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When Fligstein meets Chandler. The Chandlerian Origins of Corporate Financialization: The Case of Peugeot's Financial Restructuring in the 1960s

(Accepted version)

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Abstract

Reconnecting Fligstein's and Chandler's models of long-term organizational change, this paper challenges the idea that corporate financialization is alien to the Chandlerian enterprise. Based on the case of the French automotive firm Peugeot (PSA), it shows that this historical transformation has been intrinsically linked to Chandlerian dynamics.

The article first highlights the crucial role played by the French government and financial institutions in the establishment of large multidivisional companies in France. It then draws on PSA and public archives, and interviews with former financial executives to examine a decisive financial restructuring of the family business in 1965. By describing the challenges faced by the business in the 1960s, it analyzes how the creation of a multi-level structure of holding companies was meant to deal with Chandlerian challenges, while paving the way for the further financialization of the business.

Introduction

Insofar as there has been an academic focus on the transformations associated with the financialization that took place from the 1980s, and primarily at the macroeconomic level, corporate financialization is usually seen as a range of re-alignment to the external power of shareholder. Chandlerian organization would have been forced to adapt to exogenous changes. As Davis Kim points out, the financialization of the whole economy “shapes social institutions in fundamental ways [...] financial markets [would] have favored disaggregation of the corporation”¹. The main contributions on corporate financialization “consider the impact of the stock market’s increasing demands for financial returns on corporate behavior and performance”². A new type of shareholder capitalism would have substituted the logic of ‘downsize to distribute’ for that of ‘retain-and-reinvest’³, and hence structure a new organizational model: the ‘post-Chandlerian’ enterprise⁴. This necessitated a battery of financial indicators and budgetary controls as channels to introduce short-term financial metrics⁵.

Financialization has become a hegemonic concept in management, business history and economic literature, especially since the subprime financial crisis⁶. There are many facets to this phenomenon, and we concentrate here on the internalist approach⁷. The corporate financialization has been defined as a rise of financial actors and instruments within organizations, along with a proliferation in accounting and budgetary controls⁸. Economic sociologists and political economists have focused on the underlying institutional conditions, such as deregulation⁹, global capital instability¹⁰, or the role of financial instruments¹¹, to explain the broader financialization of the economy¹². In line with Adam Goldstein and Neil Fligstein¹³, we trace corporate financialization not only as adaptation to external evolution, but to the vertical integration process and changes in the organizational model of the firms.

The most historically and theoretically successful conceptualization of the corporate financialization is that of Neil Fligstein. He describes this phenomenon as “the use of financial tools to evaluate product lines and divisions. The multidivisional form became the accepted organizational structure and control was achieved by decentralizing decision-making while paying close attention to financial performance. Product lines or divisions that did not meet corporate expectations for growth or earnings were divested [...] focused on the corporation as a collection of assets that could and

1Davis and Kim, « Financialization of the Economy », p 204.

2Gleadle and Cornelius, « A Case Study of Financialization and EVA », pp 1220.

3Lazonick and O’Sullivan, « Maximizing shareholder value: a new ideology for corporate governance ».

4Davis, Diekmann, and Tinsley, « The Decline and Fall of the Conglomerate Firm in the 1980s »; Weinstein, « 4. Financiarisation de la grande entreprise et montée de l’idéologie actionnariale ».

5Froud and al., *Financialization and Strategy*.

6Mader, Mertens, and Van der Zwan, *The Routledge International Handbook of Financialization*.

7Chiapello, « La financiarisation des politiques publiques ».

8Ezzamel and al., « Manufacturing shareholder value: The role of accounting in organizational transformation »; Fligstein and Shin, « Chapitre 7. Valeur actionnariale et transformations des industries américaines (1984-2000) »; François and Lemercier, « Élités économiques »; Gleadle and Cornelius, « A Case Study of Financialization and EVA »; Wood and Wright, « An Age of Corporate Governance Failure? ».

9Campbell, « Neoliberalism in Crisis ».

10Schwartz, *Subprime Nation*.

11Baud, Chiapello, and Hamilton, « How the Financialization of Firms Occurs »; MacKenzie, « The Credit Crisis as a Problem in the Sociology of Knowledge ».

12Krippner, « The financialization of the American economy ».

13Goldstein and Fligstein, « Financial markets as production markets ».

should be manipulated to increase short-run profit "14. This article addresses the organizational conditions that underpinned the emergence of this conception of control. We argue that the spectacular transformations leading up to the corporate finance maximization first appeared in France during the 1960-1970s, and that large multidivisional companies were not always the 'victims' of external financialization: they in fact contributed to its development, and to a certain extent, they called the shots.

This paper is in line with the teachings derived from the Chandlerian model, which has highlighted the role of large companies in macroeconomic developments since the beginning of the 20th century. Whilst their role in globalization has been emphasized, there has been little or no research in relation to the dynamics of financialization, which is of equal weight in the modern economy15. To reconnect the Chandlerian's and Fligsteinian's pattern of structural and managerial innovations in large companies, it is necessary to quickly review the financial elements of the Chandlerian model.

With the capital amassed since the second industrial revolution at the end of the 19th century, large companies have based their success on their ability to resort to economies of scale and synergies, building large organizational structures that have been expected to demonstrate a certain efficiency in order to optimize resources. This development hence gave a key role to managers, whose function was to use management tools to organize this efficiency. Pioneering companies rapidly became monopolies or oligopolies in their sector and acted as a pole of attraction for the rest of the economy during the 20th century16.

According to Chandler, the financial issue occupies a central place in these transformations. He points out that at the beginning of the 20th century, "[...] many of the later mergers were engineered and concluded by Wall Street financiers and speculators, eager to profit from the promoter's commissions, capital dilution and other financial transactions"17. Before multidivisional management could be structured, and before divisional performance measures could be refined, one of the major challenges facing companies had to be resolved, *i.e.*, the obtention of consistent and accurate cost, production, and revenue data, including the standardization of accounting systems18.

The emergence of the Chandlerian enterprise was linked to the creation of financial tools. Therefore, it is not surprising that while developing his dynamics of financialization, Neil Fligstein has carefully read Chandler's work, to which he explicitly pays tribute19. Going beyond Chandler's functionalist approach, Fligstein formulated an institutionalist account of the transformation of corporate control20.

In the post-war period, the financial conception of control evolved in the United States from the time of the manufacturing, sales and marketing conception of control, and has extended from the

14Fligstein, *The Transformation of Corporate Control*, 226.

15Jones, « Business Enterprises and Global Worlds ».

16Chandler, Amatori, and Hikino, *Big Business and the Wealth of Nations*.

17Chandler, « Strategy and Structure: Chapters in the History of the Industrial Enterprise », 143.

18Chandler, 212.

19Fligstein, « Chandler and the Sociology of Organizations ».

20*i.e.*, the legitimate cognitive frameworks disseminated by the groups dominating companies at different times in order to impose their hegemonic position. These frameworks, along with the modes of organization that accompany them are not intrinsically more efficient, but they legitimize a certain order within large companies and more broadly among the institutional field. Burns and Scapens, « Conceptualizing Management Accounting Change »; Fligstein, *The Transformation of Corporate Control*; Carruthers, « Financialization and the institutional foundations of the new capitalism »

1950s. Major internal financial tools were used, especially by managers trained in finance and accounting, who developed metrics to be able to pay close attention to firms' financial performance. This was related to the growth of large companies and the spread of the multidivisional form: "Finance executives reduced the information problem to a measurement of the rate of return earned by each product line"²¹. Throughout the formation of conglomerates [during the 1960s], "all the financial forms of reorganization including mergers, divestitures, leveraged buyouts, the accumulation of debt, and stock repurchasing were invented or perfected"²². Thus, the development of the finance conception of corporate control is rooted in the development of the Chandlerian enterprise²³:

Table 1 - Relation between Fligstein's Conceptions of Control and the Managerial Structure of Companies

Phase	1900-1914	1930-1950	1950-1980	1980-2010
Conception of control	Manufacturing conception of control	Sales and marketing conception of control	Finance conception of control	Shareholder value conception of control
Company managerial and structural transformation	M form first appearance	Financial technology (debts management, mergers, stock repurchasing)	Internal financial tools (cost accounting, financial performance indicators, budgetary control)	Stock market techniques (EVA, EBITDA, LBO)

The development of the multidivisional company has been a very long process which has undergone several transitions. The transformations, especially in Europe and France, have been more progressive than has sometimes been reported: "The finance conception of control therefore already viewed the firm in primarily financial terms" [...] The shift from financial conception of control to the shareholder value conception of control is a subtle one"²⁴.

