

**A Chandlerian Financialization?  
The Case of PSA Financial Restructuring in the 1960s**

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**Abstract**

The common approach to financialization of corporations within literature regards that this phenomenon develops in parallel with dissolution of Chandlerian firms and shareholder value rises. This contribution demonstrates, on the contrary, that organizational conditions of financialization in France emerge during Fordist era and are driven by industrial issues. We argue that an internal financialization is a determinant element in establishment of large Chandlerian enterprises.

Based on the archives of PSA and on interviews with former senior financial executives, we shed a light on a decisive financial restructuring of this company in 1965. This paper investigates the challenges PSA faced in the 1960s to explain why the firm's activities were placed under the authority of a holding societies' system, which constitutes a crucial movement towards financialization of the whole organization.

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## Introduction

In 2014, the Peugeot family's decision to reduce its stake in PSA to the point of sharing control with two other major shareholders has sometimes been interpreted in the press as a move from the automotive sector<sup>1</sup>. Indeed, in parallel with this move, the holding society FFP, whose primary function was to maintain family control over the automotive firm, has been moving decisively towards investment diversification, as would be expected from a private equity fund. This recent movement can be associated with the financialization of managerial decisions. Presented as a thunderbolt for this industrial and family business, this decision has nevertheless deep historical roots.

The financial infrastructure that guided the 2014 decision goes back to the 1960s. In 1965, a major reorganization of the entire firm has decisively brought all operations under financial holdings discipline. The head office opted for a multilevel holdings structure to concentrate earnings in a single centre, effectively creating a financial and industrial corporation which would keep the same form for the next 55 years. The new group that emerged completed the process of uniting all the firm's industrial parts under a three-tier financial holding company system. Thus, a decisive step on the trajectory of PSA's financialization seems to have been achieved that year.

Financialization has become a hegemonic concept in management, business history and economics literature, especially from 2010<sup>2</sup>. Within the many facets of this phenomenon, some scholars have developed an internalist approach from within the large firms<sup>3</sup>. Financialization of corporation has been defined as financial actors and devices rise inside organizations, proliferation of accounting and budgetary controls, led to the subordination of operational to finance<sup>4</sup>. Hence,

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1 <https://www.lefigaro.fr/societes/2014/04/30/20005-20140430ARTFIG00026-une-operation-a-95millions-pour-les-peugeot.php>

2 Mader, Mertens, et Van der Zwan, *The Routledge International Handbook of Financialization*.

3 Chiapello, « La financiarisation des politiques publiques ».

4 Ezzamel et al., « Manufacturing shareholder value: The role of accounting in organizational transformation ».

this paper seeks to describe forms of internal financialization<sup>5</sup>, by analysing how financial logic is institutionalized, conveyed and maintained by internal actors and devices<sup>6</sup>.

Nevertheless, such internal changes are usually seen as a series of adaptations to the external environment. Chandlerian organization would have been forced to adapt to exogenous transformations, because financialization of the whole economy “shapes social institutions in fundamental ways”, as Davis and Kim says, “financial markets [would] have favored disaggregation of the corporation”<sup>7</sup>. Classical narrative of financialization inside firms, inherited from Alfred Chandler and Neil Fligstein, places it within the M&A movement of US firms in the 1960s<sup>8</sup>. This led to the formation of large diversified conglomerates, in which financial managers would have taken power, imposing their conception of control oriented toward shareholder value maximization. Main works about financialization of firms “consider the impact of the stock market’s increasing demands for financial returns on corporate behaviour and performance”<sup>9</sup>. A new type of shareholder capitalism would have imposed and the ‘downsize to distribute’ logic to replace that of ‘retain-and-reinvest’<sup>10</sup>, structuring a new organizational model: the ‘post-Chandlerian’ company<sup>11</sup>. In this context, a battery of financial indicators and budgetary controls has been implemented to subject functional departments and their managers to short-term financial metrics<sup>12</sup>.

However, this classical American narrative is not the only path for financialization. It exists a different European and French-style financialization dynamic<sup>13</sup>. In the French case, the establishment of powerful financial holdings at the head of companies is a consequence of large

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5 Legalais et Morales, « Interfaces, narrations et légitimation de la financiarisation ».

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

7 Davis et Kim, « Financialization of the Economy », pp 204.

8 Chandler, *The Visible Hand: The Managerial Revolution in American Business*; Chandler, *Stratégies et structures des organisations*; Fligstein, *The Transformation of Corporate Control*.

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

10 Lazonick et O’sullivan, « Maximizing shareholder value: a new ideology for corporate governance ».

11 Davis, Diekmann, et 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 ».

12 Froud et al., *Financialization and Strategy*.

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

industrial and banking group's constitution, resulting from the merger and acquisition movement of the 1960s. However, unlike in the United States, this movement did not create diversified conglomerates but big firms coherently structured around a core activity, driven by the state's administrated economic policy<sup>14</sup>. The general contribution of this paper is to highlight that financialization is not only a negation of the Chandlerian multidivisional firm. On the contrary, a form of financialization is also consubstantial with the constitution of large corporations, and is part of industrial, Chandlerian organizational growth.

