

Innovation and Corporate Failure: Cyril Lord in UK Textiles 1945-1968

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ABSTRACT: This paper is a response to Patrick Fridenson's call for more research into the life cycle of enterprises and especially into business failure. Its subject is the textile group established in 1945 by Cyril Lord which went on to encompass merchanting, manufacturing, retailing and finance, operating in the UK, the USA and South Africa. Using unpublished records, as well as the financial and trade press, the paper explains the nature of Lord's financial, mercantile and manufacturing networks and his rapid growth, based on product innovation, novel sales techniques and massive advertising. The paper then examines his subsequent insolvency and receivership in 1968. It contributes to our understanding of corporate failure and the role of the receiver, financial institutions and government in that process.

I

In a recent article, Patrick Fridenson called for more research into corporate failure. Not only can business failures easily outnumber successes, but for any failed firm a period of success usually precedes failure. The life and death of firms should be a major research area for the business historian. If failure progresses as far as bankruptcy we need to explain the process of receivership, what transactions take place during that period when a firm 'navigates' failure, and what role is played by internal and external stakeholders such as financial institutions and other bodies including government.¹ In addition to studies of large enterprises, we also need to consider small and medium-sized business, where the transience of many firms, although empirically established, has never been adequately reflected in the business history literature.² This paper draws upon unpublished business records, and the financial and trade press, to provide a case study which addresses some of the issues raised by Fridenson. It also contributes to our limited knowledge of post-1945 regional policy at firm level, including the role of government in assisting the growth of, then ultimately brokering a rescue deal for, a substantial manufacturing enterprise.

The focus for discussion is the textile group founded by Cyril Lord in 1945 which went on to encompass merchanting, manufacturing, retailing and finance, operating in the

¹ Patrick Fridenson, 'Business Failure and the Agenda of Business History', *Enterprise & Society*, 5 (2004), 562-582.

² For a review of some of the evidence on the birth and death of firms see 'An Economic Survey, 1971-1991', in John Stanworth and Colin Gray (eds), *Bolton 20 Years On: the Small Firm in the 1990s* (London, 1991), 10-12; David Jeremy, *A Business History of Britain, 1900-1990s* (Oxford, 1998), 328-38.

UK, the USA and South Africa.³ An enterprise characterised by rapid growth, diversification, innovation in products and in sales techniques, the group at its height in the mid-1960s employed between 4000 and 5000 people. Originally a private limited company with just two shareholders and a capital of £70,000, ten years later when it became a public company with a workforce of 3500 its authorised capital had grown to £2.5 million, and this in a sector of UK industry where employment was falling significantly on trend. When Cyril Lord went into receivership in November 1968, with debts of £7 million, the firm was a household name and his corporate failure was one of the most highly publicised in the country since the end of the Second World War.⁴ In the UK, Lord had major manufacturing capacity in Lancashire and in Northern Ireland, both areas with structural problems caused to a significant extent by a secular decline in their traditional textile sectors. As far as Northern Ireland was concerned Cyril Lord was the region's most prominent failure between the end of the war and the collapse of the short-lived car producing plant of former General Motors' Vice President John Z. De Lorean in 1982.

Cyril Lord was established as a private limited company in Northern Ireland in June 1945. Lord himself, born in Lancashire in 1911, had worked for Ashworth Hadwen Ltd, cotton spinners and weavers in Manchester during the late-1920s and attended night school classes on dyeing, printing and finishing. In the mid-1930s he added to his experience through employment with Scott and Son, one of the first London firms to combine textile wholesaling with merchant converting. Before the war he worked with Mitsubishi and Mitsui on textile technology and gained valuable expertise in the German worsted industry.⁵ He had gone to Belfast during the Second World War as Technical Adviser to the Cotton Control Board at the request of Sir Thomas Barlow, then Director General of Civilian Clothing, to help resolve technical problems of spinning and weaving rayon on flax machinery. Lord's pre-war and wartime experience established his reputation as a creative technical specialist and, most importantly, provided him with entry into manufacturing, mercantile, financial and government networks in Belfast. His association with Thomas Barlow, Chairman of cotton firm Barlow and Jones, a former President of the Manchester Chamber of Commerce and Chairman of the Manchester-based District Bank between 1947 and 1960, was to be of very considerable financial advantage to him after the war.

By 1954, the company was described as 'spinners, weavers and converters of cotton, rayon and synthetic fibres'.⁶ As contemporaries noted, Lord's reputation rested not only on the exceptionally rapid growth of his business, underpinned by product

³ For biographical information see Rhys David, 'Cyril Lord', in David Jeremy and Christine Shaw (eds) *Dictionary of Business Biography*, Vol. 3 (London, 1985), 852-55; David Hunt, 'Lord, Cyril (1911-1984)', *Oxford Dictionary of National Biography*, Oxford University Press, 2004 [<http://www.oxforddnb.com/view/article/38991>, accessed 9 January 2006].

⁴ Lord's debts of £7 million were set out before the High Court in Belfast in January 1969: *Belfast Telegraph*, 13 January 1969.

