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"From Shirtsleeves to Shirtless": The Bronfman Dynasty and the Seagram Empire

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In this paper, I focus on the three generations of Bronfman family management of the Seagram Company and on the question of whether their ultimate loss of the company was the result of a failure to adopt a professional management structure. Samuel Bronfman wrested control of Seagram from his brothers in the 1930s and ran it as a one-man show; the firm attained a dominant position in the North American liquor industry largely because of his entrepreneurial skills. During the 1960s and 1970s, sons Edgar and Charles sustained Seagram through an era of growing international competition, introducing a more professional system of management. However, at the strategic decision-making level, family members continued to play a crucial role. The second generation's limited changes became apparent during the 1990s, when Edgar Bronfman, Jr., steered the company into a major change of course into the media and entertainment industry, culminating in the disastrous Vivendi merger in 2000. I argue that the critical problem was less Edgar Bronfman, Jr.'s competence than the decision to diversify into a field in which Seagram's organizational capabilities were of limited applicability.

In the popular histories of Canada, pride of place is usually accorded to the corporate behemoths: the Hudson's Bay Company and the Canadian Pacific Railway, joined in the twentieth century by large enterprises like Bell Canada, Imperial Oil, the chartered banks and insurance companies of Montreal and Toronto, and some Crown corporations. The role of the family-owned company is not ignored, but the extent to which the Canadian business landscape is populated by these enterprises is not always recognized. The Business Families Centre of the Sauder School of Business at the University of British Columbia reported in 2006 that there were more than one million "family businesses" in Canada, accounting for over 80 percent of all business activities in the country, encompassing 45

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percent of Canada's GDP and half of the country's private sector employment.[1] A 2005 comparative study conducted by the Family Firm Institute of Boston, Massachusetts, offered similar figures, and indicated that the proportion of family firms in the private sector in Canada was among the highest among industrialized countries, comparable to the United States and greater than the United Kingdom, Italy, Germany, and Australia.[2]

Family firms constitute a majority of small and medium-sized enterprises in many countries. Of perhaps greater import is the position of family companies in the "big business" sector. In terms of revenues, four of the ten largest companies in Canada ranked by the *Toronto Globe & Mail* in 2006 were family owned or family controlled: Power Corporation (Desmarais family); Magna International (Frank Stronach); Loblaws (Weston family); and Thomson Corporation (Ken Thomson). The *Family Business Magazine* also identified three of these four family companies, along with the McCain family, as among the 100 largest family-owned businesses in the world in 2005.[3] Others listed in the top 100 companies in Canada included Bombardier (Bombardier family); Empire Corporation (Sobey family); Rogers Communications (Ted Rogers); CanWest Global Communications (Asper family); and Cogeco (Audet family). There are also Canadian family enterprises whose ownership is so closely held that estimates of their assets and operations are not readily accessible, such as the Irving family of New Brunswick and the Burnett family of Toronto. Again, Canada is not unique in the world in terms of the role of family firms in controlling large organizations, but this is a significant feature in the country's business landscape.

Few family dynasties in Canada have had the coverage experienced by the Bronfmans. Historian Michael Marrus produced an "authorized" biography of Samuel Bronfman, distinguished in that genre by the quality of its scholarship. Peter C. Newman, the gossipy chronicler of Canada's wealthy and powerful, devoted an entire volume of his series on "The Canadian Establishment" to the Bronfman family. The Bronfmans have also had the dubious honor of two fictional treatments: *The View From the Fortieth Floor*, by the American journalist Theodore H. White; and the more famous *Solomon Gursky Was Here*, by the Canadian novelist

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[1] Business Families Centre, Sauder School of Business, University of British Columbia. http://www.sauder.ubc.ca/bfc/overview/definition.cfm, accessed 4 Aug. 2006.

[2] "Facts and Perspectives on Family Businesses around the World," Family Firm Institute, Boston, Mass., 2005. http://www.ffi.org/gentemplate.asp?cid=146, accessed 4 Aug. 2006.

[3] "Top 1000 Companies, 2006" *Toronto Globe & Mail Report on Business*. http://www.theglobeandmail.com/top1000/, accessed 4 Aug. 2006; "World's Largest Family Businesses," 2005. *Family Business Magazine*. http://family businessmagazine.com/topglobal.html, accessed 4 Aug. 2006.

Mordecai Richler (identified by the *Literary Review of Canada* in 2006 as one of the "100 Most Important Books on Canada.")[4]

One reason for the interest in the Bronfmans may reflect the fact that theirs was one of the few Canadian family businesses, at least until recently, that successfully created a multinational enterprise. In the 1930s, the Bronfmans expanded into the United States through Seagram, which for much of the rest of the century was the first or second largest liquor company in North America, and was a major player in the international markets for alcoholic beverages through the 1990s.

The Bronfman family also attracted the ongoing attention of journalists and novelists for other reasons, including their shady origins in the bootlegging trade during the Prohibition era; the bitter and public sibling rivalries and intergenerational struggles; and, not least, the flamboyant venture of Edgar Bronfman, Jr., into the multimedia/entertainment field in the 1990s. This venture culminated in the collapse of the former Seagram empire in 2001 following the merger with the French company Vivendi. The Bronfmans were by no means left impoverished, but their family fortune was seriously diminished in the wake of this debacle. In addition, they were shorn of the company that brought them to prominence more than half a century earlier.

This final stage of disaster brought to mind for many observers the comments of the company's founder, Sam Bronfman, in 1966: "You've heard about shirtsleeves to shirtsleeves in three generations. I'm worried about the third generation. Empires have come and gone."[5] We could view the Bronfman saga as a classic example of the perils faced by family enterprises. Recent historians of family business have not accepted the idea that there is a three-generational "iron law," although earlier commentators observed that "typically" family firms would disintegrate at that point "because of incapacity, ineptitude or lack of interest in [the family] business. . . .[6] But the historical literature on this subject does

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[4] Michael Marrus, *Mr. Sam: The Life and Times of Samuel Bronfman* (Toronto, 1991); Peter C. Newman, *Bronfman Dynasty*, (Toronto, 1978); Theodore H. White, *The View From the Fortieth Floor* (New York, 1960); Mordecai Richler, *Solomon Gursky Was Here* (Markham, Ont. 1989). A recent contribution to this literature is Nicholas Faith, *The Bronfmans: The Rise and Fall of the House of Seagram* (New York, 2006). A former senior editor of *The Economist*, Faith provides interesting insights based on his knowledge of the wine and spirits industry and banking. In common with all other such accounts (except for Marrus'), however, he has apparently not used the Bronfman family and Seagram archives housed at the Hagley Museum and Library in Wilmington, Delaware.
[5] Quoted in Philip Siekman, "The Bronfmans: An Instinct for Dynasty," *Fortune*, Dec. 1966, p. 208.
[6] Roy Church, "The Family Firm in Industrial Capitalism: International Perspectives on Hypothesis and History," *Business History* 35 (Oct. 1993): 17-43 at 25.

identify the strengths and weaknesses of this type of business in terms applicable to the Bronfmans, as in this summary:

> [S]erious difficulties . . . arise in areas such as . . . the appointment of incompetents to senior positions; the extraction of excessive resources from a firm to support family lifestyles; and the complexities that arise from the extension of family conflicts into the business. On the other hand, family firms might have a longer term perspective on their business . . . [and] can develop strong corporate cultures which can yield powerful competitive advantages.[7]

Analyses of the dynamics of family firms encompass a range of issues. However, Alfred D. Chandler, Jr., provided one of the most influential approaches to this subject in his explication of the differences between "personal capitalism" of the form found in many family-controlled enterprises and the managerial systems that typically emerged in large industrial organizations. Chandler noted, in particular, the prevalence of "smaller management teams" and the role founding entrepreneurs "and their heirs continued to play in the making of . . . middle and top management decisions."[8] Historically, entrepreneurial companies that established managerial hierarchies and practices and recruited professsional managers were more likely to be assured of stability over time and continuity beyond the first or second generation.[9]

Chandler framed the discussion of "personal capitalism" in the context of his analysis of British business in the nineteenth and twentieth centuries, particularly to contrast them with U.S. and German companies that made the transition to large-scale integrated businesses. The applicability of these views to British business history remains a matter of controversy. Nevertheless, the differences between "personal" and "managerial" capitalism that were central to this argument have a wider applicability, particularly in explaining the survival (or failure) of family enterprises.

In this paper, I review the history of the Bronfmans and the Seagram company in the context of this approach. At each stage in the development of the enterprise, I address the following questions:

> What were the major strategic decisions that affected the company, and who was involved in making them?
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> To what extent were the family members involved in the management of the company and the implementation of these strategies?

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[7] Geoffrey Jones and Mary B. Rose, "Family Capitalism," *Business History* 35 (Oct. 1993): 1-16 at 4; see also Kelin Gersaick, *Generation to Generation: Life Cycles of the Family Business* (Boston 1997).

[8] Alfred D. Chandler Jr., *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, Mass., 1990), 240.

[9] Church, "The Family Firm in Industrial Capitalism," 29-32.

> To what extent can we attribute the success or failure of these strategic moves to the role of the family in terms of both the decisions and the management of the firm?

My focus is necessarily on the first two generations, and particularly on the degree to which the Seagram companies carried out a "transition" of the kind envisaged in Chandler's framework. The archives of the Bronfman family and Seagram provide the basis for this study. Because these records are not yet accessible for the third generation (that is, since 1980), we must be more tentative about conclusions advanced for the more recent period, particularly with regard to the final question. Nevertheless, it seems desirable to extend the history straight through to the end, to indicate both the achievements and the limitations of the "transition" that occurred during the 1960s-1970s.

Essentially, the Bronfman enterprises went through two periods of substantial transformation. In the first period, when the Seagram company expanded into the United States during the 1930s, Samuel Bronfman converted what had been an enterprise run informally by an extended family into his personal domain, assisted by managers with some degree of professionalism but essentially running a one-man show. In the second period, in the 1960s-1970s, his sons, Edgar and Charles, introduced management practices and professional management to replace the "personal rule" that had prevailed under Samuel Bronfman. At the level of strategic decision-making, however, the family members continued to play a crucial role. The consequences of these changes were to become apparent in the 1990s when Edgar Bronfman, Jr., substantially redirected the enterprise. On the one hand, the decision process demonstrated the limitations of the changes introduced at the senior management level. On the other hand, the particular organizational form that had been successful in the management of Seagram as a major player in the liquor industry over the previous decades appears to have been ill-suited to the requirements of the entertainment industry. The "empire" did indeed disintegrate during the "third generation," but perhaps not for the reasons that Samuel Bronfman had anticipated and feared.

Mister Sam: "The Renaissance Prince"

We could perhaps best characterize the initial form of organization of the Bronfman enterprises as "fraternal"—although that term refers more to the familial relationship than to their personal conduct toward each other. From their early 1900s entry into the Manitoba "hotel" business, through expansion into distribution, then production, of whisky during World War I and into the 1920s, and the entry of their formal entity, Distillers Company–Seagram Ltd. (DCSL), into the U.S. market at Prohibition's end, four brothers (Harry, Abe, Sam, and Allan) and a brother-in-law (Barney Aaron) essentially ran the business. This group made the major decisions and comprised much of what might be called senior management of the business. The distribution of shares more or less formally recognized the business's fraternal dimension, which to some extent continued to be a feature of the ownership of Seagram and its associated companies until their takeover by Vivendi in 2000.