This means that uniting the Chandlerian and Fligsteinian models in the same dialogue aids our understanding of the continuous managerial transformations that took place in large company finance. Therefore, it is reasonable to assume that the creation of large industrial groups during the 1960s in France may have provided the organizational basis for the subsequent financialization. Financial strategies and metrics cannot emerge within companies without some prior development. This paper describes some of the financial conditions for the development of the Chandlerian form in France, and the organizational conditions for the corporate financialization.

The development of finance in Europe has followed different paths from the United States: " While the American industrial structure is firmly in the grasp of the shareholder value conception of control, the rest of the world has steadily resisted importing it, [the shareholder value conception] has not emerged in many other advanced capitalist countries, in large part because of pre-existing sets of institutional arrangements between states and economic elites "²⁵. It is therefore

²¹Fligstein, *The Architecture of Markets. An Economic Sociology of Twenty-First-Century Capitalist Societies*, 183.

²²Fligstein, 183.

²³Fligstein, « The Spread of the Multidivisional Form Among Large Firms, 1919-1979 ».

²⁴Fligstein, *The Architecture of Markets. An Economic Sociology of Twenty-First-Century Capitalist Societies*, 149.

²⁵Fligstein, *The Architecture of Markets. An Economic Sociology of Twenty-First-Century Capitalist Societies*, 189.

necessary to describe the specificities of the French institutional arrangements and economic structures in order to grasp the rise of the finance conception of control, which cannot be replicated according to US dynamics. The institutional conditions of corporate finance emerged in France in the 1960s and 1970s and shaped the conditions for the rise of this financial conception of control.

The case of PSA is relevant to these early changes because the automotive sector used to be the archetype of the Fordist model. Eminent French business historians have shown considerable interest in Peugeot and Renault, the two main French manufacturers. Although the industrial transformation of these companies in the 1950s and the 1970s has been thoroughly examined²⁶, the financial dimension has largely been ignored, except for Renault²⁷. Furthermore, the prism of financialization is absent from the literature on large French automotive companies. Thus, an improved understanding of the endogenous aspects of financialization in the automotive industry remains a challenging area of research²⁸.

Using an in-depth case study, this paper explains an episode during which organizational bases were created for further financialization within PSA during the 1960s. Our specific focus is on a crucial step: in 1965, a financial reorganization brought all the various activities under the control of a multi-level structure of holding companies.

Our analysis draws on both written and oral sources. The written sources consist of various archival records from PSA's collections and public institutions, such as the national library of France (BNF), as well as documents from personal archives. In terms of oral sources, we conducted semi-structured interviews with two former directors who had major financial roles. The interviewees were asked about their understanding of the issues and choices made at different times.

This contribution demonstrates that the institutional and endogenous factors leading to the major financial restructuring of the Peugeot family business in 1965 dovetails neatly with the evolving French economy and politics during the 1960s, which contrasts with the classical narrative on corporate financialization. We argue that this transformation was a pivotal episode, meant to deal with Chandlerian stakes, it paved the way for further corporate financialization.

Firstly, we present the industrial and financial context of the 1960s. This section provides information about the State-driven mergers and acquisitions (M&A) which led to the rise of Chandlerian multidivisional form. Otherwise, this changeover period saw the development of the French stock market capitalization for large businesses, and the rise of financial companies, which offered their expertise in the formation of the French National Champion initiative. We explain how the French-style financialization process began at this time as a corollary of the Chandlerian model. The second section tackles the huge financial issues caused by the push to expand and form partnerships. In a presentation of the financial reorganization in 1965, we explain the features of this financial structure. We discuss why all Peugeot's industrial activities were placed under the control of several holding companies, and how the decisions taken were conducive to multiple connections between the industrial and financial rationale, activities, and structures. Finally, a third section addresses the main financial consequences of this reorganization, which put larger financial constraints at the heart of the industrial side of the business. This led the management to use a greater

²⁶Loubet, *Automobiles Peugeot. Une réussite industrielle* ; Loubet, « Peugeot » ; Fridenson, *Histoire des usines Renault. Naissance ...*

²⁷Fridenson, « Renault face au problème du franc et du risque devise (1957-1981) » ; Fridenson, « Le projet de création par Renault d'une banque industrielle et son rejet par l'État (1971-1973) ».

²⁸Ki, 'Large Industrial Firms and the Rise of Finance in Late Twentieth-Century America'.

number of financial terms in their communication, and to develop a centralized financial control system for maximizing short-term profits and driving up the stock price. Finally, this new multi-level holding structure literally allowed subsidiaries to be considered as independent assets, which constituted the basis for the subsequent financialized management within the group.

Peugeot during the changing 1960s: M&A Movement, Spread of the Large Chandlerian Enterprise, and the First French-style financialization

The details of the European path towards corporate financialization can be summarized as follows. State-company relations in Western Europe developed over a longer period and remain more stable than the same relations in the United States. Moreover, the French case can be considered as the archetype of this interpenetration of economic and administrative elites. French industrial policy was directed toward the creation of "national champions". As a result, French companies tended to be relatively large, vertically integrated, and only slightly diversified²⁹. The 1960s in France, as well as being a disruptive changeover period for large companies, enriches the general narrative about the previous stages of corporate financialization. A move towards growth and vertical integration was encouraged by the French State, which helped disseminate the multidivisional model among the large French companies. This move went hand in hand with the strengthening of the Chandlerian form, and the development of French financial markets, as well as management tools and financial indicators.

The Context of 1960s French Industry: The Move towards Vertical Integration as Orchestrated by the State and the Spread of the Multidivisional form

The 1960s was a decade of contrasting transformations. Various factors led to the institutionalization of finance within French industrial groups. From the 1950s onwards, there were clear signs that the French economy was once again embracing the international scene³⁰. French employers wanted some corporate structural reform linked to European harmonization. After 1958, the Gaullist State³¹ gave impetus to reforms as a way of encouraging the rationalization of industry. Indeed, large French companies, which exported less, were less competitive and generally smaller than their counterparts, were at the center of State concerns. The Gaullist State's industrial and financial policy set out to stimulate the "competitiveness" of its companies by encouraging the success of "national champions", which shaped the specific institutional context of French capitalism³². Two instruments were used by the State to encourage this modernization: planning policy and industrial policy.

²⁹Dyas and Thanheiser, « The Patterns of Transition in France »; Dyas and Heinz, *The Emerging European Enterprise. Strategy and Structure in French and German Industry*.

³⁰Asselain, 'Le tournant des années cinquante'.

³¹In 1958, in the middle of a crisis, General de Gaulle, who benefited from an undoubted military legitimacy, was inaugurated president of the republic. This context was that of the struggle for independence in the former colony of Algeria. His government opened as a response to the multiple crises that were going on in France. This has been immediately transposed in the economic field.

³²Aglietta, *Regulation et crises du capitalisme*; Amable, *The Diversity of Modern Capitalism*; Hall and Soskice, *Varieties of Capitalism*; Schmidt and Bouyssou, « Les beaux restes du capitalisme d'État à la française »; *L'entreprise en restructuration*.

A major wave of M&As followed and constituted a decisive factor in the development of the large Chandlerian enterprise, which is concomitant with the fact that certain financial structures and tools have taken a central place in large French companies. The number of mergers between French companies increased dramatically in the 1960s, with 1,850 M&As compared to 843 in the previous decade³³. For instance, of the 33 car companies surviving the war, only 16 remained active in 1956, and this concentration was continuing³⁴. Most large French groups were formed or consolidated between 1958 and 1965. These mergers generated powerful groups, such as Saint-Gobain-Pont-à-Mousson, Thomson, CGE, Rhône-Poulenc, ATO, Creusot-Loire, Babcock-Five, SNIAS, Le Nickel and Peugeot, which became the new face of French capitalism.

This "spirit of modernization" stems from the relatively widespread thinking among the economic elites of that period. On the side of business organization advisers, concern for efficiency was spreading. The role of consulting firms, especially McKinsey from the US and Cegos from France, in the transformation of companies was essential, as they contributed to the spread of the multidivisional form in continental Europe during the 1960s³⁵. As the institutional context was different, European companies were less attracted to diversification insofar as their close relationships with banks and the State mitigated their need to compensate for the risks they encountered. Nevertheless, the multidivisional form developed successfully in Western Europe. In France in 1970, 42% of industrial companies were M-form³⁶.

The 1960s was therefore propitious for the formation of large groups, and hence the M-form was spreading and structuring management. This is embedded in the French hybrid model, which is marked by limited diversification, a multidivisionalization, an expanded system of financial holdings, and the intertwining of traditional economic elites, powerful family businesses, political elites and the new managerial executives³⁷.

