined that in the 1930s the domestic industry had about an 85% domestic market share, while in the 1950s this share was allowed to drop to about 45% of the domestic market. In 1970, the Pepin textile policy decreed that government would decide which textile products would be discouraged, and which ones were acceptable for domestic producers. Dominion Textile responded to this policy by radically changing its strategy and structure in order to pro-actively deal with this perceived threat to their operations. Later events justified their concern. This adds another dimension to Chandler's hypotheses on the formulation of strategy and structure. Monitoring possible government plans, interpreting their effect, and lobbying to seek better terms can become a major preoccupation with companies operating in a mixed economy - as it did at Dominion Textile. The result is that Canadian firms have less control over the primary textiles sector than do their American counterparts. As the sixth or seventh largest textile company in North America, Dominion Textile finds it easier to deal with government in the U.S., where it has allies in larger companies, than in Canada where it dominates its sector in a mixed economy.

The Dominion Textile case indicates Chandler's hypothesis 8 does not have universal applicability. It is contingent on the extent of government involvement through legislation, in that industrial sector.

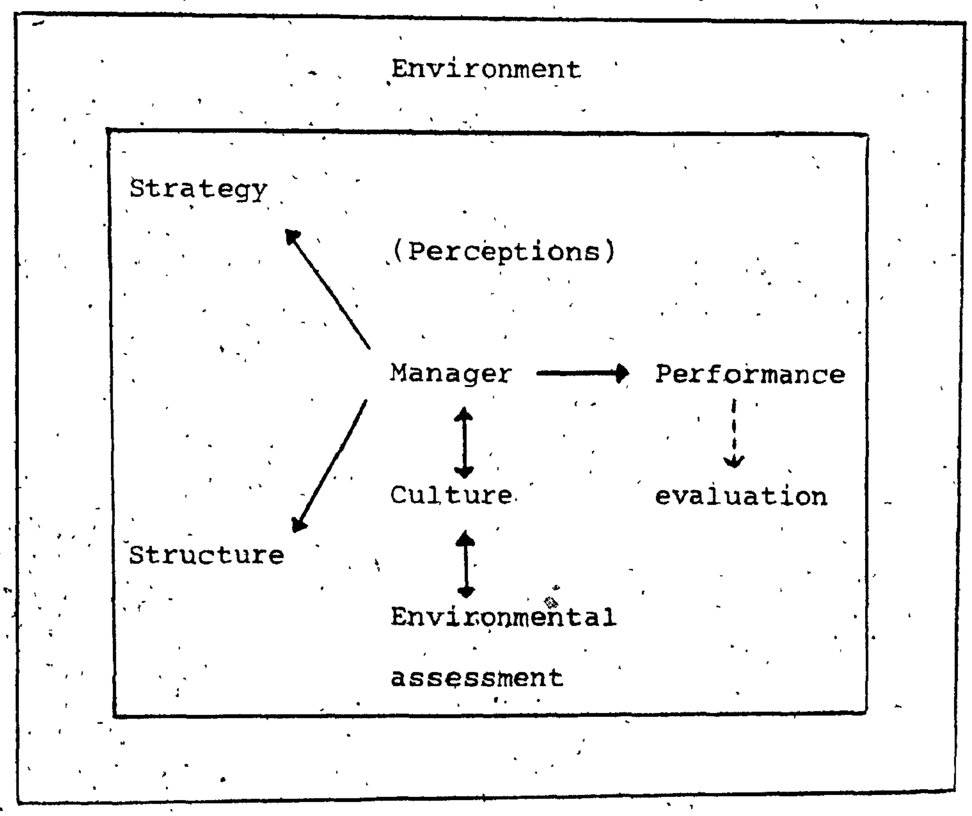
The Chandler hypotheses are inadequate to describe the development of Dominion Textile into a modern organization. The Canadian environment is different from the U.S. business environment on which Chandler based his hypotheses.

Chandler's research, based on the study of nearly 400 U.S. firms, gives his work consistency and strength. The Dominion Textile research reveals a coherent pattern of data over 110 years. In neither case is there a measurement error. Yet the findings of Chandler differ from this study on the importance of the role of the manager. The Dominion Textile data consistently shows that for over 110 years that the managerial culture in which managers operate, and their assessment of the industry environment, affects their decisions on strategy and structure.

In order to accomodate Chandler's hypotheses and the findings of this research a more encompassing model is needed. This model must include the manager, his cultural milieu, and his assessment of the environment. It indicates that a manager's perception of strategy and structure are constrained by the management culture in which he operates. Culture, in turn, bounds the manager's assessment of his environment.

Exhibit 8 - 1

STRATEGY, STRUCTURE AND MANAGEMENT CULTURE



Chandler's hypotheses are culture bound, making them contingent, and therefore not a theory. In Canada these variables, especially the influence of government are more obvious. The market is constrained by bargaining and negotiation among buyers, producers and the several layers and departments of government. The Dominion Textile results indicate Chandler's hypotheses are contingent on a freely operating market.

8.2 CHANDLER'S MODEL OF STRATEGIC-STRUCTURAL CHANGE

Chandler found a pattern of four chapters in the development of successful U.S. companies. Did Dominion Textile experience a similar pattern? Chandler's First Chapter of Accumulating Resources is similar to the period of mergers among the early companies which later formed Dominion Textile between 1873 and 1905. The federation of Canada in 1867 created new opportunities by creating an expanded national market. The manufacturing sector was greatly aided by the protective tariff of the National Policy of 1878. The textile companies established in the 1879s and 1880s generated capital to increase their production facilities, labor force, and trained supervisors. In the 1890s, a general reduction in the level of economic activity resulted in mergers. In some industry sectors this step included not only horizontal integration, but vertical as well, into marketing or the control of suppliers. In other sectors such as textiles: "The makers of the older, more staple commodities, however, generally waited until they had combined and consolidated with their fellows before creating marketing organizations."[19]

The informal associations of the 1880s broke apart in periods of economic downturns. These cartel agreements stressed specialization in specific products to the several firms, and tried to impose quotas on each company's production. The formal mergers of Dominion Cotton (1890), and Canadian Coloured Cottons (1892) recognized that agreements could only be enforced, and production rationalized, by legal consolidation. Chandler found the same situation in the United States. "Combination normally proved to be only a temporary expedient, simply because it led to, and indeed demanded, a limited use of the firm's available resources. Consolidation, on the other hand, permitted the lowering of unit costs through high-volume production for the large market."[20]

Chandler's Chapter Two, Rationalizing the Use of Resources, corresponds to the period between 1905 and 1953 at Dominion Textile. The merger of several independent companies into Dominion Textile in 1905 was accompanied by the formation of a centralized marketing operation. This completed the move away from using the services of a commission house. In 1880, David Morrice had a virtual monopoly of cotton textiles in Canada as the pre-eminent Commission Agent. Dominion Cotton had formed its own marketing department in the 1890s, after a break with Morrice. Dominion Textile, after 1905, dealt directly with jobbers, and occasionally with large retailers. Head office also provided bulk purchasing of raw materials for all the mills.

The organizational task from 1905 to 1914 was to reorganize and centralize the administrative component and to integrate the production systems. Chandler found that: "Often in their eagerness to meet the new markets, the empire builders in one industry had collected more facilities and personnel than were really necessary to meet the existing demand. Continuing profits depended on the lowering of costs through the systemizing of operations."[21] This was characteristic of Dominion Textile. In 1905 the company acquired a half-dozen mills which were marginal producers. They were gradually phased out within the decade, and the better mills were re-equipped. The production process was rationalized by designating specific production functions to mills and gradually, as equipment needed replacing, this reorganization was achieved. The Magog Branch became the finishing plant into which the production of the other mills was channeled. Dominion Textile also sought to maintain the pre-eminent position they had gained by the merger, by buying a possible competitive threat - Mount Royal, and by attempting to buy the third largest Canadian operation, Montreal Cotton.

In 1905 Domtex was structured as a holding company. The restructuring of production between 1905 to 1912 was also reflected in the administrative structure which became increasingly functional and centralized. The functions of marketing and purchasing were at head office from 1905. In 1907 a Statistical Department began gathering production and sales figures for each mill's output.

Having worked out a successful formula, Domtex relied on established patterns and routines. Some gradual changes were made. The Sales Department was made more reactive to customer demands. Several new products were developed (tire cord and netting,) and the company continued to develop its expertise in producing prints. The major development was in producing rayon. This expertise in synthetics would give the company an advantage later.

Chandler's Third Chapter, Continued Growth, corresponds to events at Dominion Textile between 1953 and 1975. Chandler describes this chapter as a response to changed market conditions. "As the market became more saturated and the opportunities to cut costs through more rational techniques lessened, enterprises began to search for other markets or to develop other businesses that might profitably employ some of their partially utilized resources or even make a more profitable application of those still being fully employed."[22]

The major environmental change in primary Canadian textiles change came in 1948 when government price supports which had underpinned the industry were removed. The Canadian textile industry was opened to severe import competition, without the aid of adequate tariff protection. Consumers demanded the latest American styling. Technological change, heretofor slow moving, brought synthetic fibre production to a new phase. In the 1960s, the textile market turned from being dominated by cotton fibre to one where synthetic blends dominated.

Dominion Textile rebuilt its cotton facilities in the 1950s. With large capital investments in new plants, it led in the production of synthetics in the 1960s. In the 1960s and early 1970s it also acquired small companies using new textile applications.

The product line remained textiles, with production mainly for the domestic market. Dominion made a major reorganization in its Sales Department in 1953, changing the company's orientation from manufacturing to marketing. In 1963, the Sales Department was further divisionalized in order to make the department more responsive to the increasingly differentiated customer niches. Despite these changes the company remained within Chandler's definition of the Third Chapter because: "If expansion resulted only in the development of a full line of goods that continued to use much the same type of resources, the reorganization of the marketing department so that it had an office for each major type of customer was usually sufficient."[23] Wrigley (1970) later defined Dominion Textile's diversification as a "single product business."

By the early 1970s this strategy of producing a wide product line, had reached its limits for several reasons. Domtex had entered into the profitable areas of the Canadian market wherever it could develop or buy expertise. Some market niches such as prints, a long term money maker, and the newly developed double-knits were proving marginal or losing operations.

The most important factor which galvanized the company into reassessing its position was the government's policy towards the industry. Labelled a "sunset" industry by the government, the company faced the prospect of either managing a declining enterprise, or "breaking out" by going multinational.

Chandler's Fourth Chapter, Rationalizing the Use of Expanding Resources corresponds to Dominion Textile's history from 1975. Chandler found this further change resulted "where business diversified into wholly new lines for quite different customers with quite different wants, then more reorganization was needed. It became increasingly difficult to coordinate through the existing structure the different functional activities to the needs of several quite different markets."[24]

Growth, predominately into the U.S. market, meant Domtex had to follow the industry pattern of the U.S. textile industry, of large scale operations in market niches. Its strategy in Canada as the mass producer of a wide product line was impossible in the U.S. market. The U.S. strategy fitted with the course the company had developed in Canada as a result of government policies. It had rationalized facilities to concentrate on fewer, specialized products. By emphasizing the U.S. specialties in the Canadian market, the company strengthened its position in those products in Canada.

Chandler found that: "Responsibility for maintaining and expanding the enterprise's share of the markets became harder to pin point. In time, then, each major product-line came to be administered through a separate, integrated autonomous division."[25] This need led Dominion Textile in 1982 to begin to change its structure into a holding form by creating five autonomous companies, each with its own president - three to deal with different market niches in Canada, one in the U.S. and the international company.

As Chandler also notes, expansion into a complexity of markets increased the entrepreneurial activities of head office. The divisional and holding form gave the head office executives more time to consider the long-view, and aided the process of both rationalizing existing resources, and developing new activities.

8.3 IS THERE A CHAPTER FIVE ?

The Chandlerian chapters are supported by the Dominion Textile case. However, Chandler's developmental model, published in Strategy and Structure (1962) does not discuss the next (fifth) phase taken by some large organizations to multi-national operations. Other researchers, basing their work on Chandler's chapters, have investigated the strategies and structures of multi-national enterprises.