During the 1930s, however, as the company expanded in the United States, so did the role of Samuel Bronfman. Like a Renaissance prince, Sam maneuvered his brothers out of the company, leaving only the youngest, Allan, whom he could intimidate and whose own sons were ultimately deprived of any role in Seagram. Having established his control, Sam ran the Seagram companies virtually as his personal domain, relying on cronies whose main virtue was loyalty, and regularly expelling managers who might challenge his authority. Throughout much of the period from World War II through the late 1950s, Seagram's fortunes thrived, buoyed in part by expanding markets for alcoholic beverages, but also in no small degree reflecting Sam's entrepreneurial acumen; the limitations of his management style became apparent only as his own energies waned and his sons, Edgar and Charles, emerged from his shadow.

In 1889, Ekiel Bronfman emigrated with his family to Manitoba from Russia. Initially he took up wheat farming, unsuccessfully, and then moved to Brandon, a fast-growing town on the Canadian Pacific Railway line, where he engaged in a variety of businesses, including road construction, peddling frozen fish, and raising horses. The end of the 1890s found the Bronfman family, which included four daughters as well as four sons, well established in the Brandon business community, although by no means wealthy.[10]

In 1903, Ekiel's two older sons, Abe and Harry, went into the hotel business in nearby Emerson, Manitoba, partly with their father's financial assistance (he mortgaged his home to support the undertaking). The Emerson venture was a success and led to similar acquisitions in Winnipeg and Saskatchewan. Edgar Bronfman, Sr., would later describe the term "hotel" as "a euphemism for a bar, a pool table, a kitchen and a couple of rooms upstairs," but it was an easy business to get into, and the railway boom of the early 1900s brought many transient workers to the prairies.[11]

There was a close link between innkeeping and the liquor trade in this era, and the Bronfmans recognized from the outset that the sale of alcoholic beverages, primarily whisky, was the main source of profits for their hotels. The imposition of Prohibition in Saskatchewan in 1915 and in Manitoba a year later, exacerbated by the collapse of the railway construction boom, threatened their hotel business. Ironically, this circumstance led the family directly into the liquor business, as they discovered that local Prohibition could not block the inter-provincial sale

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[10] Marrus, *Mr. Sam*, 32-47; Newman, *Bronfman Dynasty*, 66-70.

[11] Edgar M. Bronfman, *Good Spirits: The Making of a Businessman* (New York, 1998), 25. See also Marrus, *Mr. Sam*, 47-53; Newman, *Bronfman Dynasty*, 70-72.

of alcoholic beverages. In 1916, the Bronfmans went into mail-order sales of liquor, procuring a license and setting up warehouses in Montreal and Saskatchewan.

In 1918, the Canadian government closed the mail-order loophole, but an even more lucrative opportunity opened soon thereafter, with the imposition of national Prohibition in the United States. Canada quickly became a major supplier of bootlegged liquor across the border, and the Bronfmans were well placed to sell their product from “export houses” in Canada. When pressure from the U.S. government forced Canada to enforce a ban on liquor exports, Bronfman warehouses supplied the American East Coast from the French islands of St. Pierre and Miquelon off Newfoundland.[12]

While coping with the complexities of distribution of an illegal product, the Bronfmans also had to address the issue of supply, and this led them into production. In 1923 they bought a defunct distillery in Kentucky, which they dismantled and reassembled at Ville LaSalle just outside Montreal. With the opening of this plant in 1926, the Bronfman liquor enterprise acquired formal status as Distillers Corporation, Ltd. In that same year, they formed a partnership with the venerable Distillers Company, Ltd., of Glasgow, a consortium of scotch distillers, for rights to import their products into Canada (where they would be “blended” at the LaSalle plant). They then acquired the Waterloo, Ontario, distillery of Joseph Seagram, reorganized as Distillers Corporation Seagram, Ltd., with the Bronfman interests and the Scotch DCL holding 75 percent of the shares. By the end of the decade, then, the Bronfmans controlled two distilleries and had an agreement with one of the largest whisky suppliers in the world.[13]

The end of Prohibition in the United States in 1933 opened up major new opportunities for DCSL and other Canadian companies, whose large inventories of liquor and distribution networks would give them an advantage over potential U.S. competitors. When tariffs on imported liquor posed an obstacle, Hiram Walker, which had emerged as the main competitor to DCSL in Canada, moved directly into the U.S. market, entering into a partnership with the American company National Distillers

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[12] During the early 1920s, the Canadian government encouraged this trade by charging an “export duty” on liquor going into the United States. Ontario moved from Prohibition to Liquor Control in 1926, enabling the expansion of distilleries there, including Hiram Walker, Gooderham-Worts, and Joseph Seagram, which the Bronfmans acquired that year. Quebec never accepted Prohibition but established a Liquor Control Commission in 1921. See Marrus, *Mr. Sam*, 128-29, 140-41.

[13] Marrus, *Mr. Sam*, 118-34.

and undertaking to build one of the largest distilleries in the world in Peoria, Illinois, to produce its blended whisky, Canadian Club.[14]

The Bronfman approach was different: initially Sam and Allan returned to Scotland in November 1933 with a proposal to retain the existing partnership, augmented by an alliance with an American whisky company, Schenley (in which DCSL had acquired a 20 percent share in 1929, in anticipation of prospective changes in Prohibition laws). Under this proposal, DCSL would be able to enter the U.S. market with a strong position in scotch and gin and their inventory of blended whisky, with a partner with a position in rye and bourbon. The Scotch consortium, however, rejected the proposal, and in the end, the Bronfmans bought out their partners, acquiring full ownership of DCSL.[15]

Negotiations with Lew Rosenstiel of Schenley for a joint venture fell apart as well, and DCSL embarked on its own project of direct investment in the United States. Central to this strategy was the acquisition of existing (albeit moribund) distilleries and the development of marketing that would establish the Seagram brand. In October 1933, DCSL established a U.S. subsidiary, Joseph Seagram & Sons, Inc., which took over a distillery in Indiana, and acquired a second distillery from the Calvert company in Maryland. DCSL retained the Calvert name and set it up as a second U.S. subsidiary. The Seagram and Calvert companies were the centerpieces for DCSL's expansion through the next decade in the

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[14] On Hiram Walker and National, see "Whiskey," *Fortune*, Nov. 1933, pp. 40-43, 128-31. More generally on the entry of Canadian liquor companies into the United States, see Mira Wilkins, *The History of Foreign Investment in the United States, 1914-1945* (Cambridge, Mass., 2004), 397-98; Herbert Marshall, Frank Southard, Jr., Kenneth Taylor, *Canadian-American Industry: A Study of International Investment* (Toronto, 1976), 183.

[15] There has been a good deal of controversy over the reasons for the refusal of DCL to maintain its arrangements with Seagram. Marrus, *Mr. Sam*, 178-80, emphasized that DCL did not wish to be associated with Rosenstiel and Schenley, but also noted that with the end of Prohibition, DCL wanted to make its own U.S. arrangements (and subsequently formed an alliance with National Distillers). Maxwell Henderson (whose role in Seagram will be covered later) commented: "they [DCL] thought they knew best, that their association with the likes of Bronfman was all right for a country like Canada but not for the really big time" (Newman, *Bronfman Dynasty*, 134). Allan Bronfman (who participated with Sam in the negotiations with DCL) maintained that DCL did not want to get involved in the marketing of bourbon and rye, which "were known as red liquors and they felt [were] fundamentally inconsistent with scotch." Allan, like Henderson, believed that Seagram "moved faster by going alone" in any case. Anne Tyler to Philip Siekman, Re: Bronfmans; Allan Bronfman, 4 Aug. 1966, Seagram Archives, Accession 2173, Series I, Subseries A (Bronfman Family), box 10, Hagley Museum and Library, Wilmington, Del. [hereafter cited as Seagram Archives, Acc. 2173]. Anne Tyler conducted interviews related to a series of articles written by Siekman and published in *Fortune* in November and December 1966; much of the interview material was not used in the articles.

United States: between 1934 and 1945, the Seagram companies absorbed eighteen firms, principally whisky distilleries. During that time as well, the Seagram marketing strategy yielded substantial results: Seagram's 7 Crown and Calvert Reserve whiskies became the industry leaders. During World War II, Schenley, which was now Seagram's main rival in the U.S. market, made inroads on its lead; but in 1943 Seagram acquired Frankfort Distillers, which had a huge inventory of aged whisky, and by 1947 it reemerged as the industry leader in the United States, with 25 percent of the market.[16]

In 1902 a "family conference" had resulted in the decision to acquire the Emerson hotel, and over the next two and a half decades the major business decisions—to move into the mail-order liquor trade, to engage in "exports" to the United States during Prohibition, the deal with DCL, and the acquisition of Seagram—were the result of similar family conclaves. At these meetings, the family also pooled and then redistributed earnings—not on an equal basis, but reflecting in some fashion each member's contribution. Ekiel's daughters as well as his sons shared in this distribution. Although essentially "fraternal," these assemblies were by no means convivial, particularly after 1912 when Sam, flush with success from his hotel business in Winnipeg, increasingly challenged Abe and Harry, not only on matters of "compensation," but also on business decisions.

Although Ekiel participated in these meetings until his death in 1919, he seems to have acted more as a mediator than as a patriarch. After 1919, as the family's enterprises became more far-flung, these conclaves became less frequent. In 1922, the family members agreed on longer-term arrangements with regard to the family revenues and set up a trust that received periodic review. As late as 1951, by which time Sam had established his control over Seagram, there were family meetings to discuss the distribution of their company shares.[17]

The brothers also played major roles in the management of the family business throughout this period. Harry and Abe undertook the first hotel venture in Emerson, and then went their separate ways to run hotels. Harry, who centered his activities in Saskatchewan, was the more successful of the two, and was the dominant figure in the family in these early years, branching into auto agencies and real estate in Saskatoon. Abe was exiled to Port Arthur in northern Ontario. Sam took over a hotel in Winnipeg in 1912 when he was 23 years old. The brothers also set up brother-in-law Barney Aaron with a hotel in Saskatchewan. Both Harry and Sam were to take credit for having come up with the idea of the mail-order liquor business. Harry provided capital and ran the warehouse in

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[16] On Seagram's expansion in the U.S. market, see "Seagram in the Chips," *Fortune* 38 (Sept. 1948), 97-101, 158-68; "The Seagram Saga I," *Bev/Exec* (28 Feb. 1966).

[17] Newman, *Bronfman Dynasty*, 70-73; Marrus, *Mr. Sam*, 397-98; James H. Gray, *Booze: The Impact of Whisky on the Prairie West* (Toronto, 1972), 115.