A First Step to French-Style Financialization, a Corollary of the Chandlerian Model

In this context, one of the key challenges was financing the growth of industrial companies. These shifts in financing and size for the Peugeot family business were in fact woven at the macroeconomic and microeconomic levels. As a result, the State-orchestrated economic rationalization of industry had its corollary in the banking and financial system.

From 1958-59 onwards, under the supervision of the Treasury, there was a decline in how companies were traditionally financed, alongside the parallel development of market financing³⁸. In 1964, a report challenged the fundamental principles of interventionist policy³⁹, and the subsequent reorganization of the French banking system led to an increase in short-term liquid savings, which helped liquify the French economy. Between 1965 and 1974, investments financed by the banking system rose from 36% to 60% at the expense of financing through Treasury channels⁴⁰.

33Brouté, « La genèse des restructurations en France, le tournant des années soixante ».

34Loubet, « Peugeot ».

35McKenna, Djelic, and Ainamo, « Message and Medium »; Kipping, « American Management Consulting Companies in Western Europe, 1920 to 1990 ».

36Mayer and Whittington, « Après le défi américain »; Dyas et Heinz, *The Emerging European Enterprise. Strategy and Structure in French and German Industry*.

37Dessaux and Mazaud, « Hybridizing the Emerging European Corporation ».

38Quennouëlle-Corre, *La direction du Trésor 1947-1967*.

39Monnet, « Politique monétaire et politique du crédit en France pendant les Trente Glorieuses, 1945-1973 ».

40Lemoine, *L'ordre de la dette*.

The Gaullist government promoted and supported this shift in financing arrangements. The "Debré-Haberer" reform contained a series of decrees issued in 1966-1967. Firstly, similarly to those in the industrial sector, banks were encouraged to merge. This led to the formation of several large banking and financial groups. Secondly, there was attenuation in how the two types of business were partitioned. This was a major step towards the creation of French financial markets, and indeed European financial markets⁴¹. At the dawn of the 1960s, a growth in the Paris financial center took shape: the financial newspaper, *Les Échos*, stated in an article on the issue in 1965 that "the government intends to solve the problem of investments through a cautious revival of the financial market [...]"⁴². Equally, in an insert about investment financing, the headline reads: "Recourse to the financial market... is imperative. It is therefore essential to provide new resources, through recourse to capital increases, and therefore to the financial market".

Several converging indicators show the influence of shareholders on large companies, and their recourse to the French financial market. The *ratio* of market capitalization to GDP rose to almost 40% in 1962 before dropping considerably to 5% in 1982⁴³. Therefore, if we consider the importance of dividends through the share price/dividend *ratio*, a similar development appears: there was a sharp rise in 1955 to a peak in 1962 (+ 60%), followed by a decline until 1984. The share of dividends in company earnings was over 60% in 1975, falling to below 5% in 1989⁴⁴.

During the 1960s and 1970s, the industrial and banking sectors were interrelated, and the technical interventions of the large investment banks were crucial in ensuring all M&A transactions⁴⁵. In France, the Lazard bank played a particularly important role in disseminating the concepts of corporate finance to large industrial groups⁴⁶. Indeed, many industrial groups sought to integrate banks and financial companies by buying them out⁴⁷. This led to a specific form of French capitalism in which the central role of the State, combined with crossholdings between banks and industries, which shaped the French "financial core" model⁴⁸.

Parallel growth and the interdependency of large companies and banks gave rise to what we would consider to be a first step towards further corporate financialization. The new injection of power into the large banks, and the important operations on the Parisian financial market from the expanding industrial groups converged towards the first stage of a French-style financialization⁴⁹.

Financial Holding Structure: The Condition for Industrial Development

When observing the financial stakes inherent to the development of the Chandlerian enterprise, one understands that the creation of large industrial groups in the 1960s France could have constituted the organizational basis for a subsequent corporate financialization. In this respect, the 1960s in France was a time of contrast and transition, which is enlightened by the issues that ran through the Peugeot business.

41Thiveaud, « Les évolutions du système bancaire français de l'entre-deux-guerres à nos jours ».

42Les Échos, February 9, 1965, BNF, Archives and manuscripts: André Antoine fouds. A. André Antoine. Entry number: 4-COL-113(2466).

43Bozio, « La capitalisation boursière en France au XXe siècle ».

44François and Lemercier, « Une financiarisation à la française (1979-2009) ».

45Daviet, « La fonction financière, esquisse d'une histoire ».

46Orange, *Ces Messieurs de Lazard*.

47Ohana, *Les banques de groupe en France*.

48Morin and Rigamonti, « Évolution et structure de l'actionariat en France ».

49Morin, op. cit. ; François and Lemercier, op. cit.

From 1962 onwards, Peugeot's senior management team decided to create a committee from the three industrial branches (Automobiles, Cycles, and Aciers Outillages) with major figures involved in the reorganization⁵⁰. This committee included Wilfrid Baumgartner, who was a former Inspector of Finance, Governor of the Banque de France, and recently appointed Minister of the Economy and Finance. The presence of this senior State financial official, according to Michel Margairaz, reflects the "rise in power of the group of finance inspectors [...] their dissemination throughout the economy through pantouflages, the growing importance in the twentieth century, of the so-called "financial" sphere"⁵¹. Thus, whether the reasons were in relation to the economy, or to the profile of the elites that influenced the reorganization, the industrial and financial stakes were intertwined throughout the development of Peugeot.

Industrial, Organizational and Financial Challenges Intertwined

Firstly, Peugeot's financial reorganization was embedded in the size challenge of the Chandlerian enterprise and was driven by engineers and commercial managers. By the end of the 1950s, production capacity had reached saturation point⁵². From the 1950s onwards, production volumes had increased exponentially. Automobiles Peugeot⁵³ manufactured 100,000 vehicles in 1950, 200,000 in 1960, and more than 500,000 in 1970⁵⁴. Until 1965, the company was run by a triumvirate of Jean-Pierre Peugeot, Maurice Jordan and Paul Perrin⁵⁵. These engineering and commercial experts decided to broaden the company's industrial scope, which would see huge financial changes. Annual investments increased continuously in the first part of the decade, rising from F 76 million in 1960 to F 180 million in 1964, an increase of 137%. Nevertheless, by the end of the 1950s, production capacity had reached saturation and Automobiles Peugeot alone could not carry the high expected levels of French automotive progression⁵⁶. To be able to sustain this increase in volume, senior managers had to consider restructuring the company's capital.

Consequently, executives were caught up in the urge to be competitive and sought opportunities for collaboration. At the end of the 1950s, Maurice Jordan was aware, as well as the other automotive executives, of the need to change the industrial scope. He turned to Citroën, and approached its main shareholder, Michelin. Starting in 1955, Jean-Pierre Peugeot and Maurice Jordan met Édouard Michelin's grandson, the new CEO of the Michelin group, once a year for lunch⁵⁷. To shed light on what it must have felt like inside the company, below is a quote by a former senior manager:

‘I was wondering if this [the 1965 reform of the group structure] wasn't just an easier way to prepare for external developments by splitting Peugeot Automotives, Cycles, and Steel and Tools, and keeping control

50Loubet, *La maison Peugeot*.

51Cardoni, Margairaz, and Carré de Malberg, *Dictionnaire historique des inspecteurs des Finances 1801-2009*.

52Loubet, *Automobiles Peugeot. Une réussite industrielle*.

53Société Anonyme des Automobiles Peugeot, the main automotive firm of family businesses.

54Loubet, « Peugeot ».

55The first two were graduates of Ecole Centrale and qualified engineers, whereas Paul Perrin was from the Haute Ecole de Commerce (HEC). He joined the company's legal department and became the first official director of the PSA group in 1972 when such a distinct role was required. Paul Perrin (1997), *Memories from 1933 to 1987*, Personal archives of Thierry Peugeot.

56Loubet, *Automobiles Peugeot. Une réussite industrielle*.

57Frerejean, *Les Peugeot. Deux siècles d'aventure*.

of them. Were we already thinking about grouping companies together in the automotive sector? 1966 was when the agreement was made with Renault, but there was no capital agreement, so there were limitations⁵⁸

"Peugeot, despite the quality and prudence of its management [...] would not have been able to face the coming struggles because of its small size. It had neither mass production [...], nor specialization compared to BMW and Mercedes, for example. Sooner or later, the Sochaux firm would have had to find a partner. It is better that it is a French partner"⁵⁹. These words from one of the French leading daily business newspaper in 1974 illustrate that the Peugeot's size was a matter of both public and official concern.