Rumelt (1974) found that a strategy of controlled diversity correlates with a high and stable economic performance because an organization is not dependent on a single business, or is dealing with several industries. He also found that growth and profitability are positively related because: "Unlike many functionally organized firms, and particularly a vertically integrated firm, the diversified divisionalized company does not have to re-invest in marginal activities just to "stay in the game": its strategy permits, and its structure facilitates, a range of policies tailored to individual businesses. Some areas can be used as cash generators or dropped entirely; others may provide stable long term performance and still others may consist of risky, but potentially lucrative new ventures. As a result, there is less conflict on the corporate level between the goals of profitability and growth."[26]

Franko (1974) studied European multinationals in the 1950s and 1960s. He found that in 1961 the majority of these companies used the dual structures of an international holding company with a domestic functional structure he called the mother-daughter form. Franko explained this contradiction to the Chandler model by noting that the mother-daughter form eliminated the need for controlling multinational strategies in foreign markets by the use of expatriates in lieu of the more elaborate and impersonal mechanisms of rules and control measures generally used by American multinationals. The expatriate, socialized by years of apprenticeship at head office, and with similar class background, interprets the foreign culture to head office, and vice-versa.

When Franko (1977) re-examined his Fortune 200 sample several years later, he found the mother-daughter form was falling into disuse, in favor of the multinational structure, thus conforming more to Chandler's U.S. findings. Franko suggest several reasons for the change - the dropping of tariff barriers in the European Economic Community, and actions against trusts and cartels which broke down the previously negotiated environment. Franko found the change to the multinational form came in England, a more open market, before it was used in France, which resisted penetration by foreign countries more vigorously.

Franko's findings have predictive value as to what might happen to Canadian companies such as Dominion Textile if free trade in some products were introduced.

Stopford and Wells (1973) studied firms which expanded internationally in the 1960s, and the strategies they adopted. They found that these firms universally added an international division to the existing product structure in order to gather up all international activities that were in themselves relatively insignificant, but which internationally were a significant sector of the business. This reduced the span of control for the chief executive and allowed the development of managers experienced in international business. It helped them concentrate on those national markets, rather than also be concerned with the domestic market. Stopford and Wells also found the international form was temporary, and gave way to a global form. The type of global form it moved to depended on its growth strategy. Companies that diversified their entire domestic product line in several countries eventually adopted world-wide product divisions. Firms which only expanded their dominant business internationally adopted geographic divisions.

Dominion Textile which did the latter, further confirms the reasoning developed by Stopford and Wells. The Canadian product line is too broad to adopt globally. The company's foreign operations have been concentrated on a few products - denim, sales yarn, and geo-textiles in the U.S., and interlinings internationally. The International Division encompassing operations and joint ventures in Europe, North Africa, South America, and the Far East, is organized geographically because it concentrates on a single product - interlinings and its applications. The U.S. operations are structured separately, because they deal in different products, into three divisions based on the three product groups.

Stopford and Wells found that a company changed to international product divisions when the international division grew equal in size to the largest U.S. domestic divisions. Since Dominion's international sales are just over one-third of its net income, this change (with the exception of geo-textiles) is not being made.

According to the Stopford and Wells argument, if in the future, more products were added to the international or the U.S. companies, the newly introduced products would add to the division's administrative difficulties. The division's executives would continue to emphasize the original product to the detriment of additions. These pressures would require an intermediate re-organization of product divisions within the U.S. and international companies, and eventually lead to the disbanding of the international and U.S. companies and the placement of their product divisions among the three domestic product companies.

Stopford and Wells are describing an American pattern. This final step of global product divisions with headquarters in Canada would not be logical for Dominion Textile. The small-scale of domestic Canadian operations, as a result of the size of the Canadian market, the U.S. and international specialty product operations would be difficult to direct from Canadian product companies. Swift Textiles, the third largest quality denim producer in the U.S. cannot be directed from the Canadian denim operation, which is an off-shoot of Swift. The American operation provides the R & D and expertise to Canada. Similarly, in the specialty product of industrial engineering geo-textiles, the U.S. operations are much larger than those in Canada. Dominion Textile has placed the small Canadian geo-textile operation under the control of Mirafi, Charlottesville, N.C. their American operation. The next step might be to have the Canadian sales yarn operation directed by Linn-Corriher the Domtex sales yarn company in the U.S.

The Stopford and Wells model supposes a company is moving from a large domestic market to smaller, scattered international ones. A Canadian firm like Dominion Textile is moving from a wide product line in its domestic market, to specialty products with a much higher volume internationally than is possible domestically.

These factors compel Dominion Textile past the divisional structure to the less decentralized holding form. Change and growth is coming from the U.S. operations. These specialty companies are more likely to co-opt the Canadian operations rather than taking the other direction as Stopford and Wells propose.

Domtex is considering the possibility of international product divisions for another reason - the possibility of free trade with the U.S. . Ed Lumley, former Minister of Regional Industrial Expansion commissioned a federal government Task Force to study the issue of the elimination of duty on the sale, either way, of certain products manufactured in Canada and the United States. Adoption of this policy by the two governments would trigger a re-structuring of Dominion Textile to international product divisions.

Galbraith and Nathanson (1978) agree with Stopford (1968) that the addition of an international division does not constitute a distinct stage. Multi-national companies with an international division are included in Chandler's Chapter Four - Multidivisional. Galbraith and Nathanson add a fifth phase to the model, which occurs when the international operations are co-opted by national product divisions. They see this "Global Structure", not discussed by Chandler, as "significant departures from the pure domestic multi-divisional structure. In addition there is no single global form. An organization can be a global divisional structure, ..., a global holding company, or a global functional organization."[27]

Galbraith and Nathanson found three distinct phases in the evolution of international divisions in U.S. firms:
[1.] an initial period of autonomy.
[2.] organizational consolidation through control systems, but not subject to strategic planning.
[3.] consistent world-wide strategic planning includes an international division.[28]

This pattern was similar at Dominion Textile after the 1975 DHJ acquisition.
[1.] For the first two years (1975-77) the U.S. and International operations were managed separately, from New York, by a Dominion Textile Vice President who was President of DHJ.
[2.] The headquarters of both sections were brought to the Montreal headquarters, but administered separately. DHJ was subdivided into: (1) the International Division (interlinings sold world-wide), and (2) the U.S. company,

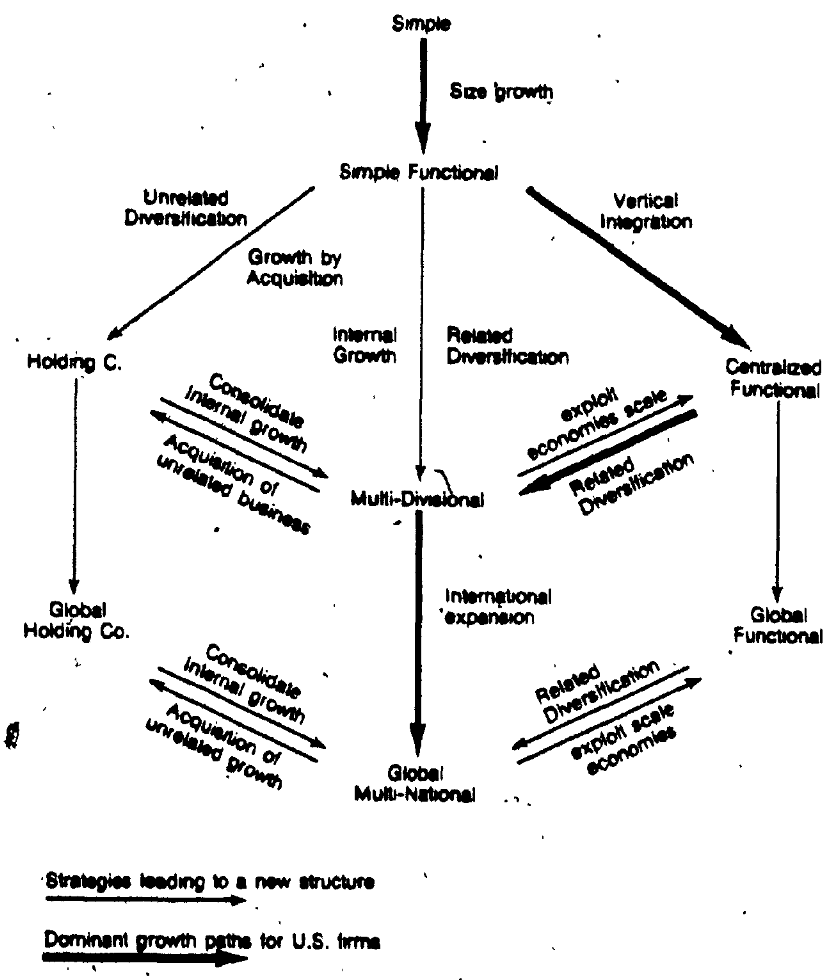
Swift Textiles (denim). When acquisitions were made, Linn-Corriher (sales yarn), and Mirafi (geo-textiles), they were retained as separate companies.

[3.] in 1982 the U.S. company was given increased autonomy under John Boland, President of Swift Textiles. Boland deals with the U.S. operation from the U.S. and reports to Dominion Textile Vice President Alex McAslan at the Montreal head quarters. The less developed international company is administered from Montreal, but with increased direction of the European operations from Paris. In Stage 3 Dominion Textile has reversed the Galbraith and Nathanson model. Instead of creating world-wide product divisions it has changed its divisions into separate companies and is transforming itself into a holding company.

Galbraith and Nathanson's model describes the dominant path of U.S. global operations. However, their model also makes provision for European firms which followed the pattern described by Franko. Most European firms did not pass through the multi-divisional phase, but skipped it to form international divisions. The pattern was not random. "When faced with similar environments, firms chose to do similar things. The particular scenario that emerged consisted of specific patterns of population growth, economic growth, technological changes, and world wars."[29]

Exhibit: 8 - 2

Galbraith & Nathanson: Evolution of Corporate Structure



In contrast to the possible paths in the Galbraith and Nathanson model, Dominion Textile developed as:

Exhibit: 8 - 3

Structural Development of Dominion Textile

SIMPLE (1873-1905)

⇓ (horizontal integration)

HOLDING COMPANY (1905-1912)

⇓ (exploit economies of scale)

CENTRALIZED FUNCTIONAL (1912-1975)

⇓ (related diversification)

MULTI-DIVISIONAL (1974-1982)

⇓ (international expansion)

GLOBAL HOLDING COMPANY (1983-)

To accomodate the Dominion Textile case the Galbraith and Nathanson model needs to connect Multi-Divisional to Global Holding Company. The Galbraith and Nathanson model suggests the next step for Dominion would be Global Multi-National which they describe as :somewhere between a holding company (H) and the multi-divisional (M) form. Centres of expertise develop, or are acquired in various countries. Thus, although some new product search is decentralized, it is co-ordinated centrally."[30] Domtex could move to this structure if the governments of Canada and the U.S. negotiated reciprocity in textiles. Then Domtex could concentrate to a greater extent on the specialty products it is developing in the

U.S., in both countries.

The present Domtex pattern is a hybrid of the U.S. and European patterns. It is partly American (the multi-divisional phase), and partly European (the Global Holding form). In both cases Dominion worked out its structure to meet its strategies at a particular time. The proximity of the American example and similar marketing approaches made divisionalization an attractive solution in the Seventies. In the early 1980s however, the strategy required a different structural solution than the dominant American pattern. Dominion evolved a structure similar to the European pattern - a structure for countries with a smaller national market than the U.S.

8.4 <u>STRATEGY</u>

Porter's <u>Competitive Strategy</u> (1980) has received wide recognition as a guide for strategic planning. Is this model applicable to a large Canadian company with international operations?

The predecessors of Dominion Textile (1873 - 1905) followed two of Porter's three generic strategies. The large operations such as Dominion Cotton and Merchants Cotton followed the strategy of "Over-all Cost Leadership", while the smaller companies followed a "Focus" strategy of "focusing on a particular buyer group, segment of the product line, or geographical market."[32] Smaller companies such as Montmorency produced grey cloth for the China trade (geographical), and Colonial concentrated on converting goods (buyer group).

After its formation in 1905, Dominion Textile followed the strategy of Over-all Cost Leadership. "Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal consumer accounts, and cost minimization in areas like R & D, service, sales force, advertising and so on."[33] When new products such, as tire cord, became part of the textile industry in the 1920s, the company formed subsidiaries to produce them, so as not to weaken the original strategy in its main product line. The subsidiaries followed a different strategy of focusing on a particular buyer group. In the U.S. and U.K. the large textile companies followed an Over-all Cost Leadership strategy which, relative to the Dominion Textile, focused on a segment of the large U.S. market. Spring Mills and Dan Mills kept to cotton textiles. Burlington Mills kept to synthetics and did not blend it with cotton until the 1960s. In the U.K. there was the same industry segregation, with Courtaulds dominating synthetics. In Canada, the largest company, Dominion Textile, followed two of Porter's three generic strategies from the 1920s.

In the U.S. and U.K. the market was large enough to support this specialization. In Canada, synthetics were produced by small scale companies, notably Bruck, or in subsidiaries of the large companies -- Dominion Textile and Montreal Cotton.