⁵ Cyril Lord to J. Summerscale, British Embassy, Washington, 22 March 1946, PRONI COM/63/1/166

⁶ *The Times*, 14 May 1954. City Notes.

innovation in natural and synthetic textiles, but in the high public profile he maintained. Much of the latter was fuelled by his political obsession to protect UK textiles against cheap imports.⁷ Lord acquired several mill properties in Lancashire where all his manufacturing units were located. These acquisitions were part of a merger activity that was the dominant characteristic of British textiles in the 1950s and 1960s.⁸ Among many financial consequences of this movement two were of great importance. First, as companies changed hands, banks found themselves with new customers who in different circumstances they would not necessarily have chosen to support. Second, the period saw the creation of many new textile groups, where growing organisational complexity meant that accounting practices made it correspondingly difficult for outsiders, or even shareholders, to make a judgment about financial information, raising some fundamental questions for corporate governance. The scope for opportunism and information asymmetries was correspondingly increased. Moreover, the precise relationship between constituent companies in a group was not always clear, and this was particularly important when government or banks required financial guarantees from a 'parent' company, or when a company ran into serious trouble.

In May 1954 Cyril Lord Ltd became a public company with an authorised capital of £2.5 million. In the first instance only £1 million in preference shares was offered to the public. All the equity was retained by Lord (£900,000) and his business partner since 1945, and fellow director since 1948, William McMillan (£100,000), thus guaranteeing Lord decisive control of the company. This pattern of equity ownership continued until the ordinary shares were offered to the public in 1964, so there was no real separation of ownership from control.

II

Although registered as a Northern Ireland company, Cyril Lord did not begin to develop manufacturing capacity in that region until the mid-1950s. Unlike most other UK regions after 1945, Northern Ireland had failed to achieve full employment and normally had a considerable excess of male unemployment.⁹ The generation of work for men thus became a top economic and political priority for the devolved government which operated in the region.¹⁰ Lord and McMillan were well placed to use their network

⁷ The debate is well covered in John Singleton, *Lancashire on the Scrapheap: The Cotton Industry 1945-1970* (Oxford, 1991), ch.6; Mary B. Rose, 'The Politics of Protection: An Institutional Approach to Government-Industry Relations in the British and United States Cotton Industries, 1945-73', *Business History*, 39 (1997), 128-50; and David Higgins and Steven Toms, 'Public Subsidy and Private Divestment: The Lancashire Cotton Industry, c.1950-c.1965', *Ibid.*, 42 (2000), 58-84, es 69-71.

⁸ For a good survey see K.C. Jackson, 'A Review of Acquisition and Merger in the Lancashire Textile Industry during the 1960s, Part I', *Textile Institute and Industry* (October, 1974), 307-11; 'Part II', *ibid.*, (December 1974), 370-74. The first of these articles considers the period since 1900. I am grateful to Douglas Farnie for these references.

⁹ K.S. Isles and Norman Cuthbert, *An Economic Survey of Northern Ireland* (Belfast, 1957), 575.

¹⁰ On regional policy after the Second World War see R.I.D. Harris, *Regional Economic Policy in Northern Ireland, 1945-1988* (Aldershot, 1991).

of government and business contacts to take advantage of Northern Ireland's relatively generous financial assistance schemes to develop the next phase of his business expansion. McMillan was a Belfast solicitor who had strong connections with Bank of Ireland and it was this bank which became Lord's principal financial support in the crucial early years of expansion, while McMillan himself provided much of the expertise in negotiating financial assistance with government. Moreover, given the localised nature of devolved government in Northern Ireland it was relatively easy for businessmen to gain access to senior civil servants and ministers.

Shortly after the successful preference share issue Lord applied for a grant of £32,500 from the Northern Ireland government towards the cost of a new factory to make specialist quilted products. Each application for assistance had to be considered by an Advisory Committee and be supported by both the Ministry of Commerce and the Ministry of Finance. Between the first application in May 1954 and the spring of 1955 Lord made radical alterations to his development strategy and decided to move into carpet manufacture. It was typical of him to make a press announcement about this decision before informing the Northern Ireland Ministry of Commerce, and also characteristic that he formed a new company, Cyril Lord Carpets Ltd, to undertake the business. Lord's diversification into carpet manufacture was unquestionably decisive for his business career and for the UK carpet industry in general, and it was prompted by a major technological innovation – the introduction into the UK of 'tufted' carpets from spun yarn rather than manufacture by traditional weaving techniques. The tufting process originated in the USA and its rise in market share had been impressive. It revolutionised carpet manufacture and opened up for the first time the prospect of a mass market not least for lower income households.

The government officials who handled Lord's application for assistance sought advice from a number of sources as to whether they should proceed. One of these was a local senior banker and former Chairman of the Industrial Finance Company (Northern Ireland) Ltd, the regional equivalent of the ICFC which operated in Britain. In this advisor's view, Lord's balance sheet was 'poor in showing borrowings up to the hilt against assets of doubtful value (old cotton mills useless for any other purpose; stocks which for banking practice are considered at 50% of their book value, and outstanding debts usually accepted at 80% of their book value)'.¹¹ Lord's application was thus an example of opportunism based upon the physical asset-specificity of mill properties which, when offered as security, were often of great concern to bankers and to government departments involved in industrial support.