The company had been accumulating profits and financial reserves since the 1950s. Nevertheless, the relative financial autonomy of the Peugeot family business was to become a brake on its industrial development. From the end of the 1940s onwards, the various companies in the business organized regular increases in capital to finance themselves with the support from banks. At the same time as these bond issues and loans were being agreed, Automobiles Peugeot obtained F 1,050 million in credit from a banking group dominated by Société Générale. This considerable loan, as well as the Swap Execution Facility (SEF) forms and other very favorable reports prepared by financial companies in the 1950s and 1960s, indicates the financial credibility of the business⁶⁰.

The growth outlook was such that external financing was developing in parallel with the strengthening of equity capital. The CEO at the time, Maurice Jordan, had long been implementing a policy of accumulating and hoarding cash. These decisions gave a solid financial structure to the balance sheet: the value of shareholders' equity⁶¹ increased by 55%, rising from F 470 million to F 726.6 million between 1960 and 1964⁶². Profits increased only slightly; net operating value and fixed asset value increased more substantially, as did share capital, reserves and retained earnings.

Nevertheless, if the business enjoyed a high level of credibility at the beginning of the 1960s, the benefits did not bring all the various companies in the business together as a whole. Although they could obtain financing independently of each other, no investor could provide support to all the companies. For Peugeot to carry on a small provincial business would have meant being marginalized at a time when the importance of the automotive sector was increasing, as was the growth in volumes and prospects for large groups.

Creating a new financial structure was a response to the existence of fragmented companies. At the beginning of the 1950s, the business consisted of fifty companies. Their interrelations arose from various activities developed over time. The result was a confusing and complex overall structure that did not facilitate the distribution of control, only understandable by a few senior managers⁶³. Subsidiaries that had to be merged with other companies, such as Automobiles Peugeot, required independent accounting systems. Indeed, a previous decision by the family during the 1920s crisis

58 Interview with Philippe Poinso conducted October 2018. He was graduate in public law from the Institut d'Administration des Entreprises d'Aix-en-Provence, he was hired by Peugeot in 1966. He held several positions in the operating divisions, notably legal and finance, before joining the family holding companies in the 1990s for the end of his career.

59 *Le Figaro Economie*, 4 December 1974. PSA Archives : DOS2016ECR – 01036.

60 Financial study, Société anonyme des automobiles Peugeot, March 1961. BNF. Entry number: 4 WZ 23 52; SEF Sheets 1960, 1963, 1964, 1970. PSA archives. Entry number: DOS2013ECR – 00713.

61 Shareholders' equity consists of the firm's share capital and accumulated reserves.

62 Annual Report AP presented to the June 1965 GA, BNF. Entry Numbers: 4 – WZ - 24 09.

63 Loubet, *La maison Peugeot*.

led to the business being run in relative industrial and financial isolation⁶⁴. Therefore, a key factor behind this reorganization was to end the seclusion, and as long as the capital of the various industrial companies was managed exclusively and internally by the family, there was little need for any formalization. Nevertheless, now that capital mergers were envisaged for the automotive sector, a more formal split was considered necessary.

Ultimately, restructuring was a way to gain broader access to the money market and banking institutions. It was imperative to present an image of the business as a clear legal, financial and accounting structure to the corporate world. To summarize the various issues raised by the senior managers, we refer to the report by François Gautier to the Board of Directors of Automobiles Peugeot in 1965:

‘The structure, which is conveniently but inaccurately referred to as “group”, is the outcome of historical circumstances. It has not been strictly remodeled when required, and has gradually become too complicated, too cluttered, and too expensive because of excessive tax costs. Moreover, the diversification that has been its strength, has at other times prevented the public from having an accurate view of the whole, and makes it virtually impossible to draw up consolidated balance sheets, despite their usefulness to us. Finally, this type of architecture is ill-suited to the times we are entering, with the foreseeable prospects of increased national and international competition, and the probable need for regrouping and concentration’⁶⁵.

This discourse, which was presented to the shareholders at the AGM in June 1965, constitutes a fundamental pillar of the institutionalization taking place at that time. The excerpt encapsulates the various issues and defines the reality facing the new organization. It refers to a discursive strategy in a context where the effective action perceived by the leading members of the business involves a break with the past⁶⁶. This message suggests that executive senior managers and family members appear as a unified group, underpinned by this new legal and financial structure. Therefore, the overriding issues of size and concentration put the company on the path to capital restructuring, and more generally, financial reorganization.

While this development was envisaged as being an opportunity to merge with other groups, a further justification was to build a robust ‘industrial holding company’ in a bid to promote more advantageous negotiations with other manufacturers during ongoing mergers:

‘[...] Mr. Peugeot and Mr. Jordan, and all the directors, remained convinced that the future would require some form of consolidation (association, merger...) [...] This reflection led us, among other things, to note that controlling only 30 to 35% (of AP’s capital) would disadvantage us in any negotiation, even if the dual voting rule for shares registered for more than two years guaranteed complete security. [...]’⁶⁷.

With Peugeot’s commitment to industrial development, the senior managers had to open up the capital to outside investors. To attract major investors, but also to appear to the State and industrial competitors as a large company, it was necessary to create a single capital base for the business. Thus, future negotiations would be supported by the publication of consolidated accounts as a clear

64Loubet, ‘Industrie et finance, histoire d’un désamour’.

65François Gautier was a mining engineer, a close associate of the family since the 1930s, in the 1960s he was deputy CEO of the group and one of the architects of its reorganization, Annual Report AP presented to the June 1965 GA, BNF. Entry number: 4 – WZ - 24 09.

66Phillips, Lawrence, and Hardy, « Discourse and Institutions ».

67Paul Perrin (1997), Memories from 1933 to 1987, Personal archives of Thierry Peugeot.

indication of the greater level of control over the whole business like the other industrial groups⁶⁸. These elements therefore equated to the constitution of a large multidivisional group, in line with the model used by competitors⁶⁹.

The last main reason for the financial reorganization comes from the 50 family shareholders. The group's economic center was shifting rapidly towards the automotive sector, which was causing disruption to the family dynamics. Members of different family branches owned assets in various activities which had developed separately since the 19th century. However, Automobiles Peugeot, headed by Jean-Pierre Peugeot, Maurice Jordan and François Gautier, had by far become the main source of dividends. Therefore, Jean-Pierre Peugeot, who was advancing in age, anticipated the conflicts it would create in managing the intergenerational handover, trying to preserve the unity and concentration of the assets⁷⁰. Family dynasties are particularly fragile, and conflicts over succession can significantly jeopardize their continuity⁷¹.

The New Financial Overall Structure for the Multidivisional Industrial Company

Automotive companies were now keen to set up financial companies specialized in national and international financial management⁷². In view of the various issues affecting Peugeot, a financially powerful company at the head of the business would seem better suited for negotiating. This major 'structural reform', a term used by interviewees from the time, involved the legal and financial side of the business headed by Paul Perrin. To exercise its new holding function, Automobiles Peugeot had to divest itself of its industrial and commercial activities by transferring them to Indenor, a financial subsidiary of the company. This brought together various industrial activities acquired over time and specialized in the manufacture of diesel engines. The new structure took the name Peugeot Société Anonyme (PSA): it controlled the 'leading companies', which in turn controlled all the subsidiaries, as shown in the following diagram:

68Bensadon, *Presses Universitaires de Rennes - Les comptes de groupe en France (1929-1985) Origines, enjeux et pratiques de la consolidation des comptes*.

69 Djelic, « L'arrivée du management en France »; Lanthier, « Twenty years after' »; Tiratsoo and Kipping, *Americanisation in 20th Century Europe*.