Dominion Textile needed the expertise resulting from large scale U.S. synthetics operation exemplified by Burlington. The Dominion-Burlington joint-venture in 1945 combined Burlington's expertise in manufacturing with Dominion's knowledge of the Canadian market. The partnership ended over a dispute on whether the new company should produce synthetic/wool blends. Blends were against Burlington's American product policy. Dominion Textile felt the product suited the Canadian market. Dominion continued the company on its own, re-naming it Domil.

The industry pattern in Canada changed in the mid-1960s when polyester blends rapidly became the dominant product. The five mills Domtex built in the Sixties produced polyester-cotton blends. This product became the object of their Over-all Cost Leadership strategy. Domil was absorbed by Domtex. In the late Sixties Domtex sought growth in new products - double-knits, carpet backing, geo-textiles - by acquiring small entrepreneurial companies. These new operations were made subsidiaries - so as not to weaken the company's main operation. Once again Dominion was following two of Porter's generic strategies: Cost Leadership and Focus.

A third strategic change was the acquisition of DHJ, which made Dominion Textile an international company.

Before the acquisition Dominion had been absorbing the 29 subsidiaries, and re-grouping them into four divisions based on customer groups. DHJ was a relatively small operation by U.S. terms, which followed a strategy of focusing on interlinings, double-knits, and denim.

In order to serve its Canadian customers, and keep volume production, Dominion continued its traditional strategy of Over-all Cost Leadership in Canada. Small operations were sold or closed. In the recession of 1981-83, Domtex followed a policy of "Asset Redeployment" - closing old mills and dropping less profitable products. At the same time, Domtex followed a Focus strategy with its U.S. companies and a "Differentiation" strategy with the international operations. The international operations, with facilities or affiliates in 80 countries, deals exclusively in interlinings. In the U.S., the double-knit operations where closed, while denim production by Swift Textiles was expanded. Later U.S. acquisitions focused on sales yarn (Linn-Corriher), and geo-textiles (Mirafi). In denim and industrial fabrics Dominion Textile is aiming to fill a high quality niche and not the mass production, moderate price market they must serve in Canada in order to have volume. Again, Dominion followed two strategies - Cost Leaderhip in Canada, and Focus in the U.S. In both countries the strategy is dictated by the different industry conditions. The Canadian strategy cannot be duplicated in the U.S. where Dominion's product line is already produced by the industry giants - Dan Mills, Spring, Burlington, etc. In order to compete in the U.S., Domtex, the sixth largest textile company in North America must also focus on specific products in order to be competitive.

The international company specializes in interlinings. The product is service - the expertise of matching interlining to the fabric it stiffens. The strategy is Porter's third generic strategy - Differentiation: "creating something that is perceived industrywide as being unique."[34]

Thus Dominion Textile simultaneously follows all three of Porter's competitive generic strategies. The company was re-structured in 1983 to administer these different requirements. The Holding Form means that in each of their markets, Dominion Textile can assume the image the stakeholders of that market want.

Exhibit: 8 - 4 <u>Generic Strategies</u>

DOMINION TEXTILE: 1983

Canada	United States	International
Consumer Products	Swift	interlinings
Sales Yarn	Linn-Corriher	
Apparel Fabrics	Mirafi	
Strategy:		
Over-all Cost Leadership	Focus	Differentiation

Porter terms this mixture of strategies "Stuck-in-the-Middle" because a firm can rarely successfully follow more than one generic strategy. The Dominion Textile case indicates that if Canadian firms who are leaders in their industry wish to grow they may have no option but to mix generic strategies. To grow they must expand beyond the limited Canadian market. Expansion into the U.S. market means they may not be able to duplicate the Canadian strategy if the U.S. market is already well served in the company's product line. Thus in order to grow, Canadian companies such as Dominion Textile, may opt to carry out different types of competitive strategies, each suited to the national industry conditions in which they operate.

Dominion Textile was able to manage different competitive strategies because it retained a dominant interest and concentration upon textiles. The competitive strategies which were adopted did not significantly change the work flow and production processes appropriate to textile manufacturing. Presidents, King, Perowne, and Bell referred to this often by insisting that Dominion Textile remain in the business they knew. They were in fact referring to the underlying productive processes and systems of the company. Product diversification was possible since the underlying productive processes involved spinning, weaving, dyeing, and printing cloth. Although new technology was implemented, and different materials employed, the underlying sequential productive processes remained undisturbed. As Gram and Crawford (1984) noted, organizational competitive strategy may or may not result in work process changes. Dominion Textile's policy of experimenting by subsidiary companies, moving to extensive divisionalization, and utilizing joint ventures protected the basic operating core (work processes) of the company. Alhough Dominion Textile made competitive changes, the basic technology of work processes and flow remained undisturbed.

Porter, with an emphasis upon competitive strategy, does not explore these implementation processes. Each strategy change adopted by Domtex was selected and undertaken without major implementation disruptions, because they built upon and were in agreement with the underlying productive systems and processes. Foreign acquisitions, which were retained as separate units, did not disturb the Canadian operations.

8.5 ORGANIZATIONAL LIFE CYCLES

Mintzberg (1984) chose the perspective of Pfeffer and Salancik (1978) that shifts in power are at the root of organizational transitions. In Mintzberg's perspective, a crisis in an organization is the result of a struggle for power between the organization's internal and external influencers. The problem with this perspective is in defining external influencers. Dominion Textile's external influencers are a diverse lot - the federal and provincial governments, the international regulatory group GATT, American and Asian exporters, etc. . The external influencers become another way of saying environmental factors whose actions react on the firm.

This research indicates the basis of the transition lies with the response of the dominant coalition within the organization to the external threat to the organization's status quo. The key to organizational change is whether and how the dominant coalition perceives the threats, and what goals they develop to deal with them.[35] While Mintzberg finds shifts in power to be at the root of change, this research indicates that beyond this, is a deeper shift in the organization's management culture.

Mintzberg's (1984) model of organizational life cycles finds six possible configurations of power - Autocracy, Missionary, Closed System, Meritocracy, and Political Areana - based on six possible ideal combinations of internal and external influencers. Organizations may vary in their life cycle paths. According to Mintzberg they all begin as Autocracies, based on the power of "a single leader, who controls tightly by personal means,"[36] with little power exerted on his actions by external influencers.

Mintzberg's life cycle model does not describe the evolution of Dominion Textile. Dominion passed through a different cycle than the possibilities Mintzberg proposed. In Mintzberg's terminology, Dominion Textile followed the sequence of:

Exhibit 8 - 5

DOMINION TEXTILE: LIFE CYCLE

INSTRUMENT		CLOSED SYSTEM	(crisis)	Meritocracy
(1873-1909)	→	(1909-1953)	→	(1953-1983)

Dominion Textile did not begin as an Autocracy but as an Instrument. The company and its predecessors were founded by the external influencers, who continued to control the firm's operations for their benefit, that is, the benefit of the Montreal business community. The power of A.F. Gault and C.R. Gordon was based on their close links to the Canadian business community. Gordon's power was based on acting in concert, and in carrying out the desire for business stability of an established business community. The strongest external force was the Bank of Montreal.

This is not to say that many organizations do not start as Autocracies, but rather that with Dominion Textile, and its predecessors, this was not the case. Between 1905 and 1919, Dominion Textile was more like the Instrument which "serves a dominant external influencer."[37]

Mintzberg proposes a transition from the Instrument to the Closed System - as happened in the Dominion Textile case. He sees the transition as the result of brief periods of conflict he terms "political arenas". The end of the period of Autocracy was signaled by the near bankruptcy of several leading cotton textile companies in 1904. The problem was dealt with by the external influencers by consolidating these companies in 1905, and turning the new organization over to Charles Gordon, who with the help of Frank Daniels changed the structure into a Closed System.

Phase 3 for Dominion Textile, termed a Meritocracy by Mintzberg, is where "personal and bureaucratic controls tend to be discouraged as incompatible with a strong system of expertise."[38]. Mintzberg's model however does not propose that a Meritocracy can follow a Closed System.

Mintzberg's model provides a feedback loop which suggests an organization may begin its life cycle stages of formation, development, maturity, and decline, anew. Yet he implies the exercise is futile: "The Mythical Phoenix may arise in the freshness of youth; the real organization does not. Legacies remain, which influence behavior. The organization may be wiser for its experiences, but it also must be wearier."[39] The experience of Dominion Textile in changing from a national to an international company indicates that experience in manufacturing and marketing need not be considered wearisome impediments, but fields of expertise which can assist the necessary transition.

The Mintzberg model does not encompass the evolution of strategy and structure at Dominion Textile. There could be several reasons for this misfit.

[1] Mintzberg's life cycle model reflects the experience of small, not large organizations.

[2.] There is no standard life cycle pattern for all companies.

This research suggests that pre-destined life cycle theories are not possible. They do not take into account the variety of possibilities open to managerial response as has been noted earlier. Researchers can only go as far as Chandler and report on phases, pointing out which ones were successful.

8.6 ORGANIZATIONAL CHANGE

Generally, Greiner's hypothesis that structural changes are internally generated by recurring cycles of evolution and revolution is not borne out by the Dominion Textile case. The Domtex data does divide into five phases. But when these phases are compared to Greiner's model, the crises which precipitated a change to the next phase originated from responses to the market. The "solution" to the crisis reflected internal management culture, but in each case management was reacting to perceived changes in industry conditions. Greiner's phases have been described in Chapter I. Dominion Textile's phases were:

Exhibit: 8 - 6

DOMINION TEXTILE'S PHASES OF DEVELOPMENT

ACCORDING TO GREINER'S MODEL

Phase I

Simple Structure: 1873 - 1904

Founders not technicallly or entrepreneurially oriented but inclined toward management activities. Financing the large manufacturing facilities requiring the combined efforts of many businessmen and banks.

Crisis: superficially a leadership crisis

- death of A.F. Gault

An industry problem - breakdown of cartel arrangements

Solution: Stabilize the industry through consolidations.

Phase II

Functional Structure: 1905 - 1953

Industry stability through protective tariffs.

Centralized, functional structure, with a slow evolution of the marketing function which atrophied during World War II.

Crisis: Superficially a leadership problem of maintaining outmoded manufacturing orientation.

Crisis caused by market changes (imports)

Solution: More autonomy for marketing function

Phase III

Functional With Product Divisions in Sales: 1953 - 1974

Respond to market demands with new products and marketing driven strategy.

Crisis: Executives feel they can no longer direct field operations. Need to give more autonomy to field operations to better react to the market.

Canadian market saturated by company.

Government labels industry declining.

Solution: Divisionalize and expand internationally

Phase IV

Divisional: 1975 - 1983

Canadian operations divisionalized, plus international division and separate U.S. operation.

Introduction of formal control systems, strategic planning and S.B.U.s

Crisis: Superficially a Red Tape Crisis of head office bureaucratic proceedures hampering the divisions.

Need to be more decentralized to respond to industry conditions in different national markets, and to excessive societal pressures in Canada.

Phase V

Holding Form: 1983

Matrix structure not used (Greiner), but holding form to develop different strategies for separate national markets.

Crisis: Potential changes in industry regulations - GATT, tariffs, free trade with the U.S., interest rates, inflation.

Greiner's model is not confirmed by the Dominion Textile data. There is some correlation with Greiner's description of the internal actions at head office, but on close examination these reasons are superficial. In each case the crisis was precipitated by external market conditions and not internal management tensions. The "solutions" reflected generally used management structures of that period in history, appropriate to a Canadian company. The differences between Greiner's findings and the

Dominion Textile case may be a result of the focus of research. Greiner was surveying internal organizational development, whereas this study has ~~also~~ examined the market conditions in which these decisions were made.

Exhibit: 8 - 7

PHASES OF ORGANIZATIONAL DEVELOPMENT: GREINER (1975)

	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Management Focus	Make & sell	Efficiency of operat-tions	Expansion of market	Consolidation of organiza-tion	Problem solving & inno-vation
Organiza-tional Structure	Informal	Central-ized & functional	Decentral-ized & geographical	Line-Staff & product groups	Matrix of teams
Top Management Style	Indivi-dual	Directive	Delegative	Watchdog	Partici-pative
Control System	Market results	Standards & cost centres	Reports & profit centres	Plans & investment centres	Mutual goal setting
Management Reward Emphasis	Owner-ship	Salary & merit	Individual bonus	Profit shar-ing & stock options	Team bonus

Exhibit: 8 - 8

DOMINION TEXTILE'S PHASES OF ORGANIZATIONAL DEVELOPMENT

	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
	1873-1905	1905-1953	1953-1975	1975-1982	1982-
Management Focus	Make, & in 1890 sell	Efficiency of operation	Retain market	Regroup organization	Problem Solving
Organization Structure	Simple & Informal	Centralized & functional	Centralized & product groups	Decentralized & geographical	Holding Form
Top Management Style	Joint action by individual businessmen	Financiers with diverse interests	Professional management increased delegation	Delegative	Watch-dog
Control System	Cartels	Market Results	Reports, cost control	Plans & investment centres	Plans & investment centres
Management	Ownership	Ownership & salary	Individual bonus	Stock option	Stock options

Greiner's other contention is that the structuring solutions follow alternate tendencies between centralization and decentralization. The following charts summarize Greiner's model with the Dominion Textile experience. The charts show a similarity in Management Focus and Style. There are differences in the structuring solutions, particulaly in Phase V. This is because Greiner is discussing a U.S. national firm while the example is a Canadian multinational.

