CHAPTER TEN

Royal Banking in a Changed Canada

"The Right People ... in the Right Spots"

FOR CANADIANS AND FOR THEIR BANKERS ALIKE, 1967 WAS AN *annus mirabilis*. On April 28 of that wonderful year, Expo 67, Canada's glittering celebration of its centennial, opened its gates for a summer that would etch itself into Canadian consciousness as a high point of national self-confidence. Four days later, on May 1, a radically revised Bank Act – praised by bankers as being "market-freeing" – went into operation. Radical was not a word traditionally associated with Canadian banking, but this *was* fundamental change. Gone was the 6 per cent interest ceiling on bank lending. Lower cash-reserve requirements would allow the banks to compete more effectively with the "near banks." Conventional mortgages, worth up to 75 per cent of the value of new *and* existing homes, were finally available at the local bank. The revised Bank Act seemed to release, directly or indirectly, a flood of new banking "products." Chargex cards, mutual funds, a wide range of consumer loans, and electronic banking quickly began to figure in Canadians' financial calculations.

Thus, the "winds of competition" were transforming the local bank into "a centre of diversified retail financial services for the man of ordinary means."[1] Canadian banking faced another new frontier in the sixties, its most important since the creation of a central bank in the 1930s. And the Royal Bank faced it without Jimmy Muir and prospered. It did so by reverting to two of the mainstays of its history: it found a "young man" as its new president and it employed "progressive ways" to preserve its place as Canada's largest bank. Like the nation at large, the bank was emboldened by the headiness of the sixties, and the Royal's transformation was already apparent at Expo in Montreal.

Throughout the summer of 1967, millions of "ordinary" Canadians pushed through the turnstiles of Expo 67. Montreal became Canada's mecca, and on their way to the fair, many tourists visited Place Ville Marie, Canada's most famous skyscraper. There, in the foyer, the Royal Bank established an Expo Centre, where hostesses fluent in nine languages dispensed maps, information, and financial services to a steady stream of visitors. Many ventured up to the forty-second-floor observation deck, where they took in the breathtaking view of the St. Lawrence as it curved around the island of Montreal. Each night the four Royal Bank beacons – moved from 360 St. James – swept the city's skyline, while dinner was served in Altitude 747, the building's spectacular rooftop restaurant. The bank also found other ways to reach out to the Canadian public in the centennial year. On April 3, the Royal Bank became the first Canadian bank to advertise on radio; radio "spots" were followed in the fall by television ads.[2] Print advertising by itself seemed stolid, out of step with the electronic age. The airwaves were the fast route to improved market share.

"Riding the airwaves" soon had another meaning. On April 1 of the next spring, the CJAD traffic helicopter in Montreal took off bearing Royal Bank colours. The JetRanger – the "Flying Lion" – carried an unlikely passenger: an avuncular, mustachioed businessman in his early fifties, clad in sombre dark blue, pipe clenched between his teeth, peered down through his heavy frame glasses at the streets below. W. Earle McLaughlin had become the first Canadian bank president to fly traffic watch. "We bought the helicopter to identify us with a useful public service," the bank's sales-promotion manager declared, "and we also feel that it further identifies us with a highly sophisticated, modern technique, which banking is today."[3] McLaughlin's early-morning helicopter sortie provides a telling metaphor for his years as the chief executive of Canada's largest bank. For almost twenty years, he proved capable of rising above the hurly-burly of the changing financial world. Unlike Jimmy Muir before him, McLaughlin also learned to share and delegate power; his cockpit was a place for teamwork – not one-man heroics.

McLaughlin's arrival in the president's office in 1960 was by no means preordained. Muir's death left the board caught in a dilemma. The fifties had seen the bank's Toronto business grow significantly. Montreal directors, once accustomed to an unchallenged control in the boardroom, now found themselves rubbing elbows with strong-willed Torontonians like E. P. Taylor, J. S. D. Tory, and W. E. Phillips. In addition, the bank had responded to Toronto's growing economic eminence by parachuting top executive talent into the city. Two seasoned Nova Scotians led the way: Burnham Mitchell and Ken

Sedgewick soon became fixtures in corporate Toronto. Sedgewick became the bank's general manager in 1955 and, five years later, he assumed the idiosyncratic title of vice-chairman and chief executive officer in Ontario. Mitchell's untimely death in 1959 left fifty-eight-year-old Sedgewick the bank's top man in Ontario. Patrician in manner, Sedgewick was none the less well received in Toronto business circles, a "friendly banker" in the eyes of the Toronto *Telegram*, carrying on the bank's "splendid tradition" in the city.[4] The bank's presidency, he assumed, awaited him.

Back in Montreal, there were other contenders. Associate General Manager Art Mayne was handling the bank's international operations very competently. A skilled corporate politician, Mayne, however, suffered from poor health and his ambition was consequently in abeyance. Flanking him was Madison "Matt" Walter, the bank's gentlemanly vice-president. A former assistant general manager, Walter had sat on the board since 1955 and was much respected in Montreal business circles. Walter's charm emanated from his adherence to sedate "old school" banking; he was closer in style to Sydney Dobson than to the aggressive Jimmy Muir. Nor did he much hanker after the top job. That left young Earle McLaughlin. McLaughlin had shone as Montreal main-branch manager in the early 1950s before becoming an assistant general manager in 1953. Muir saw in McLaughlin, unlike Walter and Sedgewick, signs of his own drive and ambition. In 1954, he turned to McLaughlin to spearhead the bank's entry into the mortgage field. Inasmuch as Muir ever tipped his hand, he did so in 1959 when he made McLaughlin his "assistant" and then, early in 1960, appointed him general manager when Sedgewick was promoted to Toronto. McLaughlin had talent in abundance, but he was only forty-five and virtually unknown beyond the bank. Three months later, the selection of McLaughlin, Walter, Sedgewick, and Mayne as honorary pallbearers at Muir's funeral seemed natural; less automatic was the selection of his successor at the bank's helm.

With Muir at rest near the summit of Mount Royal Cemetery, the board met on April 26 to broach the delicate issue of his replacement. Despite Sedgewick's ambitions, it was soon clear that the Montreal directors still held sway, and they would go with the familiar Walter. He was best known to them, and his warm-heartedness had made him many allies. An Ontario lad who had joined the bank in 1912, Walter seemed the safe bet – his polished ways undoubtedly a welcome prospect after Muir's abrasiveness. The bank magazine portrayed him as a "very human man, good-humoured, considerate" who had "grown up in the 'Royal' family."[5] Matt Walter was now sixty-three years old and unenthusiastic about the challenge set before him by the

Madison Walter: The bank's first Ontario-born president and also the office's briefest incumbent (above). Elected in April 1960, Walter died the next December of a brain tumour. (Opposite) As his successor, Earle McLaughlin inherited Walter's ease in public. Prime Minister John Diefenbaker cuts the ribbon at the new Ottawa Main Branch. The ribbon is held by Mayor Charlotte Whitton of Ottawa (right) and Samuel Short (left), a customer since 1899.

directors. None the less, when Montreal lawyer W. H. Howard and Graham Towers nominated him, he acquiesced.* Sedgewick, thirteen years Walter's junior, was given to understand by his Toronto supporters that his time would come.[6]

Walter's personality immediately showed itself in a new collegiality in senior management. He let McLaughlin brief the board on Place Ville Marie's construction. Mayne alone reported on international. Not only was Muir's airplane sold in short order, but in another clear signal of change, the board created a compensation committee to bring some system to executive salaries. In choosing Walter, the board had, perhaps unconsciously, defied a Royal Bank tradition – that of the "young man's institution." Younger men brought change and energy. Whether Walter would ever have recaptured Muir's dynamism outside head office is, alas, conjectural. Fate cut short his opportunity. Late in October 1960, five months into his presidency, Walter called his secretary into his office and asked her to investigate the source of the persistent ringing that was tormenting him. She could hear nothing. Walter had a brain tumour, and on December 9, the Royal Bank lost its second chief executive in eight months.

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* As it pushed more and more onto the international stage, Canadian banking was fast shedding its archaic Anglo–Scottish titles. Walter would be elected president *and* chairman, a style that made it easier to move in American banking circles.

Acute anxiety spread through the Royal. Canada's largest bank seemed bereft of leadership. Adverse comment in the financial press might tend to undermine the bank's strategic prospects and provoke a crisis of confidence. Jim Cornish, the assistant GM in charge of staff, recalled the incipient panic: "You know the other banks were almost prepared to go out to pass tin cups up and down St. James Street to help us out."[7] The trepidation was heightened by the news that the Commerce and Imperial banks were amalgamating; the Royal Bank was no longer comfortably Canada's largest bank.* Fortunately, the bank was enjoying a good year – profits in 1960 were up 14 per cent, and deposits had set an all-time record – which tended to soothe the anxiety. But, when the board met on December 19, the directors knew that they faced one of the toughest decisions ever. And they entered the room with little sense of consensus over the leadership.

Not since it had agonized over Pease's 1887 proposal to open a branch in Montreal had the board found itself so divided. Toronto directors, led by Eddie Taylor and Jack White of Imperial Oil, believed that Sedgewick's time had come. The Montrealers, led by W. H. Howard and R. D. Harkness of Northern Electric, had their doubts. Sedgewick, although relatively young, lacked verve, and seemed unpopular with the staff. The logical Montreal alternative was the skilful international banker Art Mayne, but he remained in uncertain health and had written himself out of the running. An expectant Sedgewick had come up from Toronto and had booked into the Ritz-Carlton. At ten in the morning, the directors filed into the boardroom, and an uneasy hush spread through head office.

The issue was forced when Harkness, as chairman of the new compensation advisory committee, tabled a report recommending that Earle McLaughlin be given the nod. Now the Toronto directors took their stand, and for four and a half hours the battle raged. McLaughlin was too young, too unknown, the Torontonians argued. We'll take the chance, the Montrealers replied – the bank could not afford to coast in such heady times. A sandwich lunch was sent in. A delegation was despatched to Mayne's home to ascertain his stand. A handful of Torontonians dashed up to the Ritz to confer with Sedgewick. By mid-afternoon, the Montrealers had the upper hand. The bank would go with the forty-five-year-old "young man." To placate Toronto over McLaughlin's inexperience, it was agreed that the new president would defer to the experience of Art Mayne (who became a director) and C. B. "Charlie" Neapole (who became full general manager) in

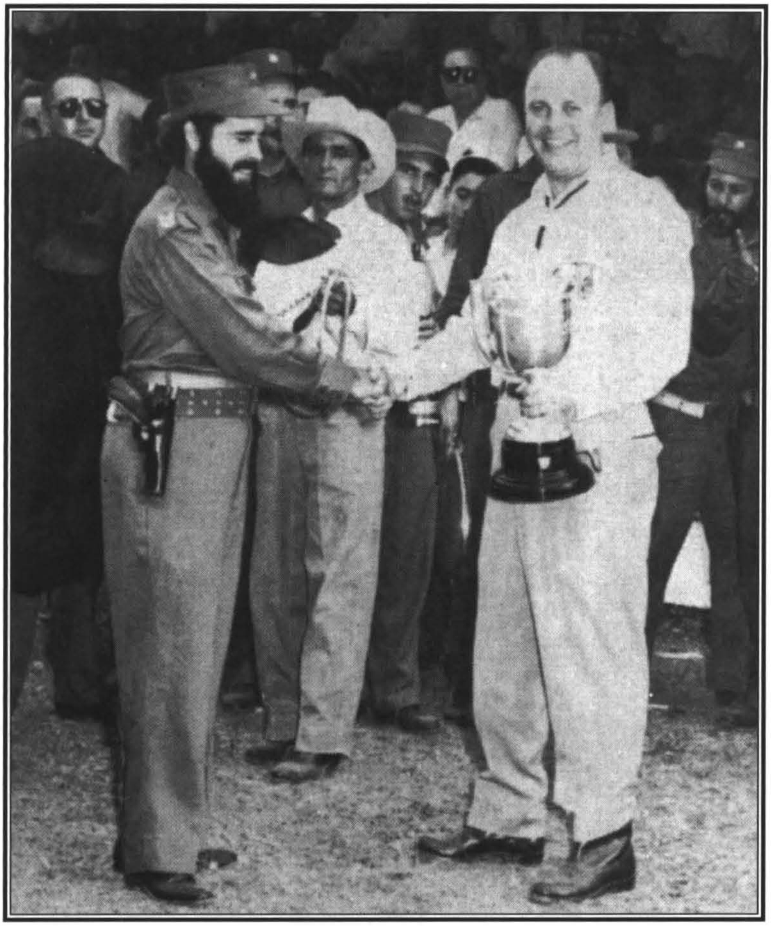
* For one brief quarter in 1961, the CIBC actually surpassed the Royal Bank in asset size.

setting up shop as president.