Lord and McMillan argued that their overdraft with Bank of Ireland then stood at £750,000 and that with Midland Bank at £550,000; the former was pressing for a reduction of £150,000 and the latter for a reduction of £100,000. The credit squeeze and the uncertainties in money markets created by the Suez crisis meant that a plan to float Lord's equity capital in order to fund bank borrowing could not take place. They were confident that they would do this over the next five years; in the meantime his company intended to reduce stocks and sell their retail shops. After further, sometimes difficult, negotiations Lord took advantage of the improvements in government financial assistance available under the Capital Grants scheme from 1954 and, after promising to do his best to employ 200 mainly male workers, was provided with a new factory in Donaghadee,

¹¹ PRONI COM 63/1/466A, Notes of a meeting on Cyril Lord, 21 November 1956.

County Down, costing £320,000 as well as a grant of £35,000 towards machinery. Lord assured a Ministry of Commerce official that once the business was established, it would 'develop like a prairie fire'.¹² The factory opened in 1957 and had the immense advantage of being not only new but also purpose-built. This distinguished it from most UK textile mills which were old and often ill-suited to technical innovation and organisational change. Built and equipped to Lord's specifications the new factory would form the basis of his carpet business over the next ten years, during which period it became for a time the largest of its kind in Europe and the fourth largest in the world. The factory itself was extended three times between 1960 and 1966, each time with Government support, and the Ministry of Commerce also provided further assistance to Lord to enable him to operate factories at Carnmoney from 1959 and Rathgael from 1966. In addition the Ministry provided substantial capital grants towards new plant, machinery and equipment. Eventually the assistance he received totalled some £7 million.¹³

If technological change threatened the established structure of the industry from the mid-1950s, so too did competition policy in the form of the Restrictive Trade Practices Act of 1956. The industry had become increasingly cartelised from the end of the Second World War with two agreements, operated by the British Carpet Manufacturers and the Wholesale Floor Covering Distributors' Association respectively, to regulate production, distribution and sales. These wide-ranging agreements stabilised the industry prior to, and in the early years immediately after, the introduction of the tufting process. However, under the 1956 legislation, they were open to legal challenge. When the case was heard in 1958 and 1959, the court struck down the agreements and dismissed the industry's arguments that quality and exports would decline, distribution would suffer, joint advertising would stop and promotional costs increase.¹⁴

In March 1965 Lord finally decided to offer equity to the public. Lord had suffered net losses in three of the years since 1956 and the equity issue of 2.4 million shares at 10s. handled by Old Broad Street Securities was undersubscribed by 5 per cent, although the shares quickly began to attract a premium as group pre-tax profits hit a record level of £1.3 million in the year ending June 1966. This in turn helped with the successful offer of £1.5 million 7¼ per cent debenture stock in March 1967, in retrospect one of the last occasions when Lord stood a reasonable chance of raising capital from the public.¹⁵ During this period, however, it is possible to identify two particular weaknesses in Lord's business expanding business operations that would damage the company's reputation: a lack of market research and inadequate testing of new products, both of which derived from Lord's insatiable desire to expand and innovate.

¹² Ibid., Cyril Lord to H.E. Jones, 29 January 1957. The Northern Ireland Capital Grant Scheme covered plant, equipment and buildings. In Britain buildings were excluded from the legislation: Harris, *Regional Economic Policy*, 36.

¹³ *Belfast News Letter*, 5 December 1968.

¹⁴ Dennis Swann, Denis O'Brien, W. Peter J. Maunder and W. Stewart Howe, *Competition in British Industry: Case Studies of the Effects of Restrictive Practices Legislation* (Dept of Economics, Loughborough University, 1973), 115-22. Hereafter Swann *et al*, *Case Studies*.

¹⁵ Ibid., 1 April 1965, 24 August 1966, 21 March 1967.

When the South African government were becoming increasingly active in seeking to develop industry in the so-called 'homelands', Lord moved in quickly and decided to set up another company, Cyril Lord (S.A.) Pty Ltd, to operate a new factory costing £750,000 at East London in the largest homeland, the Transkei, for the manufacture of poplin. In 1963 in a blaze of publicity he stripped out three of his mills in Lancashire and shipped all the machinery, much of it quite old, to the new factory, a move underwritten by the South African Industrial Development Corporation in its pursuit of industrial decentralisation.¹⁶ Some of the employees and their families went as well, in specially chartered aircraft. But the market for poplin had been exaggerated by the South African government; and Lord had not given sufficient time to market research, or competition from local producers or imports, and stockpiling followed. Over the next few years, despite successfully lobbying for tariff protection, Lord reduced his stake in the venture, handed more control over to the South Africans, and switched production to coarser calicoes and linen.¹⁷ Again in 1963 Lord was one of 168 businessmen who took part in a goodwill visit to the Soviet Union, organised by newspaper proprietor Roy Thomson. After this visit, Lord took an abrupt decision to buy two machines for the manufacture of artificial astrakhan, having apparently undertaken no market research and having put no sales organisation in place. This venture too was a failure.¹⁸