The Dominion Textile example shows no alternating trends between centralization and decentralization in the different phases. The major structural changes were all in the direction of decentralization - as reported by Chandler, while retaining bureaucratization in production areas.

Dominion Textile executives reported periods when they felt the organization was reversing direction toward centralization. During World War II the company became more centralized, but this was the result of the wartime emergency. In the 1970s the company would return to the Organization Study of 1970 when it felt the company was stagnating. Thus there were real or perceived semi-cycles within phases, but the general trend was always toward decentralization.

To conclude the discussion of organizational structural change it must be stressed that structure is not evolving toward an ultimate goal. The immediate goal, as

E.F. King and T.R. Bell have indicated, is re-structuring the company to suit the company's perception of what its strategy should be.

Aldrich takes the opposite approach to Greiner's model which emphasizes the internal tensions between strategy and structure driving organizational change. Aldrich re-casts organizational change theory into an organization-environment framework because "viewing organizational change solely as the product of key decisions by leaders or members fails to take into account the significant constraints that confront "people" as they go about their everyday duties."[40] In trying to describe the process underlying change Aldrich finds useful the population ecology model, which explains new organizational forms resulting from environmental constraints.

Aldrich's model places external constraints, imposed by the industry, on the strategic choices open to decision makers. He describes the process in terms of: Selection, Retention, and Variation. Selection explains organizational change as the result of changing industry constraints. By retention Aldrich means the tendency toward stasis - that organizations will stay with a strategy and structure if they work. The problem with this is that Aldrich sees organizational culture as a force which only reinforces stasis. He does not consider the other aspect of culture - that its norms may alternatively stress change.

Aldrich over-extends his argument to a prescriptive theory by postulating the Consistent Selection Theory. "If we understand the nature of the environment in which a particular form is most fit, then we might argue that we can predict whether the form will survive if the environment should change to another specific state."[41] The problem with this prescriptive theory, given the example of Dominion Textile and its Canadian competitors, is that environmental changes may or may not elicit a strategic response. Aldrich feels that the possibility of prediction depends upon being able to predict environmental change. This research indicates there is no set response to be expected from management. If prediction were possible it would need an analysis of an organization's management culture, as well as environmental change. Aldrich's theory places constraints on the rational decision-making model.[42] He successfully argues that there are limits on strategic choice, such as:

[1.] Scale economy barriers to entry.

[2.] Absolute cost barriers to entry of a new firm to an existing firm.

[3.] Product differentiation barriers to entry.

Dominion Textile's international strategy was delineated by these barriers. Aldrich is a reminder that beyond strategic choice is the reality of environmental constraints.

8.7 LEADERSHIP

Chandler calls the men who put the early twentieth century mergers together the empire builders, as opposed to the organization builders, or professional managers. At Dominion Textile this was also true. The company was created by financiers who quickly turned the operations over to full-time managers, the organization builders.

Charles Gordon played a dual role. In his late thirties at the time of the merger, he was at that stage an apprentice financier. Dominion was a proving ground for his organization-building skills. Within a decade, his talent tested and proven, Gordon gradually became one of the leading financiers in Canada. His reward was the presidency of the Bank of Montreal in 1928.

Early on, Gordon had groomed and given increased responsibility to the company's first professional senior executive Frank Daniels, professional in the sense that Daniels gave the company his full-time attention. In the early companies, the professional general manager, if he was good, was highly respected. But his position was advisory. The owner-senior executives, who usually lacked detailed knowledge of the textile industry, made the decisions. Daniels was given increased power, until in 1928 he replaced Gordon.

8.8 GOVERNMENT

This study records an ever increasing involvement of government in the textile industry. McMillan and Murray [43] have found four phases in the evolving public affairs function in Canadian business, which they identify on the basis of the general nature of the managerial approach in that time period.

The time periods selected by McMillan and Murray are confirmed by the Dominion Textile case. The re-structuring of Dominion in the early 1980s was intended to make the head office more effective in dealing with societal problems. The function of the head office has increasingly become that of tactical resource management, and dealing with government policies is a major part of this function.

McMillan and Murray do not consider another action companies may choose in response to the limited opportunities and too close government monitoring a company may experience in Canada. It is an action companies who are leaders in their industry have taken -- George Weston Ltd., Moore, Imasco, Canadian Pacific - that of expanding into the U.S. market. One reason for the Domtex move is that it is easier for the company to operate in the U.S. as the sixth largest North American textile company. In the U.S. it is buried in the activities of the ATMI, which speaks for the whole industry. In Canada, Dominion Textile must play the leading role in the industry and give more attention to government policy in its strategic planning. In an increasingly global textile market national governments will have less intimidation power. Company's can take parts of their operation and walk away.

Exhibit: 8 - 9

FOUR PHASES IN THE EVOLUTION OF THE PUBLIC AFFAIRS FUNCTION

(McMillan & Murray)

Phase I	Phase II	Phase III	Phase IV
1867 - 1957	1957-1968	1968-1983	1983-1990s
CEOs handle public affairs as minor responsibility	Formal separate public affairs function develops	Integration of public affairs with strategic planning	Strategically developed framework for public relations at firm and inter-firm associations.
Single issue focus and one-shot approach to government	Single issue focus. Some awareness of broader contemporary issues. Organizational environment formally monitored.	More monitoring and analyses of environment with some tie-back to policy decisions	Flexible framework for planning sensitive to broader issues. Sophisticated data based public affairs planning with communication tie to government.

Exhibit: 8 - 10

DOMINION TEXTILE'S EVOLVING PUBLIC AFFAIRS FUNCTION

Phase I	Phase II	Phase III	Phase IV
1873-1920: Senators and M.P.s as directors. 1920 - 1957 little direct involvement except on specific issues. 1905 1948 government policies favor industry.	Prove to government company competitive by world standards Government gives little support to industry. More contact with government ministers.	Considerable monitoring of environment. Complex monitoring of government's implicit and explicit policies After 1970, loss of confidence in government's support for textile industry.	Close monitoring of environment. Appoint senior V.P. to deal government. Public affairs function integrated into strategic management. More intense lobbying by C.T.I., move to Ottawa.

8.9 CONCLUSIONS

The major conclusions of this study are as follows:

[A] The life cycle development of Chandler and Scott describes the history of Dominion Textile. However, this

this development is contingent upon several major variables:

(i) There is a dominant product and work technology which managers try to operate undisturbed through changes in competitive strategy. New product additions are made through acquisitions, or developments, which do not disturb the central operating core.

(ii) There needs to be a management culture in place or secured which views growth in terms of diversification of products, geographical expansion, and corporate diversity.

(iii) There needs to be precipitative events viewed by managers as crises of survival in order for them to make significant changes. These may come from inside or outside the organization.

[B] The essential ingredients in organizational development are the responses and behavior of managers which are influenced and affected by:

(i) Their perception of internal and external factors.

(ii) The magnitude of perceived crises upon the survival of the firm,

(iii) The organization's traditions and oral history.

(iv) The nature and type of values and beliefs of the management of a firm seems to be closely linked to those of the national business culture. The company's strategy was linked to the strength of its bargaining power with the Canadian business and political establishment. The pattern here was somewhat different from that of the U.S. because of the concentrated and interlocking banking, business and political elite.

[C] The specific dimensions of the Canadian economy influence and affect the rate, speed, and timing of corporate development, as well as its characteristics. In the case of Dominion Textile these major variables were:

(i) Canadian government policies helped to determine the position of the industry within the national economy.

(ii) The smallness of the Canadian market and limited growth factors.

(iii) The variableness and uncertainty of government support, assistance, and attitudes.

(iv) The priorities set for the industry in terms of industrial development, trade policy, and alternative industrial development strategies.

(v) Dominion Textile's strategies at various periods of its history were deliberately designed to ensure the company's survival, within the competitive restraints inherent in the different government's policies. There seems to be a linkage between this corporation's historical strategies and the policies of successive Canadian governments.

[D] Life cycle theory provides a description of selected successful companies, and does not offer a theory for development to be adopted in a proscriptive way by managers, for at least the following reasons.

(i) The driving forces for an organization's appropriate development are strategic considerations. Without consensus upon, and an appropriate strategy, an organization may not survive. Appropriate strategies are a result of environmental, organizational, and managerial culture considerations. Different organizations need to select different strategies.

(ii) The variables notes in (i) above are not present in all organizations.

8.10 DIRECTIONS FOR FUTURE RESEARCH

This research was designed to study strategic and structural changes in a Canadian company, modeled on the Chandler paradigm. Based on the Dominion Textile data I have found a problem with Chandler's strategy/structure paradigm. The model does not account for managerial perceptions arising from a national business culture and the effect that culture has on managerial responses to the problems of strategy and structure.

The longitudinal design of this research deals with five distinct periods in the development of Dominion Textile. In each of these periods culture was the determining factor, in this enterprise.

This study is limited to the evolution of organizational culture in one firm. Dominion Textile and its antecedents have been prominent in Canadian business, and the industry leader(s) for over a century. The firm has been rooted in the Canadian business community. Yet this research can not conclude that the Dominion Textile findings are representative of the development of Canadian firms in general. The development of strategy, structure and management culture may be different in other Canadian companies.

Additional research of the type used in this study is needed on other major Canadian organizations in order to determine if the pattern found here is a distinct characteristic of Canadian business enterprises. This research needs the support of other in-depth longitudinal studies addressing the problems of how specific Canadian companies adjusted their strategy, structure, and management orientation to changing conditions in the market and to government policies. Research such as this could uncover the distinctive characteristics of Canadian business. At present, many business policy models derived fom U.S. studies are accepted as readily applicable to the Canadian business scene. Futher research on Canadian firms may indicate which business policy models are useful to Canadian firms, and which are less relevant. The eventual goal of the Canadian studies should be to build a base of case studies from which generalizations concerning successful strategies and structures for firms operating in or from Canada, can be derived. The main implication of this study of Dominion Textile is that this Canadian firm is operating in a somewhat different environment, to which the U.S. models do not always apply. Although this study did not specifically address Canadian business elites, the findings indicate that business research into Canadian firms must also take into acount the somewhat different environmental forces generated by our politico-business elite.

FOOTNOTES

1 A.D. Chandler, Jr., _The Visible Hand,_ (Cambridge, Mass.: Harvard University Press, 1977) p. 6

2 _Ibid._ p. 417

3 A.D. Chandler, Jr., _Pierre S. Du Pont and the Making of the Modern Corporation,_ (New York: Harper & Row, 1971)

4 A.P. Sloan, _My Years With General Motors,_ (New York: Doubleday & Co., 1963)

5 _Ibid._ p. 50

6 Chandler, _The Visible Hand,_ p.7

7 _Ibid._

8 _Ibid._

9 _Ibid._ p. 8

10 _Ibid._

11 _Ibid._

12 _Ibid._

13 _Ibid_ pp. 8 -9

14 _Ibid._ p. 9

15 _Ibid._ p. 10

16 _Ibid._

17 _Ibid._

18 _Ibid._ p. 11

19 Chandler, _Strategy and Structure,_ p. 387

20 _Ibid._

21 _Ibid._ p. 388

22 *Ibid.* p. 391

23 *Ibid.* p. 393

24 *Ibid.*

25 *Ibid.*

26 R. P. Rumelt, *Strategy, Structure and Economic Performance,* (Boston: Division of Research, Harvard Business School, 1974), p. 126

27 J. R. Galbraith, and D. A. Nathanson, *Strategy Implementation: The Role of Structure and Process,* (St. Paul, Minn.: West Publishing Company, 1978)

28 *Ibid.* p. 111

29 *Ibid.* p. 114

30 *Ibid.* p. 115

31 *Ibid.* p. 119

32 M.E. Porter, *Competitive Strategy,* (New York: The Free Press, 1980), p. 38

33 *Ibid.* p. 35

34 *Ibid.* p. 37

35 H. Mintzberg, "Power and Organization Life Cycles," (*Academy of Management Review.* Apr. 1984, 9, 2), p. 208

36 *Ibid.* p. 210

37 *Ibid.*

38 *Ibid.* p. 211

39 *Ibid.*

40 H.E. Aldrich, *Organizations and Environments,* (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1979), p. 19

41 <u>Ibid.</u> p. 34

42 J.G. March, and H.A. Simon, <u>Organizations.</u> (New York: John Wiley & Sons, Inc., 1958)

43 C.J. McMillan, and V.V. Murray, "Strategically Managing Public Affairs,"(<u>Business Quarterly,</u> special supplement, Summer 1983)

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Appendix 1.