"My strong advice to you now," E. P. Taylor wrote privately to Sedgewick two days later, "is to become 'a good soldier' in spite of your personal convictions and natural disappointment."[8] Sedgewick had been offered a vice-presidency and a chance to become a "full member of the executive team." Despite Taylor's advice, Sedgewick resigned. He had, he told McLaughlin, "lost heart and, to a degree, lost faith in some ideals which heretofore, were to me beyond doubt."[9] Sedgewick quickly became a director at Pitfield Mackay, Ross & Co., and McLaughlin began his tenure as president mending fences. To fill what one director called "a hole in our Toronto set-up,"[10] he appointed Donald Anderson as Ontario general manager and promoted John Coleman to back him up.* Mayne became executive vice-president, and his international banking duties were taken over by Whit Shannon as associate general manager. General manager Neapole acted as chief operating officer. McLaughlin was thus well buttressed with executive talent; he had a "team," and never lost sight of the need for their support and advice. There was always a folksiness about McLaughlin: he had an ability to "energize" those about him and to eschew the majesty that engulfed many a bank president. Looking back on these early months from the perspective of 1979, Jim Cornish – whom McLaughlin came to trust implicitly in personnel matters – generously credited his boss with "one of the greatest changes in corporate leadership that you can find in all the corporate history."[11]

The challenge to the new order was not confined to the domestic front. Even before the new president had devised a strategy for modernizing Muir's one-man bank, a crisis rocked the Royal Bank's once majestically stable international network. Late on a cold Friday afternoon in December 1962, Earle McLaughlin received three unexpected visitors. The American consul in Montreal, Jerome Gaspard, he knew from the cocktail circuit. But the other two needed introductions. They also needed a favour from the Royal Bank. Nicholas Katzenbach was the deputy attorney-general of the United States, first lieutenant to Robert Kennedy. With him was James B. Donovan, the New York lawyer who had won wide publicity in the late 1950s for defending Soviet spy Rudolf Abel. Donovan now acted as the emissary

* The Montreal–Toronto tension remained. In the 1970s it would resurface when politics in Quebec prompted certain Toronto directors to urge that the bank position itself more prominently in their city. McLaughlin remained adamantly committed to Montreal; only an outright declaration of sovereignty would force such a move to protect the bank's federal charter. Ironically, the actual concept of most head offices in an age of electronic communication and jet travel was being steadily eroded in strategic terms. McLaughlin would later transfer select corporate functions to regional centres elsewhere in Canada.



Cuban farewell: After six decades in Cuba, the bank sold its assets to the revolutionary government of Fidel Castro in 1960. The parting was amicable, unlike the expropriation of the American banks that same year. (Above) R. K. Mennell, the bank's manager in Camagüey, presents a trophy for Best Bull in Show to a Cuban army captain at a 1959 cattle show. After the pull-out, the bank continued to finance Cuban trade and kept a representative's office in Havana.

of a committee of Cuban–American families whose men had been caught in the ill-starred invasion of Cuba the previous April.

Of the ragtag army of liberation that had waded ashore at the Bay of Pigs, 1,200 now languished ignominiously in Cuban jails. Relations between Washington and Havana were at Cold War loggerheads. The revolutionary government of Fidel Castro was prepared to release the hostages – for a price. Castro would not, however, deal directly with the American government. Any release had to be privately negotiated. Nor would the Cubans deal through American banks. In October 1960, Castro had nationalized all but two foreign banks operating in

Cuba: Canada's Royal Bank and the Bank of Nova Scotia. Both escaped the taint of economic imperialism that had spelled the downfall of their long-time American rival, the First National City Bank of New York. Castro needed a financial outlet to the outside world, and Canadian bankers had always been *persona grata* in Cuba. If the Americans wanted their prisoners, they would have to pay through the Royal Bank.

Katzenbach and Donovan needed a means of paying a ransom of almost $60 million – in the form of medicines and foodstuffs supplied by the American Red Cross – to the Cubans. The request ruined the weekend plans of senior Royal Bankers in Montreal, New York, and Havana. Whit Shannon, head of the bank's international division, coordinated arrangements between the bank's New York agent, Bob Utting, and its Havana representative, Harry Berry. At the height of these negotiations, Castro and the head of Banco Nacional de Cuba, Ernesto "Che" Guevara, arrived at Berry's apartment and spent several hours impatiently pacing his floor. Berry later confided how uneasy he had been at the sight of the pistols strapped to the belts of the two revolutionary leaders; at one point, Guevara had unbuckled his gunbelt and plunked it down on the desk beside an unnerved Berry. Within days, the bank had a *modus operandi*. It would issue an irrevocable letter of credit to Banco Nacional de Cuba, allowing it to draw down monies from the American Red Cross, acting on behalf of the Cuban–American families, as hostages were repatriated from Cuba. On December 20, Donovan and Banco Nacional de Cuba officials signed an agreement, and the first prisoners arrived in Miami on Christmas Eve.

The repatriation continued into 1963. When it was finally over, Bobby Kennedy wrote to Earle McLaughlin to praise the bank's "speed of decision and action." Katzenbach echoed this, citing "the gracious attitude of Canadian banking officials." Amid the fanfare, the bank quietly waived all fees for the transaction, notably the $70,000 fee for the letter of credit, the largest the bank had ever issued.[12]

The Bay of Pigs episode, however, could not disguise the fact that the bank had reached the end of the road in Cuba. It also provided a kind of symbolic swan song for the bank's retail system in the Caribbean and Latin America. There would still be opportunity and profit in exporting Canadian prowess in retail banking throughout the region, but the frontier was contracting. Even before Castro's dramatic seizure of power, the Cuban branch system was ailing. The Batista regime had stifled the Cuban economy. Banco Nacional de Cuba had begun demanding that the island's commercial banks make compulsory investments in government treasury bills. Rebel insurgency plagued branch operations; late in 1958, for instance, Contramaestre branch had been summarily closed after government aircraft strafed the town.

Castro's entry into Havana early in 1959 brought relief. The system had regained some stability. But an anti-American backlash soon set in; in October 1960, all American banks in Cuba were expropriated. Despite the exemption of Canada's two banks from this order, Art Mayne, then head of the bank's international operations, had soon reported that "profitable" operations in Cuba seemed unlikely, as Banco Nacional de Cuba under Guevara began to assert a monopoly over all banking on the island. Thus, in the last month of 1960, even as the bank's board was grappling with the thorny issue of finding a new CEO, the Royal Bank had negotiated a remarkable exit from Cuban retail banking. Unlike its American counterparts, the bank managed to repatriate its Cuban investment – about U.S.$8.8 million – by transferring all its assets and liabilities to the Banco Nacional de Cuba. Non-Cuban nationals were permitted to leave the island, and local employees were guaranteed employment with the Cuban central bank. A representative office was opened in Havana to give Cuba a financial outlet to the non-communist world. Through it, the hostage negotiation would be handled. It would close in 1965, but the bank continued to finance Cuban trade. In Montreal, the bank retained the accounts of the Cuban consulate and a growing number of Cuban *émigrés*.

There was upheaval elsewhere in the Caribbean during McLaughlin's early years. In the Dominican Republic, the collapse of the Trujillo regime in 1961 relieved the bank of a government rotted by cronyism, but left it locked in an unseemly battle with the assassinated dictator's family over off-shore assets. At the other end of Hispaniola in 1965, "Papa Doc" Duvalier of Haiti expelled the Royal Bank's manager in Port-au-Prince on trumped-up charges. In most Caribbean countries, however, the bank was crimped in less dramatic ways. Profit repatriation laws, demands for local participation, and volatile local currencies all made operating in the South difficult. In some instances, the bank would seek local incorporation – for instance, the Banco Royal Venezolano C.A. in 1971 – and during the 1960s it even forged ahead with a string of Caribbean trust companies in Jamaica, Trinidad, Barbados, Guyana, and the Caymans. Similarly, in 1965 the bank joined several prominent partners, including Westminster Bank and Morgan Grenfell, to form RoyWest Banking Corporation in Nassau to undertake mortgage and international investment banking in the British West Indies. But the overall trend in the South was towards gradual – and for many Royal Bankers and clients, sorrowful – divestment.

While events in Cuba and the Caribbean had been startling, the ultimate new shape of international banking – powerfully moulded by

Euro and Petro dollars – would emerge less dramatically through the sixties and seventies. At the same time the pressure for change at home was more immediate. Muir had stretched the bank's potential to the utmost limits of the existing Canadian banking system. He did so by managing the bank in a hierarchical, authoritarian style: decision-making moved in an upward linear fashion. Muir was the last man who can be said to have "ruled" the Royal Bank; his tenure marked the last hurrah of the old "bank-boy" school of management.

Earle McLaughlin was a different kind of "bank boy" for a different age. He, too, had polished his trousers on the stools of the branch system, but only after graduating from Queen's University. He had come to the bank in the Depression and had seen it inch towards new roles during the crisis of the Second World War and the boom of the fifties. He knew the limits of Canadian banking: Muir had sent him to Ottawa in 1954 to help establish the bank's presence in mortgage lending, only to see the initiative asphyxiated in the late 1950s by the 6 per cent blanket on bank lending. He had seen the rise of the "near banks," the finance and trust companies, which vied in an increasingly crowded financial marketplace for business that had often traditionally been the banks' alone. By 1960, there was no escaping the necessity of structural change in Canadian banking. Muir would have fought it; McLaughlin would welcome it.

Now, just as Edson Pease had embraced "progressive ways" to assert the bank's primacy in the Laurier boom at the turn of the century, McLaughlin's intuition for change would carry the bank into new territory over varied paths. In doing so, he would change the bank's culture dramatically. It was by no means a flawless transition; in later years, McLaughlin likened the bank to "a big ball of jelly" that elastically resisted change.[13] There were shortfalls, miscalculations, and crises. Women, for instance, found that they had to pound hard on the bank's door for attention. All the while, international banking changed fundamentally and bankers long inured to the rhythms of retail banking in the Caribbean now confronted the dizzy, unfamiliar world of Eurodollars and merchant banking.

Despite all this, McLaughlin learned to cope with change. He decentralized and resisted Muir-like interference. He joked that he always knew "a little about a lot." A colleague likened him to a "surfer" always riding the crest of a wave.[14] By the time he stepped down as chairman in 1980, the Royal Bank was a different place. "The imperial chief executive, lonely and alone, is no more," wrote *Maclean's*. "He has been replaced by strategic planning, management committees, productivity flow charts, squads of consultants and computer technology. Seat-of-the-pants management has, quite simply, worn thin."[15]

A new building in Quebec: The "Topping-Off" ceremony at Place Ville Marie, 1960 (top), which featured a Mohawk flag erected by Mohawk high-steel workers. (Bottom) The September 1962 inauguration of the building provided evidence of the cross-currents flowing in Quebec society: Premier Jean Lesage, doyen of the "Quiet Revolution," addresses the guests.