Saskatchewan, Barney Aaron moved to Montreal to run the warehouse there, while Sam wrote copy for the mail-order catalogues and traveled around the country promoting sales, experiences that were to provide good training for the Seagram venture in the United States. They enlisted another brother-in-law, Harry Druxerman, and his relatives to handle operations in Alberta and British Columbia.[18]

With the coming of Prohibition in the United States, the family adjusted their activities again. Harry ran the "export house" business in Saskatchewan, which was the largest of the family's operations, until 1922, when his encounters with law enforcement agencies forced him to flee to Winnipeg. Barney Aaron relocated again, to Halifax, to run the exports there, joined by Abe Bronfman who later handled the St. Pierre-Miquelon trade. Harry joined Sam, who had settled in Montreal, and together they organized the transfer of the distillery from Kentucky to Montreal, with Harry supervising the construction. Harry attended to the renovation of the Seagram distillery in Waterloo after the Bronfmans acquired it. At this point, Allan, the youngest brother, who had attended university (uniquely in the family) and acquired a law degree, joined the enterprise. Allan accompanied Sam to Scotland for the negotiations with DCL, and apparently returned several times to attend to relations with the Scotch consortium, where his diplomatic skills proved a sometimes-useful contrast to Sam's abrasiveness.[19]

Some have characterized the Bronfmans' entry into the distillery business as a major turning point in the family power structure. Michael Marrus, Sam's "official" biographer, maintained that with the establishment of Distillers Corporation, Ltd., in 1925, he was "unchallenged within the family . . . Sam, not Harry, was president," and in the subsequent arrangements with the Scotch DCL, Sam was the "vice president" and Sam and Allan the only Bronfman directors.[20] More elliptically, Allan later observed that he and Sam "were the only brothers who were really active in the distilling business. . . . [The others] were never in the managing of the distilling business. . . ."[21]

In these remarks Allan Bronfman was being (characteristically) disingenuous: Abe Bronfman and Barney Aaron may have been sidelined from management roles (as well as from seats on the DCSL board) after

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[18] Marrus, *Mr. Sam*, 47-54, 70-73.
[19] "The Story of the Bronfman Family as told by Harry Bronfman," n.d. (c. 1937), 34-35, Seagram Archives, Acc. 2173, Series I, Subseries A, box 24, Harry Bronfman files; Allan Bronfman interview with Anne Tyler, 24 Aug. 1966. Gray, *Booze*, 165-79, traces Harry's involvement with the bootleg trade on the prairies in the 1920s. Harry avoided arrest in 1922, but was taken into custody by the Royal Canadian Mounted Police in 1929 on charges of bribery stemming from his activities in Saskatchewan. He was acquitted.
[20] Marrus, *Mr. Sam*, 117.
[21] Allan Bronfman interview with Anne Tyler, 24 Aug. 1966.

1932, but Harry continued to play an important part in the expansion of Seagram into the United States until 1937. Harry discovered and negotiated the purchase of the Lawrenceburg, Indiana, distillery in November 1933 that was the first Seagram acquisition in the United States. He conveyed this information to Sam and Allan while they were en route to their meeting with the Scotch DCL lords, and the knowledge of this acquisition provided Sam with the confidence to buy out DCL's interest in DCSL. Subsequently, Harry resuscitated the Lawrenceburg plant and then carried out similar renovations to the Calvert distillery in Relay, Maryland, acquired in 1934. Harry did more than just carry out orders: he surveyed a range of plants between 1934 and 1937; on several occasions, he dissuaded Sam from making investments, and implemented an emergency shutdown of production when Seagram temporarily found itself with an excess inventory in 1936.[22]

During the first five years of Seagram's operations in the United States, the "fraternal" structure continued to function, with Harry running production, Allan administration, and Sam increasingly focused on advertising and sales. Because branding and marketing are critical features in the alcoholic beverage industry in particular, Sam's choice of emphasis and his success in this area were significant in providing him leverage to dominate the Seagram enterprises. Although one of the first managers hired by Seagram in the United States was a sales director, the person chosen was Frank Schwengel, a retired military man (habitually identified as "General Schwengel") with little experience in the advertising field. Sam wanted Schwengel to focus on organizing and motivating a sales force while Sam devoted himself to developing an advertising campaign. This remained his central interest: "Father was total tsar of all products to be sold as well as packaging and advertising," his son Edgar noted when he joined the company in the 1950s.[23]

Sam's interest in this field (the term "marketing" was not used at this time) went back to his experience preparing copy for the mail-order liquor catalogues in 1916-1919. In most accounts his success in the 1930s campaigns is seen to have been the result of two features: the decision to focus on "blended" whisky, which in effect helped establish a national market for Seagram, and the emphasis in advertising on "quality," not just of the product, but by implication of the consumer as well. Before Prohibition in the United States, the predominant products were "straight" whiskies that appealed to regional tastes: ryes in the northeastern states and bourbon (corn-based) whiskies in the South and West. Most American distillers produced their whiskies in bulk and sold the product to separate rectifiers and bottlers. The Bronfmans had entered the liquor field through the mail-order business, involving the sale of bottled goods. When DCSL set up its distillery at Ville LaSalle in the 1920s it focused on

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[22] "Story of the Bronfman Family," 35-40.
[23] Bronfman, *Good Spirits,* 67.

producing a blended whisky in order to stretch its supplies of imported scotch. These two factors inclined Seagram to focus on blends when it went into the United States, taking advantage of the circumstance that Prohibition had created a hiatus in consumption so that the blenders could appeal to a cohort of drinkers not committed to past regional preferences.

Sam Bronfman went a step further by identifying blended whisky with "light" whisky, implying a less potent alcoholic product, combined with a widely publicized campaign for "moderation" in drinking. The other term to be associated with Seagram products was "quality," drawing on his familiarity with the example of DCL's scotch products, with advertisements featuring gentlemen sipping blended whisky in their private clubs, and endorsements by "men of distinction" such as Myron Taylor of United States Steel (or at least distinguished-looking actors such as Ralph Bellamy). The objective of this approach was not just to offset unsavory associations with "booze" and bootlegging, but also to appeal to a wider audience than the traditional consumers of liquor. While the increase in alcohol consumption in the years after the repeal of Prohibition reflected broader social trends (stimulated in part by the experiences of the generation that matured in the Prohibition era), the dramatic rise and sustained sales of Seagram's products through the late 1930s seemed to justify the effort and buttressed Sam Bronfman's reputation as an industry leader.[24]

With these successes under his belt, Sam undertook to solidify his control over the company after 1936. Harry was the main obstacle, and the occasion arose in the context of the building of a new distillery specifically to produce bourbon for Seagram in Louisville, Kentucky. Harry completed work on the plant in September 1936, but shortly thereafter, Sam hired Frederick Willkie (who had built the Peoria distillery for Hiram Walker), to become Seagram's head of production. Willkie ordered the Louisville plant closed down for three months, maintaining that Harry's construction was faulty and that there was a danger of bacteria infecting the fermenting tanks. Harry resented the arbitrary nature of Willkie's appointment, but he had overextended himself trying to run all the distilleries and became ill, which enabled Sam to ease him out of a management role altogether.

During this same period, Allan also found his position eroding: Sam had hired James Friel, who had been involved in the trucking industry, as treasurer of Seagram in 1934. Within a few years, he had effectively taken over administration of the company. Although Allan was not removed from the company, by the end of the decade some derisively characterized his role as "executive assistant in Sam's office," where his responsibilities appear to have been restricted to "speech writing and . . . master-minding

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[24] "Seagram in the Chips," 98-100; Marrus, *Mr. Sam*, 195-200.

social events."[25] Sam's appointment of managers like Willkie and Friel in place of family members could be seen as a step toward the reorganization of Seagram on professional lines. However, these steps also enhanced his own position, and he was careful to avoid bringing in outsiders to run his own areas of expertise: advertising and marketing.

Sam's domination of Seagram, and of the family, was evident by 1939. In 1922 the family members had established a trust, with a pool of capital of $600,000, for the family to share. A related agreement set up the shares that the brothers could expect from future business ventures: this reflected the balance of power among them at that point. Harry and Sam each held 30 percent, with Abe receiving 19 percent, Allan 14 percent, and Barney Aaron 7 percent. In 1939, at Sam's insistence, this agreement was revisited, and the shares redistributed with Sam acquiring 40 percent, Harry 22 percent, Allan 19 percent, Abe 14 percent, and Barney Aaron 5 percent. Again, in 1951 Sam assembled the family members specifically to review the family's assets and reapportion shares in Seagram. After arranging for a division of total assets, awarding himself 47 percent of the $17 million, he informed them that he would hold 70 percent of the Bronfman shares in Seagram (this would give him 37.5 percent of all outstanding shares in the Seagram company, ensuring effective control).

At this point Sam also informed Allan that neither of his sons, Peter and Edward, would have a role in the management of Seagram.[26] What is remarkable about these events is the completely arbitrary nature of the redistributions. There had been no history of buying or selling of shares among the Bronfman family members and, until 1951, there were no formal arrangements regarding the management of these assets. Sam Bronfman simply prevailed over his relatives through the force of his personality and reputation for business acumen, silencing even his older brothers and completely intimidating Allan.

The period from the end of World War II through the late 1950s represented the apogee of Seagram's position in the industry: its market share in the United States rose to 30 percent and its assets increased through reinvestments and acquisitions, making it twice the size of Schenley and Hiram Walker, the two main U.S. competitors. Although North America accounted for over 85 percent of Seagram's business even into the 1960s, it began to move into overseas markets, largely through acquisitions in Britain, France, and the Caribbean, and it had an estimated

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[25] Marrus, *Mr. Sam*, 240-42; "Story of the Bronfman Family," 43-44; Newman, *Bronfman Dynasty*, 136-38; Maxwell Henderson, *Plain Talk! Memoirs of an Auditor General* (Toronto, 1984), 107.

[26] Marrus, *Mr. Sam*, 105-6, 242-43, 397-98; Siekman, "The Bronfmans: An Instinct for Dynasty," 178.

share of 60 percent in the global market for whiskies (excluding scotch) at the end of the 1950s.[27]

This was also the period when Sam Bronfman had virtually uncontested domination over the Seagram enterprises. To outside observers, in many respects, they looked much like other large multidivisional public corporations of the time: DCSL in Montreal was the parent firm, with Joseph E. Seagram & Sons, Inc., as its (much larger) U.S. affiliate, located in New York. Sam Bronfman held the position of president of both companies. For many years he split his time between the two cities, but in the early 1950s, he acquired an estate in Tarrytown, New York, and began spending much more time with the U.S. operation.

The U.S. Seagram company had three "autonomous" subsidiaries: Seagram Distillers, Calvert Distillers, and Frankfort Distillers. Each produced its own line of whiskies and other liquors, and Sam encouraged competition among them in the overlapping lines, an approach that appeared to work during an era of generally rising sales. Jim Friel in New York ran financial matters centrally for Joseph Seagram in New York and Harry Cox for DCSL in Montreal.

Between 1956 and 1963, overall direction of U.S. sales was also centralized. DCSL had responsibility for overseas subsidiaries (principally in the United Kingdom and Jamaica at this time), while Seagram in New York set up a sales organization, Seagram Overseas Corporation (Sosco) that was supposed to coordinate international sales outside the United Kingdom and Canada.[28]

Maxwell Henderson (who later became Canada's Auditor General) provides a very different perspective on the enterprise in this era. Lured to DCSL from Hiram Walker as Frederick Willkie had been, Henderson became "secretary-treasurer" in 1945, and remained so until 1957. Although Hiram Walker was also run by a strong personality (Harry Hatch), Henderson described it as "a fairly tight-knit, well organized company." By contrast, Seagram under Sam Bronfman was chaotic:

> There was no such thing as an organization chart or any definition of lines of authority. You got approval for what you wanted directly from Mr. Sam. . . . Otherwise you acted at your own risk. . . . All problems seemed to begin and end with his decisions. Inefficient

[27] "The Story of Seagram Overseas Corporation in the Markets of the World," Sept. 1957, Seagram Archives, Accession 2126 [Joseph E. Seagram Inc. Records], Record Group 1, Series IV: Marketing, box 116, Sosco file; Teresa da Silva Lopes, "Brands and the Evolution of Multinationals in Alcoholic Beverages," *Business History* 44 (July 2002): 1-30 at 8.