Lord's passion for rapid innovation, his self-confidence in overcoming technical problems, coupled with a massive appetite for publicity seeking could be a dangerous combination. After a visit to the Astrodome in Houston, he had the idea of producing his own version of Monsanto's Astroturf. With the brand name of 'Cyrilawn' it was made on the tufted principle, rather than woven as Astroturf was. He thought all the production problems had been solved, the debut was arranged at the London Hilton in April 1967 when the entire ballroom was covered in Cyrilawn and decked out to look like Wimbledon at a cost of £6000. But however much publicity this generated the product was seriously defective and insufficient time had been given to product testing. It not only turned from green to blue, it also developed a slime which made it almost unusable. As a result the first and only 100,000 square foot of Cyrilawn had to be given away. It may be that these two high-profile failures contributed to the forced resignation in October 1967 of William McKee, a joint manager at Cyril Lord Carpets and regarded as the 'technical wizard behind the company'.¹⁹ Also in 1967 Lord purchased the entire chain of loss making paint and wallpaper shops trading under the Kyle brand. The problem here was that most of these were simply too small to be suitable as carpet retail outlets, since potential customers could not unroll the carpet to see what it looked like.

¹⁶ Stuart Coupe, 'Decentralisation of Industry in South Africa during the Period of Apartheid: the Clothing and Textile Sectors', in Terry Brotherstone and Geoff Pilling (ed), *History, Economic History and the Future of Marxism: Essays in Memory of Tom Kemp* (London, 1996), 176-79. I owe this reference to Steven Toms.

¹⁷ *Sunday Times*, 11 May 1969. The Industrial Development Corporation of South Africa provided substantial further assistance to Lord's venture during 1965, and The South African Ministry of Economic Affairs protected Lord's factory by restricting imports of a broad range of poplin: *The Times*, 29 May and 26 August 1965.

¹⁸ *Ibid.*, 4 May 11 May 1969.

¹⁹ *Ibid.*, 17 November 1968.

Moreover, many of the shops were not well-sited, being ‘tucked away in the corners of under-used shopping precincts put up by over-enthusiastic developers’.²⁰

Lord’s pathological optimism began to look questionable in the spring of 1967, as the gap between projected and actual profitability became enormous. Lord and McMillan had assured a firm of London brokers that pre-tax profits for the half year ending May 1967 would probably be £636,000 and would not fall below a ‘guaranteed minimum level’ of £412,000. The actual pre-tax profit for this period was £46,000, some 93 per cent short of the expected figure despite the fact that sales had only declined by six per cent. Profit forecasting at Cyril Lord was indeed a ‘rather hit-and-miss affair’²¹, since, as explained below, there was no full-time financial controller in the group until spring 1968. To put this in perspective, in the record year of 1966, profits of £1.3 million had been made on a turnover of £10.8 million; in the next three years, while turnover declined by just £500,000, profits fell by £1.8 million.²² Turnover had been built on the massive advertising campaign. In 1958 Lord’s advertising budget ran to £50,000; eight years later it was almost £800,000, more than four times that of his nearest competitor (Kosset).²³

III

The fall in net profits of almost two-thirds in the year 1966-67 resulted in both Lord and McMillan taking a fifty per cent salary cut and also waiving their rights to dividends.²⁴ This was the first public acknowledgement that actual performance had fallen well short of expectations and it was the start of a period of decline from which Cyril Lord never recovered. It is difficult to know well the long-established business relationship between Lord and McMillan withstood the increasing pressure on the group. One indicator that suggests Lord may not always have consulted with his Deputy Chairman came in February 1968 with the announcement in the *Estates Gazette* that one-third of Lord’s retail shops, some 91 properties, were being offered for sale with vacant possession. McMillan denied he knew anything about this drastic move, nor had it been mentioned in Lord’s half-year statement the previous week.²⁵ How many of these shops made a profit is an open question but most were leasehold and sited in expensive locations. Rents on them must have contributed significantly to the increasingly unbearable costs that Lord faced. Thus the rent on the London Oxford Street shop amounted to £22,500 per annum, that on Birmingham’s Corporation Street to £12,000.²⁶ Later that year one widely-quoted estimate put the total annual rental cost of Lord’s shops at c.£600,000.²⁷

By March 1968, however, under pressure from government, bankers and shareholders and apparently on doctor’s advice, Lord was forced to retire as chairman and managing director, going to the Bahamas, a location more suited ‘to his blood

²⁰ Ibid., 18 May 1969.

²¹ Ibid.

²² Ibid.

²³ *Sunday Times*, 17 November 1968.

²⁴ *The Times*, 2 September 1967.

²⁵ *The Times*, 14 February 1968.

²⁶ Ibid., 17 February 1968.

²⁷ *Daily Telegraph*, 25 November 1968.

pressure and taxation problems'.²⁸ One important immediate result of Lord's departure was the appointment of a full-time financial controller, something which, surprisingly, the company had never had before. Julian Richardson, financial controller at AEI Switchgear Division and before that accountant at Price Waterhouse took up his post in April. As late as April 1968 the strengthened management, together with a pre-budget consumer boom and the impact of devaluation were all seen as making the prospects of recovery good.²⁹ The lack of financial control within the group had, however, allowed costs to rise to critically high levels but by the time Richardson, who had a particular interest in cost accounting and computerisation, took over it was too late to pull the company around.