Growth was on McLaughlin's side. Pushed ahead by prosperity and inflation, the bank's assets ballooned from $4 billion to $62 billion during McLaughlin's twenty years from 1960 to 1980. Under McLaughlin, 1,018 domestic and international branches in 1960 had become 1,592 branches by 1980. Behind these statistical advances, there were seismic shifts in the nature of the bank's growth. The energy boom in the West quite literally pulled the bank's centre of gravity westwards. If Toronto had gained in stature in the fifties, Calgary and Vancouver asserted themselves in the seventies and early eighties. In 1971, 55.5 per cent of the bank's loans portfolio was lodged in Ontario and Quebec; 23.5 per cent was in Alberta and British Columbia. By 1980, the central Canadian provinces would have a 48.5 per cent share and the two Pacific provinces would surge to 35 per cent. While Muir would have gloated over such growth as a personal triumph, McLaughlin measured such success in collegial terms. He restored the morale and sense of cohesiveness in senior management that had so powerfully driven the bank since the days of Pease, Neill, Wilson, and Dobson, and which had lapsed under Muir. "It was not done overnight," he told the *Canadian Banker*. "We saw that the right people were appointed in the right spots and gave them responsibility and left them alone. That's the way I tried to run the bank."[16]

The need for delegation was apparent from the start. Like Walter, McLaughlin almost instantly realized that procedures dictated by Muir's need for total control had to be changed. Late every afternoon, for instance, the bank's treasury officials appeared at his door seeking approval of their plans for overnight placements, T-Bill purchases, and foreign-exchange deals. McLaughlin quickly grew frustrated; he knew little about such transactions. "I don't want to make that decision any more," he told them, "keep me posted if you're in trouble, let me know when you're borrowing from the Bank of Canada, there's no harm in that, but not every day. Gradually, gradually we delegated."[17] It soon dawned on the new president that *ad hoc* delegation might ease the pressure on his office and reduce some of the rigidity in the bank's management. If the national banking marketplace was changing, so too must the bank's organization. Starting slowly at first, the momentum of change built over the next few years, cresting in 1967, when, for the first time since 1899, the bank consciously reorganized itself.

If McLaughlin seemed unperturbed by the prospect of change, it was because he brought a different attitude to the top job in the bank. He lacked Muir's fundamental insecurity in power. In his mind, delegation did not imply diminution in his stature. Some of this might have stemmed from the fact that he was the first university graduate to head the bank. Joining the bank after college, even in the

Depression, offered a less-daunting challenge than a Scottish boy immigrant or a Nova Scotia farm boy might have earlier experienced. McLaughlin had been born into relative affluence in small-town Oshawa. Emigration was not necessary for advancement. He was a cousin of Col. Sam McLaughlin, the carriage-maker turned car-maker – but "a distant enough cousin that I had to work," he once quipped.[18] He always said that his first ambition had been to be a lawyer, but instead he took history and economics at Queen's. There he studied under some of the few Canadian academics who actually wrote about the Canadian banking system. From Clifford Curtis and Frank Knox, he learned about Canada's new central bank. Good marks got him a tutorship for the banking courses offered by Queen's for the CBA – at 25 cents a paper marked. In Depression Canada, however, good marks did not guarantee him a job. He tried the Bank of Canada and the finance department in Ottawa before Professor Curtis suggested he try the Royal Bank. Curtis sent him to see Mr. Travers, the Kingston manager of the bank. McLaughlin had heard that the banks hired only high-school grads. What future could banking hold for a university grad? "Look at Graham Towers," Travers shot back.

Ten days after McLaughlin received the gold medal in economics at Queen's in the spring of 1936, he reported for duty as a junior at a Yonge Street branch in downtown Toronto. His salary was $750. He was immediately struck by the fact that there was no training beyond what rubbed off from the accountant who sat beside him. What McLaughlin did not know was that the bank was consciously experimenting with university grads as trainees. He was being paid $250 more than high-school recruits, and his name was on a secret "to be watched" list. A year later, Whit Shannon also left Queen's and joined the same list. Their careers were accelerated. They were moved more frequently and promoted aggressively. By 1945, McLaughlin was on the Canadian credits desk at head office, and a year later he was assistant manager at Montreal main branch, both crucial testing grounds. Here he came under Jimmy Muir's eye.

By the time McLaughlin reached the president's office, he could find ample evidence that the bank could no longer sustain itself on a diet of "on-the-job" training. Muir had adamantly clung to the notion that the "boys" could learn all they needed as they climbed the bank's ladder of advancement. Extension courses from the CBA might assist the climb. Yet everything about banking by 1960 indicated that specialized training was increasingly the order of the day. The volume of transactions, for instance, was becoming punishing – every day Toronto and Montreal branches cleared a half million cheques.[19] Mechanization was one response. A universal system of cheque coding – Magnetic Ink

Schooling bankers: Earle McLaughlin sensed the need to provide bank staff with formal training. In 1954, he travelled coast-to-coast to brief regional managers on the working of residential mortgages. Here, McLaughlin (centre right) looks on as western branch managers socialize under canvas.

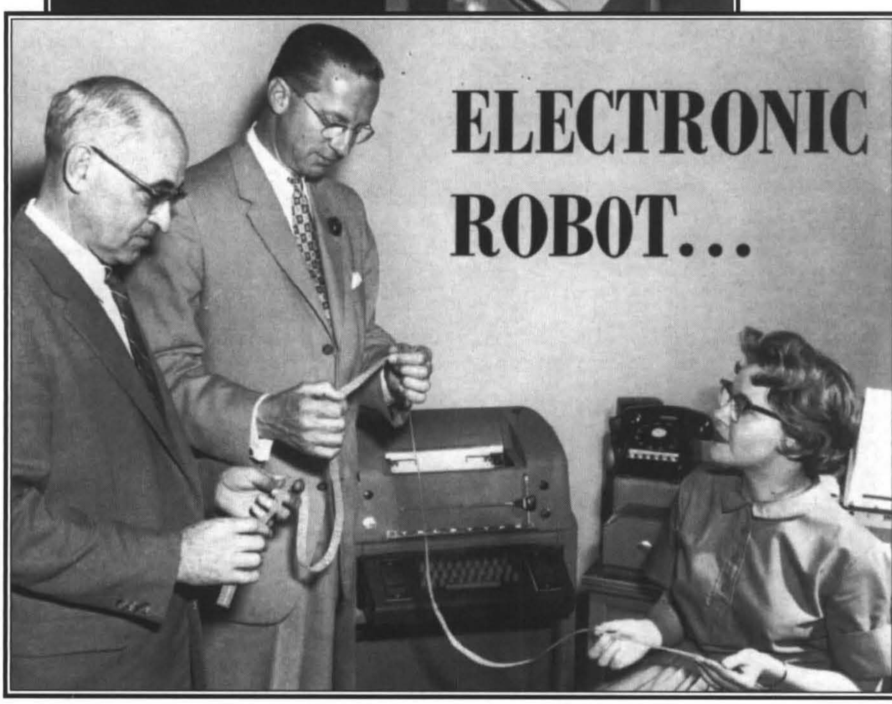
Character Recognition – was introduced. Electronic posting, using "Post Tronic" machines, was introduced in large centres. To bring order to this skein of financial transactions, the bank began to consider computers, but there was hesitancy. "Number-crunching" machines seemed a direct threat to the virility of "bank boy" banking. They were "robots" and "highly talented morons."[20] None the less, in 1961 the bank became the first Canadian bank to install a computer – an IBM 1401 – at its head office. Machines reduced costs and speeded service. The tedious chore of calculating monthly interest on accounts was, for instance, now within the grasp of computers. But machines, and the growing range of products they processed, underscored the need for staff specialization.

Even with mechanization, staff numbers were growing. From 16,600 in 1960, the Royal Bank "family" would grow to 36,900 by the end of

McLaughlin's tenure in 1980. McLaughlin had no doubt that they had to be trained. He immediately capitalized on the underground sessions that Toronto-area managers had instigated to circumvent Muir's ban on training. Training would now be backed by deliberate policy. McLaughlin and Jim Cornish, his AGM for personnel, shared the view that the bank was only as good as its staff: training, not the old "bank-boy" philosophy, was the key. George McFarlane, one of the Toronto guerilla trainers, was appointed Senior Training Officer. Courses on subjects ranging from the writing of business letters to understanding computers were organized, and staff, mainly middle management, was pulled into seven regional centres to take them. Within a year, 1,500 officers had been "on course." In 1962, an educational-leave program – ironically named for Muir – was introduced to release selected male employees for university education.[21] At the same time, the bank moved away from its old, paternalistic performance-review process – across-the-board pay increases every May 1, based on notes scribbled on staff cards by managers and inspectors, with bonuses used to reward strong performers. Cornish and Hal Wyatt, his supervisor of staff, now brought in systematic salary review, job descriptions, and some sense of career planning. Appointments and transfers, however, remained management's prerogative; mobility of staff was still thought crucial to the system.

Over the next two decades, it was the swelling ranks of junior staff who were the first to sense the need for change in the corporate culture. Here the majority was female, and aspects of the old culture – frequent transfers, for example – grated. Refusal of a transfer had always cut off an employee from promotion. McLaughlin's relative youth and open personality allowed him to tap into the frustrations of junior employees and set the bank on a new course. In 1963, women and maintenance workers were, for instance, finally allowed to contribute to the bank's pension fund. How, McLaughlin asked, could an organization run a pension fund which was closed to the majority of its employees? What made changing the bank's culture so arduous was driving these policies and principles through a cadre of male middle management to connect with the staff below. Here was the bulwark of the bank, men long loyal to the organization, efficient in their work but now threatened by change.[22]

The commitment to systematic training unleashed further forces of change. Training implied a shift towards specialization, but it was not always the magic solution. The old bank generalist could only be stretched so far. For the first time – with the exception of the bank's economists and librarians – "experts" were added to staff to run computers and administer "systems." "I am in the hands of my



New means and messages: Chief General Manager John Coleman (top) inaugurates the Computer Age at the bank by pushing the "start" button at the Montreal Data Centre in 1963. (Below) Automation in 1960.

experts" was a favourite McLaughlin response. By the late 1960s, there would be MBAs, marketing specialists, and economic analysts who focused exclusively on narrow sectors of the economy. Many had university educations and did not necessarily see themselves as Royal Bankers for life, so the enticements of benefits, salaries, and career development therefore became doubly important. Head office ceased to be simply a small praetorian guard around the president's office, approving large credits, preparing circulars, and minding the staff cards. It performed crucial "staff" functions for the organization.

Ironically, the changes set in motion under McLaughlin had the parallel effect of creating *decentralizing* pressures in the bank. Computers, regional training, and more career latitude all tended to eat away at central control. Similarly, the growing diversity of bank products, especially after 1967, reinforced the tendency to greater local autonomy; to meet the competition, managers needed more latitude to react quickly to customers' needs. The better McLaughlin came to understand the challenge of modernizing the bank for the marketplace of the sixties, the more he realized that he was attempting to pour new wine into old bottles. The time-proven linear authority structure of the bank could no longer bear the strain of the decade.

And the strain was about to increase. In October 1961, the Conservative government of John Diefenbaker asked the Chief Justice of Ontario, Dana Porter, to lead a royal commission "to enquire and report upon the structure and methods of operation of the Canadian financial system." Porter was to spread his net not just over the banks but also over the "near banks," and to make recommendations "for the improvement of the structure."[23] Not since the Macmillan Commission in the Depression had Canada's financial system been so thoroughly dissected, and there seemed little doubt that the outcome would be a liberalization of the entire system – a breaking down of the rigid demarcations that had kept bankers and near-bankers in separate, and, some alleged, unequal, spheres. Porter reported in April 1964; attention then shifted to the revision of the Bank Act, a laborious process that would stretch out another three years. Throughout this long gestation, it was clear that any liberalization would place a premium on organizational flexibility within the banking community. There would be an unprecedented opportunity for new products and new careers within the banks. Until this, the banks had met change by adhering to their gradualist instincts – slow internally dictated adjustment.[24] Once again, McLaughlin went against the grain. Gradualism simply could not work in the narrow window between the Porter Report and the emerging new Bank Act.

In the fall of 1964, it took little to persuade McLaughlin and his senior executives to import "management" into the bank. The bank had a 1920s structure for a changing 1960s marketplace. There was, for instance, no marketing department, no capability of developing the market that was about to be liberalized. The bank had not a single chartered accountant or lawyer on staff. Similarly, the on-the-job methods of bank training offered little hope for the speedy introduction of computer skills. Yet, there remained a tremendous resistance to outside advice in Canadian banking: outsiders did not understand bankers' ways. They were their own "experts." As we have seen, McLaughlin began to doubt this. There was an inkling of this doubt in 1962 when he approved the hiring of outside consultants, Lippincott and Margulies of New York, to revamp the bank's corporate image. As a first step, the bank's venerable rampant-lions logo was replaced by a lion-and-globe motif – the famous "Leo." With the promotion of John Coleman to chief general manager in 1964, McLaughlin and Executive Vice-President Art Mayne found a reformation ally, and together they ushered in the age of "management" as a conscious corporate function at the Royal Bank. Time and time again, McLaughlin would turn to Coleman to buttress his resolve for change; what McLaughlin decided, Coleman carried throughout the organization.