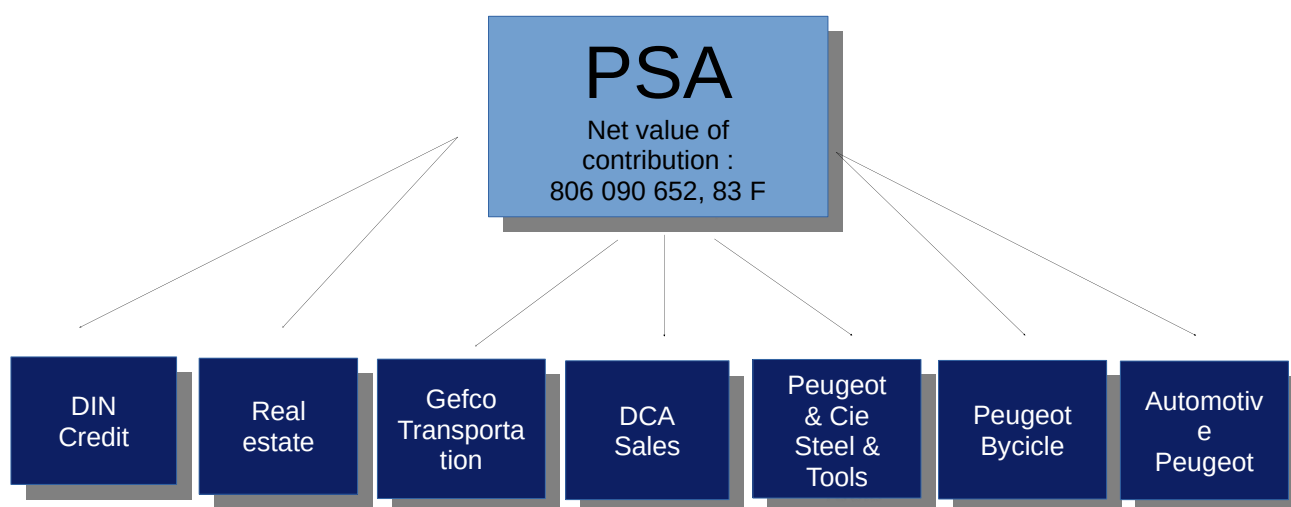
70Paul Perrin (1997), *Memories from 1933 to 1987*, Personal archives of Thierry Peugeot.

71Daumas, *Dictionnaire historique des patrons français*.

72See the example of Michelin, which created the *Companie Financière Michelin* in 1961 in Basel, and *Michelin Holding Company* in Curacao Fridenson, « Renault face au problème du franc et du risque devises (1957-1981) ».

Graph 1 - New Structure: all the Companies Under the Control of PSA, the New Top Holding

Company



In addition to these major companies, it is also important to mention other smaller:

- Industrial firms: Compagnie Industrielle des Mécaniques, Union Centrale de Participations Métallurgiques et Industrielles, Société pour l'Équipement Électrique des Véhicules;
- Mortgage subsidiaries: Crédit Mobilier Industriel (Sovac)
- Dealers: Société Nouvelle des Garages de Champagne, Grand Garage de la place Saint-Augustin, Société Industrielle Automobile du Languedoc, de Lorraine, de Normandie, de l'Ouest, de Provence.

Caption: the different companies are the main subsidiaries of PSA holding in 1966 after its reorganization. In addition to the three main sectors (Automotive, Bicycles, Steel and Tools), there were others: credit, sales, vehicle transportation and real estate⁷³.

The establishment of PSA grouped the assets of the various industrial, commercial, and financial assets within a unique financial center. PSA quickly grew to a workforce of 50, and in 1972, held a share capital of F 420,000,000⁷⁴. Moreover, by listing the now powerful financial company PSA as a single entity, the conditions of access to the financial market became much more attractive for the whole.

The main industrial company has become a financial holding company. By being placed at the head of the group, PSA could control all the subsidiaries and consolidate the financial statements, and by creating a prestigious new head office in Paris, senior managers intended to cement the image of a powerful group. PSA was henceforth a mirror for Peugeot's industrial activities to the financial community. The board's position was therefore elevated, which indicated that senior managers would

⁷³Report presenting the structural reform to the General Extraordinary Assembly of shareholders in October 1965. Archives BNF. Entry number: 4 – WZ – 24 09.

⁷⁴Minutes of the PSA Supervisory Board, June 26, 1972. PSA archives. Entry number: PI2017ECR-00769.

be more distant from operational decisions. This was an essential condition of the corporate financialization process.

Illustration: The first listed shares by PSA



Caption: First listed shared created by Peugeot SA in 1965⁷⁵

This new structure corresponds very closely to Alfred Chandler's multidivisional form. It was the outcome of a 100 years of industrial development, during which the level of family coherence resulted in the existence of several companies developing different products, and belonging to different members, but remaining within the same family. Thus, the business could only be decentralized into "autonomous divisions", which were specialized according to product lines. In 1965, each division already had its own management and functional structure and was already operating as an independent company. This highlights the agglomeration of different product lines within a single entity, which was controlled by PSA.

The management of these different divisions, which were in fact independent companies, was controlled by a Board of Directors within PSA from 1965 onwards. We argue that this was a factor in the development of financial tools which were used to manage distinct, although related, industrial activities, according to the centralized interests of the shareholders. Nevertheless, the first step in refining divisional performance measures was to address the major challenges facing the business: developing consistent and accurate data on costs, production, and revenues⁷⁶. Therefore, as we shall present in the third section, the reorganization of the business had as a corollary the almost immediate development of a centralized system of financial controls overseen by the senior managers at PSA.

Control of the Financial Edifice: A Cascade of Holdings to Manage the Business Portfolio

The new CEO was in an ideal position to monitor the income generated and the level of capital control required for the whole group. The main function of the holding company is to facilitate the maintenance of overall management control and unity. It allows several companies to concentrate control with a minimum of investment, for example, by owning 50% of the holding FFP, which itself held 50% of PSA's capital, EPF controlled the majority of PSA while holding only a quarter of its

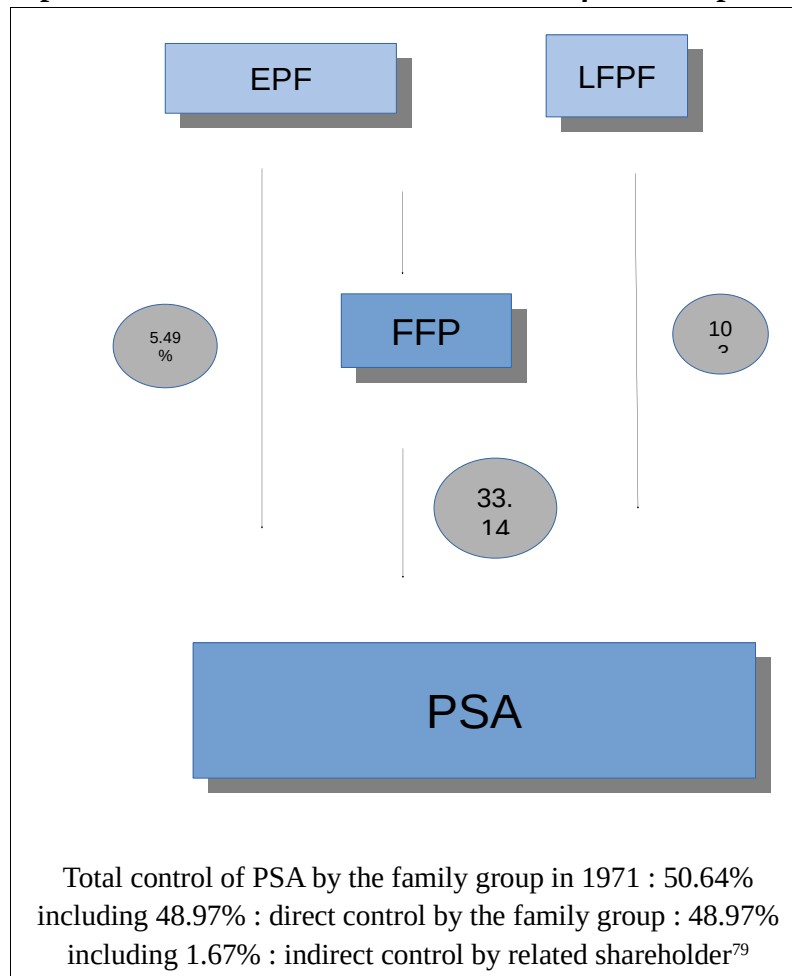
75PSA Archives : PI2016ECR-08469.

76Chandler, « Strategy and Structure: Chapters in the History of the Industrial Enterprise », 212.

capital. Hence, each time a holding company is added to the cascade, the proportion of capital required for control can be halved⁷⁷.

Furthermore, the use of holding companies to concentrate control involves more sophisticated financial management, which is legally simpler and less costly than other means, such as mergers or consolidation. It allows for the collection of dividends at low tax cost and the repurchase of the shares issued. Controlling the subsidiaries in a group this way was not only financially advantageous, but also beneficial to the family's assets and economic power. In the case of Peugeot, it established solidarity between family members by centralizing the interests within a single structure: FFP⁷⁸.

Graph 2 - The Financial Control Structure of the Group in 1971



Caption: EPF (Etablissements Peugeot Frères) was created in 1810 and became a holding company at the end of the 19th century. LFPP (Les Fils de Peugeot Frères) was another older family holding company. FFP (Foncière, Financière et de Participations) was created in 1929 to secure family control of the capital. PSA (Peugeot Société Anonyme) was created in 1965.