Important financial transformations occurred in 1960s France, and we consider that it represents an initial form of financialization. In this context, managers have looked for links with other companies and financial tools to support their organizational development. As a consequence, large multidivisional companies are not always the 'victims' of external financialisation: they contribute to its development, and to a certain extent, they call the shots. In this regard, we propose to redefine the financialization of organizations as all the companies, functions, departments, practices and devices that contribute within organizations to transforming organizational and physical challenges liquid financial issues and constraints. This assertion allows analysis of endogenous financialization dynamics.

The case of PSA automotive firm is relevant to examine these earlier changes because the automobile sector used to be an archetype of the fordist model. Since the 1920, French automobile companies spear headed Taylorism, the division of operational and management tasks<sup>15</sup>. Hence eminent French business historians have shown considerable interest in the two main French manufacturers, Peugeot-PSA and Renault. If industrial transformation of these companies in the 1950s and 1970s was firstly examined<sup>16</sup>, financial dimensions were letting in the shade, except for

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14 Morin, *La Structure financière du capitalisme français* ; Allard et al., *Dictionnaire des groupes industriels et financiers en France*, 1978.

15 Moutet, *Les Logiques de l'Entreprise: La Rationalisation dans l'Industrie Française de l'Entre-Deux-Guerres*.

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

Renault<sup>17</sup>. Furthermore, the prism of financialization is absent from this literature. Thus, an improved understanding of its endogenous dimensions and longest historical inscription of financialization in the automotive industry remains a challenging research project<sup>18</sup>.

Using an in-depth case study, this paper explains the advancement of a kind of financialization process inside the 1960s PSA. Specifically, this article focuses on a crucial step toward financialization of the whole company : in 1965, a financial reorganization brings all companies under the direct control of holding companies. This move has resulted in a divorce of headquarters management from operations. To fully understand this restructuring, we must consider the endogenous factors of the group's financial changes at that time.

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

This paper argues that the institutional and endogenous factors leading to the major financial restructuring of PSA in 1965 were linked to the Chandlerian firm growth. This contrast with classical narrative on financialization. We demonstrate that this major transformation is a pivotal episode in the financialization process of the company, and takes place coherently in the context of the 1960s French economic evolution.

Firstly, we present the PSA case study from the financial prism of the 1960s. This section provides information about the 1960s French mergers and acquisitions among large industrial enterprises, driven by government. PSA's industrial and structural challenges are presented within this context. Secondly, huge financial issues caused by the firm's orientation towards larger size and

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

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

partnerships are tackled. We discuss the main reasons for placing all Peugeot's industrial firms under the control of several holding societies. All this movement was conducive to multiple connections between industrial and financial companies, financial structures and rationality. Finally, we explain this new financial structuring features which put larger financial constraints at the heart of the industrial firm, which represents a form of financialization of the general management and of the whole industrial structure.

### **Peugeot in the 1960s French Economic Mutations: Creating a Large Chandlerian Firm**

The external approach to the firm financialization mentioned lead to understand these changes as a consequence of the Fordist model's disruption, frequently associated with neoliberalism<sup>19</sup>. The fordist area has indeed been theorized by the 'Regulation school' as a consistent industrial based accumulation regime, in which capital accumulation was based on earnings created by industrial firms<sup>20</sup>. A new type of financial capitalism would have replaced this regime, linked to emerging power of external shareholders in the capital of large companies. They would absorb increasing part of the value created by productive processes<sup>21</sup>.

Thus, major financial transformations in organizations are analysed from 1980 onwards, letting in shade earlier steps in financialization process. However, this also results from choices made by traditional managers of Chandlerian enterprises. We argue that the rise of financial societies and devices is part of an endogenous process; financialization also derives from industrial issues and from fordist period. Several pieces of research underline the early character of financialisation in several national contexts<sup>22</sup>. Some emphasize the role of large companies in broader financial transformations, but no work has yet demonstrated that financialization is inherent

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19 Zhang et Andrew, « Financialisation and the Conceptual Framework ».

20 Aglietta et Rebérioux, *Dérives du capitalisme financier*.

21 Morin et Rigamonti, « Évolution et structure de l'actionnariat en France ».

22 François et Lemercier, « Une financiarisation à la française (1979-2009) » ; Knafo et Dutta, « The myth of the shareholder revolution and the financialization of the firm » ; Vanatta, « Charge account banking ».

to the growth of the Chandlerian multidivisional firm<sup>23</sup>. By detailing a set of important financial decisions from the 1960s in PSA, this paper contributes to contradict the idea that earlier financial function concentrated on bookkeeping tasks and the early financial practices would have been secondary, even in the case of an old company<sup>24</sup>.

