Historical Papers
Communications historiques

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Volume 21, numéro 1, 1986

Winnipeg 1986

URI : https://id.erudit.org/iderudit/030952ar
DOI : https://doi.org/10.7202/030952ar

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Éditeur(s)

The Canadian Historical Association/La Société historique du Canada

ISSN

0068-8878 (imprimé)
1712-9109 (numérique)

Découvrir la revue

Citer cet article

Monod, D. (1986). Bay Days: The Managerial Revolutions and the Hudson's Bay Company Department Stores, 1912-1939. *Historical Papers / Communications historiques*, *21*(1), 173–196. https://doi.org/10.7202/030952ar

Résumé de l'article

L'histoire des affaires en Amérique du Nord a longtemps été dominée par la croyance que l'esprit innovateur des entrepreneurs était essentiel au succès des sociétés commerciales. Cet article examine l'histoire de la « Stores Department » de la Compagnie de la Baie d'Hudson et lente d'expliquer à partir du cadre conceptuel traditionnel l'incapacité prolongée de la compagnie d'établir une chaîne profitable de magasins à rayons dans l'ouest de Canada. Pendant l'entre-deux-guerres la Compagnie de la Baie d'Hudson était fortement compétitive dans ses méthodes de commercialisation et sa structure était inspirée des connaissances les plus récentes dans ce domaine. Défait, l'échec de la compagnie découle en grande partie de ces facteurs, ainsi que sa trop grande confiance dans les formules administratives et dans les théories organisationnelles scientifiques. Ce n'est que durant la crise que la Compagnie de la Baie d'Hudson fut en mesure de récupérer ses pertes; elle dut pour ce faire s'éloigner de l'orthodoxie professionnelle des années 1920, retourner à des structures commerciales plus anciennes et adopter une approche plus orientée vers le consommateur.

Bay Days: The Managerial Revolution and the Hudson's Bay Company Department Stores 1912–1939

DAVID MONOD

Résumé

North American business history has long been dominated by a belief in the centrality of entrepreneurial innovation to corporate success. This paper looks at the history of the Hudson's Bay Company Stores Department and attempts to explain from within the traditional business-history framework the company's prolonged inability to create a profitable chain of department stores in Western Canada. During the interwar years the HBC was highly competitive in its marketing methods and up-to-date in its business structure. Indeed, the company's failure seems to have stemmed in large measure from these very factors, from its excessive reliance upon scientific management formulas and organizational theories. It was only during the Depression that the Bay was able to recoup its losses by moving away from the professional orthodoxies of the twenties, returning to older business structures, and deciding on a more consumer-oriented approach.

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L'histoire des affaires en Amerique du Nord a longtemps été dominée par la croyance que l'esprit innovateur des entrepreneurs était essentiel au succès des sociétés commerciales. Cet article examine l'histoire de la "Stores Department" de la Compagnie de la Baie d'Hudson et tente d'expliquer à partir du cadre conceptuel traditionel l'incapacité prolongée de la compagnie d'établir une chaine profitable de magasins à rayons dans l'ouest de Canada. Pendant l'entre-deux-guerres la Compagnie de la Baie d'Hudson était fortement compétitive dans ses méthodes de commercialisation et sa structure était inspirée des connaissances les plus récentes dans ce domaine. De fait, l'échec de la compagnie découle en grande partie de ces facteurs, ainsi que sa trop grande confiance dans les formules administratives et dans les théories organisationnelles scientifiques. Ce n'est que durant la crise que la Compagnie de la Baie d'Hudson fut en mesure de récupérer ses pertes; elle dut pour ce faire s'éloigner de l'orthodoxie professionnelle des années 1920, retourner à des structures commerciales plus anciennes et adopter une approche plus orientée vers le consommateur.

Though the Hudson's Bay Company has attracted considerable scholarly attention, there have been few studies of the company's activities in the post-1871 period. This is unfortunate, for the sale of Rupert's Land marked the beginning, not the end, of one of the Bay's most interesting transformations. The postconfederation century at the HBC witnessed the company's development from a colonial fur trade enterprise into a Canadian retail chain. It was, however, a very painful evolution. Unsure themselves of the correct avenues for the Bay to follow, the company's executives relied for direction upon a succession of "experts" trained in the principles of scientific management. Sadly, none of these professional managers proved capable of turning the Stores Department into a profitable endeavour and finally in the 1930s, the company was forced to abandon managerial theory and find its success in a metaphorical return to its fur trade roots. The Bay's unsuccessful efforts to improve profits by applying prefabricated managerial strategies and structures reveal the difficulties implicit within both an excessively administrative approach to marketing and in traditional business history dogma. Generally, business historians have argued that economic "progress" is produced by the introduction of an innovation into the otherwise "static" business environment. Failure is a result of a resistance to change and an inability to innovate. What is therefore significant in the Bay's record is the fact that its lack of success derived in large measure from its excessive attachment to new theories and innovations. The Bay magnified its own problems because it relied upon administrative reforms almost to the exclusion of sound marketing. It was a snare in which business historians are still caught.

The Hudson's Bay Company Stores Department owed its origin to Harrod's retailing wizard, Richard Woodman Burbidge, who acted as a consultant and director of the company in the years before World War I.[1] Since the 1890s, a demand had been growing within Canada for the HBC to expand its small saleshops in Winnipeg and Vancouver to satisfy the growing urban demand for consumer goods.[2] It was not until Burbidge's Subcommittee on Saleshops was established in 1910 that the need not only for store expansion but also for a complete reorganization of the company's managerial structure was finally satisfied. In essence, the subcommittee's reforms moved the HBC away from its fur trade foundation by creating a departmentalized structure in which land sales, the fur trade, and retail stores each would have their own administrative apparatus.[3] Whereas the fur trade had formerly been at the heart of the Bay organization, it was now to play a diminishing role in an increasingly cosmopolitan business.

In 1911 a Canadian Advisory Committee was appointed to supervise the implementation of the new strategy. Hitherto the decentralized system of London-based decision-making and Canadian organization had been sufficient to manage the company's loosely organized fur trading domain. With the gradual diminution of the fur business and with the HBC's increasing interest in land speculation and retail distribution, local leadership was necessary. The new direction was manifested in the Canadian Committee which was composed of some of the most prominent

1. Three generations of Burbidges were engaged by Harrod's as general manager; see T. Dales, *Harrod's: The Store and the Legend* (London, 1981), 37–42.
2. Hudson's Bay Company Archives (HBCA), DD198, C.C. Chipman to W. Ware, 29 April 1904.
3. Ibid., R. Burbidge, "Report on the Hudson's Bay Stores," 1912; F.S. Oliver, "Notes on Reorganization of Stores," n.d.

Figure 1
Overlapping Directorships of the Canadian Committee Members of the Hudson's Bay Company 1914–1940

	Canadian Pacific Railway	Great West Life Assurance Co.	Northern Trust Co.	Manitoba Bridge and Iron Works	Bank of Commerce	Beaver Lumber Co.	Home Investment and Savings Assn.	Western Manufacturing Co.
Sir Augustus Nanton	X	X	X	X		X	X	X
George W. Allan		X	X		X	X		
George F. Galt		X	X		X			
Robert J. Gourley		X	X	X		X	X	X
James A. Richardson	X	X	X		X			
C.S. Riley			X					
Hugh Buxton Lyall				X				X

Source: *Beaver,* 1920–1940, passim; *Who's Who in Canada,* 1920–1940, *passim.*

western businessmen. While the London board attempted to preserve its link with modern retailing — drawing advisors first from Harrod's and later from Debenham's — the Canadian Committee was representative of the Winnipeg financial elite (Figure 1). Throughout the interwar period the character of the Canadian Committee was to remain unchanged. It was dominated by money-men who had little practical experience with retailing. Consequently the committee remained made up "of part timers so far as the Company was concerned, who had important business of their own to look after."[4] The committee was therefore forced to rely for technical advice upon its officers in the field. At the outset those officers were selected and controlled by London.