[28] "Industry Leaders I: Seagram," Monopoly State Review, Aug. 1946, Seagram Archives, Acc. 2173, Series III (Promotion, Sales and External Affairs), box 205, Seagram & Sons file; Joseph E. Seagram & Sons, Seagram Archives, Acc. 2173, Series II (Corporate Operations), box 26, Corporate Book 1949; "The Seagram Saga II," *Bev/Exec* 1 March 1966.

> routines could not be changed because at some time or other they had originated either at his express direction or to meet some particular wish he had expressed.[29]

Despite his professed commitment to divisional autonomy and competition, Sam kept the headquarters of the divisions in New York where he could engage in interventions in their affairs when it suited him. Even senior executives could find that Sam had overridden their decisions in response to a hallway encounter with a subordinate.[30]

The boards of directors of both DCSL and Seagram in the United States were composed primarily of senior managers (plus Allan), with a handful of outsiders, usually friends of Sam. Sam described a typical board meeting to his son Edgar in 1955: “We declare a dividend and have a drink.”[31] Annual shareholders meetings also featured “a splendid reception complete with drinks of all the company’s products,” while the business aspect was carried out hurriedly: “If any shareholder was so naïve as to raise a question, he would find himself ignored because the meeting was operated from typed material determining ahead of time what would be discussed.”[32] When Henderson proposed to improve the annual report by providing “corporate information usually given to the shareholders of a public company,” Sam “threw this concept into the wastepaper basket. He declared that stockholders were nothing but a nuisance and he was damned if he was going to give them one single bit more information than they were entitled to by law. . . .”[33]

A report by Price Waterhouse replicated (in less graphic terms) Henderson’s portrayal of life at the top at Seagram: “The President . . . Mr. Samuel Bronfman . . . [is] actively engaged in directing the many activities of all the companies . . . [and] concerned with many questions which in so large an organization would normally be resolved at lower levels,” the report stated, and went on to present a series of recommendations, including the consolidation of a number of subsidiaries, establishment of executive committees for each company, and decentralization of sales and advertising, “to relieve the president of the parent company from personal attention to these duties. . . .” This lengthy document met the same fate as Henderson’s proposals for improving the company’s annual report: a follow-up report by Price Waterhouse in 1953 lamented that “there has been [no] real change in the corporate structure . . . the chief executive [is]

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[29] Henderson, *Plain Talk*, 105.
[30] Marrus, *Mr. Sam*, 325-26; Anne Tyler to Philip Siekman concerning Charles Bronfman interview with Anne Tyler, 12 July 1966, Seagram Archives, Acc. 2173, Series I, Subseries A, box 10.
[31] Bronfman, *Good Spirits*, 152.
[32] Henderson, *Plain Talk*, 123-24.
[33] Ibid., 120.

still assuming responsibility for all important transactions," and "no program of financial planning . . . has been set in place."[34]

Sam Bronfman's attitude toward management was ambivalent. There were many good managers who operated at the divisional levels and below, some of whom would rise in the organization by the 1960s and 1970s. He also recognized talent, bringing in professionals from outside the company like Willkie and Henderson. At the same time, however, he resisted whenever they seemed to be challenging his authority. Willkie was fired in 1952 after a squabble that ensued when Sam discovered that Willkie was communicating with distillers in other companies on common production issues, although the real source of Sam's resentment was that Willkie ran production at the U.S. Seagram company "like a personal empire." A frustrated Henderson left DCSL in 1957 when it became apparent that Sam intended to make his son Edgar president of the U.S. company (apparently Henderson was under the impression that he was slated for that job).[35]

Sam came to rely increasingly on long-time associates from the early days of the company or even back to the Prohibition era, with whom he would spend hours drinking and reminiscing, particularly Victor Fischel, who was to be the bane of Edgar's early years as head of Seagram in the United States. Fischel had joined DCSL in 1928 as a sales representative, then moved to the United States and increasingly influenced Sam on sales matters as General Schwengel aged. In 1956, Sam reorganized the U.S. companies, centralizing sales for all the companies in the House of Seagram, which he placed under Fischel. Like Sam on advertising, Fischel disdained what they both characterized as the "slide rule" approach to marketing and sales, preferring "personal contact" with distributors; Fischel maintained a "Friendship Room" in his office where business negotiations could be helped along with samples of Seagram products.[36]

While even Edgar Bronfman, Sr., would later acknowledge that the Seagram companies in this period were the "worst managed" in the industry, Sam's reputation as a business leader was never higher, and in many respects his entrepreneurial instincts offset the effects of chaotic

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[34] Price Waterhouse & Co., "Report on Review of the System of Internal Control, Distillers Corporation-Seagram Ltd. and Subsidiary Companies," 3 March 1952; Price Waterhouse, "DC–SL Memo on Internal Control," 28 Aug. 1953, Seagram Archives, Acc. 2126, Record Group 2, Series IV (Finance), box 452.

[35] Yogman interview with Anne Tyler, 11 Aug. 1966; Bronfman, *Good Spirits*, 78; Henderson, *Plain Talk*, 133.

[36] Anne Tyler to Philip Siekman, 11 Aug. 1966, concerning her interview with Victor Fischel, Seagram Archives, Acc. 2173, Series I, Subseries A, box 10; "The Seagram Saga II," *Bev/Exec* (1 March 1966). The consolidation of sales at Seagram in the United States was in part the result of a consent order by the Federal Trade Commission that restricted company subsidiaries from "discussions with each other on competitive matters." By placing all sales operations under one roof, Seagram could meet the requirements of the order.

disorganization, at least until the end of the 1950s. Critics in the trade press would later chastise Seagram for its failure to recognize many of the trends reshaping the industry: in the postwar era a new generation of consumers was less interested in "blended" whisky and more inclined toward "straights," particularly "light" scotch, or they were abandoning whisky altogether for "white" goods (gin, vodka, and rum) and wine. Sam was also taken to task for neglecting the potential international market (with the exception of sales to American service members stationed overseas).[37]

However, these criticisms may reflect a perspective drawn from the last years of Sam's reign, when his energies were flagging and Seagram was embroiled in a bitter struggle over succession. As early as 1940 he moved into the California wine industry, relying particularly on Franz Sichel (a refugee vintner from Europe), through whom Seagram set up a partnership with Christian Brothers and acquired Paul Masson Vineyards. Seagram also entered the rum business during World War II and established partnerships with Mumm (champagne), Noilly Prat (vermouth), and Wolfschmidt (vodka) in the early 1950s. Among the most substantial of Seagram's international initiatives in this era was expansion into the United Kingdom. Even before World War II, Sam had acquired a large inventory of scotch and a brand name, Chivas Regal, which he brought out in the 1950s, and he followed this up with the construction of the Glenlivet/Glen Keith distillery, "the first new malt distillery built in Scotland since the Victorian era." The creation of Sosco in 1957 reflected a growing interest in international markets; and even after Sam turned over the running of the companies to his sons Edgar and Charles in the 1960s, he retained a role in the promotion of overseas operations.[38]

Nevertheless, by the late 1950s, Sam himself seemed to be running out of energy and ideas, and the organization was fraying. Jack Yogman, who joined the U.S. company in 1957 (shortly before Edgar became president) perceived it as an assemblage of separate "empires," as the division heads Friel and Fischel each went his own way. In the absence of a "dictatorship of genius," and no established structure to fall back on, the entire system was simply marking time. This was the situation that faced Sam's sons, Edgar and Charles, as they set out to run the Seagram empire with, at best, the half-hearted blessing of Sam, the declining but still powerful patriarch.

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[37] "Seagram's Late Awakening," *Forbes* (1 Feb. 1973), 24-25; John McCarthy, "Seagram's Around the World," *Bev/Exec* (Dec. 1973), 52.

[38] Samuel Bronfman, "From Little Acorns" (*Seagram Annual Report* 1970), 44-63; this was a much-expurgated (and ghost-written) "company history" that highlighted Seagram's international activities; Michael Moss and John Hume, *The Making of Scotch Whisky: A History of the Scotch Whisky Distilling Industry* (Edinburgh, 1981), 27.

Edgar I (and Charles): The Baroque Monarchy

Sam Bronfman appears to have begun thinking about "succession planning" around the time he solidified his control over the Seagram companies. During the 1940s, Sam and Allan, on the advice of their lawyer Lazarus Phillips, set up trusts for their children, depositing their Seagram shares as assets. In 1951, these trusts were consolidated under a company called Seco (which consequently held 37.5 percent of the shares in DCSL and its subsidiaries). Both brothers then set up trusts for their children: Sam's was named Cemp (for his children Charles, Edgar, Minda, and Phyllis) and Allan's Edper (for his sons Edward and Peter). Subsequently, Sam "made a deal" with Allan through which Cemp ended up with the majority of shares in Seco; it was through this arrangement that Sam was able to keep Allan's heirs out of what he regarded as "his" company. In 1957 Leo Kolber, a lawyer and friend of Charles Bronfman, was put in charge of Cemp (this was at the same time that Charles and Edgar entered the management ranks at DCSL and Seagram). Kolber was assigned the task of drawing on the dividends to Cemp from the Seagram companies to finance the trust's expansion without diluting Cemp's holdings in DCSL. Over the next thirty years, Cemp developed a portfolio that focused particularly on real estate (through Cadillac Fairview Corporation of Toronto) and oil (through Bow Valley Industries of Calgary). At its inception, Cemp had about $21 million in shares in DCSL and its subsidiaries. At the termination of the trust in 1987 after Minda's death, it held assets of more than $2 billion and still controlled 38 percent of Seagram.[39]

These arrangements provided for the preservation of the estate and its control of the Seagram companies. The issue of management remained. Although both of Sam's sons, Edgar and Charles, later insisted that Sam never put pressure on them to join the firm, it is hard to believe that he would have gone to the trouble of excluding Allan's heirs from the management of Seagram unless he expected his own sons to succeed him. In the event, however, both sons dutifully went into the company and went through a period of apprenticeship: Charles dropped out of McGill University in 1952, spent some time learning various aspects of the business, and then was provided by Sam with a small sales company called Thomas Adams, Ltd. to hone his skills. In 1957, he became a vice-president for sales for DCSL; a year later, he was in charge of the House of Seagram's Canadian operation, which eventually morphed into the integrated Canadian affiliate of DCSL. Edgar finished university at McGill

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[39] Anne Tyler to Philip Siekman, 5 Aug. 1966, concerning her interview with Leo Kolber, Seagram Archives, Acc. 2173, Series I, Subseries A, box 10; Leo Kolber, *Leo: A Life* (Montreal, 2003), 31-33. The trust arrangements allowed for the tax-exempt transfer of dividends (from one corporation to another) to allow earnings reinvestment outside Seagram while the family's capital holdings remained intact.

after dropping out of Williams College; he spent his summers learning about distilling at Ville LaSalle and (briefly) working for a small investment bank in New York, where he learned about the oil business. In 1955, Sam sent him to the U.S. Seagram headquarters in New York for grooming for the presidency.[40]

Given the attitudes of the times, it is not surprising that Sam did not contemplate any roles for his daughters in the running of Seagram. His eldest daughter, Minda, however, had ambitions that were regularly frustrated. More or less in tune with the approach used by ambitious women in that era, she lobbied for a DCSL board appointment for her husband, Baron Alain de Gunzburg, scion of a French investment company, but both Sam and Edgar rebuffed her. After Sam's death, she attempted a coup against Edgar through Cemp, but this, too, was foiled. Ironically, her sister Phyllis, who had no interest in the business, was to play a more significant role, albeit in a limited sphere. In 1954, when plans were underway for a Seagram building in New York, Phyllis, who had fled the family embrace to take up life as an artist in Paris after her divorce from Jean Lambert, persuaded Sam to commission the architect Ludwig Mies van der Rohe for the design. Phyllis was actively involved in the project through its completion in 1957; in the process, she had her own tense encounters with Edgar over the costs of the building.[41]

By 1957, Sam appeared to be prepared to bring his sons into top management: Edgar was made president of Joseph E. Seagram & Sons and Charles became head of the House of Seagram in Canada the following year. However, as had been the case with Willkie and Henderson, Sam's attitude toward this transition was ambivalent: he wanted his sons as successors, but he was reluctant to share the power he had wrested from his brothers. This ambivalence created a situation of division and turmoil that preoccupied the upper echelons of the Seagram empire for the next six years, exacerbated problems that would confront the company in the 1960s, and delayed the introduction of any significant changes in the direction of the enterprise. Both Edgar and Charles would later comment, separately, that while they held chief executive titles beginning in 1957, they did not actually exercise real control until 1963.