THE CHRONOLOGY of DOMINION TEXTILE

(* Indicates company other than Dominion Textile, date in brackets the date acquired by Dominion Textile.)

1868 * Penman's Mfg. Co. est. by John Penman (1965)

1873 * V. Hudon Cotton, Hochelaga, Montreal, est. (1905)

1874 * The Montreal Cotton Company, Valleyfield, est. (1948)

1875

1876

1877

1878

1879

1880 * The Merchants Manufacturing Co., St. Henri, est. (1905)

1881

1882 * La Compagnie de Filature St. Anne, Hochelaga, est. (1905)

* Kingston Mill, Kingston, Ont. est. (1905)

* Moncton Cotton Manuf. Co. est. (1905)

1883 * Chambly Cotton Co. est. (1905)

* Yarmouth Cotton & Duck Co. est. (1973)

1884 * V. Hudon & Ste. Anne merge, form Hochelaga Co. (1905)

* Magog Textile & Print Co., est. (1905)

1885

1886

1887

1888 Hochelaga Co. buys Magog Print & Textile Co.

1889 Hochelaga Co. becomes The Dominion Cotton Manuf. Co. Ltd., buy:

The Coaticooke Cotton Co., Coaticooke, P.Q.

The Nova Scotia Cotton Manuf. Co., Halifax, N.S.

Crown Cotton Manuf. Co., Brantford, Ont.

The Kingston Cotton Manuf. Co., Kingston, Ont.

The Moncton Cotton Manuf. Co., Moncton, N.B.

The Windsor Cotton Manuf. Co., Windsor, N.S.

* Montmorency Cotton Co. est., Montmorency, P.Q. (1905)

1890

1891 Dominion Cotton Co. buys Chambly Mills, Chambly, P.Q.

1892

1893 reopen Winsey Mill, Brantford, Ont.

1894 * Riverside Manuf. Co. Ltd, Montmorency, P.Q. est. (1905)

1895

1896

1897

1898 Coaticooke Mill closed, machinery to Magog
Winsey Mill, Brantford closed

1899 Montmorency & Riverside amalgamate, form Montmorency Cotton Mills Co. Ltd.

1900 additions to mills at Montmorency, Magog, Valleyfield, Merchants.

1901 Montreal Cotton Co. builds Gault Mill, Valleyfield, P.Q.

1902

1903

1904

1905 Dominion Textile Company Ltd. established lease assets of:
Dominion Cotton Manuf. Co. Ltd., Merchants Cotton Co., Montmorency, and Colonial Printing & Bleaching Co.
President: David Yuile

1906	
1907	sell Coaticooke property to Penman's
	Mount Royal Spinning Co. Ltd., Montreal, est. (1910)
1908	
1909	sell Craven Mill, Brantford to Penman's
	death of D. Yuile, President: Charles Gordon
1910	lease Mount Royal Spinning from Canadian Coloured Cottons
1911	Montreal Cotton buy Valleyfield Electric, est. 1887
1912	Windsor, Nova Scotia mill closed
	new mill constructed at Magog, extend Sherbrooke mill
1913	* Canadian Connecticut Cotton Mills Ltd., Sherbrooke, est. (1929)
1914	new mill at Magog destroyed by fire
	additions to Montmorency
	close Moncton, N.S. mill
1915	
1916	sell Windsor and Moncton, N.S. mills
1917	buy assets of Dominion Cotton Manuf. Co. Ltd.
	rent Mount Royal Spinning Co. to Canada Cottons
1918	Halifax mill destroyed in fire, property sold
1919	buy Mount Royal Spinning from Canadian Cottons Co.
1920	Verdun Mill started (cotton, later rayon)
1921	buy Industrial Specialty Manuf. Co., Magog (bobbins)
1922	Dominion Textile Ltd. incorporated
1923	control majority shares Paton Manuf. Co., Sherbrooke, P.Q. (woolens)
	* Caldwell Linen Mills Ltd. Iroquois, Ont. est. (1957)
1924	

1924

1926

1927 additions to Magog, Montmorency mills

1928 F.G. Daniels succeeds Sir C. Gordon as President

1929 buy Jenkes-Canadian Co., renamed Drummondville Cotton Co. (subsidiary)

buy Canadian Connecticut Cotton, renamed Sherbrooke Cotton (subsidiary)

close Kingston, Ont. mill

1930 * Esmond Mills est. by Beacon Manuf., U.S. (1960)

1931

1932 additions to Montreal Cotton, Valleyfield

1933

1934 close Ste. Annes Mill

combine Sales Depts. Montreal Cotton & Dominion Textile

1935 close Verdun Mill

1936

1937 additions to Magog Print Works, called B Division

modernize Sherbrooke, P.Q. Branch

1938

1939 Sir Charles Gordon dies, G. Blair Gordon, President

modernize Merchants Branch

1940 modernize & reopen Ste. Anns Branch, Montreal (spinning)

1941 modernize Drummondville Cotton Co. Ltd., subsidiary (tire cord); build rayon spinning plant, Sherbrooke Branch

1942 est. Flax Industries, Drummondville, joint venture, subsidiary (flax thread)

1943

1944

1945 Dominion Burlington Mills, joint venture with Burlington Mills Corp., U.S., subsidiary, takes over rayon division Sherbrooke, and Colonial, Montreal

1946 additions to Magog Branch

Drummondville Cottons buys subsidiary John S. Brooks Ltd. (netting)

1947 buy remaining shares Montreal Cottons Ltd.

* Dubin-Haskell Lining Corp., New York est. (1975)

1948 Montreal Cotton a subsidiary

1949 rennovate Ste. Annes Branch

1950 new head office building, 1950 Sherbrooke St., Montreal

1951 modernize Merchants Branch, Montreal

* DHJ, New York, chartered (1975)

1952 Domil Ltd. subsidiary, buy remaining 50% shares of Dominion-Burlington

modernize Sherbrooke cotton mill

1953 close Hochelaga Branch (formerly V. Hudon)

modernize Montreal Cotton Mills, Valleyfield, P.Q.

1954

1955 celebrates 50th anniversary

1956 buy Caldwell Linen Mills, Ltd. Iroquois, Ont. (common shares)

1957 buy remaining shares Caldwell Linen (towels)

built new plant, Caldwell Linen subsidiary, Iroquois, Ont.

modernize Gault Mill, Valleyfield, P.Q.

1958

1959

1960 buy 50% shares The Esmond Mills Ltd., Granby (blankets)
build new dyehouse Mount Royal Branch, Montreal

1961 name modified: Dominion Textile Company
modernize Montmorency Mill
renovate Sherbrooke Branch

1962 Chairman: G. Blair Gordon, President; Ryland Daniels
form Dominion Textile Company (U.K.) Ltd., London
renovate Magog cotton mill
* Lana Knit Can. Ltd., Grand'Mere established (1962)

1963 John S. Brooks Ltd. Dunville, Ont. closed
form Bluenose Netting & Twine Ltd.,subsidiary (netting & twine)
build Domil plant, Sherbrooke, P.Q. (polyester fibre yarns)

1964 build Richelieu Fabrics Ltd. St. Jean ,Domtex subsidiary,
form Dominion Textile Investments Ltd. (investment portfolio)

1965 build Long Sault Fabrics Ltd., subsidiary (polyester/cotton fabrics)
build Long Sault Yarns Ltd., subsidiary (sales yarn)
buy Tre-Mont Worsted Mills Ltd., subsidiary
buy shares in Penman's, subsidiary

1966 sell Industrial Specialty Manuf. Co., Magog, subsidiary

1967 integrate Domil, Tre-Mont Worsted, subsidiary
close Merchants Mill, Verdun
close Specialty Mill, Valleyfield, subsidiary

1968 Chairman: Ryland Daniels, President: Edward F. King
close Domil converting plant, Montreal, subsidiary
* Hubbard Dyers Ltd, Montreal, (dyeing knitted fabrics)

(1972)

1969 name modified: Dominion Textile Limited

build St. Timothee, P.Q., subsidiary (finishing)

buy 50% Lana Knit, Grandmere, with National Distillers and Chemical Corp. New York, subsidiary (doubleknits)

* Workman Bag Co. Ltd. opens Fibreworld, Hawkesbury, Ont. (1972)

1970 Chairman: Edward F. King, President: Ronald Perowne

* Fireside Fabrics Ltd., new plant, Montreal (1970)

buy Fireside Fabrics (Can.) Ltd, subsidiary

buy Exquisite Knitting Mills (Can.) Ltd.

joint venture with Workman Bag Co. Ltd. in Fibreworld

buy Halifax Corduroy Ltd.

buy controlling interest Elpee Ltd., Shawinigan, subsidiary

buy Jaro Manuf. Co. Ltd., subsidiary (non-woven synthetics)

buy 1/3 interest Brianyl (fine yarns)

buy remaining 50% Lana Knit from National Distillers

modernize Drummondville plant (tire cord & belting)

1971 merge Lana Knit & Exquisite (doubleknits)

buy remaining shares Brianyl Ltd., subsidiary

buy 50% DhJ Canadian Ltd., joint venture DHJ, New York

close Outerwear Division, Penman's Ltd, subsidiary

1972 buy remaining stock Elpee Ltd., subsidiary

buy remaining stock Fibreworld, subsidiary (polyolefin)

buy Hubbard Dyers Ltd., subsidiary (commission dyers)

buy remaining stock The Esmond Mills Ltd. from National

Distillers
integrate Montreal Cottons Ltd. with parent
close Penman's Paris, Ont. hosiery mill

1973 buy Cosmos Imperial Mill, Yarmouth, subsidiary (ducks)

1974 Chairman: Ronald Perowne, President: Thomas Bell
merge Hubard Dyers & Lana Knit
close Elpee Ltd. (carpet yarns)
integrate Long Sault Yarns Ltd. with parent
close Lana Knit plants, Grand'mere, P.Q. & Paris, Ont.
modernize Magog fabric plant (blends)

1975 buy DHJ Industries Inc., New York, mills are:
Monroe, La., (interlinings)
Hoboken, N.J. (interlinings)
Swift Textiles Inc., Columbus, Ga., subsidiary, (denim)
DHJ Industries Europe S.A.,Paris, subsidiary (distribution)
Dubin-Haskell-Jacobson Italy,SpA, subsidiary (distribution)
DHJ Industries GmbH, F.R. Germany, subsidiary (distribution)
DHJ Distribution (U.K.) Ltd., England, subsidiary (distribution)
Dubin-Haskell-Jacobson de Argentina,S.A.C.I., Argentina, subsidiary
integrate Fireside Fabrics (Can.) Ltd. with parent
close DHJ Monroe, La, mill (interlining)
close Lana Knit plant, Montreal, (doubleknits)
close Mount Royal Mill, Montreal (spinning, weaving)

1976

1977 expand Drummondville & Magog plants (denim)

modernize Caldwell, Sherbrooke, Yarmouth plants

1978 integrate Domil Industries Ltd., with parent

close DHJ Hoboken, N.J. plant (interlinings)

close DHJ, Hickory, N.C. plant (doubleknits)

open DHJ Monroe, La., plant (interlinings)

1979 name modified: Dominion Textile Inc.

expand Long Sault plant

expand Swift Textiles plant, Columbus, Ga. (denim)

expand Drummondville, Magog, Richelieu plants (denim)

buy 50% DHJ-Facemate, Chicopee, Mass. with Facemate

move DHJ Industries Inc. headquarters to Montreal

close DHJ Industries Inc. Monroe, La. plant (interlinings)

1980 buy Linn-Corriher Corp. Landis, N.C., (industrial fabrics)

buy 50% interest DHJ-Facemate Inc., Chicopee, Mass. (interlinings)

celebrate 75th anniversary

form International Division (interlinings)

1981 sell interest in DHJ-Facemate Corp. (interlinings)

expand Mount Royal Dyehouse, Montreal

buy DHJ Industries (Hong Kong) Ltd. from Textile Alliance, Japan

agreement with Chinese government (technical and marketing)

buy La Societe d'endiction a facon, S.A. (Senfa) Selestal, France,

(fusible coatings)

close Tremont , Montreal (worsted spun yarn)