Despite the new structures, however, it was not easy for the London board to abandon all at once its nineteenth-century attitudes to Canada. Schooled in the fur trade and the business of resource extraction, the London directors saw little else in the West than trappers, farmers, and loggers. The creation of the Stores Department represented a change in structure but not in style. Point blankets and hardware remained the HBC's stock-in-trade.[5] At a time when other department stores were concentrating in the larger urban centres, the Bay opened stores in the most unlikely places: Vernon, Nelson, Kamloops, Lethbridge, and Yorkton. Wherever the turnover warranted, the company adopted a policy of "building Department Stores as soon as the necessary capital [became] available."[6] The result was that fur trading posts were turned into department stores with little regard either to future marketing potential or to basic techniques of large-scale distribution. This far-flung network of overgrown trading posts was entrusted to the direction of Richard Burbidge's son, Herbert, who unfortunately appears to have inherited little of his father's marketing genius. In fact, under Herbert Burbidge's management, the store section developed along lines that, while acceptable to the London board, challenged the very substance of North American department store retailing. Burbidge, who based himself in Vancouver, as far removed from the supervision of the Canadian Committee as possible, clearly regarded his department as the jewel of the company. Without strong devotion to organization or hard work, Burbidge chose to leave the Bay stores largely to their own devices. The retail division was allowed to ignore its own mass buying potential, and each department in every store was obliged to place its orders separately. With decentralized buying went disorganized pricing, as each store manager was given the liberty to establish his own trading margins.[7] In addition, customer credit was freely offered, though no institution governed either its extension or its collection.[8] In short, Burbidge attempted to run his department stores as though they were country general stores. It was a conservative application of the not otherwise misplaced philosophy that since the HBC "depended largely on [the] farming community for support," it must

4. HBCA, Unclassed Dead Dossiers, G8, J.A. Stackpole, "Aide Memoire: The Administrative System and the Structure of the Hudson's Bay Company," 1942, part B: 28. Frederick Oliver of Debenham's served on the London board from the death of Burbidge in 1917 until 1925, and in 1922 Frederick Richmond, Debenham's managing director, joined the board. Richmond served as deputy governor from 1925 to 1931.
5. Hudson's Bay Company (HBC), *Annual Report*, 1919; HBCA, DD198, "Meeting of the Large Store Manager,"28–29 Dec. 1931.
6. HBCA, DD198, R. Burbidge, "Report on the Hudson's Bay Company Stores," 1912.
7. HBCA, RG2, series 6, R.M. Kinderseley to A. Nanton, 2 June 1923; J. Thompson to E. Fitzgerald, 16 Feb. 1923; "Minutes of Stores Committee Meeting,"23 May 1923.
8. HBCA, minutes of the Canadian Advisory Committee (CAC), vol. 6, 22 Jan. 1924; ibid., vol. 14, appendix to minutes, 9 Oct. 1930.

operate along the lines most familiar to an agricultural population.[9] It was a belief that was soon to be shattered.

The disaster came in the form of the depression of 1920, and when it struck the store division was particularly ill-prepared to cope. This was not, however, because of an insufficiency of warnings. As early as June 1919 retailing specialists were predicting that the high prices that had prevailed since the Armistice were going to fall.[10] Many retailers, afraid of being caught with expensive inventories in a period of falling prices, began to limit their buying and to offer out-of-season sales as a way of clearing stock.[11] Though prices remained steady, panic was growing beneath the surface calm. In the summer of 1920 consumer purchasing was unusually slack and fear immediately took hold as talk of a "buyer's strike" spread throughout the trades.[12] The large-scale retailers — the chain and department stores — promptly began to cut prices in order to stimulate sales.[13] Their actions precipitated a wholesale stampede. Prices began to topple: English woolens fell from 10 to 25 per cent, first-quality prepared paint dropped from $5.30 a gallon to $4.80 in two months, and poultry prices fell just over 7 per cent.[14]

This price deflation sparked a crisis in the decentralized HBC hierarchy. The Canadian Committee pressed for the company to follow the other mass retailers and slash prices in advance of the deflationary spiral. Burbidge resisted, appealing for support directly to London and refusing to comply with the Winnipeg committee's dictates.[15] It was as much a conflict of viewpoints as it was a struggle between levels of authority. For Burbidge, and at least initially for the governor and London committee, the Bay was not a retail organization like any other. Its traditions pointed, not towards high-volume selling and price wars, but in the direction of community service and conservative markups. It was on this issue that the Canadian Committee pressed hardest for the company to revise its approach. "Retailing," it argued, "is becoming more and more an exact science every day. It is not the hit and miss proposition it often was before."[16] The key to continued profits for the retail department had to lie in high-pressure selling and in the systematization and streamlining of buying operations. To the Canadian Committee this meant, first of all, cutting prices to meet the competition and secondly, improving the stores' buying operations with an eye to reducing costs. The

9. HBC, *Annual Report*, 1919.
10. *Canadian Grocer* 33 (4 July 1919).
11. *Dry Goods Review* 23 (June 1921).
12. *Marketing* 14 (15 Oct. 1920).
13. Donald Davis, "Retail Merchandising in Relation to General Business Conditions," *Harvard Business Review* 2 (1923–24): 37.
14. *Men's Wear Review* 11 (Feb. 1921); *Hardware and Metal Golden Jubilee Edition* (Dec. 1941); *Canadian Grocer* 35 (21 Jan. 1921).
15. HBCA, minutes of the CAC, special meeting, vol. 1, 2 Dec. 1920; ibid., series 2, file 39, H.E. Burbidge to governor and committee, 17 Jan. 1921; same to governor and council, 7 Dec. 1921.
16. *Financial Post* 20 (8 Jan. 1926).

deadlock over policy was broken only through the intervention of Charles V. Sale, the company's managing director and deputy-governor, who took charge of supervising the Canadian organization in mid-1920. Sale stood behind the Canadian Committee's decision to slash prices and, when Burbidge continued to protest, he was dismissed.[17] The Canadian Committee immediately moved to reform the Stores Department by introducing contemporary methods of department store selling. With Burbidge gone, the first obstacle to modern management was seemingly removed.

The commission that was appointed to replace Burbidge reflected this new orientation. Anxious to avoid the errors of the past, the Canadian Committee refused to appoint a new stores commissioner and instead divided authority among three "experts," each of whom was made responsible for one of the retail functions of buying, selling, and accounting.[18] To simplify lines of communication, the stores commission was moved to Winnipeg and made to report directly to the Canadian executive. The committee was clearly proud of these achievements and boasted of its success in heralding in a new era at the Bay.[19] The new stores commission swiftly moved to live up to the expectations of the Winnipeg committee. Stock depreciations of from 25 to 50 per cent were ordered as the department wrote off $346,000 in merchandise markdowns.[20] Margins were brought down on all lines and the introduction of a uniform pricing policy was debated. Several other steps were taken in the direction of making the company more sales-oriented, including the beginnings of a comprehensive accounting system and an increased stress on promotional activities. The commissioners also expanded their department for the first time since 1913; an outlet in Saskatoon was acquired by purchasing the J.F. Cairns store and the Yorkton branch was moved to enlarged premises.[21]

Underlying all these innovations was a new philosophy of selling. Whereas large-scale retailing had, in the prewar period, been regarded as a relatively low-risk endeavour, it was now coming to be seen as an inherently unstable business.[22] The postwar depression marked a dramatic turning-point in the history of Canadian retailing. In concluding that the economic collapse had originated in an internationally orchestrated strike against high prices by the consuming public, retailers forced themselves onto the defensive.[23] For the first time in modern

17. HBCA, RG2, series 6, C.V. Sale to P.J. Parker, W. Cooke and H.T. Lockyer, 12 June 1923; deputy chairman to H.E. Burbidge, 21 April 1921; acting secretary to general managers, 20 April 1920; *Annual Report*, 1922.
18. HBCA, minutes of the CAC, vol. 2, 27 June 1921; RG2, series 6, deputy governor to governor, 20 May 1921.
19. *The Beaver* I (Aug.-Sept. 1921).
20. The relative size of this amount is revealed by the fact that the Bay normally set aside fifty thousand dollars to cover stock depreciation: see HBCA, minutes of the CAC, vol. 1, 2 Dec. 1920.
21. Ibid., vol. 2, 23 Nov. 1921 and 13 March 1922; ibid., vol. 6, 22 Jan. 1924.
22. *Canadian Grocer* 40 (15 Jan. 1926).
23. Davis, "Retail Merchandising," 37–42.

memory, prices had fallen with great suddenness and without apparent justification.[24] The lesson retailers derived from this situation was that the public would not buy unless prices were low and margins all but nonexistant. The result, at least in view of previous circumstances, was something of a buyer's paradise, in which sellers were cutting each others' throats in a mad scramble for the consumers' dollar.