The scale of the crisis at Cyril Lord became clear over the next five months. A first draft of group accounts to 1 June 1968 indicated a loss of £196,000. This would have been serious enough given the optimism of Lord's statement in February. However, the auditors' second draft set the loss at £491,000, and is summarised in Table 1. The major item in the revised set of accounts was the writing back of a £163,000 credit from Lord's two main yarn suppliers, Courtaulds and British Enkalon, who had paid Lord for advertising their brand names on his carpets.³⁰ Moreover, as sales fell, these two suppliers were no longer prepared to continue special price discounts negotiated by Lord.

Analysis of turnover from January 1966 through to summer 1968 indicates that apart from exceptional discount promotions, sales had a tendency to be below the levels of the corresponding month the previous year. While sales did not collapse, they stagnated compared to their competitors many of whom were experiencing boom conditions. Lord's relatively poor performance in sales was attributed to three key factors, all of which reflected the chairman's strategy and style. First, the company's products were, according to Richardson, in the wrong price and colour range, 'matters of this kind were decided by Mr Lord and his hunches were wrong in relation to recent decisions'.³¹ Second, Lord had managed to alienate all the key elements in his sales force. By purchasing the Kyle chain of shops, those agents who had traditionally been responsible for most of the sales felt their market was being taken away. The significance of this should not be underestimated. Lord depended on the effectiveness of both part-time and full-time sales agents, the former included some 6,000 teachers, local government officials, and even clergymen, and the latter comprised 200 full-time representatives. His innovative sales techniques enabled him to bypass the wholesaler; sometimes seen a weak link in traditional marketing practice in this industry. Once it became known that Lord was planning to sell the shops then this clearly had a negative impact on sales staff working in them. Third, productive capacity in Northern Ireland had been further increased in 1966 but given declining orders, underutilisation increased and so did unit cost. Moreover, Lord's rather cumbersome arrangements for warehousing

²⁸ *Financial Times*, 4 April 1968. Lord lived in the Bahamas until his death in 1984.

²⁹ *The Economist*, 6 April 1968.

³⁰ Cyril Lord had been able to negotiate favourable terms with Courtaulds for the supply of 'Courtelle' which became significant as a fibre in tufted carpets. See D.C. Coleman, *Courtaulds, An Economic and Social History: Volume III – Crisis and Change, 1940-1965* (Oxford, 1980), 189.

³¹ PRONI COM 63/1/466B, Note of a Meeting between J.E. Hawkins and Julian Richardson, 22 August 1968.

and distribution, coupled with the distance of Northern Ireland from British markets, meant that orders could take six or seven weeks to reach the customer. As competition increased this began to diminish Lord's competitive edge.³²

The firm had to negotiate continuing assistance from its four bankers who began to press for a reduction in accommodation. Some data on bank overdrafts and finance house accommodation in August is provided in Table 2. In addition the company had written some £500,000 worth of un-presented cheques which, had they been presented would have pushed bank borrowing to about £2 million.

As its difficulties increased the Cyril Lord group belatedly sought professional advice and approached Rothschilds to act as their merchant bankers and advisers, but Rothschilds declined the business.³³ Hill Samuel did accept but only on condition that Cyril Lord himself played no further part in the group's activities. Before considering the role of Hill Samuel, it should also be noted that a further pressing need was to explain the group's change of fortunes to institutional investors, and especially to the Commercial Union Insurance Company which acted as trustees for Lord's debenture holders. One of McMillan's fears was that if any of the company's cheques was dishonoured then Commercial Union would be likely to place the Lord group in the hands of the Receiver.³⁴

Given the large financial commitment that the Government of Northern Ireland had made to Cyril Lord it was only to be expected that government officials would be closely involved with all parties who might be able to prevent the complete collapse of the group. Indeed, not unlike the very much larger crisis which began to unfold at Rolls Royce from 1968, where shareholders were reassured by optimistic chairman's statements which gave little hint of the company's problems, government officials and financial institutions began to assume responsibility for the future of the company.³⁵ The Ministry of Commerce made it clear to Hill Samuel that the following minimum conditions would have to be met before they could consider further assistance: the appointment of new and competent top management; some kind of government control over the group of the kind that had recently been applied to Harland & Wolff shipbuilders; a viable business plan with an indication of when profitability might be restored; and commitment of continuing support from the banks, since 'there could be no question of Government assistance being used merely to bail out the banks'.³⁶ At one level these stipulations were both logical and politically defensible. There was always the danger, however, that drift would set in and a rescue become impossible. Good fortune and skill were required to get the pace of any rescue bid just right, especially given the number of interested parties and the speed with which circumstances changed from day to day. Both Courtaulds and Hill Samuel had expressed the view that if the Ministry 'did not intervene, anyone who might be interested in the undertaking will wait

³² Ibid. See also Lord's obituary in *The Times*, 4 June 1984.

³³ Ibid.

³⁴ PRONI COM 63/1/466B, Ministry of Commerce Note on Cyril Lord, 13 September 1968.

³⁵ On Rolls Royce see the illuminating analysis by Sue Bowden, 'Ownership Responsibilities and Corporate Governance: the Crisis at Rolls Royce, 1968-71', *Business History*, 44 (2002), es 44, 53-6.

³⁶ PRONI COM 63/1/466B, Note by HE Jones, 18 October 1968.

in the hope of picking up bargains after liquidation'.³⁷ Lord's two principal raw material suppliers in the region were Courtaulds and British Enkalon, who also supplied carpet manufacturers in Britain. Despite their status as competitors, both firms were initially receptive to the idea of joint intervention to keep their major customer in business.