Charles's experiences in Canada were somewhat less troubled, possibly in part because it was a much smaller operation than Seagram in the United States. One of his first steps was to fire Jim McAvity, head of the sales organization; "Sam rehired him the next day." Fortunately for Charles, however, a number of the "old guard" departed soon after his

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[40] Charles Bronfman interview with Anne Tyler, 12 July 1966; Bronfman, *Good Spirits*, 50-57, 65-68.

[41] Kolber, *Leo: A Life*, 74-77; Bronfman, *Good Spirits*, 44-46, 79-81; Marrus, *Mr. Sam*, 389-94. Both Minda and Phyllis were irked that under the terms of Cemp the sons each received 30% and the daughters 20% of the shares.

arrival, and he promoted a talented younger manager, Jack Duffy, to help him reorganize the company.[42]

Edgar had more protracted battles, as he had to confront both Fischel, who controlled sales, and his father, who continued to treat marketing as his private domain, leaving Edgar with production and "odds and ends." Edgar had earlier tried to meet Fischel head-on by bringing in a Revlon executive, Robert Bragernick, to develop a marketing program; Sam had forced out Bragernick. After he became president, Edgar tried a more subtle approach, personally taking on the task of reversing the sagging fortunes of Calvert Distillers by introducing a new product line and bringing in the Doyle Dane Bernbach advertising agency to design a campaign. The success of the Calvert turn-around earned his father's respect. Edgar scored a further victory when he set up a "straight" bourbon operation in the Frankfort Distilleries division, recruiting Roy Flint from Schenley to develop a new brand called "Antique." Again, success helped undermine the traditional commitment to blends that Fischel and Sam Bronfman shared. Thus fortified, Edgar put Fischel on the spot over the cost of running the House of Seagram as a separate entity. By 1962, the tide had turned, with the dismantling of the House of Seagram and sales operations returning to the divisional level. At Sam's insistence, Fischel was provided with a small company of his own to market Wolfschmidt Vodka and a few other "slow moving" lines, and he was eased out gently.[43]

The end of the "Fischel war" in a sense represented the end of the generational conflict between Sam and his sons, although as late as 1966 Edgar continued to refer to Sam as "Number One" in the company. In addition, Sam remained involved as a "consultant" (at $100,000 a year) ,focusing his attention on international markets; by the late 1960s, he was in failing health, and he died in 1971. Despite the tensions the struggle entailed, and his sons' frustrations, he continued to exercise a remarkable psychological hold over them. Shortly after the Bragernick fiasco in 1957, when Sam humiliated Edgar in front of Fischel, Edgar wrote a private note to his father:

> [Y]ou're an extraordinary guy. You've seen things happening to which I've been blind, which you described I should find out for myself. Looking back, I've marveled at your patience with me. . . . Thank you for your patience. And please keep needling me when something needs attention."[44]

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[42] Charles Bronfman interview with Anne Tyler, 2 Aug. 1966.

[43] Bronfman, *Good Spirits*, 82-89, 93-102; Newman, *Bronfman Dynasty*, 182-84; "The Seagram Saga III," *Bev/Exec* (8 March 1966); "The Seagram Saga V," ibid. (22 March 1966).

[44] Edgar Bronfman to Sam Bronfman (handwritten), n.d. (circa Feb. 1957), Seagram Archives, Acc. 2126, Record Group 2, Series I, box 165, Sam Bronfman file.

If Edgar was subservient to his father, in his relationships with other family members he showed a marked resemblance to Sam. As noted, he was not particularly friendly with his sisters, especially where matters relating to control of business affairs were concerned. Although he never would treat Charles with the kind of contempt that Sam directed toward Allan, and he was careful to consult with Charles on all major business decisions, Edgar made it clear to everyone (including Charles) that in his view, after Sam, Edgar was "Number Two" and Charles "Number Three." When queried about the imbalance in the division of the companies, with Charles running the much smaller Canadian operation, Edgar retorted: "Who says there should be a balance? He says that he is not as ambitious as I am or as interested in the business as I am."[45] In a mellower mood, he attributed the division to a conversation he and Charles had in 1953, when Charles said he preferred to live in Montreal rather than New York, with its "throat cutting and tremendous competitive drive."[46] In his autobiography Edgar asserted that "somehow it was just understood that I would be in charge," and Charles never contested such statements, at least in public.[47]

The situation that faced the Bronfman heirs in the mid-1960s was buoyant on the surface, but there were longer-term issues they knew they had to address. In sales volume, Seagram's business was more than twice that of its closest competitors, Schenley and Hiram Walker. Sales increased by 27 percent between 1958 and 1965, and DCSL's net profits rose by 52 percent. However, Seagram's gains were largely in the market for blended whisky, which had been declining since the late 1940s, although it stabilized for a time in the 1950s. By the end of the decade, blends accounted for only 20 percent of the market for alcoholic beverages, down from 60 percent in the years immediately after World War II. Seagram had been slow to respond to the rise of other liquors, particularly vodka, where Heublein expanded dramatically in the 1960s; Bacardi gained a similar position in the rum market. Seagram had brands in both vodka (Wolfschmidt) and rum (Captain Morgan), but neither were strong competitors in these emerging fields. Schenley embarked on a significant expansion into scotch, forming an alliance with Distillers Co., Ltd., of Scotland, marketing Dewars; Seagram still had a lead in the highest-priced sector with Chivas Regal, but its lower-priced scotch brands lagged behind.[48]

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[45] Anne Tyler to Philip Siekman, 5 July 1966, concerning her interview with Edgar Bronfman, Seagram Archives, Acc. 2173, Series I, Subseries A, box 10.

[46] Siekman, "The Bronfmans—An Instinct for Dynasty," 198. Interestingly, in later years Charles bought a penthouse in New York and returned to Montreal only on business; see Kolber, *Leo: A Life*, 57-58.

[47] Bronfman, *Good Spirits*, 29.

[48] Hal Kwitel, "A Financial Analysis of the Profitability of the Sales Divisions of Joseph E. Seagram & Sons Inc. since Profit Planning was Initiated," 12 Jan. 1966,

Even before they were in a position to control events in the Seagram companies, Edgar and Charles had begun introducing policies and practices to address some of the problems arising from Sam's "seat of the pants" approach. Both brought in marketing consultants, notably Doyle Dane Bernbach, to develop campaigns for new products in the late 1950s. They also introduced market surveys during this period. On the financial side, they established a system of profit planning in 1959 to measure divisional performance based on rate of return on investment.

They also recruited a more professional cadre at the senior executive level as Fischel and the old guard departed. One of the first of these was Jack Yogman, who joined Seagram in 1957. An engineering consultant, he had come to Edgar's notice in 1955 when the result of his efficiency study of DCSL's warehouse operations in Canada reduced costs by half. By 1958, Yogman was in charge of purchasing, traffic, and labor relations for the U.S. company and ran the American plants. He was touted as "the man Edgar says will take over the American company if anything happens to him." In 1969, Edgar appointed him chief executive officer of Seagram in the United States, with a particular mandate to expand international sales and production.[49] Subsequently, Edgar promoted Harold Fieldsteel from the ranks to be executive vice-president for finance in 1971, along with James McDonough, who took over Sosco. Later in the 1970s, he recruited Philip Beekman, the head of international operations at Colgate-Palmolive, to succeed Yogman as president and Stephen Banner, a merger and acquisitions expert from the law firm of Simpson, Thatcher in New York. This group, along with Charles Bronfman, effectively became the "cabinet," which set strategic directions for the Seagram companies from the 1970s to the 1990s.

The boards were also reorganized to bring in a wider range of perspectives. In 1971, Leo Kolber was appointed after Sam's death, along with Philip Vineberg, who had become the Bronfman's chief legal adviser. A few years later a more extensive overhaul was undertaken: the parent company was renamed Seagram Company, Ltd; new board members included Paul Desmarais of the Canadian conglomerate Power Corporation; Ian Sinclair, chief executive of the Canadian Pacific; Fred McNeil of the Bank of Montreal; John Weinberg of Goldman Sachs; and Ted Medland of Wood Gundy. In the 1980s, Jean de Grandpre of Bell Canada Enterprises and Laurent Beaudoin of Bombardier came onto the board.[50]

Seagram Archives, Acc. 2126, Record Group 2, box 185, "Profits 1966-68" file; "Seagram's Late Awakening," 24-25; "The Seagram Saga II," *Bev/Exec* (1 March 1966).

[49] Yogman interview with Anne Tyler, 11 Aug. 1966; "Alcoholic Beverage Executive Newsletter," 10 Jan. 1969, Seagram Archives, Acc, 2173, Series I, box 8; "Seagram's Late Awakening," 25-26.

[50] Newman, *Bronfman Dynasty,* 194-95; Kolber, *Leo: A Life,* 47.