For businessmen the new economic conditions forced a change in marketing strategies. The hallmark of the new orientation was the emergence of turnover as the most important of retail objectives. The rate at which stock moved through a store had always been significant, but it was only in the depression of the twenties that it became the shopkeeper's major preoccupation, surpassing even profit maximization in their estimation. Suddenly, "la clef du succès à la vente du détail," marketing analysts asserted "est une virement rapide."[25] Turnover had become the reigning buzz-word among progressive businessmen and, for the time being at least, "volume of customers is more important... than consideration of profit."[26] According to the logic of fast turnover, increasing volumes while reducing inventories could alone allow a store to realize its full marketing potential.

The essential components of the theory were a low pricing approach to encourage sales, coupled with a policy of carrying small stocks in order to decrease the need for heavy capital investment and large cash reserves. For prices to be kept low, turnover theory held that gross margins had to be set at the minimum possible level and therefore profits were made dependent upon the number of transactions rather than upon the size of the individual markup. Mass retailers thus came naturally to rely upon advertising and other pressurized selling techniques to expand their all-important market share. According to one witness appearing before the Special Committee on Price Spreads, Eaton's and Simpson's alone in the early 1930s were running 3.5 pages of advertising in each of Toronto's evening newspapers every day of the year.[27] Similarly, the sale which had hitherto been offered only twice a year, once in summer and again in winter in order to clear ends-of-lines, now became an essential feature of the distribution landscape.[28] It was this same thirst for volume which drove companies like the HBC to expand their operations in what would have appeared to have been unfavourable circumstances. Acquiring outlets in Saskatoon and Yorkton had less to do with the real buying power of the prairie farmer than it did with the concept of expanding one's potential

24. Even during the Great Depression of 1873–96 there had been no sudden deflation. Rather, as Landes demonstrates, prices during the whole of the nineteenth century were in continuous, though gradual, decline. D.S. Landes, "Technological Change and Development in Western Europe, 1750–1914," *Cambridge Economic History of Europe* 6:1, 460–3.
25. *Prix Courant* 36 (29 mars 1923).
26. *Men's Wear Review* 11 (Jan. 1921).
27. Canada, Special Committee on Price Spreads and Mass Buying, *Proceedings and Evidence* (Ottawa, 1935), 1:302.
28. *Men's Wear Review* 9 (Oct. 1919).

customer pool. It was the first sign that the Bay was moving from a philosophy of consumer-dictated marketing to one of store-directed buying. This low-margin, high-volume approach to selling which, according to Professor Baumol, came to characterize early twentieth-century North American retailing, was a direct outgrowth of the price collapse of the 1920s. As Baumol suggests, in the wake of the depression, business managers came to concern themselves not with their own cost and demand functions but with the issue of expansion for its own sake. Their aim was not to maximize profits but to increase the rate of growth of sales.[29] Paradoxically, it was to take a far more serious economic collapse to shake HBC marketing strategists out of the rigid confines of the depression-based philosophy that dominated their thinking throughout the booming 1920s.

These changes were not, however, peculiar to the Bay. Most of the larger retailers were adopting these same methods and, arguably, Bay executives, who were completely obsessed with the pricing policies of rival stores, believed they had no choice but to move with the trend. It was company policy, for example, not to "permit Eaton's branches to quote lower prices on any particular line."[30] In some ways, then, the Bay began to cut prices only reluctantly. Retail grocers in Vancouver asserted that "up to the time that Safeway Store opened their branch we had no complaint regarding the Hudson's Bay cutting prices in groceries and meat. After that it was war."[31] Yet despite the element of immediate competition, price-cutting still arrived in a cloud of assumptions. At the heart of the matter was a faith — more accepted that established — that the public would buy only where the price was lowest. Competition was perceived to exist only in the area of prices and in the 1920s marketing avenues such as service and quality remained unexplored. Advertising, for example, was almost exclusively price-directed and, as Nystrom noted of the department store, "in a measure it substitutes advertising for skilled salesmanship."[32] It was the initial assumption of the preeminence of price which led the Hudson's Bay Company from "buyer's strike" to turnover theory. In the language of the day it was believed "volume talks" and, as one disenchanted merchant put it, in consequence "in our business we have a disease known as volumitis."[33]

Nevertheless the new philosophy alone could not reverse the downward slide at the Bay. Despite rationalized buying structures and lower prices, the Stores

29. William J. Baumol, *Business Behaviour, Value and Growth* (New York, 1959), 45–53; see also the same author's "On the Theory of the Expansion of the Firm," *American Economic Review* 52 (1962): 1085.
30. HBCA, RG2, series 7, file 364, P.J. Parker to E. Fitzgerald, 23 May 1925.
31. Special Committee on Price Spreads, *Proceedings and Evidence*, 1:511. Though the point is a good one, it should be noted that this retailer was obscuring the issue somewhat by confusing price cutting with loss-leader selling. The downward spiral in food prices began long before Safeway opened its first Vancouver store in 1929.
32. Paul Nystrom, *Economics of Retailing* (New York, 1930), 1:165.
33. Special Committee on Price Spreads, *Proceedings and Evidence*, 1:436.

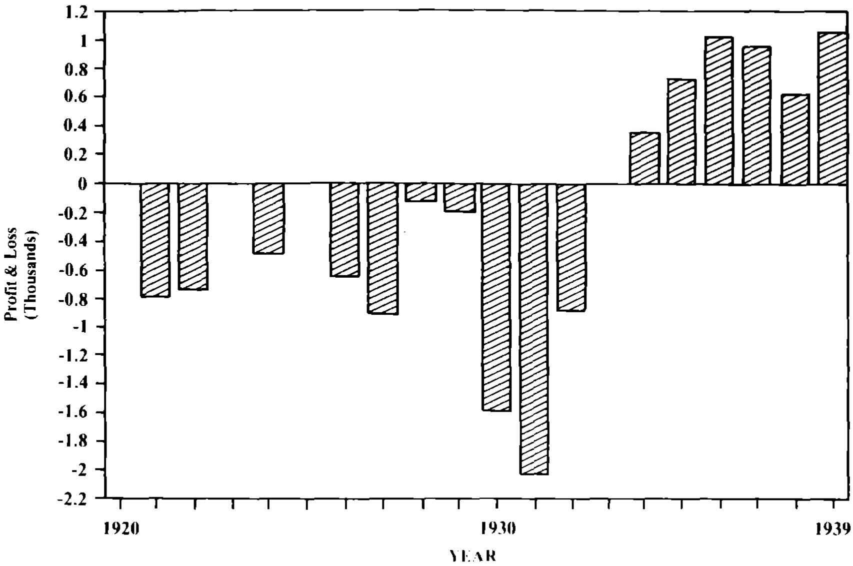
Department continued to lose money. It was part of a general reversal that seemed to be affecting all of the mass merchandisers and, so serious did it appear, that many predicted that "the department stores have reached their zenith [and]. . . they will do well if they hold their own."[34] The Bay's retail operating deficit was almost $782,000 in 1921 with only the Vernon store registering a small profit. The next year, the rate of decline had slowed and the Vancouver store had joined Vernon in the black, but the annual operating loss still exceeded $729,000 (Figure 2).[35] The results were embarassing enough for the London directors promptly to alter the balance sheet in order to disguise the deficit. For the next ten years, the retail section's balance sheet was to be integrated with the still-profitable general trading's statement, thereby blinding the shareholders to the losses.[36]