In a wider context, the collapse of Cyril Lord needs to be viewed against the simultaneous rise in profitability in the industry as a whole during 1967-68. Blackwood Morton (BMK), Homfray, AW (Securities), Thomas Bond Worth and Shaw Carpets were examples of firms which all turned in impressive figures in 1968. The improvement in profitability was especially marked amongst traditional producers, which had been slow to invest in new plant and therefore did not suffer the same kind of overcapacity which was evident in the tufted carpet sector.³⁸

Hill Samuel's report, compiled using data from Lord's accountants, Peat Marwick and Mitchell, is essential to understanding how the outlook for the latter became critical in the November of 1968. The increasing losses revealed by successive draft accounts have been shown in Table 1. The company still traded at a loss, and Hill Samuel calculated breakeven point on carpet sales of £12.5 million³⁹, a figure which seemed quite unattainable in the short term. The key recommendations of the report can be divided into four sections, three of which would provide substantial additional finance. First, the Ministry of Commerce should defer rents due in 1968 and 1969 on the Donaghadee and Rathgael factories until after 1977, thus effectively providing the company with a loan of £280,000. A new Executive Chairman should be appointed, but the Ministry should have the power to vet the appointment and to 'appoint, remove or replace any Director' after consultation with the Chairman. Second, additional support to the extent of £430,000 was sought from the banks: an extra £250,000 from Coutts, and an extra £90,000 each from Bank of Ireland and Williams Deacons. Third, both Courtaulds and British Enkalon were asked to increase their credit limits for raw material supplies to between £500,000 and £800,000 each. A fourth section was designed to prevent Cyril Lord from attempting to control the group through his still substantial shareholding.

What the report demonstrated was the interdependence of all the parties concerned – raw material suppliers, banks and government. Since this was so, it was unlikely that the rescue plan could have withstood refusal of any one of them to participate fully. It soon became clear, however, that such a positive outcome was not feasible. Having discussed the report, the Courtaulds board unanimously agreed that they could not possibly provide the additional credit facilities sought, but if a firm were to take over the Lord group and introduce new management and an improved sales network then they might reconsider. Courtaulds' initial response was, however, a severe blow to the Hill Samuel proposals and led the Ministry of Commerce to declare that in the circumstances they could not agree to deferred rentals as proposed. The Ministry did say that they might revisit the decision if all parties except Courtaulds agreed to the Hill Samuel proposals. As for the banks, a joint meeting of Bank of Ireland, Coutts and Williams Deacons on 5 November concluded that while they would not agree to the proposals, nor would they bring about the collapse of the Lord group. Rather, they were

³⁷ Ibid.

³⁸ Swann *et al.*, *Case Studies*, 130.

³⁹ PRONI COM 63/1/466B, Hill Samuel Report on Cyril Lord Ltd, 1 November 1968; *Financial Times*, 16 November 1968.

inclined to hold the position until the end of the year during which time negotiations with possible buyers could continue.⁴⁰

From the Ministry's point of view, the key political imperative was to protect the 1700 jobs it had nurtured at the Cyril Lord factories. Workers from the factories led by the general manager marched on the parliament buildings in Belfast.⁴¹ After difficult meetings following the completion of the Hill Samuel report when for the first time the scale of the crisis had become apparent, and the refusal of key parties to provide the requisite assistance had become known, the Belfast government decided to ask Courtaulds to make a bid for the group. The accounts still had not been published, but the Lord group was being increasingly pressed by small and medium sized creditors, and a bid from Courtaulds would at least bring in a large firm with an established commitment to the region. Initially Courtaulds agreed a nominal offer of 7 ¾ per cent unsecured loan stock equivalent to 1s per share; a cash injection of between £1-£1.5 million and new management.⁴² This bid valued the group at some £400,000, or £7 million less than the stock market valuation of a year before. Lord's shares had continued to trade at around 6s until the accounts had been published on 15 November, after which they declined to 2s 10½d, but the offer gave the shareholders stark choice of 'a nominal sum from Courtaulds or nothing following liquidation'.⁴³ Amongst the shareholders who had seen the value of their investment in Cyril Lord collapse were Pilkington Brothers Superannuation Fund, Imperial Tobacco Pension Trust and the Hoover Trust. One potential problem was that, given the crisis the company faced, shareholders might legitimately raise questions about the optimistic circular distributed by Lord in February. Hill Samuel's view was that since the statement was made by Lord himself, and that since he was no longer in charge of the company, this particular difficulty could be sidestepped.⁴⁴

If Courtaulds had gone through with the bid they would have become the largest business employer in Northern Ireland. However, the bid ran into immediate opposition from British Enkalon who claimed that it contravened an earlier gentleman's agreement with Courtaulds that neither would bid for the Lord group.⁴⁵ Moreover, the prospect of Courtaulds' entry into carpet manufacture clearly distressed many established producers.⁴⁶ Only three days after their nominal bid, Courtaulds withdrew, stating that the assistance required was much greater than they believed. The same conclusion was reached by British Enkalon which, having discussed the Hill Samuel report with Courtaulds, admitted that the financial position of Cyril Lord was much worse than both had feared so that neither could 'with any degree of commercial prudence take part in any

⁴⁰ PRONI COM 63/1/466B, Ministry of Commerce Note on Cyril Lord, 6 November 1968

⁴¹ *Belfast News Letter*, 22 November 1968.