1982 close Penman's plants, Paris, Brantford & St.Hyacinthe

buy plant from Celanese Can. Inc., Cambridge, Ont.

buy Mirifi, Charlotte, N.C. (engineering fabrics)

1983 close St. Annes plant (sales Yarn)

close Gault plant, Valleyfield

modernize Valleyfield plant (yarn)

modernize St. Jean plant (denim)

modernize Beauharnois plant (finishing)

Appendix 2 EXECUTIVE OFFICERS

* denotes Dominion Textile employee

Chairmen of the Board

1928 - 1932	Sir Charles Gordon
1939 - 1941	Sir Hurbert Holt
1961 - 1968	G. Blair Gordon
1968 - 1970	Ryland Daniels
1970 - 1974	Edward King
1974 -	Ronald Perowne

Presidents

1905 - 1909	David Yuile
1909 - 1928	Sir Charles Gordon
1928 - 1932	Frank G. Daniels
1932 - 1939	Sir Charles Gordon
1939 - 1962	G. Blair Gordon
1962 - 1968	Ryland Daniels
1968 - 1970	Edward F. King
1970 - 1974	Ronald Perowne
1974 -	Thomas Bell

Vice presidents

1905 - 1911	Sen. Louis Forget, First Vice President
1905 - 1909	Charles Gordon, Second Vice President
1911 - 1941	Sir Herbert Holt
1941 - 1942	John G. Dodd
1943 - 1948	W.A. Eden

1948 - 1948	S.J. Milligan
1948 - 1962	Ryland Daniels
1962 - 1968	Edward F. King
1968 - 1970	Ronald Perowne
1970 - 1974	Thomas Bell

General Managers

1906 - 1911	Charles Gordon
1911 - 1928	Frank Daniels
1932 - 1939	Blair Gordon

Directors

1905 - 1909	David Yuile
1905 - 1911	Sen. Louis Forget
1905 - 1912	Sir Henry V. Meredith
1905 - 1912	David Williamson
1905 - 1941	Sir Hurbert Holt
1905 - 1917	Sen. Robert MacKay
1905 - 1916	George A. Grier
1905 - 1914	David Morrice
1905 - 1939	Charles B. Gordon
1905 - 190	Frederick C. Henshaw
1905 - 1948	John P. Black
1905 - 1912	James N. Laing
1905 - 1905	A.J Brown
1905 - 1908	A.W. Allan
1907 - 1916	A.B. Mole *
1909 - 1927	C.R. Hosmer

1909 - ?	C.F. Smith	
1910 - ?	J. Baillie	
1911 - 1915	Capt. D.C. Newton	
1916 - 1932	Frank Daniels *	
1917 - 1936	W.A. Black	
1929 - 1945	Sir Frederick Williams-Taylor	
1933 ?	J.H Webb *	
1934 - 1948	J.G. Dodd *	
1934 - 1968	G. Blair Gordon *	
1936 - ?	Col. J.L. Ralston	
1938 - 1951	W.A. Eden *	
1941 - 1958	Sir Charles A. Dunning	
1940 1953	A.F. Baillie	
1943 - 1948	S. J. Milligan *	
1945 - 1974	Ryland Daniels *	
1950 - 1951	Charles Laurendeau	
1950 - 1953	Walter Molson	
1951 - 19	Hugh Crombie	
1952 - 19	C.P. Bishop *	
1953 - 74	E.F. King *	
1954 -1958	R.D. Archibald *	
1955 - 1963	Ross Clarkson	
1956 - 1966	Harry S. Thorpe	
1959 - 1967	Paul Bienvenu	
1962 - 1972	Marcel Faribault, L.L.D.	
1962 - 1979	D. Ross McMaster, Q.C.	
1962 - 1964	Frank S. Sobey	
1962 - 1968	Colin Webster	

1963 - 1968	Jack Pembroke, C.B.E.
1966 - 1970	W. Culiver Riley
1967 -	Ronald H. Perowne *
1967 -	J.C. Hebert
1968 -	Cal N. Moisan
1968 - 1978	Arthur Pascal
1971 -	Ken A. White
1972 -	Jean Beliveau
1972 -	D.F. Sobeey
1973 -	Thomas R. Bell *
1974 -	R.D. Hunter
1974 -	C.A. McCrae *
1978 -	G.H. Lenard
1979 -	A.D. Hamilton
1983 -	A.R. McAslan

Appendix 3 ANDREW F. GAULT
"The Cotton King of Canada"

1833	born Strathbane, Co. Tyrone, Ireland son of Leslie Gault, merchant and ship owner, and Mary Hamilton
1842	came to Montreal educated Montreal High School employed in Montreal dry goods house of Walter McFarlan
1853	Gault, Stevenson & Company established with J.B. Stevenson, dry goods. Dissolved 1857 on Stevenson's retirement
1857	Gault Bros. & Co. formed with brother Robert L. wholesale drygoods:buy from wholesalers sell to retailers, British, foreign & domestic: carpets, silks, furnishings
1860	Samuel Finley, brother-in-law joins Gault Bros.
1864	marries Louisa Harman, Surrey, U.K.
1870	Builds Gault Bros. building, St. Helen & Recollet, Montreal, opens office in Manchester, U.K.
1873	original, small, shareholder, Montreal Cotton Co.
1874	Director, Montreal Cotton, with Sir Hugh Allen
1875	with J. Cooper, R. Simpson etc. break from Commercial Travellers' Association of Canada to form Dominion Commercial Travellers' Association semi-cartel to bargain with railroads & to regulate trade conditions
1877	Vice President, Montreal Cotton
1878	President: V. Hudon Cotton Co. President: Ste. Annes Spinning Co.
1879	founds Farnham Beet Root Sugar Co. President: Montreal Cotton
1883	heads Syndicate which buys Corriveau Silk Manuf. Co. sold immediately for high profit Canadian Manufacturers' Association established, Gault President. Cartel attempt to regulate cotton mill output & prices
1885	President: Hochelaga Cotton Co. formed by merger of: V. Hudon Cotton Co. & St. Anne Spinning Co.
1887	President of newly formed Globe Woolen Mills Co. Ltd. (Directors: Sir J.J.C. Abott, Sir Donald Smith,

Andrew Allen)
President of Canadian Woolen Mills Ltd., Beauharnois
President of Campbellford Woolen Mills, Co.
President of Dominion Cotton Manufacturers Assoc.
Gault Bros.: S. Finley retires
R.W. MacDougall & Leslie H. Gault (brother) partners
death of brother Matthew H,, founder of Sun Life, M.P. for Montreal West, 1879 - 87

1889 Co-founder with C. Whitehead of Montmorency Cotton Co.
President of Montmorency Cotton Co.
Hochelaga Cotton Co. buys Magog Printing & Bleaching

1890 President: Dominion Cotton Mills Co.
Dominion Cotton Mills Co. incorporated, merges:
- Hochelaga Cotton Co.
- St. Annes Cotton Mill, Montreal
- Coaticooke Cotton Mill, Coaticooke, P.Q.
- Magog Print Works, Magog, P.Q.
- Kingston Cotton Mill, Kingston, Ont.
- Craven Cotton Mill, Brantford, Ont.
- Moncton Cotton Mill, Moncton, N.B.
- Nova Scotia Cotton Mill, Halifax, N.S.
- Windsor Cotton Mill, Windsor, N.S.

arranges new cotton cartel

1891 Dundas Cotton Mills plant, Dundas, Ont. sold by auction to Gault interests, Montreal

1892 President of Canadian Coloued Cotton Mills Co. Ltd.
Canadian Coloured Cottons incorporated, merges:
St. Croix Mills, Milltown, N.B.
Merritton & Lybster Mills, Merritton, Ont.
Ontario Mills, Hamilton, Ont.
Canada & Stormont Mills, Cornwall, Ont.
control of output for 10 years of:
Marysville Cotton Mills, Marysville, N.B
Hamilton Cotton Mills, Hamilton, Ont.

collapse of Farnham Beet Root Sugar Co.

1893 Board of Trade: Gault "leading spirit in cotton industry of this country"
-largest holder of cotton textile stocks in country
President: Globe Woolen Mills, Campbellford, Ont.

1894 receives testimonial from Lord Bishop of Montreal in grateful recognition of generosity to Church of England
endows Montreal Theological College with $150,000
Canadian Church Magazine "A noblehearted layman."

1895 retires as President Montmorency Cotton Co. - ill health
death of brother Robert L., partner in Gault Bros. & Co.

1896 Chairman of Canadian Woolen Manufacturers Association
The Gault Brothers' Co. Ltd. incorporated
founds The Crescent Manufacturing Co.
men's shirts & ties

1897 Globe Woolen Mills, Mtl. suspend operations

1898 Globe reopens as Excelsior Woolen Mills
Gault, President of Excelsior
retires as President of Canadian Coloured Cotton Co.
in joint venture to intoduce U.S. textile machinery to Canada

1899 The Gault Bros. Co. Ltd. opens Vancouver branch
President Havana, Cuba, electric tramway co.

1900 President of Canadian Woolen Mills
Canadian Woolen Mills Ltd. formed, take over:
Granite Mills & Boas Manuf. Co. St. Hyacinthe, P.Q.
The Gault Bros. Co. Ltd. opens Winnipeg Branch
travels to Cuba to open Havana electic railway system

1901 director, Trinidad electric light & tramway co.

1903 dies, July 7th

Additional Directorships:
City and District Savings Bank
Liverpool, London and Globe Insurance Co.
Manufacturers Insurance Co. (and Vice President)
Royal Victoria Life Assurance Co.
Bank of Montreal

Clubs:
Mount Royal
St. James
etc.

Community Service
build Montreal Diocesan College bldg.
Treasurer of Synod, Church of England
a Govenor of McGill College
Govenor, Montreal General Hospital
Committee of Management, MacKay Institute for Deaf Mutes
Vice President, House of Industry and Refuge
Montreal Board of Trade: Council and Board of Arbitration
Treasurer, Robert Jones Convalescent Hospital
Vice President, Andrew's Home
Director, Out-door Relief
delegate, General Synod, Church of England
declined offer of an unanimous return for Mayor of Montreal

son. Andrew H., formed W.W. I infantry regiment himself, Princess Patricia Light Infantry, which he led overseas

residence: 995 Sherbrooke, Prince of Wales Terrace, site of Bronfman Building, McGill University

Appendix 4 DAVID MORRICE

1832	born, Perth, Scotland
	attends High School, Perth
	business experience in: Perth, Dublin, Cork, London, Liverpool, Manchester
1855	arrives in Montreal, moves to Toronto employed by large dry goods wholesale establishment
1861	married Anne S. Anderson, Toronto
1863	returns to Montreal establishes D. Morrice & Co., manufacturers' agents and general merchants at 1875 Notre Dame St.,Mtl. dry goods commission house, deals wholesale exclusively
1873	becomes Commission Agent for V. Hudon Cotton Co. builds large warehouses in Montreal and Toronto trades throughout Canada
1877	becomes Commission Agent for Montreal Cotton Co.
1881	involved in oil refining business
1882	opens David Morrice Hall, Presbyterian College of Montreal, McGill College, cost $80,000 Director, Montreal Cotton Co Director, V. Hudon Cotton C. and Ste. Annes Spinning
1883	D. Morrice & C. mill agents, in financial difficulty after advancing large sums to domestic cotton and woolen mills, are assisted by the banks, and mill production is curtailed to relieve market supply situation. Extension granted and settlement made in full. (CTJ)
1884	Director, newly formed Hochelaga Cotton Co. Sept.: operations of D. Morrice & Co. suspended and put under trusteeship
1889	Vice President and Director, newly formed Montmorency Cotton Co.
1890	Selling Agent for newly formed Dominion Cotton Co mills: - Hochelaga Cotton Mill, Montreal - St. Annes Cotton Mill, Montreal - Coaticooke Cotton Mill, Coaticooke, P.Q. - Magog Print Works, Magog, P.Q. - Kingston Cotton Mill, Kingston, Ont. - Craven Cotton Mill, Brantford, Ont. - Moncton Cotton Mill, Moncton, N.B. - Nova Scotia Cotton Mill, Halifax, N.S.

- Windsor Cotton Mill, Windsor, N.S. (largest shareholder)

1892 Selling Agent for newly formed Canadian Coloured Cotton· also D. Morrice, Vice·President, mills at:
- St. Croix Mill, Milltown, N.B.
- Merritton & Lybster Mills, Merritton, Ont
- Ontario Mill, Hamilton, Ont.
- Canada & Stormont Mills, Cornwall, Ont.
  control of output for 10 years of:
- Marysville Cotton Mills, Marysville, N.B.
- Hamilton Cotton Mills, Hamilton, Ont.