The PSA group was now in effect controlled by several holding companies. At the very top were EPF and LFPP, the two exclusively family-owned concerns. After World War I, the Foncière et Financière Peugeot (FFP) society had developed its active role in the financial market. The top three holding companies, EPF, LFPP and FFP, were all managed by the largest family shareholders, hence

⁷⁷Academic Encyclopedia Britannica.

⁷⁸Ordinary General Meeting EPF, 26 June 1968. PSA archives. Entry number: PI2011ECR-00754.

⁷⁹Thierry Armangaud's personal archives.

ensuring that the family had direct and indirect control of the capital. The main function of FFP, in addition to ensuring the family's management of the business, was to act as an interface between the group and the market. Indeed, any new financing (for internal investment or external development) could take the form of an equity contribution, a loan, or the raising of new shares.

The fundamental financial challenge was to support the group's new development while preserving family control of the capital. Each new freeing up of capital led to a dilution of the family share, which was why another unlisted family company would operate purely as a financial holding company. This made it possible to balance the two major issues: the group's expansion and the family's control. The larger the loan, the greater the need for financial credibility. If Peugeot's name and the success of the business were enough to create a credible image, it was now formally established through FFP.

This new financial structure emerged as part of the industrial development of the business. Nevertheless, several elements make it an essential condition for the subsequent corporate financialization: first, the objective of PSA's capital control can only be achieved in the financial market by managing the share price and helping raise the necessary capital for financing. In fact, a move to financialization links directly to the amount of capital. The more important the capital operations are, the more they require a form of financial engineering which necessitates the interventions of professionals from the financial sphere.

In the case of Peugeot, the major capital operation following this reorganization was the purchase of Citroën, carried out in very close collaboration with State financial experts, former finance inspectors, and representatives from large investment banks, in particular the Lazard bank⁸⁰. The existence of this structure was therefore accompanied by the development of financial skills within the group. The reorganization was a necessary step since, without FFP's independence from the industrial group, i.e., without a clear organizational separation between operational and financial management, the development of the group would not have been possible. Before explaining how the reorganization immediately set the company on the road to further financialization, we address the relations between the family members and the PSA's senior managers, which changed significantly during the same period.

The Power Issue: Managerialization Under Family Supervision

In addition to these industrial and financial elements, major organizational changes occurred in parallel with the group's multidivisional structuring, which refers to the Chandlerian model. We observe the managerialization of the Board of Directors, as well as the separation of capital control and operational management tasks. This meant that there was now a certain distance between the Peugeot family executives and operational management.

As regards the division of tasks, a legal device appeared in 1967: the dual management structure between the senior management team and the Board of Directors. However, as we have already indicated, the family had to deal with a succession and legitimacy challenge. In the early 1960s, Jean-Pierre Peugeot was the only family manager with the necessary stature to assume operational management. Therefore, he endeavored to reorganize the operational management and

⁸⁰Maurice Jordan sought the advice of his old friend Pierre David-Weill, son of David David-Weill, president of the Lazare Frères bank, who himself worked in this establishment. It was this advice that Jean-Pierre Peugeot sought in order to reorganize the group in 1965. Michel, *Ces Messieurs de Lazard - Martine Orange*.

designed Maurice Jordan to be his successor as CEO. There was a clear statement of intent: "We are coming to an era that will see the end of the reign of the single man, and we must therefore prepare... young men to facilitate the transition during the beginning of the end of the absolute monarchy"⁸¹.

The legal format for PSA was decided in June 1972: the Board of Directors of ten family members appointed the company's first senior management team, which was then composed of François Gautier (Chairman), Paul Perrin (Chief Executive Officer) and Pierre Peugeot (Chief Operating Officer). The operational executive structure trusted to specialized senior managers. This solution, which was in the minority among large French companies at the time, enabled the Peugeot family to specialize in the financial management of the group's capital⁸². This also allowed for an operational management that was collective and mostly external to the family, and legitimized of professional managers, who were no longer recruited only by birth. At this stage, if one observes the features of the managerialization of the group's administration, it is noticeable that the control exercised by the family is still present and will be preserved for decades. The meetings of the Supervisory Board indicate the interest of the family members, several times a year, in how the industrial companies were progressing. This interest was also in relation to the supervision of major financing, capital control, and the selection of senior managers, especially the CEO.

The dual structure of Board of Directors/senior management team was implemented throughout PSA and the main subsidiaries. Automobile Peugeot therefore had its own Board of Directors, with representatives from the main shareholder, PSA, which had the same structure. Representatives from FFP handled the capital and major financing challenges on the Board, so the family's supervision covered all three financial levels (PSA; FFP; EPF). The same members had multiple functions and seats. Important decisions concerning the financial interests of the family were taken at these three levels, and the family control was carried out throughout the proliferation of structures. Thus, what we see is a collaboration between senior managers and family members, rather than conflict or power plays, and this collaboration was formalized after the reorganization of 1965.

The new overall financial structure was a response to various industrial, financial and family-related challenges. In the context of general organizational growth, the rise of the Chandlerian version of the Peugeot family business was accompanied by crucial financial changes. Hence, with the development of the financial market and the formalization of the family shareholders' interests in the whole business, the financial structure was soon to experience changes in relation to strategy, and in the tools designed to maximize financial income.

On the Road to Financialization

This structure shaped the new Peugeot industrial and financial group and offered the conditions for further, clearer changes in the move to corporate financialization. In this section we address the immediate consequences of the reorganization: the orientation of senior management towards financial objectives, and financial tools to evaluate all the subsidiaries' results, and the possibility for family executives to manage their assets as other financial assets. Based on this new financial holding structure, the strategy became one of financial diversification.

81François Gautier, meeting of the Central Works Council, June 15, 1972 (Loubet, *Automobiles Peugeot. Une réussite industrielle*).

82Joly, « Les dirigeants des grandes entreprises industrielles françaises au 20e siècle ».

Financial Language and the increase in the Financial Results for the Industrial Companies

As we have demonstrated, the M&A movement in which Peugeot was involved meant that negotiations for future mergers would involve the Paris financial market. From this perspective, the Board sought to imbibe a financial language and integrate managerial methods, with the aim of maximizing the stock market price. In 1969, four years after the reorganization, a seminar aroused the interest of the PSA Board⁸³. Two of the Board, A. Banzet, Assistant Director of Aciers & Outillages Peugeot, and M. Baratte, General Director of Automobiles Peugeot, the two main industrial subsidiaries attended. The seminar, which was organized by Cegos, a consultancy and training agency, brought together representatives from 13 other large French companies⁸⁴. They visited 12 large US companies and participated in working meetings. A 42-page report from the seminar summarized the key learnings⁸⁵:

- A company has to maximize its share price. The first point in the 'rules of the game' is that 'you do business to make money';
- "The central objective of the development plan is therefore expressed as a rate of growth in earnings per share, and states that 5% per year, corresponds to a company with low ambition, 10% to dynamic companies, and 15% to very dynamic companies";
- "The creation of wealth and power is measured by the stock market price of shares, which is the price to net profit *ratio*."
- A graph presented is intended to help "explain why US companies take such good care of their shareholders (and among them the financiers): it is not that they love them, it's that their appreciation of them determines their power, so the general objectives are expressed in terms of "earnings per share growth rate".

The participation of the PSA's senior managers testifies to the interest they took in learning the language of financial maximization, as did other large French companies. Moreover, this underlines the legitimacy of Cegos Consultancy for some of the larger French businesses. This desire to learn the financial side of objectives and management methods was far from being an original feature of PSA, as can be seen from the participation of other large French companies. Over the years following the reorganization in 1965 and the seminar in 1969, the company's overall policy was more clearly oriented towards financial objectives. We observe this in the 1973 report to shareholders⁸⁶: A significant increase in the dividends paid appears; it presents the earnings per share over the short-term and we note the appearance of the cash flow concept; afterwards, it mentions an equally significant increase in financial investments, and finally stresses the need to manage the company's share price so as to maintain its constant progression.

83"For leaders. Advanced management practice", May 1970. PSA archives: DOS2016ECR-03009.

84Some of the larger French companies were: Pechiney-Saint Gobain, Compagnie Française des Pétroles, Shell, Alsthom, La Redoute.

85"From the US 69 'advanced' management to the French company of tomorrow". PSA archives: DOS2016ECR-03009.

86Report of the Management Board for the Ordinary General Meeting of 25 June 1973. PSA Archives: PI2017 ECR00769.