⁴² *Daily Telegraph*, 16 November 1968.

⁴³ PRONI COM 63/1/466B, Cyril Lord Ltd, Note for the Minister, 15 November 1968.

⁴⁴ PRONI COM 63/1/466B, Note by J.E. Hawkins of the Ministry of Commerce, 6 October 1968.

⁴⁵ *Ibid.*, Cyril Lord Ltd, Note for the Minister, 15 November 1968.

⁴⁶ *Financial Times*, 16 November 1968.

rescue operation'.⁴⁷ At this point the entire position of the Cyril Lord group changed since within twenty four hours of Courtaulds' announcement, Commercial Union called in the Receiver, in the person of Donald Chilvers of Cooper Brothers accountants.⁴⁸ One of Chilvers' first tasks was to organise drastic cut price sales at Lord's shops just to raise enough money to pay wages and keep the factories open.⁴⁹ He also had to arrange emergency supplies of fibre from Courtaulds to supply Lord's Lily Mills near Oldham where stocks were almost gone.⁵⁰ By late November 1968, however, there was not even enough money to maintain a share list so trading ceased and the company disappeared from the Stock Exchange List, on which it had been quoted since 1954.⁵¹ The final 'deathbed' share prices were 3½d for ordinary shares and a mere 1½d for preference shares.⁵²

The impact of Lord's factories in Northern Ireland was enormous especially given that they were established in small towns. Not only were they relatively labour intensive but they provided employment for a largely male workforce which was otherwise unemployed or underemployed. In Donaghadee, for example, more than half of the 800 employees lived in this town of 3700 people and its surrounding area.⁵³ They were also in an overwhelmingly Protestant area, thus providing work for employees who were likely to be unionists rather than nationalists and this would no doubt have been a material consideration for the Unionist government, under pressure from its own supporters and a civil rights campaign. In 1968 when the company went into receivership the political implications of closure were disproportionately great. In that sense the government was in a similar position Lord's bankers – the choice was to shut down and get nothing back or to carry the firm in receivership for as long as possible hoping for a buyer for the business as a going concern. It was also the case that in the struggle to attract and retain employment, Northern Ireland now had to face more competition from British regions since the Labour Government had placed greater priority on regional policy in Britain from 1966. At the same time, its own attractiveness as a host for inward investment was declining as a result of growing political unrest, uncertainty and violence.⁵⁴ The political imperative to save the Lord factories could not have been stronger, and Brian Faulkner, the Minister of Commerce made it clear that he would be available 'day and night' to talk to any prospective buyer recommended by the Receiver.⁵⁵

After weeks of uncertainty Lord's three factories in Northern Ireland and his Lancashire mills were bought by Viyella International, then led by its aggressively acquisitive chairman, Joe Hyman. Viyella already had three shirt factories in Northern Ireland, all in County Londonderry, and among their products were the strong brand

⁴⁷ PRONI COM 63/1/466B, Adrianus de Zeeuw to H.E. Jones, 8 November 1968. De Zeeuw was Executive Deputy Chairman of Leicester-based British Enkalon.

⁴⁸ *Financial Times*, 22 November 1968.

⁴⁹ *Ibid.*, 3 December 1968.

⁵⁰ *The Guardian*, 30 November 1968.

⁵¹ *Daily Telegraph*, 27 November 1968;

⁵² *Belfast News Letter*, 27 November 1968.

⁵³ *Financial Times*, 29 November 1968.

⁵⁴ *The Economist*, 7 December 1968, 61-2.

⁵⁵ *Financial Times*, 29 November 1968.

names of Peter England, Evvaset and Rocola.⁵⁶ For the government of Northern Ireland, Viyella's decision was the best possible outcome. During the crisis it had rejected calls from some local politicians to take Lord's factories into public ownership, and had defended its substantial financial assistance on the grounds that Lord's profitability and employment had justified the financial assistance. The cost per employee had been within the normal range for government-aided enterprise.⁵⁷ No other firm in the UK textile sector was willing or able to takeover these two key parts of Lord's business. Viyella did not, however, buy either the shops or the direct selling operation. Hyman argued that textile manufacturers should be independent of both fibre producers and of retailers, and that forward integration into retailing put manufacturers at a 'grave disadvantage'.⁵⁸ The view that Lord had made a major strategic error when he integrated forwards into retailing was a common one:

To succeed these days retailers need a wider range than one manufacturer could provide and Lord was caught between two stools, since its production was based on a range too wide to be economic. To get the profits it needed an extremely high throughput and to get the throughput it advertised at hefty cost on TV. But the conglomeration of tufted manufacturers and the upsurge of small, specialised retailers made that impossible....Cyril Lord got left behind in a market which it had itself created.⁵⁹

In the end Lord's unbridled innovation, inadequate product testing, lack of market research, and uncontrolled advertising budget contributed enormously to the firm's collapse.

Even when Cyril Lord was a large public company, Lord took all the key decisions himself, and the history of this company emphasises again the crucial role of the individual, not only in successfully establishing and building the firm, but in being largely responsible for its decline and failure.