The Peugeot group has gone through the main French financial evolution from the 19<sup>th</sup> century until 2020. Initially, over the course of the 19<sup>th</sup> century, some Peugeot family members developed a range of activities: saw blades, corset whales, steel-hooped cage crinolines, nose clips springs, agricultural tools. What was not yet a group then included about fifty companies in metallurgical fields, bicycles, steel, tools, automobiles, credit real estate and sales. After World War I, the automotive sector took off, and after World War II, the very strong growth in this industry placed it at the core of the group's profitability and of government economic priorities. Thus, in the 1960s only, the definitive shift of the family business to the automobile led to restructure all family assets and the organizational structure. Therefore, contrary to the American scheme proposed by Alfred Chandler and taken up by Neil Fligstein, the 1960s financial restructuring of PSA is part of a unification process around the automotive production, instead of a diversification one.

We examine how the 1960s, despite being a disruptive changeover period for corporate finance in France, enriches the general financialization narrative. Indeed, this financial restructuring accords with its institutional environment. Indeed, the 1960s was a decade of contrasting transformations resulting from multiple and shifting rationalization. Various factors led to institutionalization of finance at the core of French industrial groups. From the 1950s onwards, there were clear signs that the French economy was once again embracing the international scene<sup>25</sup>. French entrepreneurs were requiring corporate structures reforms within the European harmonization context. From 1958 onwards, the Gaullist government gave impetus to reforms to

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23 Marx, « Reorganization of Multinational Companies in the Western European Chemical Industry ».

24 Vinokurova, « How Mortgage-Backed Securities Became Bonds ».

25 Asselain, 'Le tournant des années cinquante'.

encourage industry rationalization. The Rueff-Armand Report constituted a key element, by encouraging the growth in size of industrial companies.

Therefore, the major wave of mergers and acquisitions (M&A) constituted a decisive factor toward the financialization of French corporate structures. By the end of the 1950s, competitive pressure in the main industrial markets was increasing through the mergers and takeovers. The number of mergers between French firms increased dramatically in the 1960s, with 1,850 M&A compared to 843 in the previous decade<sup>26</sup>. The majority of larger French enterprises were formed or consolidated between 1958 and 1965, and the setting up of the Fifth Five-Year Plan for 1965 to 1970 marked an acceleration of industrial concentration. Of the 33 car companies surviving the war, only 16 remained active in 1956<sup>27</sup>. These mergers generated powerful groups, in which the financial question was posed in fresh terms, such as Saint-Gobain-Pont-à-Mousson, Thomson, CGE, Rhône-Poulenc, ATO, Creusot-Loire, Babcock-Five, SNIAS, Le Nickel, Peugeot, etc. These major groups became the new face of French capitalism and played a preeminent role in this ‘French-style financialization’ process<sup>28</sup>.

The financialization of PSA is embedded in the classical size issue for Chandlerian enterprises and was impaled by engineers and commercial managers. Indeed, from the 1950s onward, production volumes increased exponentially. By 1953, post-war production volumes were back to pre-war levels. The SAAP<sup>29</sup> manufactured 100,000 vehicles in 1950, 200,000 in 1960, and more than 500,000 in 1970<sup>30</sup>. Until 1965, the company was run by a triumvirate of Jean-Pierre Peugeot, Maurice Jordan and Paul Perrin. The first two were graduates of Ecole Centrale and qualified engineers and Paul Perrin of HEC<sup>31</sup>. He joined the group’s legal department and became the first official director of the group in 1972 when such a distinct role was required<sup>32</sup>. These

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

27 Loubet, « Peugeot ».

28 Morin, *op. cit.* ; François et Lemercier, *op. cit.*

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

30 Loubet, « Peugeot ».

31 Ecole des Hautes Etudes Commerciales, one of the most prestigious French business schools.

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

engineering and commercial profiles decided to broaden the company's industrial scope which would have 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, from the end of the 1950s, production capacity had reached saturation and the SAAP alone could not assume the great French automotive progression expected<sup>33</sup>. However, there was an objective limit to the growth of capital expenditure. To continue this rate of increase in volumes meant that the management had to consider restructuring the company's capital with other firms.

Thus, Peugeot general management was caught up in the competitive urge and sought to opportunities for collaboration. Partnerships were established with other manufacturers from 1956 onwards with Citroën, then with Renault to resolve specific technical and industrial issues. At the end of the 1950s, Maurice Jordan was aware, as were the rest of the 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 company, once a year for lunch<sup>34</sup>. To shed light on what it must have felt like inside the company, below is a quote by a former senior executive. He was hired in 1966, then spent his entire career within the group up to the 2000s in close proximity to the family and key operational managers:

'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 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 limitations<sup>35</sup>

The trajectory of this man represents a purely internal dynamic, far from the image of Chief financial officers taking control from outside the firm, as suggested by classic financialization

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

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

35 Interview with Philippe Poinso, conducted October 2018.

narrative<sup>36</sup>. Philippe Poinso, a graduate in public law from the Institut d'Administration des Entreprises d'Aix-en-Provence, was hired by Peugeot in 1966, holding several positions in the operating divisions, notably legal and finance, before joining the family holding companies in the 1990s and ending his career there. Another purpose to this restructuring was to build a more robust 'industrial holding company' than Automobiles Peugeot to promote more advantageous negotiations with other manufacturers during ongoing mergers, as the following quote perfectly illustrates:

'[...] 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. [...]'<sup>37</sup>.