Table 2 - Total dividends paid from 1969 to 1971

Year	Dividendes	Rise/Fall Compared To Previous Year
1969	9.30	
1970	10.5	+ 12.9 %
1971	11.7	+ 11.2 %

The increase in dividends paid out is a good indicator of PSA's financial performance, and its attitude towards its shareholders. However, this was a time of significant investment, and it is notable that the Board is close to pay out a substantial increase in dividends, given the scale of the expenditure. The presentation of the financial results over the short-term concerns both the distribution of dividends and other financial data.

Table 3 - Consolidated information per share in 1972

Financial data	1972	Evolution from 1971
Current Cash-Flow	153.89 F	+ 31.1 %
Taxes	71.57 F	+ 42.1 %
Net Result	77.60 F	+ 35.8 %
Current Net Profit	45.60 F	+ 41.5 %
Total Investment	126.35 F	- 8.5 %

This report indicated the financial profits and costs per share, as well as the changes over one year. The short-term nature of this presentation is particularly noteworthy in view of the general development and investment program in which the company had been engaged over a decade. Two years later, Citroën was bought out, which constituted a considerable investment which cannot be understood in a timeframe as short as one year. We can therefore observe the use of a typically financial presentation of the company's results for the shareholders. Furthermore, cash flow is explicitly presented as an indicator of financial performance:

"At the level of the group, the current consolidated cash flow increased at a rate that was twice that of turnover. This development confirms the recovery of margins that began the previous year [...] It allows us to hope that operating margins will be maintained in 1973 even if the *ratio* between production costs and sales prices undergoes a certain deterioration"⁸⁷.

In addition, investment in fixed assets decreased in 1972 compared to 1971, which is not significant. Nevertheless, we observe a parallel increase in financial investments, notably in the acquisition of shares in external companies, which increase by 15.2% in a year, which is more significant⁸⁸. Finally, information about the Peugeot share price is mentioned:

"The Peugeot SA share price rose from FRF 251 in 1971 to FRF 437.5 in 1972, an increase of 74.3% over the year [...] The rise in the Peugeot SA share price was accompanied by a very significant

⁸⁷Report of the Management Board for the Ordinary General Meeting of 25 June 1973. PSA Archives: PI2017 ECR00769, p 17.

⁸⁸These financial investments increased from 88,225 million to 101,745 million francs.

increase in the volume of transactions. With a daily average of FRF 2,051,000 for the futures and cash markets, the company was the eleventh most active French variable-income company in 1972 [...] Trading involved approximately 1,300,000 shares, or nearly 22% of the capital"⁸⁹.

The purpose of this paragraph was to demonstrate to shareholders that the company's senior managers were committed to managing the share price in order to ensuring its continued growth and strengthen the share's credibility in the eyes of the Paris financial community so that they would want to speculate on the PSA shares. This language was also a means of bringing pressure to bear on the negotiations that were already underway with other manufacturers. As of 1974, Citroën, which was owned by Michelin holding, was on the verge of bankruptcy⁹⁰. In close cooperation with the government, which provided substantial financial support, Peugeot bought out Citroën. The terms of the financial transaction reflect the balance of power between the two companies, which also highlight Peugeot's interest in having a strong share price. On 30 September 1976, shareholders ratified the creation of PSA Peugeot Citroën, after a major financial operation: the first capital increase for PSA. A single PSA share was exchanged for 6.25 Citroën SA shares, giving PSA an extremely favorable exchange *ratio*.

To summarize, in the immediate aftermath of the reorganization, the group's senior managers first turned to the influence of Cegos and other large French companies to integrate the tools and mindset needed for financial maximization. It then directly set up financial reports that emphasized the information perceived as relevant to outside shareholders. This was to ensure their loyalty and to persuade them to pursue their speculative activity with regards to PSA stock by promising them attractive financial results. In parallel with this external financial direction, the internal control structure was also profoundly reorganized around tools that constrained financial profitability.

Financial Control Over the Daily Industrial Life

This aim of maximizing financial results was also reflected by the design of management tools for analyzing industrial activities. The role of accounting tools in the development of capitalist rationality and accumulation has long been demonstrated⁹¹, but during the 20th century, the implementation of corporate control systems was identified as an important factor in converting industrial activities into financial metrics⁹². The development of organizational, financial, and budgetary control instruments can be seen as a stage in the financialization of production processes⁹³. The role of accounting, especially budgetary control in creating shareholder value, which is itself a key element in corporate financialization, has been widely demonstrated⁹⁴. The implementation of a centralized budgetary control system implies a standardization of work processes, financial and short-

89Report of the Management Board for the Ordinary General Meeting of 25 June 1973. PSA Archives: PI2017 ECR00769, p 12.

90Le Figaro économie, 4 December 1974. PSA Archives: DOS2016ECR01036.

91Bryer, « The History of Accounting and the Transition to Capitalism in England. Part Two »; Bryer, « The late nineteenth-century revolution in financial reporting: Accounting for the rise of investor or managerial capitalism? »

92Armstrong, « The Rise of Accounting Controls in British Capitalist Enterprises ».

93Morales and Pezet, « Financialization through Hybridization ».

94Ezzamel, Willmott, and Worthington, « Manufacturing Shareholder Value »; Graaf, Kraus, and Strömsten, « The Problematics of Financialization – On the Important (but Neglected) Horizontal Axis of Organizational Action »; Froud and *al.*, « The Temptation of Houston »; Kraus and Lind, « The Impact of the Corporate Balanced Scorecard on Corporate Control—A Research Note »; Roberts and *al.*, « In the Mirror of the Market »; Kraus and Strömsten, « Going Public ».

term management control, and hostility or rejection among shop-floor workers⁹⁵. The Controllershship Branch was created in 1972 by PSA's Head Office in order to standardize and financially control the production process, and generate substantial profit margins for the holding companies, as it reflected in the consolidated accounts⁹⁶.

The establishment of a centralized budgetary control department within PSA has introduced financial discipline to the day-to-day running of the operational departments. A new management control system emerged in 1972. This comprised two elements: "Permanent control of the companies [...] by sending them regular information in a form to be developed..."; "periodic inspections of companies in the group", which "will be the subject of reports sent to the head office of each branch, to the Finance Department for the problems within its remit and to the operational departments concerned". This system allowed for the allocation of resources at all levels and the monitoring of their use, and hence reflects one of the central managerial elements of the multidivisional company.

The reorganization of the budgetary control system is therefore linked with the control of the different subsidiaries and branches via the financial department, and PSA. Otherwise, it is linked with the consolidation of financial results at the head of the group⁹⁷. In particular, it was necessary to introduce subsidiary accounts, which were "all presented in the same way and "connectable" with that of account payable (AP), whether they are "general" or "operating", in order to "allow a significant consolidation of the margins of each activity"⁹⁸.

This system introduced financial constraints over the industrial processes by controlling the adherence to past budgets and the elaboration of new budgets. The requirement to justify failures and to provide improved budgets, i.e., for better financial performance, particularly in terms of cost price, placed financial constraints on operational decisions. These were now subject to the short-termism of the budgetary calendar, which required a commitment from the operational departments between June and December each year. For the sake of argument here, we should mention that the system of financial control that emerged in 1972 was maintained until 2020. This increasingly shifted towards financial monitoring and it foreshadowed the dynamics of financialization.

What we can see is the pursuit of financial objectives, especially the continuous growth of dividends payable and the PSA share price. In specific terms, the organizational bases for these financial over industrial activities emerged and were reinforced during further crisis. The 'iron fist' determination to use financial controls during the two acute crises of the 1980s and 2010s strengthened financial profitability⁹⁹. Another dimension of financialization is to consider the activities and departments as autonomous and to allow the maximization of financial results, which was here achieved by FFP holding company.

95Carmo, Neto, and Donadone, « Financialization in the Automotive Industry »; Froud and *al.*, *Financialization and Strategy*; Froud and *al.*, « Shareholder Value and Financialization ».

96For more detail about this implementation, see Belot Couloumies, « Dynamics of budgetary control in the French 1970s: a dynamic institutionalist analysis for the implementation of PSA's Central Control Department in 1972 ».

97"At the AP level, i.e., at the Motor Vehicle Branch level, the Budgetary Control Directorate:

- can consolidate all results at branch level,
- prepares the management documents of the General Management,
- formulates its directives and information needs to the management control departments of the Budgetary Control

Department: can consolidate all results at the branch level, prepares management documents for the general management, formulates its directives and information requirements for the management control departments of the major departments and the subsidiaries' supervisory departments". Study coordinated by Claude Sachot dated May 1973 is entitled "Management and control of sales subsidiaries in France and abroad". Archives PSA : DOS2016ECR-03790.