The poor results were particularly painful to the Canadian Committee which had won the dismissal of Burbidge on an understanding that a change in management was all that was necessary to reverse the Stores Department's decline. Despite the company's improved standing in 1922, the committee insisted that the retail section's annual statement was "very unsatisfactory and the conditions called for some immediate and drastic action to bring about improvement at all stores. . . the continued losses cannot be permitted to continue."[37] Under pressure, the store commissioners initiated a thorough examination of the company's retail record. Fully expecting reality to conform with turnover theory, they anticipated that the losses would be found to have originated in slow-moving stocks. Unfortunately, investigation revealed that "the stocks are clean and good and under good control."[38]

The result of the investigation opened a subterranean rift within the commission. The three store commissioners argued that there was essentially nothing wrong with the company's approach and that the losses could be reversed by simply extending the policy of low-margin selling. Displaying unflinching faith in the principle of turnover they insisted that the increase in volume that would result would in itself be sufficient to transform the losses into profits. The store

34. *Dry Goods Review* 34 (Nov. 1922).
35. HBCA, minutes of the CAC, vol. 3, 13 March 1923.
36. The company used two hundred thousand pounds in profits from its general tradings to subsidize the losses; see *Annual Report*, 1922. This grim picture is somewhat deceptive, however, for when measured in constant dollars, the rate of stockturns remained fairly steady. Further, overhead had fallen slightly; in 1921 it cost the company $1.06 to sell every dollar's worth of goods. In 1922, the cost of selling had fallen to $1.05. Constant dollars used both here and in Figure 4 were calculated on the basis of price indices in Dominion Bureau of Statistics, *The Retail Merchandise Trade, 1939* (Ottawa, 1940), 4. Both sales and purchases were weighted against its respective wholesale and retail price indices according to the proportional distribution of HBC sales by product line as revealed for the year in HBCA, "Retail Stores Department Summarized Accounts" (hereafter cited as RSDSA), vol. 1.
37. HBCA, minutes of the CAC, vol. 3, 17 Jan. 1923.
38. Ibid., vol. 3, 16–17 Aug. 1922.

Figure 2
Hudson's Bay Company
Profit & Loss Statement 1920–1939



managers, led by H.T. Lockyer of the Vancouver branch, disagreed. They were aware of the new emphasis being placed by American retailers upon streamlining, cost control, and price stabilization rather than price competition. While they did not repudiate low-margin selling, the managers did insist that it was no longer enough. What was needed most was cost reduction through rationalization. They emphasized that losses were due to improvisation, duplication, and chaos in the company's administrative system. In order to improve profit rates the area of overhead had to be attacked, and this could be done only through scientific management of the HBC's internal affairs. In its broadest terms, scientific management argued that administrative systems held the key to business success. It rested on a belief that every business function could be made more efficient if it were divided into its component parts, and if "rationally" controlled tests were applied to each of them to determine the "one best way" in which they could be performed. "Rationalization," "streamlining," and "efficiency" thus come to be the favourite buzz-words among experts in managerial science. As Lockyer put it, "we have altogether too much system, where two buyers are now employed one would have been quite sufficient and other economies would surely follow."[39]

39. HBCA, RG2, series 6, "Minutes of Meeting of Store Committee," 17–18 Oct. 1922; J. Thompson to E. Fitzgerald, 16 Feb. 1923; "Minutes of Store Committee Meeting," 23 May 1923.

Unsure of the proper choice to make between these conflicting theories, the Canadian Committee attempted to hedge by allowing both sides to square off against each other in the crudest possible fashion. The five British Columbia stores were detached and put under Lockyer's supervision. He was to have an "absolutely free hand" in applying his ideas in that zone. The commissioners were to retain control over the remaining stores and were at liberty to continue their policy of reducing margins.[40] Not surprisingly, the three store commissioners regarded this as a challenge to their authority and tendered their resignations. The executives' response was to drop management of the Hudson's Bay department stores into the hands of the professional managers for, immediately, the Canadian Committee divided the region set aside for commission control into zones and appointed two of the store managers to direct them.[41] In opting for this type of management, the company was shifting from a functional to a geographical structure. This organizational form — based upon the regional zone — was derived from the example of the most recent arrival on the retail scene, the chain store. It was yet another example of the desperate pursuit of the quick-fix solution. Because the chains were new and because it was believed their coming would herald a retailing revolution that would sweep the noncompetitive aside, their less-successful rivals were frantic to emulate their methods. What Schumpeter was to define as the inevitable process of innovation was, for the Bay, simply the product of an obsessive belief that what was new was better.[42] Ironically, the introspective vision which this engendered developed a dynamic all its own and this kept the Bay moving irresistably along the wrong track. Rather than look to its own customers and to the expectations of the community that it was serving, the HBC was taking another step into the limbo world of bureaucratic theories. Organizational reshuffling had become — without ever having proved itself worthy — the accepted solution to customer indifference.

The managers moved to make the company conform to their image of scientific chain-store selling. Buying was centralized within each zone under a single regional office which placed orders for all the departments within its jurisdiction. This allowed the company to profit for the first time from bulk-buying discounts. The buyers were then linked with overseas buying offices in London and Paris — opened jointly with Simpson's — so that they might be more attuned to fashion changes.[43] Margins were systematized within each zone, credit was at last rationalized, and a network of regional accounting offices was established, charged with preparing detailed cost-based statements of each store's buying and selling

40. HBCA, RG2, series 6, A. Nanton to E. Fitzgerald, 26 May 1923; same to J. Braidwood, 26 May 1923; J. Braidwood to J.M. Gibson and A. Nanton, 12 June 1923.

41. HBCA, minutes of the CAC, vol. 5, 2 Oct. 1923.

42. A good brief discussion of these trends, although from a very different perspective, is provided in Alfred Chandler's *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, 1977), 233–5.

43. *The Beaver* 3 (Feb. 1923).

operations.[44] Through these methods, the managers sought to reduce overheads without repudiating the philosophy of low-margin selling. In fact, the two ideas of streamlining and turnover were inextricably related. Far from representing a rejection of the low-price theory, structural innovation was the means to its preservation. Low margins alone had not been sufficient to revitalize the Stores Department. Only by reducing overheads through streamlining could the lower profits obtained from price-cutting be translated into satisfactory dividends.

The problem was that turnover-selling itself appears to have been an inappropriate method for the company to employ. In fact, contrary to popular belief at the time, there was never an inverse relationship between margins and turnover. For the HBC and, indeed for most department stores, it is clear that low margins were not the secret to increasing custom.[45] Nevertheless so great was the hold of turnover theory over the business imagination that decision-makers failed to recognize the implications of their marketing strategy. Low pricing cheapened the image of the company, led to ruthless internal cost-cutting which affected service, and ultimately produced destructive price wars. Further complicating all this for the Bay was the fact that the stores performed badly when competing on the basis of price. At Edmonton, for example, where the Eaton's presence was strong, the company continued to lose money despite increasing stock turns. The store lost $86,000 in 1924 and four years later the annual operating loss was $130,000. Most of the loss was due to margins being reduced from 29 per cent of sales to 23.5 per cent in the face of intense price competition.[46] The logic of low-margin selling forced the store to ignore its profits and to cut prices when they should have been stabilized. Markdowns at Edmonton were dangerously high at 17.2 per cent of sales in 1926, twice as high as those at any other Bay store.[47] Competition and a selling strategy governed by price forced the store to liquidate stocks at great sacrifice to itself. Flexibility was thus eliminated, depreciation charges mounted, and losses accumulated. With less severity the situation at Edmonton was repeated in all the HBC's large urban stores.[48]

Conditions at the smaller country stores in the late twenties were somewhat better, though even in the rural communities the HBC realized only a glimmer of its retail promise. Over the period between 1926 and 1930, the company lost $82,000 in operating its five stores in Lethbridge, Yorkton, Nelson, Kamloops, and Vernon on sales of six million dollars. The six urban stores with a volume of eighty-eight million dollars registered a loss of almost two million dollars. In terms of sales percentage, it was almost twice as expensive to sell an item in one of the Bay's city stores than it was to sell in the country.[49] The small chain department store