The creation of a new financial structure is a response to the fragmented development of different societies. At the beginning of the 1950s, the 50 companies constituting the group. 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 and few managers could understand this financial imbroglio<sup>38</sup>. Subsidiaries that had to be merged with other groups, such as Automobiles Peugeot, required independent accounting systems. Indeed, a former family choice from the 1920s crisis had established the group in relative industrial and financial isolation<sup>39</sup>. Therefore, a key factor behind this reorganization was the end of this seclusion. Thus, 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, henceforth capital mergers were envisaged for the automotive sector, a more formal split was considered necessary, as Paul Perrin outlines below:

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36 Zorn, « Here a Chief, There a Chief ».

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

38 Loubet, *La maison Peugeot*.

39 Loubet, 'Industrie et finance, histoire d'un désamour'.

‘To do this, we first had to identify all the assets within Automobiles Peugeot’s capital which had been grouped together over time and which would not be essential for an effective merger with another manufacturer, then to isolate them and group them together in a different entity [...] This major operation [...] for various reasons, in particular tax reasons, took a slightly unusual route. Instead of moving the nonessential assets to another entity, we decided that the automotive activity should be the different entity.’<sup>40</sup>

Finally, it was also to gain access to the money market and banking institutions, that appearing as a structured corporation was seen as necessary. It was increasingly imperative to present an image of the business as a clear legal, financial and accounting structure to the outside business world. To summarize the various issues raised by the enterprise's managers, we refer to the report by François Gautier, a mining engineer, 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, and based on short-term and long-term needs. It has not been strictly remodelled 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 fairly probable need for regrouping and concentration. At this juncture it will be essential for an organization such as ours to be able to more closely co-ordinate the activities of its companies without losing their originality, and to be ready, at any given moment, to orient each of them toward a new direction or new alliance should the available economic data, which is now more mobile, rapidly make it appear in our interests to do so.’<sup>41</sup>

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

41 Maurice Jordan, Annual Report AP presented to the June 1965 GA, BNF. Entry number: 4 – WZ - 24 09.

This discourse was presented to the shareholders at the AGM in June 1965, constitutes a fundamental pillar of the institutionalization taking place at that time. This excerpt encapsulates the various issues and defines new organization reality and issues. It refers to a discursive strategy in a context where the effective action perceived by the group's leaders involves a break with the past<sup>42</sup>. Insofar as it refers to other actors in the sector, it also formalizes the changes occurring within the whole of the business. The clear message was to suggest to executive managers and family members to appear as a unified group, structured by this new legal and financial structure centred on automotive production. Therefore, the overriding issues of size and concentration of PSA around the automobile sector put on the agenda the orientation toward industrial restructuring, which implied the capital restructuring and more generally the financial reorganization of the company.

### **The Financialization as a Consequence of Industrial Transforming**

A key general challenge of government and major industrial corporations was financing this increasing size. As a result, the state-orchestrated industrial restructurings had its corollary in the banking system. The Gaullist government promoted and supported this shift on the financial side. The 'Debré-Haberer' reform (1966-67) contained a series of decrees which caused a profound impact on the banking system<sup>43</sup>. From 1958 onwards, we observe an important development of financial markets in the financing of large firms<sup>44</sup>. The ratio of market capitalization to GDP used by Antoine Bozio rose to almost 40% in 1962 before dropping considerably to 5% in 1982<sup>45</sup>. Therefore, if we consider the importance of dividends through the share price/dividend ratio, a similar evolution appears: there was a sharp rise in 1955 to a peak in 1962 (+ 60%). This evolution encouraged structures and instruments expansion to generate and manage these revenues. These

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42 Phillips, Lawrence, et Hardy, « Discourse and Institutions ».

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

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

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

constructions also aimed to inspire confidence of these new banking actors, which evolved in a more and more normalized financial markets.

Such a move pushed automotive firms to set up entities specialized in this national and international financial management activity. For example, François Michelin recruited a senior bank executive in 1959 to set up two specialized financial companies to the group: Compagnie Financière Michelin in 1961 in Basel (Switzerland), and Michelin Investment Holding Company in 1953 in Curacao (in the Caribbean). Renault, France's leading manufacturer and public limited company, also created Renault Holding in Zug, Switzerland and in 1969, Renault Finance, in Lausanne, again in Switzerland, both authorized by the government of the day<sup>46</sup>. Peugeot already owned several holding societies as we will see.