IV

As was the case with Cyril Lord, some of the UK enterprises which grew to prominence but subsequently failed, within a single generation, during the 1960s and 1970s were very closely identified with the founder. Two other examples were John Bloom of Rolls Razor, which failed in 1964, and Kaye Metrebian of Brentford Nylons which collapsed in 1976. Both of these shared the same Receiver, Kenneth Cork of Cork Gully, whose verdict on the former, that the 'company concentrated on sales and production to the exclusion of finance and the lack of up-to-date knowledge of the serious position was

⁵⁶ 'Viyella in Northern Ireland', *Viyella International*, (1970).

⁵⁷ *Belfast News Letter*, 28 November, 5 December 1968.

⁵⁸ *The Guardian*, 11 March 1968.

⁵⁹ *Financial Times*, 16 November 1968. For a similar view of the dangers of forward integration into retailing see *The Guardian*, 2 December 1968.

only realized when it was too late', could be applied to the other two. Like Lord, Bloom took on established manufacturers such as Hoover and Hotpoint and built and supplied twin-tub washing machines via massive direct advertising. Again, like Lord, in the face of renewed competition from established firms, Bloom diversified from the core products, in his case into areas ranging from cosmetics and central heating to Bulgarian holidays and television rental. None of these proved unsuccessful.⁶⁰ In fact, only a few months before the receiver was called in, Bloom announced his intention to develop a chain of some 500 television rental shops.⁶¹ Brentford Nylons was a private company with almost all the equity owned by the Metrebian family. It created a huge domestic market for nylon sheets with a heavy initial emphasis on mail order, backed by massive advertising, which combined to write 'a highly original chapter in textile marketing'.⁶² As had been the case with Lord, Brentford became the most advertised firm in its sector, with an advertising budget of £3.3 million on profits of just under £1 million two years before failure. Like Lord, Brentford developed high-street retail shops stocking their own products, some seventy of these were in operation on the eve of the company's collapse. The scepticism that had accompanied Lord's own-brand retailing was seen again in the case of Brentford, questioning once more the strategy of forward integration into retailing, especially where it was difficult if not impossible for any one manufacturer to provide a sufficient range of own-brand goods to attract custom in sufficient volume. A longer-term problem for Brentford was that nylon, which accounted for half of the UK shirt market during the 1950s, declined in popularity to reach only a fifth by the mid-1970s, forcing the firm to move into polyester cotton manufactured in a costly new factory in Northumberland. The heavily-qualified accounts by Price Waterhouse showed that between 1973 and 1974 the amount owed to creditors rose from £6.79 million to £9.28 million, while in the same period bank overdrafts increased from £1.9 million to £5.1 million.⁶³

Bloom, Lord and Metrebian were to a large extent responsible for both the rise and the decline of their extensive businesses. Each showed significant entrepreneurial flair in exploiting new markets by developing innovative products and in selling techniques; each placed great, but ultimately unwarranted, faith in advertising to sustain sales in the face of growing competition. None paid sufficient attention to cost control or to financial management more generally. It is arguable, if entirely plausible, that in each case corporate failure might not have occurred had 'the extraordinary, if temporary, marketing flair and salesmanship of (these) entrepreneurs ... been balanced by rather more traditional financial skills'.⁶⁴ Whatever the verdict in these cases, business historians should follow Fridenson's suggestion and produce case-studies and comparative work on corporate failure. Research into very large enterprises and old-established firms needs to be supplemented by work on the much more typical small- and medium-sized enterprise with a relatively short life-cycle. Work on such enterprises, in both their successful phases and in their decline, should yield much that is new about the interaction of entrepreneurship, innovation, marketing and finance in modern economies.

⁶⁰ *The Times*, 27 February 1976.

⁶¹ *Ibid.*, 1 February 1964.

⁶² *Financial Times*, 24 February 1976.

⁶³ *Financial Times*, 26 February 1976

⁶⁴ *The Times*, 27 February 1976

TABLE 2: REVISED LOSSES OF CYRIL LORD GROUP, 1967-8 (£'000)

• First Draft of accounts		196
• Second Draft		491
includes:		
Credit for advertising and selling contribution from Courtaulds and British Enkalon now written off	163	
Increase in provision for cost of collecting debts (error in original calculations)	67	
Reduction in stock valuation (Kyle Group stock)	26	
Miscellaneous adjustments	39	
• Third Draft		766
Includes reduction in stock valuation	210	

TABLE 3: BANK AND FINANCE HOUSE SUPPORT TO CYRIL LORD LTD, 31 AUGUST 1968 (£000)

Bank overdrafts		Finance houses	
Bank of Ireland	160*	Cyril Lord Finance Ltd	1,100+
Williams Deacon's	160*	Lloyds & Scottish	750+
Coutts	435*	Lombank	321+
Lloyds	500**	British Bank of Commerce	100++
		Credit Lyonnais	100++
Total	1255		2371

The bank data are nominal overdraft limits; exclude unrepresented cheques of c.£432,000 as at 31 August 1968. Notes: * for UK retail carpet operations; ** includes £400,000 for Kyle shop operations; + for UK retail carpet sales; ++ for overseas carpet sales