Advertising bankers: In September 1967 the bank broke tradition and began advertising on television. The above cartoon promoted Termplan Loans. A shipwrecked sailor approaches his bank manager about "floating" a loan. The bank estimated that this commercial reached fourteen million viewers in its first week.

Marketing proved the thin end of the management wedge. The bank's auditors, P. S. Ross & Partners in Montreal, had hired a young consultant, Hugh Hardy, who in 1964 had just returned from New York after a stint with an American marketing research firm. Hardy tried to persuade his new bosses to introduce him to the bank, where he might furnish what he could see was some much-needed marketing savvy. Fearful of souring their lucrative auditing contract, the firm told Hardy to back off, but he persisted, this time cultivating Royal Bank executives on his own. Through Brian Champion, the bank's novice "marketer," Hardy gained access to Coleman. Coleman's decisiveness in commissioning a study of the bank's marketing needs saved Hardy from a summary dismissal by his employers.

What the Ross consultants found was not very flattering. The bank marketed itself in the dark. It lacked any precise knowledge of its present and potential customers, it had no means of measuring the effectiveness of its advertising, and it used "unscientific" means of deciding on its new branch locations. The poor marketing led the consultants to bolder conclusions about the bank's overall management: no orderly reporting procedures and too little delegation of responsibility from head office. All this persisted in a decade brimming with change: computers, increasingly affluent retail customers, and corporate clients daily becoming "more sophisticated and more demanding." The bank simply conformed to the market after the fact. What was needed was a more proactive attitude to change. A formal marketing division, staffed by experts, and "formal plans for guiding and controlling future growth" were imperative. Above all else, "planning and development must be the responsibility of senior management," and it must drive a sense of the bank's direction down through the organization. The bank must, in short, become market-driven, not guided solely by adherence to the dictates of the Bank Act or of its own book of rules and regulations. "It will put the Royal Bank in a strong position to stress the offensive strategies – to *cause* change rather than simply *react* to change, which is defensive."[25]

McLaughlin, Mayne, and Coleman were provoked to action. In March 1966, they commissioned a full-scale organizational study of the bank to assist in the development of a five-year corporate plan. They also offered Hardy a position as head of the fledgling marketing department. The ensuing Ross study was a startling shock for the bank's corporate culture. Teams of consultants moved right into Place Ville Marie and began to prowl through head office. They quickly sensed opposition: barricades of "conservative people," who were "hesitant, if not opposed, to any thing new or different or likely to result in changes in the established order of things."[26] The Royal

Bank's structure in 1966 bore an uncanny resemblance to its organization in 1914: decision-making in the key corporate functions – Canadian credits, personnel, accounting, and investments – all converged on the general manager's office. Only international banking and a vice-president for Ontario stood apart, with direct access to the president. The consultants advised the bank to jettison this authority pyramid. Adopt instead a "functional team concept" approach to managing the bank. Push operating authority down into functional divisions and let head office concentrate on the strategic horizon. To drive home the point, their report came replete with a *flat* organization chart that neatly chopped administration of the bank into functional bailiwicks.

The whole process culminated in the September 1967 reorganization, probably the most dramatic organizational watershed the bank has ever crossed. Employees were told that banks now lived in "an environment of rapid change," in which agility in the face of competition was imperative. Their bank must become "a strong, flexible organization capable of banking leadership at home and abroad." To highlight the point, the Ross plan contrasted the past trend in management culture with the "proposed shift." Management on a day-to-day basis would be replaced by "management through established plans." "Heavy reliance on intuitive judgement" would give way to "provision of formal management information." Senior management would be given "narrower" spans of control, and would concentrate on strategic goals, not broad-ranging interference in the operational life of the bank. In short, it would now be a bank in which Jimmy Muir would feel out of place.

The "new" bank was cleanly broken into four divisions, each headed by a general manager. Two were essentially head-office support divisions. An Administrative Division acted as an umbrella for all those functions – personnel to computer operations – which by definition required central oversight. Similarly, Loans and Investments managed the central credit and financial functions of the bank, including economic research. The two "field" divisions – Canadian Districts and International – would operate the all-important retail network, "the *action* role in the bank." Coleman told the shareholders that the shift was the result of some "careful thinking about the basic principles of our business." The bank was a service business dedicated to its customers. It must have a structure that put it closest to its customers *and* derived the fullest benefit from its people and from available technology.[27]

There is a temptation to provide a glib report card on the 1967 reorganization as a success or failure. Certainly, it met with a jaundiced reaction from many staff members.[28] Department heads complained to Coleman that the new organization would "add consultants, add staff, add to overhead."[29] Others would later admit that the new structure relied on "too much paper and system, not enough corporate culture."[30] The real legacy of the 1967 reorganization was, however, that it introduced the idea of organizational change into the bank, not as a one-shot affair but as an ongoing process. Coleman saw the 1967 exercise as the first step in "a continual process of adjustment." Throughout the 1970s, the bank continued to reorganize. In 1974, a fifth division – for Canadian corporate banking – was added to the 1967 structure. A set of "corporate objectives" was developed to place the bank's organizational structure in the context of its corporate strategic goals. Bankers grew familiar with the jargon of modern management and began to apply buzzwords and catch-phrases to their business: "getting closer to our markets," "a bank that tends to be lean." Organizational issues made frequent appearances on the agenda of the Chief General Manager's Committee, the fulcrum of the bank's weekly executive decision-making.[31] By the end of the decade, new growth and market shifts would dictate continuing reorganization.

Organizational change broke down the homogeneous nature of "bank-boy" management in other ways. Management was no longer personality-driven; it was team-driven. The emphasis on reducing spans of management in 1967 tended to accentuate the definition of authority in management. The days in which a *general* manager and a cohort of assistant general managers could manage all they surveyed were gone. Soon their titles were gone as well. By the late 1970s, the old Anglo–Scottish nomenclature of banking had disappeared and banks were managed by an array of vice-presidents whose titles reflected regional and functional responsibilities. Over all this, McLaughlin presided beneficently, always aware of shifts in the bank's strategy and structure but seldom present at their forging. One of the benefits of the new executive ethos of the bank was that careers as well as structures could be planned. Men could be shifted to where their talents were best used or best developed. A straight linear progression from teller's cage to president's office would no longer prepare a man for computer-age banking, but throughout the McLaughlin years, there was always the sense that capable men were being groomed in the wings.

Whether of men or of structures, planning was now an integral part of banking. Bankers could no longer simply define their future in terms of the next decennial revision of the Bank Act. Demographics, economic "shocks," and shifts in the regulatory climate could all push banking in unexpected directions.[32] The early 1970s would, for instance, deliver in quick succession an unprecedented energy crisis, followed in Canada by a federally imposed blanket of wage-and-price controls. Long-range, or strategic, planning to anticipate the environment in which business would have to operate became an unavoidable aspect of managing any business. The bank responded by pulling Warren Bull, a former head-office inspector, out of the personnel department and making him the bank's director of compensation and organization.

Bull took to strategic planning with messianic fervour and was, by 1975, appointed AGM of Corporate Planning and Organization. It was an uphill battle. The purpose and process of strategic planning was alien to bankers habituated to hard "results" and defined procedures. Planning consumed valuable time, many complained, and the "plans" often seemed to miss the mark. Bull persisted: strategic planning was an aid to the bank's development, not a blueprint for it. In 1977, for instance, Bull convinced Rowland Frazee and Jock Finlayson, McLaughlin's most promising senior executives, to follow him to California for a two-day confidential session with American management guru Peter Drucker.[33] When Frazee took over operational control of the bank that same year, he created a presidential committee on the bank's strategic direction. In 1979, an annual Strategic Planning Conference was initiated for the bank's fifty top executives. As the "turbulent" seventies faded, Royal Bankers were asked to divine some "manageable probabilities" for the eighties.[34]

A good deal of the "turbulence" in Canadian banking in the seventies was the natural consequence of the 1967 Bank Act revision. Canadian banking had suddenly become more competitive and less hidebound. When Earle McLaughlin was called before the Porter Commission in January 1963, he left no doubt in the commissioners' minds that the Royal Bank was in favour of liberalizing Canada's financial industry. Much of the regulatory framework surrounding the banks "originally arose to correct abuses in the early days of banking" and to serve as a bolster to the public interest. In more recent years, the banks had become instruments of federal monetary policy – squeezing or freeing credit – while many of their "near-bank" competitors operated in a less-stringent environment. Most irksome of these "special rigidities" were the 6 per cent ceiling on bank-loan rates and the 8 per cent cash-to-deposits reserve. "The right policy," McLaughlin concluded, "is not to impose handicaps on the near-banks; but to ensure the fullest degree of competition in the market for credit by extending near-bank freedom of action to the chartered banks."[35]

McLaughlin's was not a lonely voice. By the time the commissioners reported in April 1964, there was a strong consensus that Canada's financial-services industry must be placed on what is today called a "level playing field." Their report found the system full of "illogical and inequitable restrictions" that penalized the consumer; "a more open and competitive banking system" would "encourage creativity and efficiency and offer the public the widest possible range of choice of financial services."[36] To promote the "free flow of funds" and "equal treatment," the 6 per cent interest ceiling should be scrapped and the banks allowed full access to the conventional mortgage market. The near-banks should be brought under the Bank Act and, like the banks, be required to maintain a fixed ratio of cash-to-deposits on reserve with the Bank of Canada. A 10 per cent limit should be placed on banks' ownership of near-banks as a precaution against undue concentration in the industry.* McLaughlin echoed the general delight of the banking industry when he praised the "market-freeing" aspects of the report. No longer would the banks be obliged to act as "rationing boards" for credit; instead, their clients would have access to a wider range of loans, with less-onerous collateral requirements.[37] Given the magnitude of these recommendations, Ottawa postponed the revision of the Bank Act, slated for 1964, for a year.

Porter's recommendations were soon snagged on the rocks of political intrigue. Unable to muster a parliamentary majority, the Liberal government of Lester Pearson harkened to the political allure of economic nationalism. The issue was precipitated by Finance Minister Walter Gordon's perception that Canada's financial sector was vulnerable to foreign control. Citibank's 1963 purchase of Mercantile Bank of Canada, a decade-old, Dutch-owned trade bank, provoked Gordon to impose limits on foreign ownership of Canadian financial institutions – 10 per cent by any single shareholder and 25 per cent *in toto*.[38] Political squabbling over the Mercantile Bank engulfed the entire Bank Act revision throughout 1965 and early 1966. Gordon's 1965 attempted revision also failed to abolish the 6 per cent interest ceiling; its removal would, Gordon said, allow the banks to penalize borrowers with higher interest rates. This incensed McLaughlin, who complained to Prime Minister Pearson that the banks were no longer "the dominant giant in the financial system"[39] that Gordon imagined them to be.

It took all the political finesse that newly appointed finance minister Mitchell Sharp could summon to bring the Bank Act revision to a successful conclusion in the spring of 1967.[40] The spirit of the Porter Commission finally found legislative form. Not only could the banks

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* From the days of Herbert Holt, the bank, for instance, had had an affiliation with the Montreal Trust; this would now come to an end, as the 1967 Bank Act severed all ties between banks and trust companies. Financial deregulation in the early 1990s would, ironically, undo this segregation and allow the banks to create their own trust companies.

make conventional mortgages, but they were permitted to raise capital by issuing five-year debentures. A lower cash-to-deposit reserve reduced the proportion of bank assets on which no interest could be earned. Bank shares could be split to broaden share ownership. Above all else, the 6 per cent interest ceiling was finally lifted. Viewed strategically, the 1967 revision positioned the banks to stage a counter-attack on the near-banks, the finance, trust, and loan companies that had done so well since the war in the unevenly regulated world of Canadian finance. And it was just such a strategic opportunity that McLaughlin's remaking of the bank's structure was intended to capture. Competition meant speed of reaction and quality of service.