98Souligné dans le rapport.

99Belot Couloumies, « PSA », chap. 4.

The Group as a Portfolio of Assets

If we consider one of the elements in Neil Fligstein's definition of the financial conception of control: "the corporation as a collection of assets that could and should be manipulated to increase short-run profit"¹⁰⁰, this aspect of corporate financialization is manifested in how senior management conceive the group as a portfolio of strategic activities¹⁰¹. Downsizing and focusing on the core business to the detriment of less profitable activities that are essential to the production process is a strategy that has been widely used in large companies since the 1990s and is associated with financialization¹⁰². The 1965 reorganization had to happen for the business to develop, but why exactly did it happen?

In 1973, the takeover of Citroën was achieved by adding a new subsidiary to PSA: Automobile Citroën would sit alongside Automobile Peugeot. When the group became increasingly international in scope, developing the automotive sector through the acquisitions of plants in other countries was also possible by adding new subsidiaries to the overall structure.

Otherwise, from the 1990s onwards, the group concentrated on automotive production and restructured the companies which were manufacturing bicycles and tools to be able to release the side of its operations that supplied parts for the automotive sector. Faurecia itself became a group, and one of the largest automotive suppliers in the world. The creation of this new activity came about because of the restructuring and the merger of two other important PSA subsidiaries: AOP and Cycles Peugeot. The perimeter of the asset portfolio was modified by removing or adding new activities according to the relative importance of PSA subsidiaries, and this was made possible by the reorganization in 1965. However, the shift in the industrial side of the business ran in parallel to a shift in the financial side.

The year 1989 is both the moment when the group focused on its core automotive business and the starting point for the diversification of FFP's capital at a higher level. FFP was listed on the stock exchange in 1989, after several capital increases in the 1980s. At the instigation of the State, the majority shareholder initiated a process of diversification of FFP's assets. The guideline adopted was to "seek minority stakes in industrial and commercial companies belonging to economic sectors deemed particularly promising in terms of medium-term value, and not to constitute a simple securities investment portfolio"¹⁰³.

The objective was therefore clearly identified from the outset: rather than develop passive investments, create a medium-term investment activity in anticipation of the rise in asset value. Investments in 1989 amounted to 124 million francs. They were in relation to the Haute Couture and perfume sectors, communications, and venture capital. FFP's investment activity only increased from that year onwards, undergoing a period of exponential acceleration after 2002.

The group can hence be seen as a set of financial assets which is managed at two levels. At the industrial level, some activities were sold, and others bought, which was allowed by the overall structure created in 1965 and implied a disconnection between the senior management of PSA and the operational management of the industrial subsidiaries. At the financial level FFP's structure for the portfolio of investments and financial participation was also constituted in 1965 at the time of the reorganization.

100Fligstein, *The Transformation of Corporate Control*, 226.

101Kotler and Armstrong, *Principles of Marketing*.

102Batsch, « Le capitalisme financier ».

103FFP Annual Report, 1989, ANMT Archives: 1 998 017 0422.

Naturally, there is no question of adopting a teleological design by saying that all the subsequent consequences were understood and anticipated during the 1965 reorganization. Nevertheless, the reorganization involved profound changes and the new structure that emerged paved the way for a radically different management of the industrial activity. Firstly, the cognitive framework of financial maximization developed in the same period, as did the metrics for the regular evaluation of the industrial processes based on financial objectives. Secondly, we see that the management of industrial and financial activities is akin to a financial investment portfolio, which was administered by FFP. For all these reasons, in 1965 the business began to build the bases which made it possible, in other contexts, for a set of strategies which were inextricably bound to corporate financialization.

Conclusion and Discussion

This article demonstrates that important financial shifts were prerequisite to Peugeot's transformation into a large multidivisional group. Considering the profound mutation of French capitalism during the 1960s, the financial reorganization of the Peugeot family business serves as an emblematic case, and one which diverges from the exogenous narrative on corporate financialization. The major rationalization and merger-acquisition movement within the industrial sector, which was driven by the Gaullist State, led to the restructuring and concentration of industrial capital. At the same time, it is possible to observe the development of financial groups which became interrelated with large industrial companies.

The work of the senior managers in Peugeot mirrors these general transformations, as they had to deal with three classic issues from the Chandlerian model. Firstly, increasing the size of the industrial scope was reflected in the search by the business for alliances with other automotive manufacturers. Secondly, the need to gain access to more finance and to be in a better position to negotiate with competitors meant that all the family assets would be channeled into a group which was based on its automotive activity. Finally, a financial reorganization was needed for the business to face the challenges of new financial controls and maintain family cohesion with regards to its assets.

The strategy that emerged in response to this threefold challenge resulted in a major restructuring of the business in 1965. A new legal and financial structure linked all the industrial, commercial, financial and real estate activities under a single controlling company. The industrial arm was placed under the authority of a specially created management holding company: Peugeot Société Anonyme (PSA). Unity in the Peugeot family was strengthened for a while, as was PSA's ability to negotiate future automotive mergers from a more advantageous position. *De facto*, the takeover of Citroën in 1974 would lead to the addition of Automobiles Citroën to PSA as a new subsidiary.

After the creation of PSA, a former holding company, FFP, was placed at the head of the group. Its role, until then peripheral, became central to the whole gamut of industrial activities and family shareholders. Its objective was to concentrate all the income generated by the industrial arm, but also give the family financial control of this arm. Through PSA and FFP, the group was now directly and permanently linked to the external financial environment, which was being expanded and strengthened. In this new structure, operational management was carried out at the level of the holding company.

This kind of financial structure can be seen as the institutionalization of financial control over and beyond the industrial arm. On the one hand, all the industrial subsidiaries could now benefit from FFP's financial power, since the holding company acted as an interface between the group and the financial market. On the other, for the first time it brought together all the family's financial resources in a single structure. Within this process, FFP, whose function was to maintain overarching financial control, became a factor in the financialization. The switch to a holding company changed the perception by senior managers of the industrial activities. The remoteness of the industrial activities led them to move away from manufacture and industrial constraints towards financial issues.

It is therefore natural that this reorganization has gone hand in hand with a more pronounced orientation towards financial maximization, an evolution in the mindset, instruments and strategy of the group's management. If the dividends distributed and the group's cash flow increase as a result of this reorganization, the senior managers immerse themselves into the financial mindset through participation in training sessions organized by Cegos for this purpose. In the years that followed, the Group's financial department gave impetus to a new management control organization. This new system placed the industrial activities of the entire group under the discipline of financial profitability. Finally, the control by the FFP holding company of the group's various subsidiaries was a complete novelty in 1965. This structure allows the family and management to handle these entities as legally and financially independent assets. At FFP level, the new group was now a portfolio of strategic activities. It was precisely at this level that, a few years later, the management was being that of a portfolio investment company, made possible by this reorganization.

This restructuring represents a seminal episode in the group's development, insofar as the multi-level control structure, which was implemented in 1965, remained identical until 2020. The recent merger between FCA and PSA was therefore based on this structure, and it allowed the financial and family holding companies at the head of Stellantis to manage industrial restructuring and company closures in a centralized manner while continuing their activity as financial investment funds.

This case clarifies the understanding of corporate financialization, while illustrating the contribution of an endogenous account of this process. If the initial step by the Peugeot family business was mainly due to Chandlerian factors, the new multi-level structure of holding companies paved the way for the development of organizational conditions of financialization. More generally, the case of Peugeot provides a counterpoint to the reduced timeframe of financialization, since financialization, particularly in France, is the result of more complex dynamics than the classical narrative would suggest. Hence, this research allows other research to be conducted on other large companies and other European national contexts.

Chandler's and Fligstein's models are essential to explain the major organizational developments of the 20th century. They are sometimes wrongly set in opposition to each other, but we have shown that both models can be reconciled. It is therefore possible to emphasize the crucial financial conditions to the establishment of the large Chandlerian enterprise, while focusing on the Chandlerian origins of corporate financialization. Consequently, the large traditional enterprise is not always the 'victim' of external financialization: to a certain extent it forms the conditions for its development.

A Chandler's argument was that large companies contribute to the construction of markets, and then, play a crucial role in the long-term transformation of capitalism. Hence, it is not surprising that the so-called shareholder revolution is based on earlier developments, even when these

developments relate to contradictory Chandlerian logic. The contradiction is only apparent, as this article has demonstrated.

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Caption of the illustration : First listed shares created by PSA in 1965