In this institutional and economic context, Peugeot's directors had to seek financial solutions as part of the group's development. Hence, significant financial challenges accompanied the age of industrial Fordism, which is not surprising. Indeed, growing industrial firms necessitated in this context to develop new financial structures and instruments to manage and support this organizational development. In large British firms, Peter Armstrong has demonstrated that holding form led to spread of accounting and financial controls to manage major firms instead of diversified or multidivisional form<sup>47</sup>. Beyond PSA, many other enterprises were organized at that time under the authority of a holding company: Société Schneider et Cie, Union Générale des Pétroles, Compagnie Financière Suez, and Compagnie Générale Michelin, which owned the majority of Citroën's capital. Fiat even had a holding company at the head of its industrial facilities in France in addition to its Italian one<sup>48</sup>. Therefore, we argue that a certain degree of financialization constitutes a condition for the creation of large Chandlerian-style French companies, well embedded in this general economic environment.

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

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

48 Maran et Parker, « Non-financial motivations in mergers and acquisitions »

For PSA, industrial challenges find their corollary in financial issues because internal and external growth operations required significant financing needs. This concern can be separated into two major questions: 1. Which financing policy seems best suited to the expansion of industrial scope? and 2. Which structure, function or company is best placed to respond to it?

From the end of the 1940s onwards, the various societies in the group set up regular capital increases to finance themselves with the help of their banking partners. At the same time as these bond issues and loans were being agreed, SAAP obtained F 1,050 million in credit from a banking group dominated by Société Générale. This considerable loan indicates the financial credibility of the firm and its managers, and is demonstrated by the Swap Execution Facility (SEF) forms and other very favourable reports prepared by financial companies in the 1950s and 1960s<sup>49</sup>. This financial credibility pertained to all the companies in the group, including SAAP, Peugeot & Cie, Peugeot Cycles<sup>50</sup>.

However, the growth outlook was such that external financing was developing in parallel with the strengthening of equity capital. This cautious cash management policy was therefore being implemented to ensure financial security in the event of problems and to guarantee the group's independence. Consequently, the CEO at the time, Maurice Jordan, has long been implementing a policy of cash accumulating and hoarding. These decisions gave a solid financial structure to the balance sheet: the value of shareholders' equity<sup>51</sup> increased by 55%, rising from F 470 million to F 726.6 million between 1960 and 1964<sup>52</sup>. Profits increased only slightly, while net operating and fixed asset values increased more, as did share capital, reserves and retained earnings. While net fixed assets correspond to the industrial investments mentioned, operating values refers to the financing of inventories in the dealer networks. Thus, we observe a financial stability of the firm,

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49 Financial study, Société anonyme des automobiles Peugeot, March 1961. BNF. Entry number: 4 WZ 23 52.

50 SEF Sheets 1960, 1963, 1964, 1970. PSA archives. Entry number: DOS2013ECR – 00713.

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

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

which contrasts with the view that the Chandlerian firm must be in crisis to explain financialization development.

In this respect, it is interesting to mention that the cautionary nature of the strategy deployed by the CEO Maurice Jordan was perceived to be of a ‘financial nature’, as illustrated by the following interview excerpt:

Bernard Stenlhin – The idea to create FFP could certainly be attributed to Maurice Jordan, one of the main directors under Jean-Pierre Peugeot, and with whom he was very close. He had a very financial temperament. There was Jean-Pierre Peugeot, Maurice Jordan and François Gautier, and Jordan was the most financially minded of the three.

Author – What do you mean by ‘the most financially minded’?

Bernard Stenlhin - his temperament.

Author – I’m not sure I understand.

Bernard Stenlhin – [...] It’s a mindset. And if you like, some people have criticized him for not thinking like an industrialist, for being too cautious. In 1960, Peugeot was still a provincial, family-owned company, and reluctant to make the shift to Paris<sup>53</sup>.

In 1961, Maurice Jordan joined FFP as an assistant to the director. In 1965 he became its director, and stayed in Peugeot’s family companies throughout his career. The criticism of the ‘most financially minded director’ was therefore based on his supposed excessive prudence regarding the group’s accumulated finance. As a result, he would not have been expected to show enough determination to take industrial risks required for expansion. This ‘industrial caution’ can be viewed from another point of view: accumulating reserves within a business guarantees its independence, particularly from outside investors. However, preserving financial independence could also be associated with *typical industrial behaviour* and was interpreted as a purely financial trait at the time. The perception of what is *financial* or *industrial* illustrates how the legitimacy associated with corporate strategy is constructed by environment and evolves.

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53 Interview conducted on October 31, 2018.