The competitive instinct was evident in much of what the Royal Bank did in the 1960s; by decade's end the bank offered an array of products that would have startled clients and employees alike at its beginning. The notion that a bank could develop uniform products to blanket all its customers faded. Retail banking would, of course, always concentrate on common-denominator products – savings and chequing – but beyond this lay a fragmenting financial landscape, opening up market niches that required special products for special needs. Not all these sprang phoenix-like from the 1967 revision, but they cumulatively served to move the bank into hitherto uncharted financial territory. Like auto-makers, bankers now found themselves identifying consumer preferences and developing models to satisfy them.

In 1962, TermPlan consumer loans were introduced – life-insured, consumer instalment loans. Capped at $3,600, TermPlan loans were aimed at consumers in search of money to finance a trip, a car, or home improvement. University Tuition Loans were introduced. The small-business borrower was another target. In 1961, government-guaranteed Business Improvement Loans were offered. A year later, the bank joined the Banque Canadienne Nationale, Montreal Trust, and Canada Trust to form RoyNat in order to furnish medium-sized businesses with growth capital. Banks had traditionally provided such companies with working capital; capital markets delivered long-term capital. Now the banks could offer intermediate term financing to companies – especially family concerns – that wished to avoid the capital market. To finance its operations, RoyNat itself borrowed from the capital market. Computers and specially trained staff also allowed the bank to open up other services for business and retail clients. Payroll processing, business-accounting systems and consulting, pre-authorized payments, and mortgage accounting all emerged on the frontier of computer-assisted banking.

(continued on p. 384)

“ANYTIME BANKING”

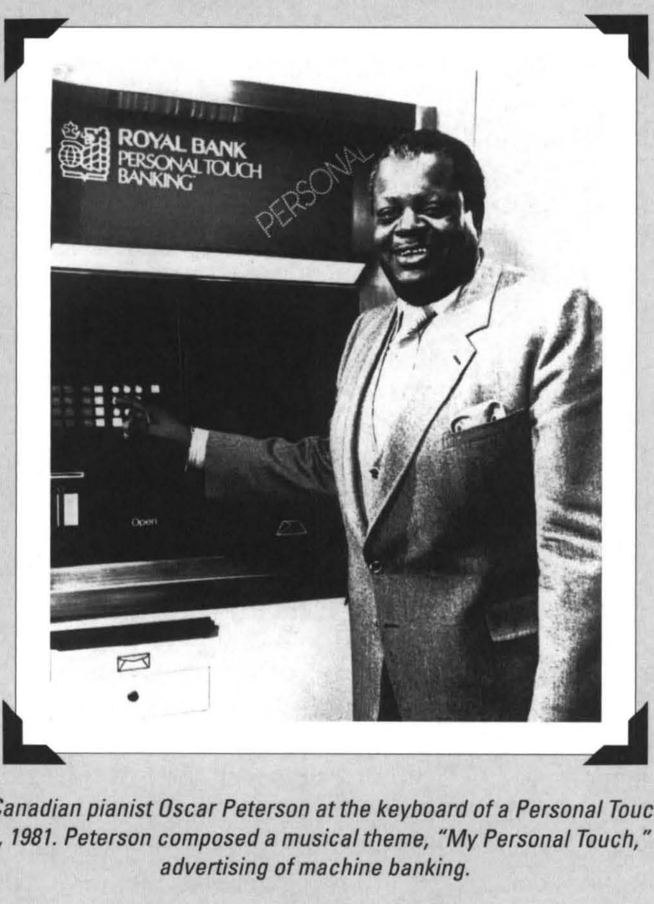
Automating the Cash Box

IN THE LEXICON OF NINETEENTH-CENTURY banking, no term was as hallowed as "the cash." The daily round trip of the teller's cash box from the vault in the morning to the cage and back, neatly balanced when the branch closed, epitomized the business of banking. For the public, the quick delivery or receipt of cash was the essence of service. The good teller, his sleeves held up by colourful garters, dispensed cash with panache, his fingers crisply flicking down bills at his window. On that flow of money the public built its trust in a bank; any hesitancy might provoke a "run." Competency in handling "the cash" was also the first major test of responsibility for an aspiring young banker. A properly balanced blotter and neatly bundled piles of bills were the mark of a day's work dutifully done.

A half century later, the cages were gone and the tin cash box could not contain Canadians' burgeoning appetite for cash. Between 1961 and 1981, the assets of Canadian banks exploded from $19 billion to $350 billion; at the same time Canadians availed themselves of all sorts of new ways of spending their money and settling their accounts. By 1980, the volume of payments issued in Canada by the general public – excluding federal government payments – exceeded two billion items, an eightfold increase from 1965. Behind the scenes, computers were increasingly employed to "batch process" these transactions or to transmit them "on line." But, as long as the actual dealing of cash to clients remained a largely manual affair, a costly labour-intensive bottleneck remained in the branch itself. Furthermore, cash-related services were confined to the hours in which the branch was actually open. After the 1967 Bank Act revision, the bank began experimenting. In 1968, a mini-branch with an on-line computer was opened in a shopping mall, open as long as the stores were. "Fasteller," "Fascash," and "One-Stop Customer" followed, all dedicated to getting cash into clients' hands quicker. But only with the creation of its Automated Customer Services Group in 1969 did the bank begin to think of more dramatic alternatives.

Would people take money from machines? Would they trust the machines? Did machines contravene the Bank Act? The complexity of machine banking explained its initially cautious appearance. In 1972, fourteen Toronto branches were equipped with "Bankette" machines. They were activated by a customer identity card and only dispensed cash. "Tomorrow morning at 9:00 a.m.," the ads read, "the Royal Bank will open and never close again." Vice-President Frazee assured the press that the Bankettes were designed to lighten workload, not to strip jobs out of the branches. In 1977, the first free-standing machines (i.e., independent of a branch) were introduced. Unlike Leacock's famous nervous depositor, Canadians did not seem to get "rattled" in front of the impersonal machines.

Positive initial reaction to the machines led to a broadening of the services they could perform: transfers and deposits. Since a client might now deal one day with a customer-service representative (CSR) and the next with a machine, the bank introduced its "client card" to give its customers a universal identity. In 1981, Personal Touch Banking (PTB) was launched, and within a year, 400 PTB machines were operating. The Royal Bank had found another frontier. By 1985, there were 900 machines in 740 Canadian communities; by 1990 the bank maintained its lead with 3,127 machines. By 1992, 65 per cent of Royal Bank retail banking was done through what had become North America's largest automated banking network. At the same time, over-the-counter banking maintained its 1982 volume. Like Chargex, the machines dramatically changed Canadians' daily financial habits; for routine financial needs, anytime banking had become a reality. "Bankers' hours" have become any hour. Despite their high initial cost, the machines reduced the bank's fixed costs and allowed staff to concentrate on servicing niche markets on a person-to-person basis. Men and machines were not mutually exclusive: a combination of lean staff and machines has allowed the opening of twenty-four-hour, drive-in "superbranches" and supermarket branches.



Renowned Canadian pianist Oscar Peterson at the keyboard of a Personal Touch Banking Machine, 1981. Peterson composed a musical theme, "My Personal Touch," for the advertising of machine banking.

Since the Laurier boom had peopled the West, the bank had catered to farmers' needs. The days of the sod-buster on a quarter-section were, however, long gone by the 1960s. Western agriculture had become agribusiness. In 1967, the Royal became the first Canadian bank to dedicate staff to the service of the Prairie farmer. Simple Section 88 loans or Farm Improvement Loans no longer met farm finance needs. A year later, FarmPlan was introduced to provide "one-stop, fully integrated credit" for "the progressive commercial farmer who conducts his operation in a business-like fashion."[41] Life-insured loans amortized over as long as ten years were made available for needs ranging from farm buildings to breeding stock. Over the next decade, these were supplemented with specialized services to assist farmers with their mortgage, retirement, and financial-management needs. The bank developed farm-oriented information programs, like the *Farm Business Review* and "Farmchek." The galvanizing force behind FarmPlan was Doug McRorie, an agricultural economist hired in 1967 by General Manager Frazee to help the bank understand the complex underpinnings of agribusiness. A good example of the kind of expertise initially brought into the bank by McLaughlin to broaden its reach, McRorie would guide FarmPlan for over two decades.[42]

The West played another, more fundamental, role in the bank's affairs during the McLaughlin years. The hothouse growth of western energy created a new Laurier-style boom in the late 1960s and through the tumultuous 1970s. Since the 1950s, the bank had prided itself on being the "R-oil" Bank, the leading bank in the oil patch. By 1953, it had the accounts of 47 per cent of the companies listed in the Alberta oil directory; by 1967 this had risen to 53 per cent. Despite this success, the bank had had to train itself to cater to western needs. Staff in the West complained that head office often gave them the impression that they were second-class citizens – loan approvals in what was a yeasty industry took too long. Once, when Jimmy Muir visited Calgary, a staffer asked why this was so. "Read your circulars," Muir barked back. Slowly, the situation changed; rigid procedures set out in circulars were ill-suited to the demands of competitive banking. Turn-around on loan approvals improved dramatically. In 1962, McLaughlin convened a board meeting in Calgary for the first time. By the mid-sixties, the Royal Bank was capturing 75 per cent of the new business in the oil patch. The soaring price of energy in the 1970s reinforced the trend.

The two oil "shocks" in the early seventies had a galvanic effect in drawing bankers to Calgary. In this respect, the Royal had always been well served by its Alberta directors. Frank McMahon and Fred Mannix had done much since the fifties to introduce the bank to good energy clients. In the seventies, their efforts were supplemented by men like

Don Getty.* The west also found champions within the ranks of the bank's staff; Hal Wyatt, the Moose Jaw boy who had been with the bank since 1939, agitated for a greater active presence for the bank in his native region. With oil prices bounding upwards in the seventies, there was little resistance to such pressure. By the decade's end, Calgary main branch had become the bank's second-busiest branch in the country, surpassing Montreal and trailing only Toronto. In 1971, Alberta interests comprised 11.3 per cent of the bank's loan portfolio; by 1980, they commanded 16.4 per cent. In the same year, energy lending constituted 20 per cent of all the bank's business lending.

As the bank came alive to energy lending, petroleum engineers were brought on staff. What started in Calgary was quickly carried abroad. Oil and gas representatives were posted to London and representative offices were opened in Houston and Denver. The bank began participating in international energy syndications as far afield as the North Sea, Mexico, Iran, and even Brazil. Back in Canada, the bank took a leading role in financing some of the energy megaprojects that had come into vogue. In 1979, for instance, the Royal Bank joined the Polar Gas Project and helped syndicate financing for PetroCanada. To exemplify Calgary's new financial stature, the bank created a vice-chairman's post in Calgary in 1978, appointing Hal Wyatt to the position. And then, in 1980, a Calgary-based global-energy and mining group was created to spearhead the bank's services to the energy industry. Later in 1980, the bank joined with the CIBC and Trizec to unveil plans for a huge Bankers' Hall on Calgary's 8th Avenue. The Royal's share of the project, a forty-nine-storey tower, would, Hal Wyatt announced, help it "to better serve the growing needs of this very dynamic marketplace."[43]

The western energy boom finally broke the central Canadian suzerainty over the bank's affairs. Ever since migrating from Halifax to Montreal in the 1880s, the bank had managed itself according to the managerial dictates of central Canadians. McLaughlin's willingness to decentralize the bank's management thus coincided with strong western pressures that pulled the bank out onto the prairies and, in an operational sense, made it a real national bank for the first time. There were, however, hidden dangers in energy lending, as the eighties would amply reveal. In retrospect, it would become apparent that the

* When Getty assumed the Alberta premiership in the 1980s, his place on the board was taken by the retiring premier, Peter Lougheed. Lougheed's election to the board in effect rounded a circle for the bank. His legal firm, Bennett Jones Verchere, had been connected with the bank since the first decade of the century, when R. B. Bennett, its founding partner, did legal work for the bank. Bennett, too, of course, joined the bank's board.

headlong rush to finance energy development in the West bred what one Calgary Royal Banker called a kind of "collective virus" in bankers, which over time affected the credit culture of the banks. If the banks had been slow and stingy in energy lending in the early 1950s, they became overquick and careless in the late 1970s and early 1980s. But in 1980, the consequences of this largesse were not as yet apparent.