44. HBCA, minutes of the CAC, vol. 6, 22 Jan. 1923; *The Beaver* 3 (Feb. 1923).
45. Peter Mathias makes this observation in *Retailing Revolution* (London, 1967), 223–4.
46. HBCA, RG2, series 7, file 524, "Store Operating Results, 1924–1928."
47. HBCA, RSDSA, vol. 1.
48. HBCA, RS2, series 7, file 524, "Store Operating Results."
49. HBCA, RSDSA, vol. 1.

obviously had many advantages over its urban counterpart. The twenties were years of broadening perspectives in the rural West and, for the country store-keeper, this brought an upheaval in business practices. Just as the trade in gingham and calico was being crowded out by English worsteds and Viyella ready-mades, so too was the stove flue and easy chair giving way to the open shelf and the brand-name display.[50] Most country merchants were learning that success came to those "who stock merchandise identical with that sold by the city department store and adopt up-to-date business methods."[51] Initially, the mail-order houses had been the chief business profiteer from these trends, but the elasticity of retail prices coupled with spreading automobile use undermined the method of selling based on the biannual catalogue. As entrepreneurs like Robert E. Woods of Sears were realizing, a chain department store was in the best position to capitalize upon the demise of mail-order buying.[52] A string of country department stores might cater to the local community, convey the image of personalized service, and carry the latest urban fashions at the latest urban prices.

Unfortunately, the Bay failed to profit fully from these favourable circumstances due to a lingering bias against novelty and fashion lines. Nonetheless, the company did share in some of the prosperity resulting from the decline of mail ordering. This was particularly the case in British Columbia where, in the absence of rural mass merchandisers and competing urban centres, the Bay enjoyed the benefits of semimonopolistic market control. Sales volume at the three British Columbia units in the interior rose by half in the later twenties, and the average rate of stockturn increased by 178 per cent. In 1929, the Kamloops store's turnover rate actually exceeded that of every other outlet in the Bay chain.[53] Yet while the smaller stores did better than those in the cities, the former's strength was deceptive. The Bay's customers were not loyal, and they were willing to patronize the company only so long as they did not have an alternative. At Lethbridge the Bay store had to close down within three years of the opening of an Eaton's outlet in the town.[54] It was not low prices that killed the Bay so quickly, it was image. In neither city nor country had the company succeded in winning the consumers' confidence.

After seventeen years in operation, the Stores Department remained a losing proposition subsidized by the Hudson's Bay's wholesale business and its investments. Somehow even rationalized marketing had failed to spark the

50. The changing nature of the rural store is described in Lewis Atherton, *Main Street on the Middle Border* (New York, 1975) and in Thomas Clark, *Pills, Petticoats and Ploughs: The Southern Country Store* (Norman, 1964).
51. *General Merchant* 1 (Feb. 1928).
52. James C. Worthy, *Shaping an American Institution: Robert E. Woods and Sears, Roebuck* (Urbana, 1984) ch. 2 and P.D. Crouse, *The Automobile and the Village Merchant* (Urbana, 1982).
53. HBCA, RSDSA, vol. 1.
54. HBCA, series A93, file 55, "Confidential Report on Inspection Trip," 8 June 1929; ibid., minutes of the CAC, vol. 14, 15 Jan. 1931.

miraculous turn-around that everyone had anticipated. The Canadian Committee strove to correct the situation, but even a much-vaunted tour of the retail network by the committee's chairman, George Allan, and the chief accountant, P.A. Chester, failed to result in any definite solutions.[55] The autonomy which the Winnipeg committee had enjoyed since the dismissal of Burbidge was about to be terminated. The company's new governor, Charles Sale, had been busy since his appointment in 1925 cultivating contacts within the retail section. His chief lieutenant was P.J. Parker, the manager of one of the department store zones and a sharp critic of the Canadian Committee's handling of the retail business.[56] With the Canadian Committee mired in continued losses, the governor suddenly asserted his authority. In September 1929, Sale used his accumulated power to shuffle the Canadian executive aside and initiate his own reorganization of the retail division. On London's initiative, the zones were abolished and a unitary control system was established under Parker's management.[57] Though theoretically still responsible to the Canadian Committee, Parker was obviously London's man. From now on "the real central administration of the Company travelled around in Mr. Sale's suitcase."[58]

Governor Sale was a master of modern managerial techniques and he was convinced that the Bay's major problem was that its administrators had failed to carry the rationalizations far enough. Vestiges of local autonomy were creating enough duplications of services to keep expenses high. As early as 1928, he explained to Parker, "so far as I can judge... our business might have shown good results; nay even excellent results if it had only been possible to avoid the unnecessary losses due to lack of control."[59] The solutions were systems reorganization, rationalizing the buying apparatus, and improving the quality of the staff.[60] As company manager, it fell to Parker to implement these directives and he set out to do so with great verve. An American marketing expert, Parker had been hired by the company in 1915 as a merchandise manager for the Calgary store.[61] He had moved swiftly through the ranks, being appointed manager at Calgary in 1922 and Alberta zone manager in the following year and, upon the retirement of H.T. Lockyer in 1925, taking over all of the stores in a consolidated Alberta-British Columbia zone.[62] Parker was a rigid advocate of applying textbook scientific management techniques to bring down costs. Under his direction, the company would not countenance organizational laxity. "One of the greatest things we must

55. HBCA, series A93, file 55, "Confidential Report on Inspection Trip."
56. HBCA, series A93, file 37 contains Parker's correspondence with Sale.
57. HBCA, minutes of the CAC, vol. 13, 9 Sept. 1929; RG2, series 7, file 524, P.J. Parker to C.V. Sale, 29 Oct. 1929.
58. HBCA, Unclassed Dead Dossiers, G8, J. Stackpole, "Aide Memoire," part B:21.
59. HBCA, series A93, file 38, C.V. Sale to P.J. Parker, 10 April 1930.
60. Ibid., file 37, P.J. Parker to C.V. Sale, 21 June 1926; RG2, series 7, file 524, P.J. Parker to C.V. Sale, 29 Oct. 1929.
61. *The Beaver* 3 (Sept. 1923).
62. HBCA, series A93, file 37, P.J. Parker to C.V. Sale, 5 Sept. 1925; RG2, series 6, "Press Notice," 15 Aug. 1925.

guard against," announced a head office memorandum, "is the unauthorized alterations or changes to systems and methods laid down."[63]

He began his reforms by improving sales education, establishing a "master's training programme" to teach systematic management techniques of selling like "style training" and "suggestive selling."[64] Next he began a process of consolidating the buying apparatus by redirecting all purchases through a single Winnipeg buying office in order "to get the highest discounts accorded the purchasers of bigger quantities in one lot." Parker gave style and novelty lines added importance and the long-standing conservatism of HBC buying was reversed. It was all part of a significant effort to start attracting the well-to-do trade to the Bay, thereby overturning the company's image as a poor man's store. With Parker in charge, the low-price trade was driven into the store basement and a policy of wooing "the better class trade for all departments from the street up" was initiated.[65] It was the start of something new for the Bay, and in many ways Parker was a visionary. By upgrading the company's image the new store manager was filling the niche that the Bay had for so long searched. Now the bottom end of the market on the Prairies could be left to Eaton's and the pressure of price competition could ideally be eased. For Parker, however, these structural revisions were secondary to personnel training and he pressed for improvements in the marketing staff, insisting that "75 to 100 good buyers and managers" were essential for the company's recovery. Parker became notorious for his staff purges and his efforts to pack the HBC with American buying experts. When the Canadian Committee protested that it had always been company policy to hire British subjects, Parker tersely responded that this was no longer possible given the amount of available talent.[66]

For all Parker's energies, the financial position of the Bay did not improve. By the middle of 1930 prices had fallen 12 per cent from the previous year and retail sales were down 16 per cent. Parker tried to fight the decline according to management theory, reducing operating expenses while concentrating store buying. Some significant economies were affected and overall expenses were cut by 10 per cent under Parker's controls, with over two million being shorn off costs in two years. Rationalization was the key to the cost reductions for, though staff was reduced, the streamlining was less wage-related than systems-based. Despite a significant drop in the number of employees, both the total payroll and the average clerk's wage actually increased.[67] The problem was that, given the company's falling

63. HBCA, RG2, series 7, file 524, G.F. Klein, "Memorandum," 30 Sept. 1930.
64. HBCA, series A93, file 37, "Master Training Program," 1 April 1930.
65. HBCA, G16, "Memorandum on Matters Outstanding for the Governor's Consideration," 18 July 1931; RG2, series 7, file 524, A.V. Little to G.W. Allan, 20 July 1931.
66. HBCA, series A93, file 38, C.V. Sale to P.J. Parker, 22 March 1930 and 10 April 1930; ibid., file 39, "Net Results of 12 Months ending July 1924;" ibid., file 37, P.J. Parker to C.V. Sale, 9 Feb. 1929; minutes of the CAC, vol. 13, "Report on Canadian Operations," 13 Aug. 1931.
67. Special Committee on Price Spreads, *Proceedings and Evidence*, 3:3430–43.