However, pursuing growth required more external resources, as internal were no longer sufficient. The company's debt ratio – its total debt over equity – was 32%. Financing investments became increasingly difficult due to the size of the assets. François Gautier, CEO of the automotive division, estimated that as of 1970, the company would only be able to finance between 60% and 65% of its investments from its proper funds. That is why the management decided to open the capital further to the outside world: that same year 1965, a resolution was passed at the Extraordinary General Assembly from 28 July to increase capital to F 300 million. These various operations made the company's capital increasingly liquid, hence it was possible to find outside investors who would be prepared to finance the 1960s and 1970s escalating investments.. Nevertheless, opening up the capital would entail control weakening risk. The organizational response was to adopt a multiple holding company structure.

The emergence of holding companies within the Peugeot group at the end of the 19th century is linked to family issues. As a large family-owned enterprise, they were faced with an intergenerational handover, financial commitment and strategic control challenges<sup>54</sup>. Holding structure constitutes a factor in maintaining long-term family control in parallel with the economic continuation of production companies<sup>55</sup>. These legal structures allow dividend accumulation from industrial activities, and which also enabled the financing of the corporate and the family's external business activities. As a result, the main holding society FFP, which emerged during the interwar period as a means of maintaining the Peugeot family's control had become a key company in the 1960s.

Several companies, which were inherited from the firm's industrial past, acted as holding societies for the family members. In the 1950s, along with EPF<sup>56</sup> and LFPF<sup>57</sup>, these included the Holding de Participation, and FFP<sup>58</sup>, which was to become the central holding company. LFPF acted

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54 Jones and Zeitlin, *The Oxford Handbook of Business History*.

55 Chadeau, 'The Large Family Firm in Twentieth-Century France'.

56 Établissements Peugeot Frères, a family holding company.

57 Les Fils de Peugeot Frères, another family holding company.

58 Société Foncière et Financière Peugeot, the main financial holding company, ancestor of FFP.

as a holding, owning the most important subsidiaries. Its purpose was to strike a balance between external financing and guaranteeing family control of the capital by buying back the shares issued by SAAP. Thus, control of capital is an age-old challenge that took on a new dimension with increasing size of the industrial group in the 1960s.

The holding companies themselves needed to be restructured. With the development of financial markets, the growth of the Cycles, Tools and Steel, and automotive sector was reflected in the increase in dividends for holdings, especially as the tax system was favourable. Holding de Participation, created in 1956 and chaired by Jacques Peugeot, for example, recorded a profit of NF 1,814,089 for the 1960 financial year<sup>59</sup>. FFP distributed a total dividend of NF 1,550,000 for the 1961 financial year. These companies grew in size at the turn of the 1950s. In October 1948, a letter from the Treasury authorized an increase of F 45 million (9,000 shares valued at F 5,000 per share) in the capital of LFPF to be subscribed in cash without a public offering. The company's capital therefore rose from F 30 to 75 million<sup>60</sup>. In 1960, EPF had a share capital of NF 4 million. Thus, the restructuring of these different companies appeared necessary to manage all this liquidity in a single centre, to leverage it for the whole group, but also to unify their fiscal and financial management.

The last main reason for this financial reorganization is that in the 1950s, the Peugeot family included 50 family shareholders with the name Peugeot. At this time, the group's economic centre shifted rapidly towards the automotive sector, disturbing the family balance. The family branches had different assets in the different activities developed in parallel since the 19th century. However, SAAP, headed by Jean-Pierre Peugeot, Maurice Jordan and François Gautier, had by far become the leading company and the main source of dividends. Aware that he was advancing in age and that no natural successor from within the family was apparent, Jean-Pierre Peugeot anticipated the inherent difficulties in managing the intergenerational handover and the tension it would create. Family dynasties are particularly fragile, and conflicts over succession can significantly jeopardize their

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59 'Minutes of the Shareholders General Assembly Shareholders', 1961. PSA archives. Entry number: DOS2008AD-12326.

60 LFPF holding report, PSA archives. Entry number: DOS2012ECR – 06799.

continuity<sup>61</sup>. This prompted Jean-Pierre Peugeot to endeavour to avoid any foreseeable conflicts so that the unity and concentration of assets divided among the various companies could be maintained<sup>62</sup>.

Thus, the described context of five-year plans led to the automobile sector concentration and to a convergence between financial and industrial companies. The continuous growth in volumes implied a change in the PSA scope, which was then sought through industrial mergers and a more profound financial structuring. In order to access wider funding outside the firm, appear as a group and manage the earnings and unify the family members, high management sought to build accounting and financial credibility. To this end, it decided to restructure all legal and financial links between the various holding and industrial companies. The combination of all these elements led to this major financial reorganization and the creation of the PSA holding company in 1965. This new structure constitutes a step toward financialization of the company and it is also part of the large Chandlerian enterprise construction.