Energy entrepreneurs, farmers, small business, and employers were thus developed by the bank as new or revamped clients. But the rock bed of the bank's health was still its retail-branch network: a thousand domestic branches generating 60 per cent of the bank's deposit base. Breadth in the retail base supported, and fed, more specialized banking. The challenge in the sixties was to maintain the bank's retail vigour by improving service – hence the importance of training – and adding new products. Mortgages were a crucial step in this direction. Other forms of more accessible consumer credit beckoned. In 1959, Bank of America had given consumers the first glimpse of a "cashless" society when it introduced its BankAmericard in California. In 1961, it began to advertise the card on television, and its use exploded. By 1967, BankAmericards were in 5.1 million American wallets. When Hugh Hardy came to the bank in 1966, he brought with him memories of marketing research in New York. As he told General Manager Coleman: "It is generally accepted that a well-run credit card scheme can be a highly profitable venture." Other Canadian banks were toying with the idea of introducing cards, and a Montreal-based finance company, Credico, was about to launch a national card. Failure to seize the initiative would leave the Royal Bank, as Canada's largest retail bank, in an extremely vulnerable position.[44]

Credit cards required a real leap of faith by bankers. McLaughlin opposed them strongly. In late 1966, Hardy persistently urged McLaughlin and Coleman to consider buying Credico's nascent card network, thereby positioning the bank on the frontier of this new field. There were rumours that the Toronto-Dominion was negotiating for a BankAmericard franchise, and that other banks were working up feasibility studies. Yet, when the proposal was taken to the general manager's committee, McLaughlin emerged with a "final and irrevocable" decision: no credit cards. After decades of extolling the virtues of "saving" to Canadians, how could bankers turn around and tell Canadians to "charge it," to take on debt? McLaughlin also worried that credit-card interest rates could easily become a volatile public issue. Might the banks run afoul of the Bank Act by "factoring" receivables (i.e., receiving debts at a commission) when it accepted merchants' credit slips? Within the bank, credit cards would require vast systems support, more reliance on computers, and specialized training. Given the banks' traditionally tame advertising methods, how would they ever "sell" the cards to sceptical merchants and clients? In the face of this rebuff, Hardy was encouraged when General Manager Coleman told him *sotto voce* to keep an eye on credit-card developments elsewhere.

It was a mark of McLaughlin's management style that, unlike his strong-willed predecessor, he could change his mind. By the spring of 1967, there was evidence that, for all their reluctance, other banks were looking at credit cards and that the Royal Bank stood to be scooped. Coleman told Hardy to reopen his investigations. The inspector general of banks was, for instance, contacted by bank lawyers about the issue of factoring. Given the fluid nature of consumer spending, it was also clear from the outset that a "go-it-alone" strategy – insisting that merchants carry one bank's brand of card – would not work. A joint venture was in order – a common card serving several affiliates. Hardy reported that the Toronto-Dominion Bank had done "a good deal of thinking about and preliminary planning" and its Deputy Chief General Manager Dick Thomson was eager to negotiate.[45] McLaughlin was now convinced, and created a special task force to expedite preparations. In December, a delegation of Canadian bankers trekked to San Francisco to see the BankAmericard operation. Barclays Bank in England had become the second franchisee of the highly successful American card. In August 1968, a Canadian consortium of the Royal, Commerce, BCN, and T-D banks would become the third.

Credit cards were a novel product for the banks. Profits stood to be made from a transaction fee payed by merchants and from interest charges on unpaid client credit balances. American experience had shown that the cardholders carried an average balance of $140 on their cards. To give the card national recognition, a bilingual name was needed. Why not "Chargex," a BCN executive suggested? A two-pronged sales effort would then be needed to sell the card, first to merchants and then to clients. This would require that "aggressive, well-informed, ethical salemanship" be developed in Chargex sales staff.[46] Card "activation" – actually getting people to use the cards – would be the next challenge. On top of all this, a complex system of purchase authorization and billing tailored for the Canadian scene had to be established.

During the summer of 1968, Montrealers and Torontonians were introduced to Chargex. Spreading westward and eastward through the fall and winter, the card was initially delivered unsolicited to promising existing bank clients. Consumer protests soon forced the banks to adopt direct marketing of the cards through branch promotions and the mail. The cards quickly found their way into Canadian wallets. By 1971, the Royal Bank led the competition with 571,000 Chargex customers, 80 per cent of which were existing bank clients. Activation remained a problem; only 40 per cent of cardholders actually used their cards. The bank redoubled its promotional efforts. A concerted attempt was made to sign up strategically located merchants, such as service-station chains. By 1980, there were 1.7 million Royal Bank cards, 70 per cent of which were in regular use. There were changes en route. In 1977, the globally ubiquitous (and still bilingual) "Visa" name was adopted. Card procedures were polished; the Royal Bank was the first to adopt "descriptive" monthly billing – a computer listing – instead of the old "country-club" billing, in which loose receipts were attached.

Within a decade, the credit card had affected a remarkable revolution in Canadian banking. Chargex put $300 – the initial personal ceiling – of instant credit into millions of Canadian hands, either in terms of the thirty-day billing hiatus until payment or as a cash advance. No other financial product had such a democratic reach in society. None has ever changed Canadians' spending habits more. For the banks, Chargex overheads were high, but fraud and bad debts – another of the early fears – never rose above 1 per cent of volume. Consequently profits were steady and good. At the same time, Chargex did much to drive computer data systems deep into the heart of bank operations.

Chargex succeeded not just because it was a timely companion to Canadian consumerism but also because banks made a market for it. It was a testament to the power of advertising. "Will that be cash or Chargex?" etched itself into the popular culture of the late sixties. The concept of card credit had to be sold,[47] and then, since Chargex was a generic term, each bank had to work to develop its own Chargex clientele. Advertising Chargex was thus the cutting edge of a broader remaking of the bank's advertising effort. Old-style bank advertising – static print and poster promotion – seemed impotent in the face of this dynamic challenge. Despite spending over a million dollars a year on print advertising, the bank felt that it occupied a rather shadowy position in most consumers' minds. A study in the fall of 1966 revealed that only 7 per cent of those interviewed could recall "anything that was said in Royal Bank advertising." On the other hand, 30 per cent of the same respondents could recall the advertising of a "near-bank" rival, Household Finance. The difference lay in the fact that HFC spent nearly all of its much-smaller advertising budget on television and radio advertising.[48] Canada's bankers politely had long abided by a long-standing gentlemen's agreement that electronic advertising was off-limits. Having committed itself to a fully fledged marketing effort, however, the Royal decided that it could no longer afford to be a gentleman, and in March 1967, General Manager Coleman informed the CBA that the Royal Bank would begin experimenting with radio "spots" the next month. The 1966-67 advertising budget was increased 16 per cent to allow $250,000 to be spent on broadcast media.[49] Although billed as "a flirtation rather than a marriage" with radio, "live" advertising was instantly seen to be banking's most potent ally in the liberated marketplace of the late sixties. Despite its cost, the bank quickly moved onto the television screen.

Having broken down the wall of convention, the bank needed something to fix its new, moving image in the consumer's mind. *All* banks were offering mortgages and most had credit cards. Friendly, efficient service seemed to be the key to a distinctive reputation and improved market share. If this could be established, then the promotion of all the bank's products could be "driven" off this central image. That image emerged in the summer of 1968 when the bank decided to build its radio identity around "Mary," a "dream teller," who would give the bank a more consumer-oriented face. Since customers were now dealing with a bank that was predominantly female, Mary was to be the "girl-next-door" bank employee, a friendly, attractive, and efficient embodiment of the corporate culture. Mary was launched on the radio in 1968 and won instant recognition. The voice of Mary on radio was soon reinforced by a "visual" Mary in print ads. In 1970, the Mary of the print ads began appearing on television, using the dubbed voice of an actress. An intensive search was then launched for one Mary, whose voice and appearance suited her to all media. Success came in the person of Kathleen Flaherty, a vivacious, bilingual Ottawa "girl" with acting training. Kathleen received some branch training as a teller, and then stepped into her role as Mary. Mary was to be pleasantly "average," "not a worldly sophisticate and she is not an egghead."[50]

As an advertising strategy, Mary was a phenomenal success. For the next six years, "Mary of the Royal Bank" was one of the best known – arguably *the* best known – advertising personalities in Canada. She was the first woman ever chosen to carry a high-profile corporate message to the Canadian public. "The Royal Bank is as Canadian as maple syrup. And so is our Mary." Mary unified the bank's growing array of products in the public's mind; her face appeared on posters and in TV ads, and Mary was present at branch openings and public functions to which the bank lent its name. By 1973, the bank's advertising manager, W. L. Robinson, concluded that "the terms 'Mary' and 'Royal Bank' have become virtually synonymous."[51] In 1966, "top of the mind" recall of Royal Bank advertising in English Canada was only

Mary of the Royal Bank sells consumer loans (top)
and joins the Grey Cup Parade in Vancouver in the early 1970s (below).

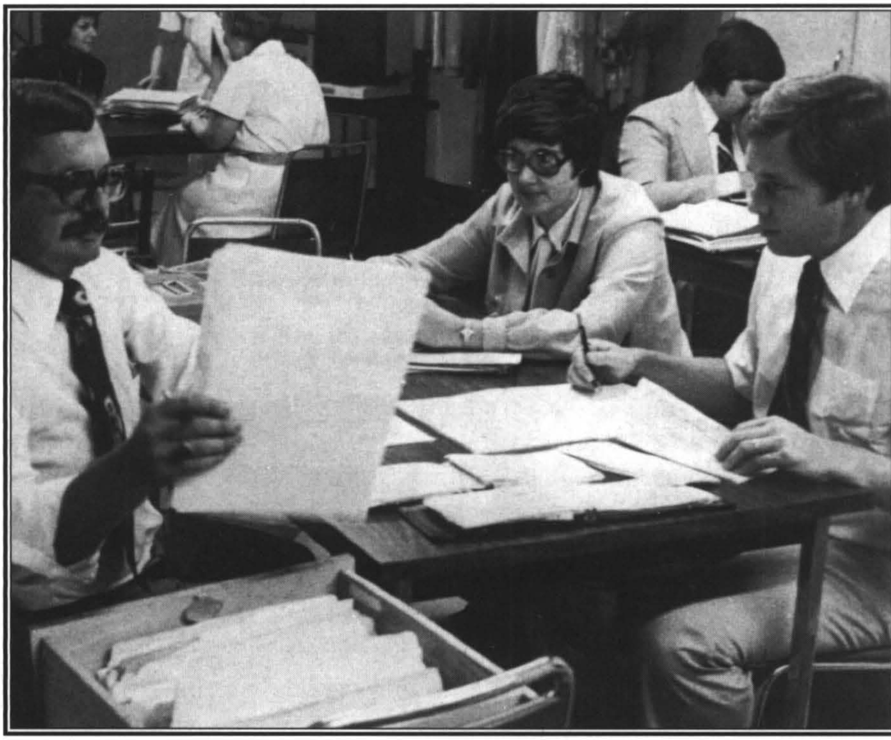
3 per cent; by 1973 it had soared to 59 per cent, 14 per cent higher than its nearest rival. Similarly, the bank received an 8 per cent higher rating for "good advertising" than any other bank.[52] So successful was Mary that, in 1973, negotiations were undertaken – ultimately unsuccessfully – with Mattel, makers of the Barbie doll, for a Mary doll.

The Mary marketing plan had an Achilles' heel. Her rise to national prominence coincided with that of a growing concern over the place of women in Canadian society. These were the years of "women's liberation," and by the mid-seventies Mary was to become a lightning rod for the early feminist movement. For all her media success, Mary still came to symbolize what many saw as the predicament of women in Canadian society and within the bank. In the case of the Royal Bank, Mary brought into the open social changes and frustrations that had been simmering below the surface of Canadian banking for over two decades. By 1968, 64 per cent of Canada's 82,921 bank employees were women. They occupied the capacious service niches of bank employment. The 1966 Ross study of the Royal Bank found that 75 per cent of women in the bank were under twenty-five years of age. For many, bank work as a teller provided ideal supplemental employment, a second income for a baby-boom family. Other women, however, bridled at the lack of long-term prospects in the bank. A "glass ceiling" hovered above their heads. The male executives for whom they worked had long concluded that women were not mobile employees, and were therefore best deployed in service roles in fixed locales. Since other demands on their lives often cut short their employment, they reasoned – the Ross study found a 35 per cent turnover rate – there was no point in training women for management. It was, of course, a Catch-22. Mary therefore fell into the role of the teller – there to serve. During the negotiations with Mattel, for instance, discussion of a male companion doll for Mary arose. Predictably, Mary's "male friend" would be "her manager." Banking was admittedly but one screen onto which these social roles were projected, but the gender differentiation was statistically striking. A study undertaken for the Royal Commission on the Status of Women discovered that, in 1968, only 29 of Canada's 5,147 bank managers were women.[53] The Royal Bank had appointed its first woman manager – Georgette St. Cyr in Longueil, Quebec – in 1968, but there were as yet no women in the bank's executive or on its board.