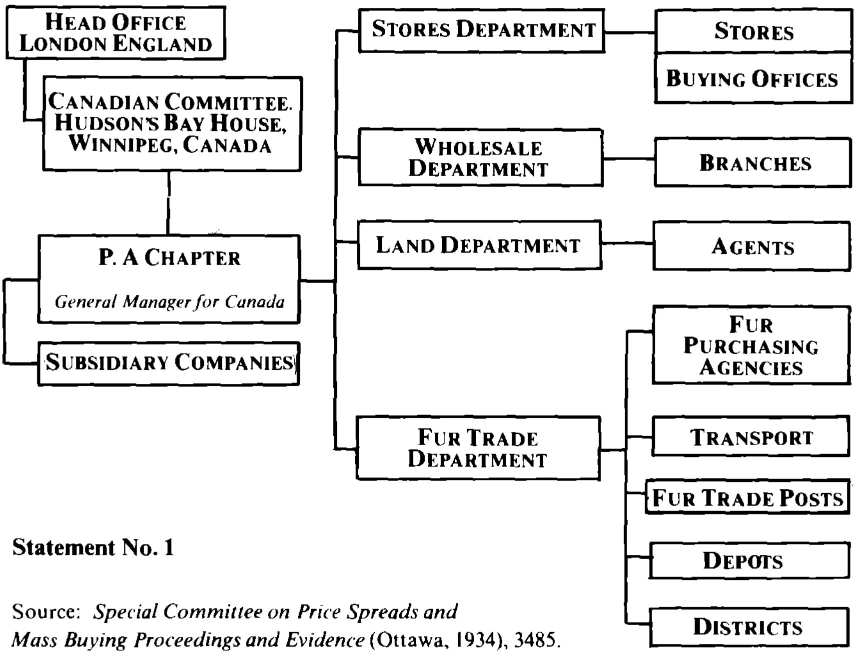
sales, gross margins had to increase to 38.5 per cent of selling price just for the company to meet its overhead. Parker followed the dictates of turnover, however, and attempted to freeze markups, refusing to allow gross margins to climb above 1929 levels. Consequently, operating losses increased from $182,000 to just over two million between 1929 and 1931.[68] The rationalizers' fortunes were clearly on the decline and, while Parker struggled to tighten the belt, criticism of his policies increased.

Though the company's shareholders in England had been willing throughout the twenties to accept the Stores Department's opaque balance sheet, there was a growing lobby which insisted that the HBC's affairs were being mismanaged. In July 1930 the dissident shareholders succeeded in forcing the board to establish a special committee of proprietors to deal with the allegations. The committee's report, presented before an Extraordinary General Court of the company in January of 1931, was a ringing attack on the company's record in the retail field. The report called on the governor to relinquish his control over the retail section and restrict his involvement to the fur trade. The department stores, the directors ruled, should be incorporated separately as HBC Stores Ltd. and placed under the exclusive control of the Canadian Committee. Sale protested vehemently against this effort to undermine his great initiative of 1929 and, when this failed, he resigned. Evidently delighted with the turn of events, the Canadian Committee dismissed Parker less than a week later.[69]

Though he did not follow the council's advice and charter a new retail company, the incoming governor, P. Ashley Cooper, did give the Winnipeg committee greatly increased authority. Control over finances and general policy were to remain with London, but the Canadians were charged with full operational responsibility and, for the first time, a general manager was appointed as chief executive officer in Canada (Figure 3).[70] Now economy rather than theory was to be the Bay's organizing principle; gone were the days of top-heavy management, costly training programmes, and consolidated departments. To set the new tempo P.A. Chester, the chief accountant, was appointed to head the Stores Department, rather than some marketing wizard. Parker was denounced for his attention to statistics and structures at the expense of individual creativity. According to the committee, Parker's control over the staff "may have had the effect of forcing them to conform to a pattern, instead of allowing a certain amount of latitude and tolerating diversities and development, and so stimulating the natural and individual talents for trading."[71] Ostensibly to encourage their employees' creative development, the Canadian Committee replaced Parker's consolidations with decentralized structures. Henceforth, the company "was not going to try and

68. HBCA, RSDSA, vol. 1.
69. HBC, *Annual Report*, 1930: "Appendix: Report of the Proprietors of the Hudson's Bay Company," 27 June 1931; minutes of the CAC, vol. 14, 9 July 1931.
70. Special Committee on Price Spreads, *Proceedings and Evidence*, 3:3498–9.
71. HBCA, minutes of the CAC, vol. 14, 9 July 1931.

Figure 3
Hudson's Bay Company — Organization Chart
April 1934



Statement No. 1

Source: *Special Committee on Price Spreads and Mass Buying Proceedings and Evidence* (Ottawa, 1934), 3485.

administer the individual stores from Winnipeg." Each store manager was given "the largest possible quantity of what might be called autonomy... each store manager, to the largest possible extent will run his own store, try to meet conditions in his own community, make necessary economies, and do everything with as completely an untrammelled hand as we can possibly allow."[72] It was to be a time for returning to the consumer. As a first gesture, the central buying office at Winnipeg was dismantled and a radically different purchasing policy was introduced. Through the twenties the tendency had been to concentrate buying, the logic being that, with the growing importance of fast-changing style lines, a central purchasing department was needed to ensure bulk discounts to the widely dispersed stores. Only in certain perishables like fruits and vegetables were store managers allowed to control their own ordering. The new policy was a reversal of this; centralized buying was introduced for staple lines where fashion changes did not exist — dried fruits, blankets, sheets, and towels — and in all other items local control was restored.[73]

72. HBCA, DD198, "Meeting of the Large Store Managers," 28–29 Dec. 1931.
73. HBCA, G16, "Memorandum on Matters Outstanding for the Governor's Consideration," 18 July 1931; ibid., DD198, "Meeting of the Large Store Managers,"' 28–29 Dec. 1931.

The new buying policy, while clearly revolutionary, was not singular to the HBC. As with so many of the innovations of the interwar period, decentralized purchasing was first developed in the United States and was brought into Canada by Eaton's.[74] For its own sake, the HBC attempted to undervalue the importance of the change, insisting that it represented little more than a return to the conditions which existed prior to Sale's interregnum. Yet the new course was in reality far more radical, for Parker had merely extended the centralizations that the committee itself had been implementing since the early twenties. The decentralizations of the 1930s represented for the Bay, just as much as they did for Eaton's and for Sears, a renunciation of the philosophy of selling as it had developed since the rise of turnover theory.