### **A centralized Financial Control for the Industrial Group: the Creation of the PSA Holding and the Upstream Control Structure**

In view of these various issues, a financially powerful company at the top of the group should be better suited to negotiations. It should be a 100% family-owned company, whose core business would be the production of cars. 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

In order to exercise its new holding function, the SAAP society had to divest itself of its industrial and commercial activities, and hence it transferred them to Indenor, a financial subsidiary

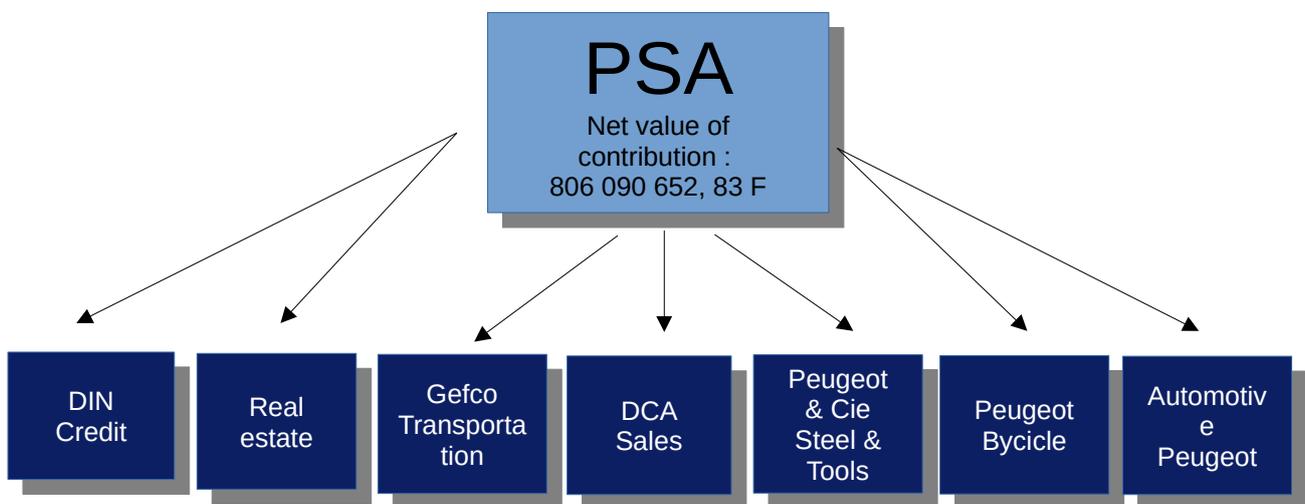
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61 Daumas, *Dictionnaire historique des patrons français*.

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

of Automobiles Peugeot. This brought together various industrial units acquired over time and which were specialized in the manufacture of diesel engines. This new structure took the name Peugeot Société Anonyme (PSA) and controlled the ‘leading companies’, which in turn controlled all the subsidiaries, as shown in the following diagram:

*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;
- Credit 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.

**Source:** Report presenting the structural reform to the General Extraordinary Assembly of shareholders in October 1965<sup>63</sup>.

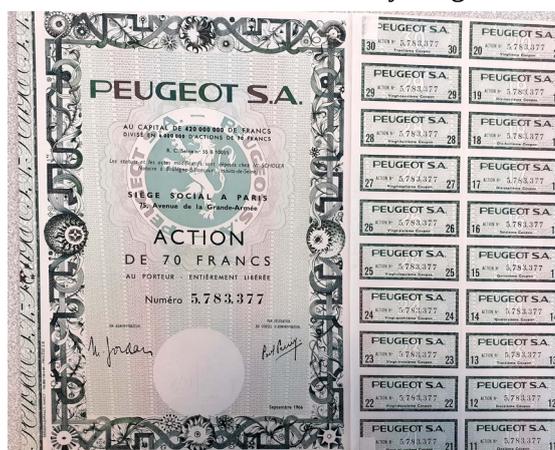
<sup>63</sup> Archives BNF. Entry number : 4 – WZ – 24 09.

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

The formation of Peugeot public limited company PSA grouped the assets of the various industrial, commercial and financial assets within one financial firm. PSA quickly grew to a workforce of 50 and held a share capital of F 420,000,000 in 1972<sup>64</sup>, beginning a powerful financial society, controlling all industrial subsidiaries. Moreover, it had previously been listed on the stock exchange as AP. By centralizing the listing of PSA, the conditions of access to the financial market became much more attractive.

This reorganization consists of a first step of financialization. The largest industrial company became the financial holding PSA. Placed at the top of the corporation, PSA was henceforth controlling all the subsidiaries and was consolidating financial statements. Finally, with creating a new prestigious head office, the management was intended to cement the image of a powerful company. From its inception, PSA was listed on the Paris Stock Exchange, representing to the financial community the mirror image of the Peugeot industrial companies. Thus, the board's position was at a higher level, implying management that is more distant from operational issues. This constitutes an essential aspect of the financialization process.