As Sam became less active in the company in the mid-1960s, the Bronfman brothers initiated strategies to address the longer-term challenges in the industry, giving the greatest publicity to international expansion in terms of both sales and acquisitions. Yogman was assigned this task as a priority when he became president of the U.S. company. The establishment of a consolidated Seagram U.K., Ltd., included a new extension in Ireland that acquired Bushmill's, the major Irish whisky exporter. Acquisitions included the French wine exporters Barton & Guestier and a 50 percent investment in the Mumm family companies in France and Germany. An even more ambitious alliance was with the Kirin Company in Japan for a whisky distillery there to market Seagram products in East Asia.[51] Seagram was not alone in the industry in expanding internationally. The British company Grand Metropolitan, which had originated in the hotel business, acquired International Distillers and Vintners (IDV) in 1972, giving it a strong international presence in the alcoholic beverages field; and, as noted earlier, Schenley and the Scotch DCL had formed an alliance in the 1960s. But the measures taken during this period would significantly alter Seagram's development: in 1971 overseas sales accounted for less than 15 percent of Seagram's companies' revenues; by 1987 international sales surpassed volume in the United States, and 35 percent of Seagram's assets were located in twenty-five countries outside North America.[52]

The other long-term strategy involved the selection of lines for inventory development. This was critical, given the long lead times for aging of whiskies and wines and the carrying costs involved. In the mid-1960s, the Bronfmans decided to focus on inventory growth in two areas in particular: Canadian whisky (Seagram's VO) and scotch (Chivas Regal). The new distillery built at Gimli in Manitoba (the first major plant since the 1940s) was to produce Canadian whisky, viewed as the replacement for older blends including Seagram 7 Crown and Calvert Reserve. The acquisition of the Glenlivet distillery supplemented as well as replenished the Chivas inventory, depleted in the 1960s by the growth of the scotch market. Meanwhile, acquisitions of vintners in France, Germany, Portugal, and California increased wine inventories. Although Seagram continued to lag behind the market leaders in vodka and rum, the

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[51] McCarthy, "Seagram's around the World," 52-53; Bronfman, *Good Spirits*, 153-54; Colin Powell, "Seagram Stakes around the World," *Wine & Spirit Magazine*, (March 1975); Alcoholic Beverage Executive Newsletter, 10 Jan. 1969, Seagram Archives, Acc. 2173, Series I, box 8, Edgar Bronfman file.

[52] Teresa da Silva Lopes, "The Impact of Multinational Investment on Alcohol Consumption Since 1960," *Business and Economic History* 28 (Winter 1999): 115-17; "Seagram's Late Awakening," 24; Philip Beekman, president, Seagram Co., Ltd., "Presentation to Montreal Society of Financial Analysts," 7 March 1979, Seagram Archives, Acc. 2173, Series II (Corporate Operations), box 27; "Offshore Ties Spur Growth at Seagram," *Toronto Globe & Mail*, 21 May 1987.

decisions to build inventory in brands in which they had already established a reputation in whisky proved to be appropriate as they came on-line in the mid-1970s.[53]

While these strategies yielded good results in terms of sales growth (an increase of 128 percent between 1965 and 1975), profits continued to slide. In 1955, earnings had run at 11 percent of sales; this slumped to 6.5 percent a decade later, and to 4.5 percent by 1975. In 1976, Yogman had to admit the "lack of improvement in profitability despite increases in sales," and paid the price when he was fired later that year and replaced by Beekman. Edgar later maintained that Yogman's fall was the result of overexpansion and lack of control of the company's debt and cash flow. Company treasurer Richard Goeltz, in his analysis conducted a year later for the Seagram executive committee, noted that Seagram's growth over the past decade reflected the U.S. economy's overall growth, and "simply to keep pace with the growth of the U.S. economy in the future, it probably will be necessary to realize a 10 percent per annum increase in sales."[54]

Goeltz added the following prescient remark: "It is highly unlikely that SCL will be able to develop this rapidly with its current operations unless Texas Pacific [Oil & Gas] has a major discovery." The company in fact had already become dependent on this unrelated area of investment: as Fieldsteel noted to Yogman in 1974: "Major effect on profit increase was due to oil with the increase in pricing. . . ."[55] The company's fortunes were to be salvaged by the energy crises of the decade, which provided the context for its most significant decisions in the early 1980s, leading to its investment in Du Pont.

Other companies were also diversifying outside of their original industries in this era: Grand Metropolitan entered the liquor business by acquiring IDV; the French company Moët-Hennessy, which merged in 1971, later branched into the perfume field and united with the luggage and luxury leather goods company, Louis Vuitton.[56] Each of these examples reflected the particular circumstances of the companies as well as industry trends. Seagram's move into the oil and gas field was not unique, but it was unusual in that there was no apparent connection between the industries involved; its origins relate more to the personal

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[53] Edgar Bronfman, Presentation to Montreal Society of Financial Analysts, 2 Feb. 1972, Seagram Archives, Acc. 2126, Record Group 2, box 165, DCSL files.

[54] Jack Yogman to Seagram Board of Directors, Seagram Co. Ltd., 6 May 1976, Seagram Archives, Acc. 2126, Record Group 2, Series I, box 165, DCSL files; Bronfman, *Good Spirits*, 154-55; Richard Goeltz, "Some Measures of SCL's Performance," Feb. 1978, Seagram Archives, Acc. 2126, Record Group 1, Series I, box 10, Executive Committee files.

[55] Harold Fieldsteel to Jack Yogman, 13 June 1974, Seagram Archives, Acc. 2126, Record Group 2, Series II, box 165, DCSL files.

[56] Lopes, "The Impact of Multinational Investment on Alcohol Consumption," 113-16.

choices of Sam and Edgar Bronfman than to a preconceived strategy of diversification.

In 1950, Sam Bronfman, apparently inspired by Imperial Oil's development of oil fields in Alberta, made an investment in a small Canadian oil exploration company, Royalite, which eventually was sold to British-American Oil Company. Edgar later maintained that he persuaded his father that a better route into this area was through investment in the U.S. oil business, enabling Seagram to take advantage of the tax benefits of the oil depletion allowance. In 1953, Sam set up a subsidiary of Frankfort Distillers to engage in oil exploration in Bartlesville, Oklahoma. Four years later, when Edgar became president of Seagram in the United States, he brought in a Dallas-based oil expert, Carrol Bennett, to run Frankfort Oil, which increased its output to 10,000 barrels a day by 1963; more critically, it provided a tax benefit of $38 million to Seagram over the decade. Unlike the other Seagram operations, the oil enterprise seems to have felt a minimum of Sam's interference; as Bennett described it, there were meetings twice a year, to set targets and review performance: "Mr. Sam never gives specific instructions. He [just] said he wanted to build a big oil company."[57]

In 1963, Mark Millard of the New York investment firm Loeb Rhoades alerted Edgar to a new opportunity to acquire a much larger oil and gas company, Texas Pacific Coal & Oil. To finance the acquisition at a cost of $382 million, Seagram put up $65 million of its own equity and borrowed $50 million. Texas Pacific Oil paid off the balance out of its own revenues; and Seagram was able to use the oil depletion allowance to cover its costs. By 1975, the acquisition cost was paid out, and Texas Pacific almost doubled annual revenues for Seagram over the next five years.[58]

Although these earnings buoyed Seagram through the latter part of the decade, Edgar had several concerns about the tie with Texas Pacific. The capital demands of the oil business were constant and, Edgar acknowledged, "my knowledge of oil didn't compare to my expertise in Seagram's base liquor business." He also believed that a new round of oil price increases might invite government intervention that would cap prices and translate into a decline in the value of "small independent oil companies like ours." When the second energy crisis erupted in the summer of 1980, Edgar consulted with his brother, Kolber, and Beekman

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[57] Bronfman, *Good Spirits*, 2-6; Anne Tyler to Philip Siekman, 22 July 1966, concerning her interview with Carrol Bennett, Seagram Archives, Acc. 2173, Series I, Subseries A, box 10; Frankfort Oil Company, Net Cash Expenditure and Oil Revenues, 1957-63, Seagram Archives, Acc.2126, Record Group 2, Series I, box 2, Murray Cohen files.

[58] Bronfman, *Good Spirits*, 6-8; Newman, *Bronfman Dynasty*, 185. Edgar's connection to Loeb Rhoades was based in part on his marriage to Anne Loeb, daughter of John Loeb, one of the company's partners. Edgar and Anne were divorced in the 1970s.

and Fieldsteel, and directed Millard to find a buyer for Texas Pacific. The sale in April 1981 yielded an extraordinary windfall: Sun Oil Company paid $2.3 billion (more than four times the book value of Texas Pacific).[59] Texas Pacific had indeed struck a gusher for Seagram, albeit not in the oilfields.

Edgar convened the same advisory group as an "acquisition committee" to identify targets for reinvestment of the Texas Pacific proceeds. The first effort was an attempt to acquire St. Joseph Lead Company, which controlled large reserves of gold and copper, but Seagram lost the bidding contest. Shortly thereafter, however, Millard alerted them that an even larger oil company, Conoco, might be available. In the wake of a bid by Dome Petroleum for the Canadian holdings of Conoco, it became clear that Conoco shareholders had widespread dissatisfaction with the company's management. Edgar and Charles approached Conoco with a proposal to buy 25 percent of Conoco's shares, sufficient for a strong minority position, combined with a pledge not to accumulate more stock for five years.[60]

At this point, however, two new, much larger players entered the contest: Mobil and Du Pont. A bidding contest ensued, and again the Bronfmans decided to drop out, leaving the field ultimately to Du Pont. But Fieldsteel suggested that Seagram could leverage the stock it had accumulated in Conoco: "We could trade it in for Du Pont stock, and end up with a huge piece of Du Pont at wholesale prices." Seagram had an advantage in that it could offer cash to buy Conoco shares on the open market, and once it had 49 percent of the shares, it made a deal with Du Pont, acquiring a 20 percent position in the giant chemical company.[61]

The Du Pont deal was seen as the Bronfmans' finest hour. "Du Pont was the deal of the century," Jean de Grandpre of Bell Canada (and a board member of both Seagram and Du Pont Canada) recalled. "It gave them a stability that few other companies had. They were not exclusively at the mercy of the liquor business any more."[62] Between 1981 and 1995, when Seagram sold its interest (then at 24 percent) back to Du Pont, income from Du Pont dividends rose from $120 million to $300 million annually, equal to three-quarters of the revenues Seagram generated from its own operations. Possession of this large cash flow gave Seagram the

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[59] Bronfman, *Good Spirits*, 9-10; Kolber, *Leo: A Life*, 66-68.

[60] Harold Fieldsteel to Acquisition Committee, Re: "Operation Midnight," 8 June 1981, Seagram Archives, Acc. 2126, Record Group 2, Series I, box 173, Conoco file; Charles R. Bronfman, "Deposition re Conoco," 9 July 1981, Seagram Archives, Acc. 2126, Record Group 1, Series I, box 2, CRB files.

[61] Bronfman, *Good Spirits*, 16-22; Kolber, *Leo: A Life*, 68-70; Adrian Kinnane, *Du Pont: From the Banks of the Brandywine to the Miracles of Science* (Wilmington, Del., 2002), 215-17.

[62] Quoted in Rod McQueen, *The Icarus Factor: The Rise and Fall of Edgar Bronfman Jr.* (Toronto, 2004), 110.

capacity to expand in its own industry without incurring new debt or diluting the family's equity position.

However, aspects of the Du Pont deal, in retrospect, were seen as evidence of underlying weaknesses in the decision-making structure at Seagram. The outcome of these complex maneuverings justifiably enhanced Edgar Bronfman's confidence in his business acumen and his sense that Seagram had matured as an organization to the point where its top management could operate in a range of areas outside the liquor industry. This confidence may have influenced events in the 1990s. Furthermore, the revenues from Du Pont may have contributed to a degree of complacency at Seagram with regard to its competitive position. As Teresa da Silva Lopes notes, the other major players in the wine and spirits industry were engaged in consolidating their positions in the core industry and divesting themselves of ancillary ventures in the mid-1980s, while Seagram could coast along on earnings from its Du Pont investment.[63]

Throughout most of the negotiations—with Sun Oil over the sale of Texas Pacific, with Conoco, and with Du Pont—the Seagram position was determined by a small group of managers, most of whom were tied to Edgar Bronfman. Board input was not usually sought until after the fact. It was only in the final stages of the evolution of the "back-in" strategy with Du Pont that the board's views were solicited, and then only at the insistence of Charles Bronfman. Sam's heirs had set out to create a board of directors with wider perspectives and the capacity to provide serious advice on significant decisions. In practice, however, the brothers (particularly Edgar) came increasingly to rely on their own instincts and the advice of managers who saw their jobs as implementing policies, not initiating them. Harold Fieldsteel provided a candid perspective on this situation:

> In the owner-managed environment, the owners expect to run their business. It's their business and once they make a decision... there are no post mortems... An advantage is that under this system it's possible for the manager to get quick decisions... There are few committees, few executive ceremonies. However, one drawback for the manager is that you may not agree with the decisions that are handed down.[64]

Between 1963 and 1980, the Bronfman heirs had introduced measures that helped resuscitate Seagram's competitive position, and they used the leverage provided by the company's oil investments to provide the company with substantial financial resources over the next decade. In this same period, they had been able to strengthen the organizational

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[63] Lopes, "Brands and the Evolution of Multinationals in Alcoholic Beverages," 13-14.