The extent of the change was revealed in the breadth of the Canadian Committee's reforms in the depression years. The company moved steadily away from both low-margin selling and from the structuralist orientation of the postwar managers. There was a dramatic switch in emphasis from low prices to quality of service and this was revealed in the steady increase in the company's gross margin ratios (Figure 4). In part this new approach represented simply the rejection of an unsuccessful marketing strategy. Nevertheless there was something more to it. The depression brought with it a return to small-shop selling; the growing importance of credit, the decline in large customer purchases, and the psychological need to spend where one was known all contributed to a renaissance of the independent store. To contemporaries it seemed that the problems confronting the mass retailers all stemmed from the fact that the small shops were stealing away their custom. "Only a few years ago," one trade journal editorialized, "there were many experts and economists who predicted that the smaller store associated with community service would gradually disappear into the maw of the centralized mass merchandisers.... The picture has changed. Times are hard, capital and capital expansion are not easily come by... and the economies of the huge centralized operations are not proving so real as they seemed on paper. The bugaboo of overhead is cropping up a nasty head in the face of declining volumes."[75]

The long-standing protests of the local merchants, that the department stores were destroying their livelihood, gained renewed importance when vast numbers began to survive on the small shopkeepers' credit. Public opinion in the 1930s veered sharply against the mass retailers. Antichain-store taxes and muck-raking government investigations were merely administrative responses to a groundswell protest against corporate control over the channels of distribution. The department stores recognized the drift back to community service and attempted to adjust their marketing strategies to conform with the changing public ideal of good retailing. The introduction of credit selling and lay-away plans and the decision to allow salesgirls to wear the clothes they sold rather than the traditional black or navy dresses were all signs of an effort to humanize the image of the big stores. It became

74. Special Committee on Price Spreads, *Proceedings and Evidence*, 3:3156.

75. *Dry Goods Review* 64 (April 1932).

vital for chain distributors to demonstrate that they were not bent on the destruction of the local community. In 1930, when Simpson's closed down seven of its unprofitable units in Ontario, it did not state the real reason for closure. Instead, in a move that was characteristic of the new mood, the company made a point of advertising that the stores were being closed because in future Simpson's intended magnanimously to "leave the local trade to local people."[76] The department stores were gingerly stepping back from the brink of financial disaster.

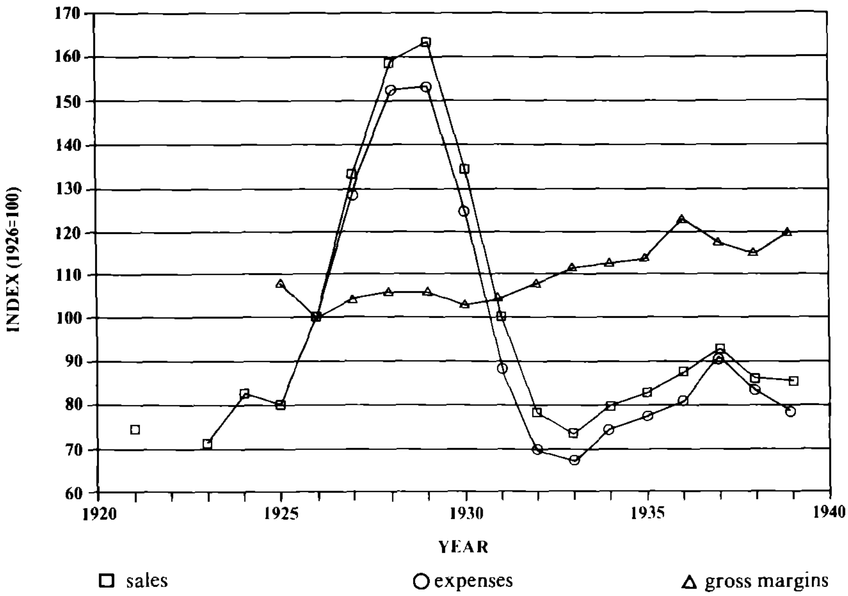
Given the climate of the time it was only natural that the Bay, in assessing the reasons for its poor financial showing in the postwar period, should concentrate upon "the lack of good will of the buying public." The Canadian Committee saw its major task in the 1930s to be reforming of the HBC's image in the public mind. Store managers were instructed to join voluntary associations in their communities and to support any self-regulatory agreements drawn up by local merchants, including price fixing.[77] The new manager of the Stores Department publically attacked loss-leader selling and manufacturers' bulk-buyer discounts, both essential features of the Bay's retailing programme in the 1920s. Quoting Charles Evans Hughes, the department manager even attacked the principle of low-margin selling, deriding it as "nothing more than predatory price-cutting, and as such, economically and socially undesirable.... I cannot believe that in the long run the public will profit by permitting knaves to cut reasonable prices for mere ulterior purposes of their own."[78] In an unprecedented rejection of the competitive retailing of the 1920s, the Canadian Committee even prohibited "all stores from selling below cost."[79] In advertising, the Bay sought to change its image, the long British connection was downplayed and the company's extensive history of Canadian service was emphasized. Eaton's might well be "Canada's shopkeeper," but the Bay, customers were informed, had once been Canada itself. Even the *Beaver*, the company's in-store staff newsletter, was overhauled and given a bright new look. In the early thirties information of special interest to HBC workers — notices of promotions, new selling strategies, and the standings of staff sports teams — began to disappear. The new *Beaver* became a popular magazine devoted to cultural and historical matters, and the fur trade came to dominate its pages. Decentralization was, to a large extent, another facet of this general effort to establish stronger links between the community and the HBC. By giving the store managers greater autonomy, it was hoped that they would also encourage local responsibility. Decentralization was more than just a response to failure; it represented a conscious effort to adapt image to changing consumer ideals. As one jaded Bay official bitterly remarked, the public displays of Canadian content were designed "to provide a façade which would create an impression with the authorities and public that the

76. Ibid., 63 (Jan. 1930).
77. HBCA, RG2, series 7, file 524, "Minutes of Store Managers' Conference," 7–10 Jan. 1935; ibid., A.Y.-Little to P.A.-Chester, 27 Aug. 1931.
78. HBCA, DD198, "Minutes of Store Managers' Conference," 7–10 Jan. 1935.
79. HBCA, RG2, series 7, file 526, F.F. Martin to P.A. Chester, 31 Jan. 1940.

Hudson's Bay Company was not merely a machine for exacting dividends from Canada for distant shareholders, but a business run in Canada, by Canadians, for Canadians."[80]

The new approach began to pay dividends immediately; profits in the year following Parker's dismissal increased by 60 per cent, though the $885,000 loss was still well above pre-depression levels. In 1933, however, the retail division scored its first operating profit since the war and, by 1937, every store was recording an annual surplus. Contrary to what would have been expected, this recovery in the midst of depression was not based on increasing sales. In fact, volumes declined in 1932 by four million dollars from the previous year and, in 1934 when the Stores Department began to make money, sales were eight million dollars below the 1930 figure (Figure 4). At no time in the 1930's did volumes equal those of the late twenties. The Bay based its recovery after 1932 not on increasing sales but on rising margins. Markups which had consistently been reduced after 1921 were steadily raised. Overall margins increased from 27 per cent of sales in 1930 to 31.4 per cent by

Figure 4
Hudson's Bay Company
Operating Indices 1921–1939*



* Indices are in constant dollars weighted according to the volume and type of goods sold.

80. HBCA, Unclassed Dead Dossiers, G8, J.A. Stackpole, "Aide Memoire," 2:A.

1939. As a percentage of costs, margins rose from 37 per cent in 1930 to 46 per cent in 1939.[81] In short, the Bay was inflating its gross percentage by widening the spread between the costs of goods bought and the price of goods sold. This increased spread found its origin in the widespread store practice in the 1930s of refusing to decrease retail price at the same rate as the wholesale price deflation.[82] It was a reversal of the turnover idea of the 1920s which emphasized that goods had to be passed on to the shopper at the lowest possible price. It also meant that consumers paid more than they had in the twenties for the goods which they bought.[83] The language of community service was at once the cloak and the motive for increasing prices relative to costs. The fire-sale mentality of the 1920s had given way and, in its stead emerged the price-stabilizing, good neighbour objectives of contemporary marketing.