In 1973, Mary was on location at Queen Mary Road branch in Montreal to film a thirty-second commercial. Mary was depicted serving a mother and her son. Short five seconds of dialogue, the producer had the little boy *ad lib* that he wanted to be a doctor when he grew up. Answered Mary: "I wanted to be a nurse." The ad went to air.

The sixties and seventies saw women begin to break out of their traditional service niches in the bank. Tellers remained the bank's front line of service, and the always-genial McLaughlin frequently carried that message into the branches (above). Slowly, women eroded men's monopoly on management. In 1979, Suzanne Labarge (seen opposite in 1978 on inspection in Montreal) became the bank's first woman executive.

Shortly thereafter, the bank issued an educational booklet on banking, *Let's Pretend We Work in the Bank*, in which little girls played teller and boys played manager. The balance finally tipped. Ontario had just established a Status of Women Council to promote equal employment opportunity in the province. Its head, Laura Sabia, drew a bead on the sexual stereotyping in the bank's advertising, bought a single Royal Bank share, and showed up at the bank's annual meeting the next January. When, she demanded of Earle McLaughlin, would the bank take "that idiot advertisement" featuring Mary off the air?[54] Later the same day, Sabia and McLaughlin met privately to address a longer list of women's concerns: pensions, treatment of female clients' credit needs, and managerial training for women. Male bankers, Sabia asserted, needed to be "sensitized" to women's frustrations. McLaughlin admitted some shortcomings and outlined efforts that were under way to place men and women on an equal footing in the bank.[55] After the meeting, *Let's Pretend* was withdrawn from circulation.



Henceforth, women's issues would be an explicit part of the corporate agenda. Mary and Sabia had combined to draw public attention to the role of women in Canadian banking. The time had come, McLaughlin admitted, for bankers "to take a long and careful look at ourselves."[56] There was now an expectation both inside *and* outside the bank that some sort of employment-equity process would be initiated. And it was, although the male culture of Canadian banking approached the transition rather clumsily at first. Old attitudes die hard. In 1976, for instance, McLaughlin ill-advisedly told a reporter that the bank's forty-eight-member board contained no women because women lacked the "qualifications in the areas we need." A "simple housewife" would not do. Again, the public reacted. So did McLaughlin. Two women – Mitzi Dobrin, a Steinberg's vice-president, and Dawn McKeag, president of a Winnipeg investment company – soon joined the board. The year 1976 also saw Mary's "retirement" from the bank. Royal Bank advertising shifted from being personality-oriented to being product-oriented.

The momentum of equal-opportunity employment for women was slow in the late 1970s. The solidly entrenched male cadre in management could not be shunted aside overnight. There were limits to reform in large organizations.[57] In 1978, an American sociologist was brought in to conduct "awareness sessions" to sensitize senior management to the interests of women. Word-association exercises, for instance, were used to make managers aware of sexual stereotyping ("woman are...men do..."). At the same time, women within the bank began agitating on their own for change. In Montreal, where head office provided a high concentration of female employment, women in middle management began meeting after hours to discuss their frustrations as woman bankers. The 1976 appointment of Gwyn Gill as the bank's RSVP Coordinator served to bring their discontent into the open. The RSVP coordinator was to act as the employees' ombudsman on any issue of discontent, enjoying direct access to senior management. Gill, who had risen from a Halifax tellership to branch management in Montreal, seemed well situated to carry the concerns of her colleagues to her vice-president and eventually to Chief General Manager Rowland Frazee. She agreed to take on the job. Torn between their loyalty to the bank and their frustrations, the women knew that they were forcing management to move from rhetoric to action. Frazee soon responded by creating an Advisory Task Force on the Status of Women in the Royal Bank.[58]

After probing the bank's staff with interviews and questionnaires, the task force reported that while there was "no discrimination in the Bank's policies," there were "in fact inequities in practice." Mobility was a bugbear for men and women alike. Advancement in the bank could no longer depend solely upon willingness to relocate. Allow employees to indicate their willingness to move and then channel men and women alike into appropriate career streams, the task force suggested. Tailor training to these ends, create an Equal Employment Opportunity (EEO) Coordinator to ensure that women were trained for executive advancement and drive the equal-employment message through the organization with vigour. There were some sharp differences of opinion within the task force. Should the bank set quotas for women in management? Were the quotas attainable? Should the existing personnel department or senior management monitor the overall progress towards affirmative action? In the end, the bank adopted a program of incremental change, based on the equal-employment concept. An EEO Coordinator was appointed in 1977. Guidelines were established, and close attention was paid to the progress, accelerated by designated training and "fast-tracking," of promising, university-educated women up the management ladder in the bank. Explicit quotas, in the end, were not established. Goals were, however, set in hiring, to ensure that "feeder" populations of promotable women were created in the management hierarchy. There would be no quantum leaps for women in the bank, only a steady ascent up the ladder.

From the late seventies through the eighties, women steadily expanded their presence in the lower echelons of the bank's management pyramid. In 1977, women comprised only 8 per cent of bank middle and upper management. By 1982, this was 16 per cent, and by 1988 it was 29 per cent.[59] The more junior management-support cadre – considered the "feeder population" for future management generations – was, however, 75 per cent female by 1988. But despite its increasingly feminized base, the pyramid still narrowed dramatically at its apex. In 1979, Suzanne Labarge, a bilingual, Harvard-trained MBA, had become the bank's first woman executive. Her appointment as assistant general manager, international loans, was followed in 1984 by Gwyn Gill's promotion to vice-president, organization planning and development. Women who broke through the "glass ceiling" reported that they had brought a "very aggressive" attitude to their career and had acquired a "thick skin" to deal with some male colleagues and clients. Women, for instance, generally lacked mentors in male senior management, nor did they easily fall into the networking patterns – built largely around golf – of male banking. Consequently, by 1988, only 4 of the bank's 176 senior executives were women; two years later this had crept up to 8 executives, or 5 per cent.

The management pyramid sat on top of an even broader base of administrative support (AS) personnel, which was still overwhelmingly female – 93 per cent in 1988. Here were the people who actually serviced the customer on a day-to-day basis. As the bank's product line grew, so did the complexity of branch administration. The venerable title of "teller" disappeared, replaced by "Customer Service Representative" (CSR). Ironically, these years saw the reappearance of males as "tellers." As the bank's principal entry-level position, that of the CSR offered the kind of thoroughgoing exposure to practical banking that remained fundamental to the shaping of a banking career. None the less, the female-dominated AS group became associated with three gender-related employment issues in these years – computerization, unionization, and part-time employment.

Computers stripped away much of the traditionally menial work of banking. "Busy-hands" routine work, once so central to a bank clerk's daily life, were now smoothly automated, and there was much debate over the ultimate consequences of the spread of computers from strategic functions in head office into the daily life of the branches. Would computers "de-skill" clerical employees, making them mindless automatons?[60] Would computers push women employees further into a job ghetto? By the mid-1980s, it was apparent that computers did not throw branch staff out of work, nor did they "de-skill" them. Staff numbers grew steadily through the decade and the microcomputer not only reduced the tedium and workload of banking but also enabled CSRs to "handle a broader range of transactions and perform more complex financial services."[61] The bank soon learned that computerization was not a one-time adjustment, but a rolling revolution, which demanded constant retraining of staff. The more it invested in such training, the more valuable and less dispensable its staff became.

These same years also saw sporadic attempts to unionize bank support staff. Ever since the fitful unionization movement of the years between 1910 and 1920, bank employees had remained one of the largest blocks of non-unionized labour in Canada. The strong corporate culture, the latent promise of professional status, and the scattered nature of employment had successfully militated against unionization. The persistence of a female majority within the bank since the Second World War had worn down this immunity, since, in many ways, women felt excluded from the corporate culture that had rewarded men for shunning unions. At the same time, unions elsewhere in the Canadian economy began to turn their fraternal attention on the banks. In 1977, the Canadian Labour Congress backed the creation of the Canadian Union of Bank Employees and sponsored its drive to unionize banks. Much of the campaign was fought out before the Canadian Labour Relations Board. The union won the right to organize at the branch level and to "freeze" branch staff at the moment that a certification vote was requested. Management, in turn, won the right to exclude unionized branches from across-the-board salary and benefit increases given to non-union staff.[62]

Once again, unionization fizzled. By 1979, about fifty branches of various banks had been organized, few of them in the Royal Bank. A study done for the Centre for Industrial Relations revealed that unions attracted bank workers not primarily on account of wage demands, but on account of "poor management" practices, such as constant job shifts and lack of summer relief. The same study suggested that the Royal Bank was least susceptible to these dissatisfactions because it "had a well developed employee relations group long before unions came on the scene." The bank's improved training of management since the sixties had broken down much of the "legacy of paternalistic management" on which unionization thrived elsewhere.[63]

Increased competition between banks in the wake of the 1967 Bank Act revision greatly multiplied the number of part-time employees. Longer branch hours and the predictability of peak-service demand (such as paydays) bred demand for occasional staff. By 1980, 5 per cent of bank employment in Canada was part-time. Most part-timers were women. Critics argued that the banks were consciously creating an expendable pool of cheap labour; the banks replied that part-time labour was necessary to maintain a competitive edge, and that full-time employees were not being displaced by it. Besides, changing Canadian lifestyles had created growing demand for part-time employment in Canada.[64]

Computers, unions, and part-time employment were all aspects of a broad movement, beginning in the 1960s, by which bankers were sensitized to the needs of Canadian society. As the once-impervious maleness of Canadian banking began to dissipate, the banks were obliged to accommodate the interests of other groups in society on which they depended for clients and staff. There was a good deal of groping on the part of the banks towards these frontiers, and a good deal of pushing by government and interest groups. On balance, the Royal Bank fared well in this adjustment; it was served well by the long-held sense that it was a "progressive" institution. The scant representation of women in senior management revealed shortcomings in this progressiveness. None the less, the bank's culture had proved durable *and* adaptable. In 1986, the Royal Bank was the only bank ranked in *The Financial Post's 100 Best Companies in Canada*. The bank had the lowest staff-turnover rate in the industry – 2 per cent in management and 8 per cent in support staff. Above all else, the *Post* reported, the Royal Bank took care of its people.[65]

It was a measure of Earle McLaughlin's shrewdness that he did nothing to impede the transformation of the bank's culture. On occasion he misspoke himself – about women directors, for instance – but his inclination to delegate and decentralize had smoothed the way for change. McLaughlin was not, however, left alone in his executive suite to ponder the horizon. He remained at the centre of what was probably the greatest challenge to the bank's orientation during his twenty-year tenure as chief executive: the need for the bank to explain itself in society. The president of the Royal Bank saw more and more of his time dominated by the need to communicate to the external world. In a country that was growing daily more complex in its social, political, and economic relations, the bank had to discern the social, political, and economic priorities of Canadians, devise strategies to meet them, and then frequently defend these decisions in the public forum. Banks had become one of many interest groups in society, albeit large and well rooted. The days of privileged access to government were gone.

Within months of taking office, McLaughlin began roaming the corridors of power. In February 1961, he paid a courtesy call on Prime Minister Diefenbaker and received a lecture on the newly formed New Democratic Party. The banks, Diefenbaker told him, were "sitting ducks for nationalization."[66] Over the years, McLaughlin never retreated from public debate. He became a persistently outspoken advocate of a floating exchange rate for Canada; Canada lived by trade, and its dollar must reflect this fact. Similarly, he argued that the nation must not fall into the "banana republic syndrome" of economic nationalism; foreign direct investment had *built* Canada, not enslaved it.[67] Later, he would scold Prime Minister Trudeau for imposing wage-and-price controls on the national economy in the mid-1970s. McLaughlin thus brought an outspoken economic liberalism to the public forum, an antipathy for anything that constrained the market's freedom of action.