[64] Quoted in John Thackery, "Technician of the Short Term: Harold Fieldsteel of Seagram," *Corporate Financing* (Jan./Feb. 1971), 2.

capabilities of the company and to recruit a professional cadre of managers and a range of outside board members to advise them on corporate strategy. Seagram had moved a long way from the era of "personal management" under Sam Bronfman. Yet, like the monarchies of the Baroque age in Europe, at the apex of what appeared to be a rational bureaucratic system, leadership was based on inheritance rather than necessarily on merit, and the personal preferences and choices of the family continued to play the most critical role in shaping the direction of the enterprise. This aspect would become apparent in the decades to come.

Edgar II: "The Last Emperor"

Edgar Bronfman, Jr., was well aware of his grandfather's premonitions about the "third generation," which he represented, and, no doubt to his regret, his most memorable proclamation on this subject was, "I'm not going down in history as the one Bronfman who pissed away the family fortune."[65] Unhappily, that was indeed to be his legacy, whether deserved or not, as Seagram became the most prominent example of the pitfalls of the family firm.

Although much was made of Edgar Jr.'s lack of preparation for leadership of Seagram, in some respects his background was similar to that of his father (Edgar Sr.) or of his Uncle Charles, or, indeed, of his grandfather Sam. He chose not to go to university, but spent some time hanging around on the edges of the entertainment industry, producing some (commercially unsuccessful) films, before being summoned to Seagram by his father in 1982 at age 27, the same age as Edgar Sr. when he had become president of the Seagram company in the United States. After a couple of years of "apprenticeship" under Philip Beekman, he became head of the House of Seagram in Europe, the largest of the company's marketing divisions. In 1986, Edgar Sr. announced (to the surprise and chagrin of Charles Bronfman, not to mention his own older son, Sam) that Edgar Jr. would succeed Beekman as president of the Seagram company in the United States.

Despite this foreshortened period of tutelage, Edgar Jr.'s record as president between 1987 and 1994 was not without accomplishment. The company streamlined its product lines to focus on premium brands. For the first time since the 1970s, Seagram embarked on a significant acquisitions program in the liquor industry. It outbid Grand Metropolitan for the cognac company, Martell, in 1987, using it to develop a strong position in East Asia over the next decade; and it acquired the Swedish Absolut Vodka line in 1993, which for the first time gave Seagram a major brand in the "white goods" area.

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[65] McQueen, *The Icarus Factor*, 102.

Somewhat more surprisingly, Seagram acquired the juice company Tropicana from Beatrice Foods, and reorganized it, pushing it to expand into international markets and selling it to PepsiCo in 1998 for three times the purchase price.[66]

Then in 1994 came the most critical decision in Edgar Jr.'s regime: the sale of Seagram's interest in Du Pont and the acquisition of MCA/Universal Studios from the Japanese company, Matsushita. The move into the entertainment field set in motion the transformation of the Bronfmans' entire business. By 1998, following the acquisition of another music company, Polygram, from the Dutch multinational Philips Electronics, revenues from the traditional Seagram companies represented less than one-third of the total for the conglomerate, down from 70 percent at the beginning of the decade. As the neglected division, Seagram found its market position in competition with aggressive companies like Grand Metropolitan and Guinness (which merged into Diageo in 1997), eroded even in the United States, where it held only 17 percent market share by the end of the 1990s.

Meanwhile, the entry into entertainment was a rocky one for Edgar Jr., who encountered problems recruiting and holding managers for Universal Studios, which steadily lost market share from 1995 to 1998. Although there were fewer difficulties of this sort in the music (MCA) area, the eruption of Napster piracy on the Internet after 1999 threatened the foundation of this entire business. The final blow came in 2000 with the merger of America Online (AOL) and Time Warner, which seemed a prelude to an era of giant consolidations that would bring about a "convergence" of the new digital and Internet technologies with the traditional television, film, and music industries. Viacom took over Columbia Broadcasting System (CBS), Disney acquired American Broadcasting Company (ABC), and Edgar Jr. began shopping for a buyer or at least an ally in the new multimedia world.

This set the stage for the takeover (although presented to the public as a merger) of the Bronfman companies by the French company Vivendi, originally a provider of water and sewer services that had been transformed into a multimedia empire under Jean Marie Messier, an ambitious protégé of France's technocratic elite. Under the terms of the deal, Vivendi paid $42 billion, but principally in the form of share exchanges, with the Bronfmans holding 25 percent of the merged company, now Vivendi-Universal. The Seagram liquor properties were sold to Diageo shortly thereafter, disappearing almost unnoticed in the wake of the publicity over the merger.

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[66] Faith, *The Bronfmans*, 240-41, is less impressed with this record, maintaining that Seagram paid far too much for the Martell acquisition, and its entry into the Asian market coincided with the collapse of the Japanese economy. He does give Edgar Jr. somewhat higher marks for making a good deal in the acquisition for Seagram of rights to market Absolut vodka.

From the outset, the Vivendi operation was unstable: Vivendi Universal shares lost more than 10 percent of their value within days after the merger announcement. Messier, already carrying a huge debt to finance the takeover and earlier acquisitions, embarked on a spending spree, buying more companies (including one Edgar Jr. had sold earlier) and ignoring the objections of the Bronfmans. By 2001, Messier's mis-management had led to his dismissal, but by then the value of Vivendi-Universal had dropped from $77 to less than $25 per share.

The Bronfmans were not exactly left in penury: Edgar Sr. and Edgar Jr. had sold off $1.3 billion of Vivendi stock at $62 per share after the 90-day "lock-down" period following the merger expired, but even that represented a loss. The situation widened the rift in the family, as Charles was stuck with a large block of shares of disintegrating value. It is estimated that the overall value of the Bronfman family fortune fell from $8 billion to less than $5 billion. In the meantime, the Seagram company itself was gone and the Bronfmans held little more than 5 percent interest in Vivendi, whose share price had fallen to one-sixth of its value in 2000. In a symbolic moment in 2003, Vivendi sold off the Seagram building and auctioned off the Seagram art collection in New York to help pay off its debts.[67]

In the accounts of this debacle by "inside" observers and by journalists in the immediate aftermath of Vivendi's collapse, two themes emerged, not necessarily contradictory, but distinct. One line of thinking was expressed by Leo Kolber in his 2003 autobiography, reflected in many of the post-mortems: Edgar Bronfman, Jr., was "a nice young man," but lacked education and knew "nothing about finance or money," when he was prematurely promoted to chief executive of Seagram in 1986. "He didn't want to be Mr. Du Pont or even Mr. Seagram, as it turned out. He wanted to be Mr. Hollywood." Edgar, Jr.'s ineptitude and misplaced ambitions led to the sale of the Du Pont interests and the ill-fated investment in Universal/MCA, "the dumbest deal of the century." Finally, "Junior . . . got caught up in the convergence craze in 2000," leading to the disastrous Vivendi merger.[68] In this version, Edgar Sr. played the role of the

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[67] The most complete account of these events is in McQueen, *The Icarus Factor*. Other post-mortems include: Brian Milner, "Broken Spirits," *Globe & Mail Report on Business Magazine* (Sept. 2002), 26-36; Devin Leonard, "The Bronfman Saga From Rags to Riches to . . ." *Fortune* (25 Nov. 2002), 108-10, 114-18; Jo Johnson and Martine Orange, *The Man Who Tried to Buy the World: Jean Marie Messier and Vivendi Universal* (New York, 2003).

[68] Kolber, *Leo: A Life*, 48-49, 52. Milner also features this perspective, which we might characterize as the view from the Canadian (Charles Bronfman) side, in *Report on Business*. Faith, *The Bronfmans*, also quotes Kolber's assessment: "The whole empire was sacrificed on Edgar Jr.'s obsessive desire not to be a mere coupon-clipper, combined with his inherited sense of shame at being involved in the liquor business." Faith, *The Bronfmans*, 246.

indulgent father, influenced by his own difficult period of tutelage and subordination under Sam in the 1950s, and consequently allowing "Junior" to pursue his dreams, however unrealistic they may have been.

There is another theme, however, that recurs through some of these accounts. While Edgar Jr.'s lack of skills and misjudgments are a common feature, his father is seen to have exercised considerable influence, and ultimately responsibility; this is particularly the case in Rod McQueen's book, aptly titled *The Icarus Factor*. McQueen repeatedly makes the point that Edgar Jr. relied on his father, not just for advice, but also for approval of his actions, including, most crucially, the decision to sell the Du Pont shares and acquire Universal/MCA and later to sell the company to Vivendi. Much like his own father, Sam, Edgar Sr. used his personality to prevail on skeptics, including his brother Charles, to support these decisions. Edgar Sr.'s motives in these moves are a matter of speculation. In the 1950s, Edgar Sr. had briefly invested in Metro-Goldwyn-Mayer (MGM), a move that led to Sam's memorable query: "Tell me, Edgar, are we buying all this stock in MGM just so you can get laid?"[69] Although frustrated in this early effort to become a Hollywood mogul, there is an implication that Edgar Sr. sought to achieve his youthful aspirations through his son.

In his own autobiography, *Good Spirits*, Edgar Sr. downplayed the Hollywood syndrome, and repeated the statement that the decision to sell Du Pont reflected his (and Edgar Jr.'s) belief that it "was a boring investment," by which he meant that "the company could not be expected to do much more than track the Standard & Poor 500" in the future (which turned out to be a substantial error of judgment).[70] We could also argue that Edgar, Sr.'s "boredom" was more the result of frustration that the Du Pont investment had not led to a significant Bronfman influence on the company. Although Seagram had three seats on the Du Pont board, Edgar Sr. regularly found himself at odds with Irving Shapiro (Du Pont's former chief executive), who continued to chair the finance committee. Edgar Sr. criticized (with limited impact) what he regarded as the overly bureaucratized environment at Du Pont. Accustomed to running his own show, with managers to carry out his wishes rather than contest them, he was not comfortable with Du Pont, in spite of the valuable flow of funds to Seagram.[71]

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[69] Newman, *Bronfman Dynasty*, 187. In Bronfman, *Good Spirits*, 129, Edgar Sr. repeated this account, with his riposte: "Father, nobody has to spend $56 million to get laid." Subsequently Edgar and his partners in the venture lost out in a proxy fight for control of MGM to Kirk Kerkorian.

[70] Bronfman, *Good Spirits*, 203.