D. Morrice, Sons & Co. also selling agents for:
- Auburn Woolen Co. Peterboro, Ont.
- Penman Manuf. Co. Paris, Ont.
- Strathroy Knitting Co., Hamilton, Ont.
- J.B. Henderson, Thorold, Ont.
- Coaticooke Knitting Co. Coaticooke, P.Q.
- Cascade narrow Fabric Co. Coaticooke, P.Q.
- Jonathan Ellis, Port Dover, Ont.
- Trent Valley Woolen Mills, Campbellford, Ont.
- total of 40 mills

agent of Rylands & Sons (Ltd.) Manchester, U.K., largest drygoods house in the world

1895 resigns Vice Presidency, Montmorency Cotton

1897 falling out with Andrew F. Gault
D. Morrice, Sons & Co. withdraw from representation of Dominion Cotton Mills Co. (Sept.)

1898 succeeds A.F. Gault as President, Canadian Coloured Cotton

1905 Dominion Textile formed, member of Syndicate. mills:
- Dominion Cotton Mills - 8
- Montmorency Mills - 2
- Merchant Mill
- Colonial Printing and Bleaching
Director, Dominion Textile

1906 President of Penman's Manuf. Co. (woolens)

1907 Director, Bank of Montreal

1914 Dec. 19 dies, wife shortly afterwards, buried Mount Royal cemetary

Clubs:

Mount Royal
St. James
etc.

Director:

Royal Victoria Insurance Co.
President, Montreal Investment and Freehold Co.
etc.

Community Work:
30 years Sunday School Supt, Crescent St. Church
elder in Presbyterian Church
Chairman, Board of management Presbyterian College, Mtl.
President, Montreal Art Association
Montreal Board of Trade

Charities:
Y.M.C.A.
Board of Govenors General Hospital
Sailor's Institute
House of Refuge

Children: seven sons, one daughter
1. D. Morrice Jr.: married a Gault, partner in Morrice & sons
2. W.J. Morrice, partner in Morrice & Sons
3. James Wilson: lawyer, impressionist, artist
4. R.B. Morrice, partner in Morrice & Sons

Home: 10 Redpath St.
Sunday: no secular reading matter, no guests, day of devotion and quietude

Appendix 5 SIR CHARLES GORDON G.B.E.

1867 born Nov. 22, Montreal, son of John and Jane Gordon of John Gordon & Son, Commission Merchant for British goods

educated High School of Montreal

1886 employed by McIntyre Sons & Co., wholesale drygoods merchants as office boy

1888 shipping clerk, J.P. Black & Co. drygoods wholesalers

1895 death of father John Gordon, older brother succeeded to business

1896 organized Standard Shirt Co., Mtl.
later acquired control of competing concerns in Montreal

1897 married Edith Brooks

1905 prominent role in amalgamation of Dominion Textile
Second Vice President, Dominion Textile Co. Ltd.
Director, Merchants Bank (later absorbed by Bank of Montreal)

1909 leading figure with David Yuile. David Morrice and J.P. Black in Montreal Syndicate's purchase of Penman's Mfg. Co.

President of Dominion Textile, succeeding David Yuile

1912 Director, Bank of Montreal

1913 President, Canadian Manufacturers' Association

1914 President, Penman's Ltd., succeeds David Morrice
offers services to government at outbreak of World War I

1916 Vice President, Bank of Montreal

1915-17 Vice Chairman of the Imperial Munitions Board

1917-18 Representative of the Ministry of Munitions and Director General of War Supplies for Great Britain in Washington

1917 receives Knighthood, G.B.E. Knight Grand Cross of the Empire for distinguished war services

1923 President, Montreal Cotton Co.

1928 President, Bank of Montreal
Chairman, Dominion Textile
Chairman, Montreal Cotton

1931 President Drummondville Cotton Co., subsidiary Dominion Textile

1933 Chairman and President, Dominion Textile

1939 died

Directorships:
President, Bank of Montreal
Chairman and President, Dominion Textile
Chairman and President, Penman's Ltd.
Chairman, Montreal Cotton Co.
President, Royal Trust Co.
President, Dominion Glass Co.
President, Hillcrest Colliers Ltd.
Director, Dominion Rubber Co.
Director, Brinton-Peterborough Carpet Co. Ltd.
Director, Paton Manuf. Co.
-total of 30 companies

Clubs:
- Raquet (New York)
- Mount Royal
- etc.

residence: Terra Nova, Cote des Neige, Montreal

Children:
- George Blair
- Charles Howard
- John

Appendix 6 FRANK G. DANIELS

1874	born, Montreal
	educated Montreal High School
	employed Car Service Dept. C.P.R.
1893	Office manager, Montmorency Cotton Co.
1897	Secretary-Treasurer and Assistant Manager, Montmorency
1907	Mill Manager, Montmorency Mill of Dominion Textile
1909	Assistant General Manager, Dominion Textile
1916	Managing Director, Dominion Textile
1917	President of newly formed Canadian Textile Institute
1928	President, Dominion Textile
1929	President, Paton Manuf. Co.
1930	President, Montreal Cotton
1933	died, Montreal

Offices:

President, Dominion Textile
President, Sherbrooke Cotton Co. Ltd, (subsidiary)
President, Drummondville Cotton Co. (subsidiary)
President, Montreal Cotton Co. (affiliate)
President, Paton Manuf. Co. (woolens)

Son: Ryland Daniels

Appendix 7 G. BLAIR GORDON

1900 born, Westmount, Quebec, son of Charles Gordon and Edith Brooks

educated, Lower Canada College, Montreal

1917-18 in Washington, D.C., father Director General of War Supplies for Great Britain

1918-19 Royal Air Force, 2nd Lieut., stationed in England

1922 graduated McGill University (B.Sc. Electrical Engineering)

1922-23 electrician, Provincial Paper Co., Port Arthur, Ont.

1922-23 fitter's helper, Dominion Textile Co. Ltd.

1924-27 Assistant to General Superintendent, Dominion Textile

1927 Assistant to General Manager, Dominion Textile

1933 Managing Director, Dominion Textile

1939 President, Dominon Textile
President, Montreal Cotton Co.

1945-46 President, Canadian Manufactures' Association

1952 and onward
Govenor Emeritus, McGill University
Govenor, Royal Victoria Hospital
Govenor, Alexandra Hospital
Govenor, Verdun Protestant Hospital
Govenor, Royal Edward Laurentian Hospital
Govenor, Montreal General Hospital
Govenor, Sherbrooke General Hospital
President, Welfare Association

1961 Chairman, Dominion Textile

1966 retires as Chairman, Dominion Textile

Directorships:
Bank of Montreal
Canadian Pacific Railway Co.
Mutual Life Assurance Co. of Canada
Burlington Steel Co. of Canada
Canadian Industries, Ltd. (C.I.L.)
Brazilian Traction, Light & Power Co. Ltd.
The Roayl Trust Co.
Canadian Investment fund ltd.
Canadian Fund Inc.
Dominion Oilcloth & Linoleum Co. ltd.

Paton Manuf. Co. Ltd.
Penman's Ltd.
Guarantee Investment Co.
Seigniory Club Community Association
Lakefield Preparatory School

Member:

Cotton Institute of Canada
Metropolitian Board, YMCA
Corporation of Professional Engineers of Quebec

Clubs:

Mount Royal
Montreal Racquet
Toronto
University (New York)
The Recess (New York)
Montreal Indoor Tennis
Mount Bruno Golf
Field and Stream
Laval-Sur-le-Lac Golf

Married:

1. Dorothy Mann
2. Mary McCulloch

Children: Linda, Christopher

Appendix 8 RYLAND DANIELS

1907	Born Montmorency Falls, Quebec, son of F.G. Daniels
1909	family moved to Montreal, father General Manager, Dominion Textile
	educated, Ashbury College, Ottawa
1930	graduated McGill University, (B.Comm.) fitter's helper, Dominion Textile, Drummondville mill
	Raw Cotton Department
	Statistics Department, Montreal Cotton, Valleyfield
1936	Mill Manager, Sherbrooke
1941	General Manufacturing Manager, Dominion Textile
1945	Director, Dominion Textile
1951	Senior Vice President, and Managing Director
1961	President and Managing Director, Dominion Textile
1968	Chairman, Dominion Textile
1970	retires as Chairman
1974	retires as Director after 44 years of continuous service

Directorships:
Canadian Pacific Railroad
Bank of Montreal

Appendix 9 EDWARD F. A. KING

1904 born Montreal

educated, St. Michael's Academy, Montreal

1920 joined Dominion Textile, office boy, Verdun Mill

1922 stenographer & clerk, Manufacturing & Statistical Dept., Head Office

married Hilda Bradley

1931 Sales Department, supervisor of rayon production, Verdun Mill

1942 Sales Manager, Marketing Department, rayon sales

1945 Vice President & General Manager, Sales, Dominion-Burlington

1947 President, Domil (rayon subsidiary)

1953 Vice President, Sales, Dominion Textile
Director, Dominion Textile

1961 Senior Vice President & Vice President, Sales

1962 Executive Vice President, President Domil & Caldwell

1965 Senior Vice President, Dominion Textile

1968 President, Dominion Textile

1969 Chairman of the Board, Dominion Textile

1974 retires as Chairman, more than 50 years service

Director:
- Belding Corticelli
- The Miner Company

Member:
- Bishop's University Corporation
- Quebec General Council of Industry
- Board of Lower Canada College
- Associates of Concordia University
- Canadian Textiles Institute

Appendix 10 RONALD H. PEROWNE

1918	born, Town of Mount Royal, Montreal
	prominent Montreal amateur athlete
1939	graduated McGill University (B.Comm.)
	Athletic Director, Lower Canada College
	player, Montreal Royals Hockey Club
1940	Royal Canadian Navy, rose to lieutenant
1945	Personnel Department Dominion Textile married
1948	head, Industrial Relations Dept. Dominion Textile
1953	joins Sales Department
1961	General Sales Manager, Dominion Textile
1963	Senior Vice President
1967	Director and General Manager, Dominion Textile
1969	President and CEO, Dominion Textile
1974	Chairman and CEO
1977	Chairman of the Board, Dominion Textile
Clubs:	
	Mount Royal

Appendix 11 THOMAS R. BELL

1923	born Montreal, son of Finlay and Nora O'Connor Bell
	educated Longeuil High School
1940	Analytical Department, Dominion Textile
1942	Royal Canadian Navy, North Atlantic corvette
1945	Personnel Department, Dominion Textile
1946-63	Dominion-Burlington, later Domil
1954	married Anne-Marie Hammond
1963	Assistant General Sales Manager, Dominion Textile
1966	Vice President, Marketing, Dominion Textile
1970	Group Vice President, Operations
1973	Executive Vice President and Director
1974	President and Chief Operating Officer
1977	President and Chief Executive Officer

Clubs:

Mount Royal
Montreal Badminton & Squash
Kanawaki Golf

Appendix 12: SELECTED CANADIAN TARIFF SCHEDULES

(The specific tariff on fabrics is quoted in cents per pound. The Canadian tariff schedules for textiles list twenty-four categories of textile imports. Only schedules for three categories, unbleached cotton, colored cotton, and synthetics are listed here.)