What made all of these gains possible was the HBC's reduction of expenses as a percentage of sales. Natural overheads fell from 35 per cent of sales in 1931 to 27 per cent by 1937.[84] Wages were the main area in which economies were achieved, with large reductions in staff salaries being imposed in 1932 and 1933. Average annual earnings at the Winnipeg store declined from $1,121 in 1931 to $957 in 1933.[85] To its credit, the Bay reduced earnings for both managers and sales clerks alike.[86] J.K. Hill, for example, who was appointed to succeed the manager Parker had hired to run the Edmonton store, was offered six thousand dollars a year in 1932, less than one-third his predecessor's salary.[87] By reducing the total number of full-time and part-time staff at the Bay from seventeen hundred to twelve hundred, the company was able to ensure that despite the 33 per cent decline in volume, average gross sales per employee declined by only 10 per cent from 1930 to 1935, and the average number of transactions per clerk actually rose.[88]

The 1930s witnessed the Bay's final emergence as an urban mass retailer. The company's most successful outlets during the twenties had been in the rural areas, and it was in the countryside that the Bay had first experimented with store innovations such as grouped buying and consolidated management. In the face of the collapsing farm economy, attention was shifted away from the small shops and towards the larger urban outlets. The rural stores suffered unparalleled hardship alongside their farm customers; sales fell off by 36 per cent from 1930 to 1932 as compared with a 28 per cent decline in the city trade. Naturally, overhead

81. HBCA, RSDSA, vol. 1.
82. The discrepancy between wholesale and retail indices can be followed in DBS, *Retail Merchandise Trade*, 4.
83. Canada, Royal Commission on Price Spreads, *Minutes of Proceedings and Evidence* (Ottawa, 1936), 15:1149.
84. HBCA, RSDSA, vol. 1.
85. Special Committee on Price Spreads, *Proceedings and Evidence*, 3:3535.
86. In the 1930s, the Bay paid the lowest executive salaries of any mass retailer; see ibid., 3:3509.
87. HBCA, minutes of the CAC, vol. 14, "Appendix to Minutes of Meeting," 28 Aug. 1932.
88. HBCA, RSDSA, vol. 1.

percentages rose above the company average despite harsh economies, and the company compensated by carefully reducing stock. At a time when the city outlets were making their recovery, the country stores were sliding away from the prosperity they had enjoyed in the 1920s. The Canadian Committee's response to the decline was to reverse the policy that was being followed in the urban areas and adopt the strictest chain-store management techniques. While the urban stores were granted greater autonomy, control was tightened over the smaller shops. Buying for the rural areas was centralized, inventories were controlled, margins were fixed, and a number of new outlets were added to the department store chain.[89] Ironically, at a time when the Bay was stressing its fur trade roots by decentralizing control over its urban stores, it was pursuing the opposite goal in the country. The alienation of image from structure was thus effected. While the HBC talked the language of the small shop offering a community service, its vision was set on financial recovery alone. Where chain methods were deemed more cost-effective they would be used, but the public image would remain reflective of the values of the general store or the fur trade post. Indeed, for all the rhetoric of the sunny new way, with the coming of the "'economy and retrenchment phase' there was an automatic flow of funds from the branches to the centre."[90]

Once having applied this formula to the country stores, the Canadian Committee lost interest in their future development. When competition mounted, as it had at Lethbridge and was soon to do at Yorkton, the company simply closed the units down. The small shops had become an adjunct to, rather than an integral part of, what was becoming increasingly an urban department store network. In a sense, the company's management of the country stores encapsulated the committee's new approach to the Stores Department. The new strategy looked both backward and ahead — back to the decentralization of Burbidge's regime and forward into the age of image marketing. Phoenix-like the HBC was emerging from the Depression at once sensitive to the future and ready to exploit the past.

The Bay's poor entrepreneurial record serves, if nothing else, to underline the truth behind Carnegie's famous maxim: pioneering for the HBC did not seem to pay. Throughout the twenties the company's efforts to be in the forefront of innovation by adopting the latest marketing techniques failed to produce the expected results. Obviously, there is a divergence here from the mainstream of Schumpeterian business history. Traditionally, entrepreneurship has been defined as the main force behind business development and innovation is almost universally associated with improvement. Firms that fail are generally considered to be those that are unable to keep pace with the tempo of innovation. Briefly, then, innovation is regarded as the vital element in economic development since the deviation it entails from established practice forces behavioural responses from other firms that see the need to keep up. As Schumpeter termed it, entrepreneurship is the force of

89. Ibid.

90. HBCA, Unclassed Dead Dossiers, G8, J.A. Stackpole, "Aide Memoire," C:3.

"creative destruction" which by bringing in the new overturns the old and antiquated. The whiggery in all this is self-evident: by feats of human ingenuity, history is moving in a direct line towards a rationally derived end.[91]

Following this model might lead analysts to conclude that the Bay's problems derived not from the company's inability to escape a Schumpeterian innovative trap, wherein executives were convinced that what was new was better, but from the absence at the HBC of any entrepreneurial ability whatsoever. To adopt this approach is, however, to define entrepreneurship in terms of its rate of success, since, structurally at least, the HBC was following exactly the same policies as other companies that have been lauded as models of entrepreneurial skill. In fact, the Bay's movement from decentralization to consolidation and back to more flexible control closely parallels the pattern of development at Sears-Roebuck and Montgomery Ward.[92] What was different was that, whereas these other companies have been seen as successes, the Bay was for a long time a failure. The great innovations in retailing that were being absorbed by storekeepers in the 1920s, in contrast to those in the thirties, were not suited to the character of the HBC.

This raises three important points. In the first place, not all innovations are necessarily good. Some formulas, even when applied with success by some firms in a particular sector, are not suited to everyone equally. Profit lies not in the application of innovative prescriptions, but in their assimilation, readaption, and even rejection. Secondly to erect, as Chandler does, models which seek to define societies through their dominant business structures, is deceptive. They not only establish standards of comparison which are arbitrary but they also exclude from the historical process all those who, for very good reasons, might have rejected the dominant entrepreneurial strategy. Where Schumpeterian analysis would judge the HBC largely according to how well it performed in the light of a prefabricated pattern of historical change, it is probable that many of the Bay's problems might have been avoided had the company not been so anxious to keep up with contemporary entrepreneurial trends. Finally, the fact that the Bay's development so closely paralleled that of other department stores raises the issue of whether the company's record was in fact so unusual. Unfortunately, a study of the HBC based upon its public statements, published financial reports, and minute books would produce very different conclusions concerning the Bay's performance. It was only

91. J.A. Schumpeter, *Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process* (New York, 1939), 40–41; see also his *Theory of Economic Development* (Cambridge, 1934), 67–78 and *Capitalism, Socialism and Democracy* (New York, 1942), ch. 7.

92. Robert W. Twyman, *History of Marshall Field and Co.* (Philadelphia, 1954); Robert M. Hower, *History of Macy's of New York* (Cambridge, 1943); Boris Emmet and John Jeuck, *Catalogues and Counters: A History of Sears, Roebuck and Company* (Chicago, 1950); Alfred Chandler, *Strategy and Structure: Chapters in the History of American Industrial Enterprise* (Cambridge, 1962); and Susan Porter Benson, "The Cinderella of Occupations: Managing the Work of Department Store Saleswomen, 1900–1940," *Business History Review* 55 (1981): 1–25.

through access to usually unavailable internal reports and correspondence that the image of the HBC as a financial misfit emerges. The accounting gymnastics practised at the Stores Department were significant enough that even when the government auditors descended on the company in 1934, they came away believing that the stores had not failed to realize a profit in any year prior to 1932.[93] It would not have paid to have had the company's poor financial record revealed to the public and the competition. The incredible discrepancy between the HBC's public statements, which showed only profits all through the twenties, and the company's internal accounts draws attention to a major problem in business history. If historians are grounding their interpretations of the importance of entrepreneurial skills in documents that have been adjusted in order to cast those skills in the best possible light, how can one be sure of the validity of the broad theoretical observations that are being made? Is business history, even in its hard-boiled modern guise, a pawn of the corporate interests that it seeks to analyze? Distressingly enough, Voltaire might well have been right. Perhaps we are in large measure merely repeating the accepted fictions of the past.

93. Special Committee on Price Spreads, *Proceedings and Evidence*, 3:3507 and statement 6.