[71] Bronfman, *Good Spirits*, 165-70; Kinnane, *Du Pont*, 221, 238. Faith, *The Bronfmans*, 247, offers a political motive, arising from Edgar Sr.'s involvement with the World Jewish Congress: he discovered that Conoco was negotiating with

What also emerges in *Good Spirits* is an account that reveals the continuing influence of Edgar Sr. on Seagram throughout this period. Although insisting that he exercised a hands-off approach in his relations with Edgar Jr. with regard to managing Seagram, it is clear that in many of the moves made in the early 1990s, including the Martell, Tropicana, and Absolut acquisitions, Edgar Sr. was closely involved, and he was consulted through the merger with Universal/MCA. In McQueen's account, while Edgar Sr. maintained that his unexpected choice of Edgar Jr., rather than his oldest son Sam, to succeed him reflected his notion that Edgar Jr. was the more "competitive" brother, other observers drew the opposite conclusion: that Edgar Jr. was more compliant and hence more susceptible to his father's influence.[72] In this rendition, Edgar Jr. resembles less the spoiled and inept son of an indulgent father and more the unfortunate Pu Yi, the "last emperor" of the Manchu dynasty in China, a puppet in the hands of his grandmother, his advisers, and later the Japanese.

Because the records of the Seagram company relating to Edgar Bronfman, Jr.'s term as chief executive are closed until 2025, these and other contentious issues are not likely to be addressed in any definitive way for many years. It may, however, be useful to offer at least some tentative statements about how the structure of decision making and management as it had evolved from the 1960s may have affected these events for better or worse, based on the admittedly limited evidence that is available.

The role of the Seagram board of directors, particularly in the fateful decisions to sell the Du Pont interests to finance the Universal/MCA takeover, is one benchmark. McQueen describes the board as essentially a compliant body characterized by "less rigorous scrutiny of ideas and . . . few rough and tumble debates where all sides were heard and all outcomes considered." Although there were "outside" directors, Edgar Jr. had not brought in people with "fresh thinking," but people like himself: sons of earlier directors such as Andre Desmarais and John S. Weinberg.[73] On the other hand, the board had been aware for several years before the Universal acquisition that Edgar Jr. wanted to diversify outside the liquor industry, beginning with the Tropicana purchase in 1988. In 1991, he had Stephen Banner lead a "strategic planning" exercise to identify opportunities for investment outside liquor, which considered the "fragrance and luxury goods business" before recommending diversifying into the "communications-media-entertainment area." Shortly before the

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Dubai on a joint oil venture in Iran, which at the time was seen as the center of Islamist militancy and anti-Semitism in the Middle East.

[72] McQueen, *The Icarus Factor*, 71-73.

[73] Ibid., 120, 234.

Universal/MCA deal, Edgar Jr. had made an unsuccessful bid to acquire Time-Warner.[74]

When presenting the case to the board for moving from Du Pont to the entertainment field, Edgar Jr. brought in the Boston Consulting Group. They provided a report that emphasized the decline in consumption of alcoholic beverages since the 1970s, particularly in industrialized countries, and the (somewhat more contentious) analysis to demonstrate that Du Pont share growth had not exceeded the general performance of equity markets in the early 1990s, while entertainment stocks were a growth area.[75] In retrospect, these arguments (particularly the latter one) may seem specious, but they did provide the board with a rationale to do what the Bronfmans seemed to want them to do.

This was of course the critical element. After the dissolution of Cemp, both Edgar Sr. and Edgar Jr. had increased their personal holdings in Seagram and, together with Charles, they controlled 38 percent of the company. It is perhaps fair to say that many boards in the 1990s with far more dispersed ownership were no less supine in restraining would-be managerial empire builders. It is possible that if Charles had expressed his doubts, there might have been more debate over the decision, even though Charles's share was much smaller than Edgar's. However, Charles did remain silent, and it appears that in this situation Edgar Sr. conducted himself more like his father Sam in his dealings with his own relatives, using his personality to overcome any doubts and to suppress potential opposition. This was in contrast to earlier times, when he had consulted with Charles and, if not exactly treating him as an equal, considered his views with respect.

Of course, the board's supine attitude and Edgar Sr.'s bullying tactics would have been irrelevant if the investment in Universal/MCA had been a success. The question then is why this proved to be such a bad move for Seagram. Any definitive answer lies in the future, but what follows is an attempt to comprehend how the strengths and weaknesses of the Seagram style of management played a role in the troubled history of its involvement with Universal/MCA in the late 1990s.

Up to the point of the Universal/MCA takeover, Edgar Jr.'s record as a manager of Seagram was respectable, even if we assume that much of the credit may be due to his father. The company had taken significant steps to retain its position in the liquor industry. Nevertheless, blunders and controversies punctuated the move into the entertainment industry and, even though there was more stability by 1999, the five-year share price increase of Universal/MCA/Seagram lagged behind that of the other U.S. media companies. This frustrating performance, along with the prospect of competition from much enlarged multimedia conglomerates, led Edgar

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[74] Ken Auletta, "Annals of Communication: Rising Son," *The New Yorker* (6 June 1994), 56-68.

[75] Bronfman, *Good Spirits,* 202-3.

Jr. (at the prompting of Edgar Sr.) to the steps that culminated in the disastrous Vivendi merger.

Despite Edgar Jr.'s own brief foray into filmmaking in the 1970s, and his father's experience in running a large market-oriented company, neither Bronfman seems to have had a sense of the nature of the industry they were entering. Until the 1950s, the "Hollywood system" had a structure that Sam Bronfman would have found familiar: the large studios such as MGM and Universal were vertically integrated, with control over distribution as well as production, and films were made on what amounted to an assembly line and sold to a mass market. Since that time, however, a variety of factors—television, antitrust settlements, the incursions of conglomeraters, and the rise of independent producers—had transformed the industry. Edward Jay Epstein, the chronicler of Hollywood at the end of the century, characterizes the studios as essentially "clearinghouses": the names are still there, but the activities that go on within them consist of chains of deal-making among essentially autonomous producers, directors, co-financiers, movie stars and their agents, and distributors. It is secondary components such as home videos, licensing, and the merchandising of products "branded" to a particular film that generate revenues, not film releases *per se* (which often lose money). Although the music field was not as chaotic (or "postindustrial," as Epstein puts it), the advent of the Internet and Napster created similar pressures toward the decomposition of the industry into a mélange of autonomous deal-seeking entities.[76]

In this context, success depended, in part, on the result of negotiating skills in the constant deal-making environment, but also on the willingness to take large risks, and on luck. Ken Auletta quoted Gerald Levine of Time-Warner (who effectively blocked a Bronfman takeover in 1994, only to succumb to AOL in 2000): "We're not in the furniture business. We're an idiosyncratic, ego-driven business. To spend 2 years turning out an album [or a film] is idiosyncratic. The management of this business does not lend itself to traditional management practices."[77] Companies sink huge amounts of investments into would-be "blockbusters" that crash (as in the case of Universal's "Waterworld"), but a single hit can keep a studio running for years.

Edgar Bronfman, Jr., may or may not have been comfortable with the degree of risk involved in the film industry, but the mores of 1990s

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[76] Edward Jay Epstein, *The Big Picture: Money and Power in Hollywood* (New York, 2005), 106-25. See also Richard E. Caves, *Creative Industries: Contracts between Art and Commerce* (Cambridge, Mass., 2000), 87-102; Michael J. Wolf, *The Entertainment Economy (*New York, 1999). Wolf was a consultant for Booz Allen Hamilton and was involved in the Bronfman "reengineering" efforts at Universal/MCA.

[77] Ken Auletta, "Annals of Communication: That's Entertainment," *The New Yorker* (12 Feb. 1996), quotation at p. 30.

Hollywood clearly disconcerted him. In 1998, after several years of running Universal, he proposed that the film industry should abandon its single-price admission system and establish a "tiered arrangement that reflected the actual cost of production." This was an idea that made perfect sense in the world of liquor sales, and one of his early moves as president of Seagram had been to retire low-price lines in order to concentrate on "premium brands." However, those in Hollywood derided his proposal as evidence of his lack of understanding of the industry.[78]

Another example of the gap between the Bronfmans' approach to management and the circumstances in the entertainment industry involved Edgar Jr.'s efforts to reorganize Universal in 1995. He had previously undertaken "reengineering" at both Tropicana and Seagram, and at least in the case of Tropicana those measures had been successful in improving productivity and increasing the value of the company. At Universal, however, the project encountered sustained resistance from all levels of management, who maintained that efforts to promote efficiency would inhibit the "creative" (and deal-making) energies of their employees. McQueen stated that the re-engineering operation at Universal was supposed to produce $600 million in savings over five years, but probably yielded much less: "Employment was reduced by 20 percent but most of those fired were low-wage earners, so the total payroll fell by only 5 percent."[79]

I cite these examples not as evidence of Edgar Jr.'s incompetence, but rather of the frustrations he encountered in trying to integrate concepts of management and marketing that worked for Seagram in an environment where those ideas were perceived as bizarre and inapplicable. The Matsushita managers may well have encountered the same response. Certainly by 1999 both Edgar Sr. and Edgar Jr. seem to have been disillusioned about the investment in Universal/MCA, not just because it was not producing the earnings that had been anticipated, but also because there appeared to be no solution to the problems; the organizational capabilities of a company like Seagram were not transferable to this industry.

During the 1930s, Samuel Bronfman had wrested control of Seagram from his brothers, and he ran it thereafter as his personal domain; even after he brought his own sons in to groom them for succession, he continued to cling to power as long as possible. Charles and Edgar substantially overhauled the enterprise, not only by developing new strategies that sustained it against growing competition and changing markets, but also by recruiting professionals to run the organization and establishing formal organizational hierarchies and procedures. In most

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[78] McQueen, *The Icarus Factor*, 161; David Plotz, "Edgar Bronfman, Edgar Bronfman . . . ," *Slate*, 26 April 1998.
[79] McQueen, *The Icarus Factor*, 144-49.

respects, Seagram was transformed in this period from a virtual caricature of "personal capitalism" to a well-managed company.

In seeking to explain Seagram's collapse in the 1990s, two factors relating to the issue of management capability (as opposed to the personal qualities of Edgar Bronfman, Jr.) may be pertinent. First, despite the changes at the operational level, strategic decision making in the firm remained principally with the family members involved, with relatively few checks and balances provided by either senior managers or the board of directors. The successes of the company from the 1970s to the 1990s continued to depend largely on the capacity of these family members to make sound decisions.

However, this explains only part of the problem. The second factor is that the key failure was not so much the decision to diversify out of the liquor industry, but rather the choice of an alternative industry in which neither the business experience of the family (including that of Edgar Sr. in particular) nor the organizational capabilities that Seagram had acquired were particularly appropriate. Ironically, in the entertainment environment during the 1990s, the entrepreneurial, deal-making, and risk-taking qualities of a Samuel Bronfman might have been more effective than the managerial approaches that his son and grandson brought to this "post-industrial" industry.

There is one additional irony worth noting. Sam Bronfman prefaced his famous "shirtsleeves to shirtsleeves" premonition in 1966 with these observations: "Members of a family don't want to work as hard as employees—and you can't fire them."[80] Perhaps it would have been better for Seagram and for the Bronfman family fortune if Edgar Jr. had been a feckless playboy with no ambition, and if his father had chosen to retire in the 1980s and collect the family's share in the Du Pont dividends for the rest of his life.

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[80] "The Bronfmans: An Instinct for Dynasty," 208.