McLaughlin knew that he could not face society alone. These were unruly years. Vietnam had troubled the western democratic conscience. The public mood was sceptical about "bigness" and the credibility of authority; the banks were perceived by the public as "fat and sassy."[68] Business must become "socially responsible"; McLaughlin grew fond of responding that bankers had "responsibilities," not "power." None the less, he also knew that speeches were not enough in this age of protest. The bank now had to anticipate social and political change and position itself to act effectively. It must become, in the parlance of the day, "proactive"; it could no longer rely on simple, after-the-fact public *relations*, but must be aware of its public *affairs*. A 1975 reorganization of head-office public relations was designed to shift the bank towards "planned, preemptive and preventative public relations."[69] Again, McLaughlin turned to outside experts. New methodologies – polling, "tracking" issues – helped to "place" the bank in society. In 1976, an Ottawa lobbyist, Intercounsel, was retained to help guide the bank through what had become the policy-making maze in the capital. A year later, the bank became a charter member of the Business Council on National Issues. Although ties with the Canadian Bankers' Association remained strong, the bank soon established its own "government affairs" office on the Sparks Street Mall. These sophistications were complemented by enhanced corporate philanthropy. In 1967, for instance, the Royal Bank Award – today worth $100,000 – was established to honour outstanding contributions "to human welfare and the common good."

Of all the outside social and political issues that swirled through McLaughlin's two decades, none was as vexatious as the national-unity "question." The euphoria of centennial year was soon displaced by national anxiety: Quebec flirted with separation and a strident mood of discontent emerged in the West. Both issues threatened to strike at the heart of Canadian banking. It was, after all, a *national* banking system that reaped its efficiencies on a coast-to-coast basis. Any sundering of the nation would in turn incapacitate the banking system. With its head office in Montreal, the Royal Bank felt vitally exposed to any shift to independence in Quebec. Beyond its own practical problems – by 1977, the bank had 7,700 Quebec employees – the Royal Bank also had to contend with its stereotypical image as a pillar of the Montreal Anglo business world. None the less, as such crises as the 1976 election of the Parti Québécois (PQ) and the passing of Bill 101 broke around the bank, McLaughlin proclaimed the bank's "deep wish" to stay in Quebec "given conditions which will enable us to do so."[70]

In this regard, one of the ironies of McLaughlin's decentralization was that the location of head office was of increasingly less relevance to the daily working of the bank. Telecommunications, a corporate jet, and delegated authority had in effect shrunk the bank's domain. Authority could go where the business was: Toronto, Vancouver, and Calgary were soaking up bank staff. Nothing better symbolized this than the opening in 1976 of Royal Bank Plaza in Toronto. The plaza relied on its architectural elegance – twin towers of gilded glass – rather than crass height to establish its presence. A year later, three head-office functions – investments, international money markets, and corporate marketing – were moved from Montreal to Toronto. None the less, head office in Montreal remained important. Crucial integrating functions, like foreign exchange, were performed there. Thus, when Quebec began consideration of language legislation that would promote "francization" of the workplace, the bank was quick to react. Although federal regulation insulated most of the bank's operations from Bill 101, the bank made it clear to the PQ government that successful international banking would be difficult in a Montreal where the linguistic freedom of some citizens was restricted.

In the face of Bill 101, the bank vigorously defended its role in Quebec. At the operational level, Quebec district had 4,822 employees, of whom 88 per cent were bilingual. Since the early 1960s, all circulars had been issued in both languages. Recruiting was conducted at Quebec universities and high schools. Despite this, the bank maintained a firm belief that "merit, qualifications and experience," not legislated quotas, must govern hiring. In terms of clientele, the bank was no longer an Anglo island in the province. A full 51 per cent of its personal accounts were francophone; 66 per cent of its government accounts were also francophone. Two-thirds of its "industrial" accounts were, however, Anglo.[71] Quebec was "the most important beneficiary of the activities of the Canadian chartered banks, if one considers it an advantage to have more loans than deposits."[72]

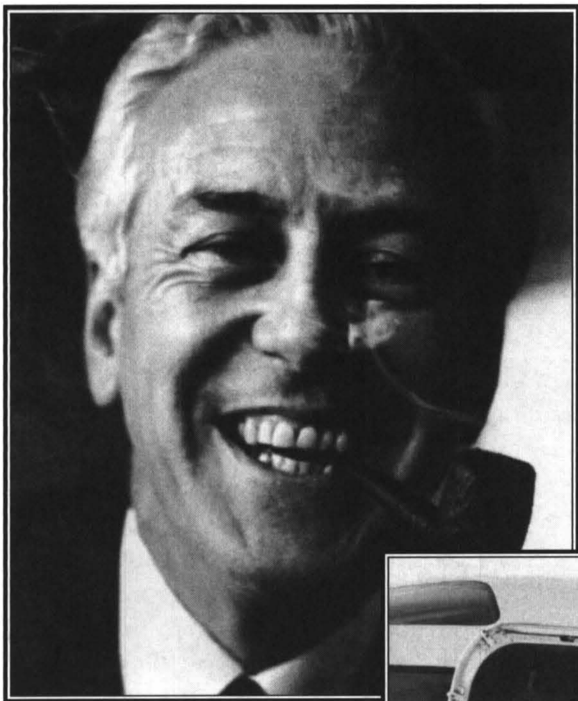
Events in Quebec none the less delivered another jolt to the bank's culture. Its Montreal corporate head-office staff of 2,158 was 98 per cent fluent in English in 1977, but only 49 per cent had a working knowledge of French. The bank's Quebec district staff was, on the other hand, overwhelmingly francophone. The problem therefore lay in drawing francophones into the national and international management of the bank. As had been the case with admitting women to the bank's culture, a gap needed to be closed between the bank's practice and the new realities of Quebec. The bank's 1979 marketing study of the province concluded: "We are perceived as a big English bank, particularly friendly to big industry."[73] McLaughlin responded in his habitual manner: he increased pressure on the bank to accommodate the "French fact." Language lessons for senior executives were stepped up. More French–Canadian names began appearing in senior management; in 1978, for instance, Pierre Frechette was appointed senior vice-president, government affairs, to help head office in its "highly sensitive dealings" in Ottawa and Quebec. Instructions were issued to staff for compliance with Bill 101, and the bank found a good working relationship with the PQ government in matters of provincial finance. At a CBA dinner early in 1979, Finance Minister Jacques Parizeau told bank vice-president J. G. R. Bénard that the province was "especially appreciative" of the bank's support of Quebec's Eurodollar borrowing.[74] Thus, the bank remained a vocal federalist, while trying to remake its image and mentality within Quebec.

In the late 1970s, the bank tried to readjust itself regionally in other ways. Throughout the decade, McLaughlin had shuffled his executive talent, trying to balance ambition and ability. Unlike Muir, he had cultivated a rich stock of talent at the senior levels of the bank and deployed it according to his decentralizing instincts. Senior executives were moved throughout the organization to build their expertise in the expanding world of Canadian banking. Ironically, McLaughlin failed to combine these shifts with plans for his own executive succession. Although he often quipped that he had no intention, like so many of his predecessors in the president's chair, of leaving his office "feet first," McLaughlin did not make the issue of his own successor a priority.

Official retirement in the bank was supposed to come at age sixty, but McLaughlin had crossed this divide in 1975. On the question of retirement, the bank's chief executive had always made his own rules. However, since Morris Wilson had become the first professional banker to serve as president, nobody had occupied the presidency longer than McLaughlin. The bank's evident success and McLaughlin's genial style seemed to protect his tenure. None the less, the board was beginning to exert some pressure for a change; nobody wanted to face the kind of wrenching dilemma that had been produced by Muir's untimely death in 1960. The first divestiture of power came in 1977, when, at a Calgary board meeting, McLaughlin was requested to drop the title of president; henceforth he would style himself chairman and CEO. The presidency would go to an heir-apparent who would assume operational control of the bank.

The contest for president was as close a race as the Sedgewick/McLaughlin decision of 1960, but without the friction and drama. The leading contenders, Rowland Frazee and Jock Finlayson, each brought the kind of layered experience that an ambitious "bank boy" could acquire even after the Second World War. It was still possible that a candidate for the bank's top job could boast practical experience in virtually every key facet of the bank's operations. Finlayson had international experience; Frazee, like McLaughlin, had been to university. Finlayson had been deputy-chairman and an executive VP since 1972, Frazee chief general manager and an executive VP since 1973. Both were born in 1921, and thus had at least a half-decade of solid executive service still before them. In the end, McLaughlin settled on Frazee, but he immediately buttressed the new president by appointing Finlayson a vice-chairman. The bank's crucial Toronto business would be shepherded by a second vice-chairman, Doug Gardiner, in Toronto; Gardiner had proved a great business builder in the all-important Ontario market. Further depth was added by Deputy Chief General Manager Robert Utting, who brought rich international experience, and by Tommy Dobson and Bev McGill as executive vice-presidents.

By 1979, a still-reluctant McLaughlin and the board had refined their succession strategy. Frazee assumed the CEO's title, and McLaughlin had become "non-executive" chairman. Frazee moved quickly to spread the burden of authority among the bank's senior executives. The old one-man-at-the-top executive pyramid had left little room to reward multiple ambitions. The "top-tier system" announced in 1980 attempted to spread authority as widely as possible at the highest level of an organization that could put only one man at a time in the CEO's office. Frazee served now as president and CEO, backed up by Finlayson in Toronto overseeing worldwide corporate banking, with the title of vice-chairman. Hal Wyatt, who had long advocated the necessity of meeting western banking needs *in* the West, became vice-chairman resident in Calgary. Chief General Manager Utting became a vice-chairman in Montreal overseeing financial strategies on a worldwide basis. When McLaughlin exited the executive floor later in 1980, Frazee would become chairman and CEO, Finlayson would become president, and Chief General Manager Utting would join Wyatt as a vice-chairman. Given the stakes, it was a remarkably smooth transition of power. The *Wall Street Journal* saw the hand of management guru Peter Drucker at work and noted that the "layered approach" to senior management was much like that adopted



The right men: Earle McLaughlin cultivated capable lieutenants. For the first time, Westerners rose to the bank's highest echelon. Nanaimo-born Jock Finlayson (top, in 1969) would rise to the bank's presidency in 1980. Moose Jaw-born Hal Wyatt (below) believed that the bank needed a higher executive profile in the West and in 1978 was appointed vice-chairman, resident in Calgary.

by Citicorp in New York.[75] "What we've done, in effect," Frazee told the press, "is anchor key banking areas with top management. We feel this will give us greater flexibility and better capability to meet the banking needs of our clients as we move into the 1980s."[76] Throughout his presidency, Frazee would make executive succession a priority; executive leadership was no longer simply allowed to germinate, it was to be "groomed."

In September 1980, Earle McLaughlin celebrated his sixty-fifth birthday and punctually stepped down from the chairmanship. His time would quickly fill up with directorships, charitable activities, collecting G. H. Henty boys' adventure books, and golfing and relaxing in the Bermuda sun. He remained on the bank's board to within a year of his death in 1991. He left behind a bank that had vastly changed. The bank, and what it did, had changed more in his twenty years than it had in the previous half century.

If by some magic in 1960, McLaughlin could have conjured up a pre-First World War "bank boy" and dropped him into a Royal Bank branch, he would not have been surprised in the least to find that, within days, the young lad was performing efficiently. At its core,

In 1977, the bank got another Bluenose president, Rowland Frazee, the Halifax-born son of a Royal Bank manager. Here, McLaughlin greets his successor (right).

Canadian banking had changed little since it had hit its national stride at the turn of the century. Products, procedures, and colleagues would all have had a familiar cast. But had anyone parachuted a 1960 banker into the daily world of a 1980 customer-service representative, the result would have been bewilderment. Charge cards, mortgages, electronic banking, RRSPs, mutual funds, and consumer loans had no roots in the world of the "bank boy." Neither would many of his (or her) new colleagues have had "bank-boy" kin. He would have found the idea of working for a woman manager absolutely astounding. And the term "global banking," with all its resonance of electronics and deregulation, would have left him perplexed.