BP: British Preferential Tariff
MFN: Most Favored Nation or Intermediate
Gen.: under General Tariff until Jan. 1, 1936, then MFN

Canadian Tariff Rates: Woven Fabrics

Cotton Fabrics

		Unbleached	Colored
1905	BP	15%	17.5%
	Gen.	40%	50%
1907	BP	15%	25%
	MFN	30%	30%
1911	BP	24.5%	
	Gen.	32.5%	
1922	BP	12.5%	22.5%
	MFN	30%	30%
1928	BP	12.5%	20%
	MFN	20%	25%
	Gen.	22.5%	27.5%
1930	BP	17.5% + $.03	22.5% + $.03
	MFN	20% + $.035	27.5% + $.035
	Gen.	25% + $.04	32.5% + $.04
1932	BP	17.5% + $.02	22.5% + $.02
	MFN	20% + $.035	27.5% + $.035
	Gen.	25% + $.04	32.5% + $.04
1936	BP	20%	22.5%
	MFN	22.5% + $.035	27.5% + $.03
	Gen.	27.5% + $.04	32.5% + $.04
1948	BP	17.5%	
	MFN	17.5% + $.03	
	Gen.	27.5% + $.04	

After 1948 textile tariffs negotiated under GATT

Artificial Silk Fabrics:

Wholly #561 In Part #561a

1922	BP	17.5%	17.5%
	MFN	32.5%	32.5%
1928	BP	17.5%	20%
	MFN	32.5%	30%
1930	BP	27.5% + $.3	27.5% + $.3
	MFN	40% + $.4	40% + $.4
1936	BP	30%	30%
	MFN	40% + $.4	40% + $.4
1937	BP	27.5%	
	MFN	27.5% + $.4	
	Gen.	45% + $.4	
1948	BP	22.5%	
	MFN	25% + $.3	
	Gen.	45% + $.4	

Comparative Rates, GATT Tariffs, 1970

	ave. all textiles	clothing
Canada	23.6%	25.5%
U.S.	25.7%	31.4%
E.E.C.	14.1%	16.6%
Japan	12.3%	17.2%
Sweden	13.4%	14.3%
Australia	33.2%	60.0%
New Zealand	21.0%	65.2%

Source: C. Pestieau, The Quebec Textile Industry in Canada, Montreal: C.D. Howe Research Institute, 1978 p.6,

Comparison of Protection Afforded By Voluntary Export Restraints and Nominal Tariffs, 1970

From the mid-1950s, the Canadian government has negotiated non-tariff agreements, on an individual basis, with countries exporting textiles to Canada. These voluntary tariff restrictive quotas have meant foreign producers do not export more than a predetermined quantity of textile products. The effects of these quotas have been estimated by the Economic Council of Canada as follows:

Product	Tariff equivalent of voluntary export restraints	Nominal tariff rate
Cotton textiles	28.3	13.9
Yarns and fibres	18.0	11.1
Fabrics	32.6	14.6
Synthetic textiles	23.4	17.2
Fibres and filaments	0.0	14.5
Yarns and fabrics	36.3	18.1

Hosiery	.5	18.2
Knitted goods	1.3	22.0
Clothing	3.9	18.0

Source: Canada, <u>The textile industry - a Canadian challenge,</u> 1979, p. 47

Appendix 13.

Financial Growth of Dominion Textile: 1905 - 1983

Financial Performance: 1905 - 1920

	Assets	Sales	Net Profit
1905	$	$ 8,131,004	$ 918,810
1906	14,634,595	8,507,013	898,518
1907	15,095,740	8,045,497	900,805
1908	14,688,522	6,153,626	1,004,268
1909	14,978,541	8,743,706	1,016,407
1910	15,302,732	9,470,270	1,110,031
1911	16,721,226	9,038,463	1,137,553
1912	15,043,326	9,824,101	1,351,129
1913	14,635,238	8,899,718	1,196,990
1914	15,396,804	7,643,674	1,230,767
1915	15,276,538	10,438,098	1,555,572
1916	15,485,544	13,375,750	1,582,705
1917	18,577,413	16,850,278	1,873,371
1918	20,344,795	23,666,216	1,159,888
1919	20,301,665	23,436,700	703,961
1920	26,989,243	26,429,659	583,547

	Profit & Loss Account	Dividends Paid
1905	$ 236,914	
1906	403,594	$161,967
1907	568,335	130,334
1908	577,268	380,067
1909	613,176	380,068
1910	649,875	380,137
1911	750,659	380,137
1912	853,343	380,484
1913	903,629	406,395
1914	956,303	434,653
1915	1,167,911	434,896
1916	1,444,166	434,820
1917	2,189,194	435,331
1918	3,349,083	485,842
1919	4,053,044	535,842
1920	4,636,591	635,842

Financial Performance: 1920 - 1939

	Assets	Sales	Manufacturing Profits*
1920	$26,968,243	$26,429,659	$1,701,244
1921	23,999,693	26,496,594	1,780,938
1922	25,401,114	18,615,692	1,768,861
1923	N.A.	N.A.	N.A.
1924	26,835,004	21,002,284	1,604,607
1925	29,234,626	19,637,566	1,684,908
1926	29,720,806	21,718,269	1,707,343
1927	30,408,407	20,392,708	1,825,293
1928	31,851,149	19,707,901	1,532,487
1929	35,464,530	21,262,400	1,652,562
1930	35,701,879	19,349,972	1,518,321
1930	35,701,879	19,349,972	1,518,321
1931	35,094,384	15,307,758	1,085,350
1932	36,150,706	13,854,636	1,071,253
1933	33,651,864	11,463,646	367,215
1934	45,561,524	17,097,751	1,381,816
1935	43,570,043	N.A.	1,298,121
1936	42,737,342	N.A.	1,124,961
1937	43,864,251	N.A.	1,673,537
1938	45,127,641	N.A.	1,459,026
1939	44,763,418	N.A.	1,036,981

* 1933 change in reporting from manufacturing profits to net profit

	Profit & Loss A/C	Interest on Investments	Earns per Com. sh.	Price Range High	Low
1920	$4,053,044	$144,131			
1921	4,636,591	150,072			
1922	5,007,700	138,376			
1923	N.A.	N.A.			
1924	5,390,002	162,922	$4.32	$67.25	$53.75
1925	5,665,017	263,759	5.22	95.13	66.00
1926	5,999,163	197,964	6.49	107.50	89.00
1927	6,529,987	276,692	7.36	136.50	105.00
1928	6,862,658	371,345	6.48	134.50	102.00
1929	7,211,414	324,105	5.66	118.00	74.00
1930	7,498,035	561,609	6.06	87.50	60.50
1931	7,515,551	721,350	5.06	83.00	63.00
1932	7,363,265	562,272	4.44	63.25	39.00
1933	5,567,122	550,828	1.80	69.88	39.00
1934	6,013,595	444,571	6.25	88.00	67.00
1935	5,825,875	450,459	4.30	82.50	60.00
1936	5,392,422	466,978	3.60	79.00	60.00
1937	5,414,368	504,095	5.63	86.00	67.00
1938	5,370,802	480,059	4.84	70.00	58.00
1939	4,905,192	486,233	3.28	90.13	55.00

	Wages	Executive Officers	Directors
1930	$255,000	$ N.A.	$ 9,000
1931	314,000	N.A.	10,740
1932	231,000	N.A.	10,600
1933	201,703	63,500	10,600
1934	201,496	61,772	9,544
1935	164,500	59,380	10,800
1936	169,000	66,912	10,520
1937	296,000	72,554	10,990
1938	217,300	78,988	9,267
1939	174,100	76,750	10,262

a "Surplus Account"

Financial Performance: 1940 - 1953

	Assets	Sales	Income from Operations	Net Profit	Dividends
1940	$46,873,000	N.A.	$2,768,040	$2,214,069	$1,485,842
1941	51,195,000		5,865,561	2,034,145	1,485,842
1942	56,252,000		9,024,286	1,546,624	1,485,842
1943	60,168,000	N.A	8,930,375	1,636,884	1,485,842
1944	55,181,000	N.A.	2,544,582	1,636,884	1,485,842
1945	56,288,000	N.A.	3,956,224	2,788,286	1,485,842
1946	58,235,000	N.A.	3,956,224	2,119,770	1,485,842
1947	57,206,000	N.A.	2,549,544	1,729,334	1,485,842
1948	60,943,000	N.A.	4,024,754	2,834,832	1,944,819
1949	72,002.000	N.A.	7,810,116	5,352,475	2,323,389
1950	79,285,000	N.A.	4,140,958	3,108,905	1,937,904
1951	92,422,000	N.A.	10,250,935	5,124,438	2,452,779

1952	100,877,000	N.A.	632,332	1,717,256	2,036,531
1953	101,760,000	N.A.	312,830	1,157,449	1,680,466

	Surplus Account	Revenue from Investments	Wages	Executive Salaries	Directors' Fees
1940	$5,122,399	$461,228	$391,692	$75,641	$14,867
1941	5,166,071	522,941	434,889	76,275	12,370
1942	5,226,853	681,488	452,278	79,650	11,025
1943	5,226,853	562,910	411,772	79,312	10,120
1944	4,900,515	543,570	380,095	77,675	10,200
1945	5,002,997	570,213	454,348	79,700	11,726
1946	5,138,071	541,292	349,932	98,487	8,750
1947	5,158,205	641,449	337,474	101,780	8,510
1948	6,048,218	680,396	413,949	113,509	9,458
1949	12,540,069	774,338	N.A.	105,525	8,985
1950	13,711,160	722,785	N.A.	126,855	9,160
1951	13,711,160	701,241	N.A.	118,000	9,018
1952	15,612,218	1292,634	N.A.	184,622	8,650
1953	15,089,201	844,619	N.A.	166,803	7,880

	Earns per Com. sh.	Price Range High	Low
1940	$7.70	$90.50	$70.00
1941	7.03	83.00	69.00
1942	5.23	82.50	66.00
1943	5.56	81.00	72.00
1944	5.57	74.25	68.00
1945	9.82	98.00	71.00
1946	7.35	120.00	90.00
1947	5.90	12.75	10.22 *
1948	1.05	13.63	11.00
1949	2.03	12.00	10.13
1950	1.15	13.00	10.00
1951	1.94	16.75	11.63
1952	0.61	13.13	10.00
1953	0.40	11.00	7.00

*Dec. 1947, 9 for 1 stock split

Financial Performance: 1954 - 1975

	Assets	Sales	Income from Operations	Net Inc. Operations
1954	$102,978,003	N.A.	$ (805,153)	$ (48,514)
1955	97,931,000	N.A.	(28,729)	496,718
1956*	126,505,871	N.A.	3,344,420	2,399,319
1957	137,697,902	N.A.	4,514,743	3,212,927
1958	138,701,670	$ 96,125,000	3,863,309	2,171,485
1959	137,282,203	99,241,000	5,123,065	2,813,199
1960	143,616,905	97,425,000	5,049,262	2,729,309
1961	148,752,328	103,185,000	7,564,855	3,620,183
1962	160,788,483	124,224,000	8,088,094	4,368,240
1963	160,162,000	137,324,000	9,887,000	5,053,000
1964	171,300,000	151,585,000	12,668,000	6,369,000
1965	207,723,000	161,601,000	11,517,000	5,910,000
1966	262,233,000	178,324,000	11,574,000	7,346,000
1967	289,196,000	129,808,000	4,565,835	4,565,835
1968+	177,519,000	208,646,000	1,700,000	4,367,079
1969	172,464,000	173,270,000	3,300,000	4,309,698
1970	174,830,000	167,849,000	4,800,000	4,650,403
1971	177,485,000	191,357,000	8,000,000	5,180,408
1972	191,775,000	228,012,000	14,200,000	7,140,000
1973	257,310,000	257,310,000	15,800,000	8,268,000
1974	244,688,000	363,243,000	33,100,000	18,753,000
1975	348,031,000	273,355,000	12,300,000	7,118,000

*consolidated results of Canadian subsidiaries for the first time

+ Fifteen-month period due to change in year-end from Mar. 31

to

June 30 in 1968

	Earns per Com sh.	Price Range High	Low
1954	$ 0.07	$ 7.75	$ 6.00
1955	0.14	9.13	7.00
1956	0.86	9.00	7.13
1957	1.18	9.25	7.00
1958	0.79	10.38	7.13
1959	1.03	12.00	9.50
1960	1.00	10.50	8.63
1961	1.35	17.00	10.00
1962	1.65	18.88	15.00
1963	1.92	24.75	16.75
1964	2.43	34.00	23.00
1965	2.25	42.00	30.00
1966	2.79	38.50	24.50
1967	1.80	33.00	13.88
1968	1.64	18.50	10.50
1969	1.63	18.50	12.00
1970	1.76	14.38	8.75
1971	1.97	21.13	12.25
1972	2.75	10.88	6.63 *
1973	1.06	11.00	7.50
1974	2.40	11.75	6.00

* Oct. 1972, 3 for 1 stock split

Financial Performance: 1975 - 1983

	Assets	Sales	Income from Operations	Net Income from Oper.
1975	$348,031,000	$273,355,000	$20,100,000	$ 7,118,000
1976	349,450,000	475,420,000	34,100,000	9,598,000
1977	362,283,000	498,939,000	37,200,000	14,593,000
1978	386,564,000	559,965,000	44,000,000	18,171,000
1979	442,909,000	667,417,000	60,500,000	22,417,000
1980	541,746,000	756,944,000	86,200,000	34,946,000
1981	655,626,000	864,833,000	100,500,000	42,926,000
1982	613,543,000	767,306,000	31,800,000	(2,904,000)
1983	661,444,000	822,422,000	56,900,000	19,065,000

	Earns per Com. sh.	Price Range High	Low
1975	$0.91	$9.25	$6.50
1976	1.23	10.00	7.00
1977	1.87	9.25	6.88
1978	2.31	13.00	8.13
1979	3.02	15.13	11.38
1980	3.66	18.38	12.13
1981	3.93	22.25	14.00
1982	0.38	15.38	8.75
1983	1.41		