**Illustration: The first listed shared by Peugeot S.A. Society**



*Caption: First listed shared created by Peugeot SA in 1965*

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

### *Control of the Financial Edifice: Cascade of Holdings*

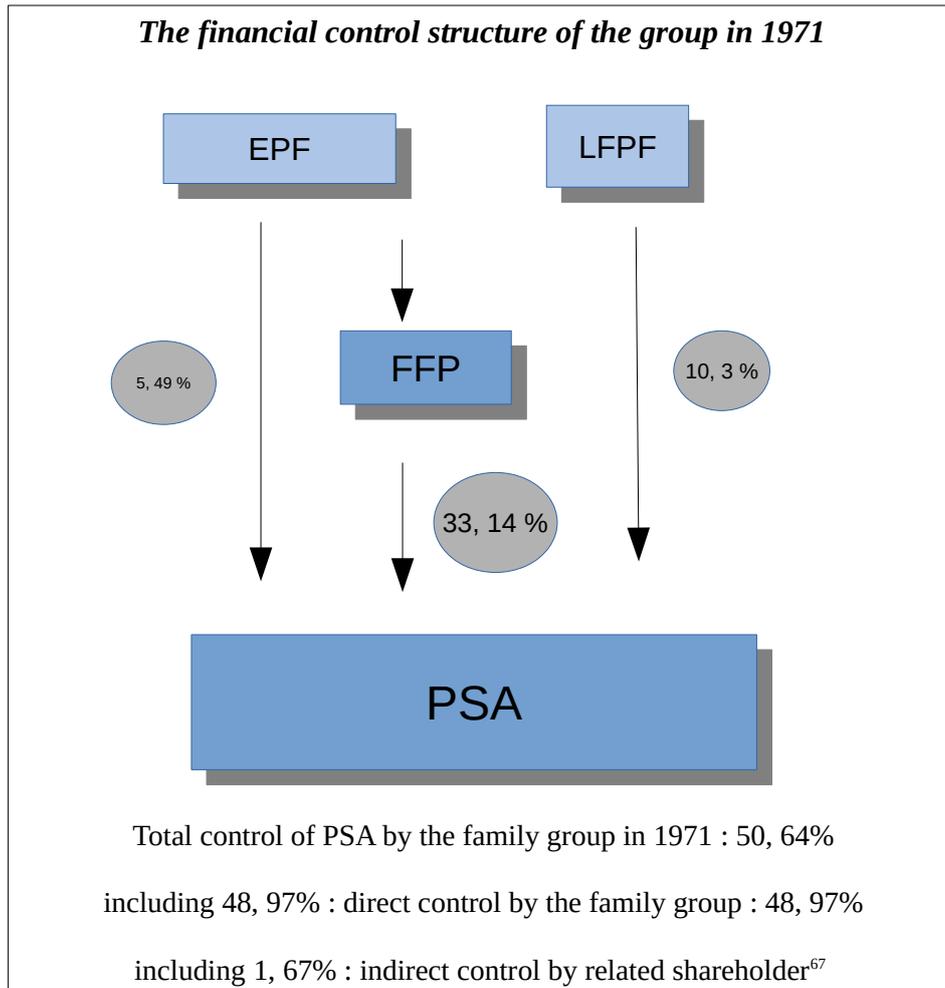
The new executive manager's position puts them in a new situation where the whole group is perceived from the point of view of the income they generate and their capital to control. The main function of this type of structure is to facilitate the maintenance of overall management control and unity. It allows several companies to concentrate control with a minimum of investment; For example, by owning 50% of FFP, which itself held 50% of PSA's capital, EPF controlled the majority of PSA while in reality holding only a quarter of its capital. Thus, each time a holding level is added, the proportion of capital required for control can be halved. Moreover, such a holding company allows reaping the reputation's benefits of a subsidiary like Automobiles Peugeot, and yet its liability is limited to the share's proportion of the subsidiary it owns<sup>65</sup>.

Furthermore, the use of holding involves more sophisticated financial management, because it is legally simpler and less costly than other means, such as a merger or consolidation. It allows for the collection of dividends at low tax cost and the repurchase of the shares issued. Controlling the different societies in a group by this means is not only financially advantageous, but also beneficial to the family and the family's assets. In the case of Peugeot, it established solidarity between family members by centralizing the interests within a single structure, FFP<sup>66</sup>. The following diagram shows how the financial control was managed:

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65 Academic Encyclopedia Britannica.

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



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

PSA, that is to say the whole enterprise, was now controlled by several holding companies. At the very top are EPF and LFPP, the two exclusively family-owned controlling societies. After the war, FFP was renamed Foncière, Financière de Participation once it developed its active role in the financial market. The three top holdings, EPF, LFPP and FFP, were all managed by the largest family shareholders, hence ensuring that the family had direct and indirect control of the capital's majority. 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

<sup>67</sup> Thierry Armangaud's personal archives.

(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 developments while preserving family control of the capital. Each new capital opening implied a mechanical 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 of PSA's expansion and family 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 established through FFP.

Thus, with the new structure, the corporate management finds itself managing a huge legal and financial structure. From then on, a financial overview of this complex group became necessary: first, the size of this entity and the variety of activities to be considered increased. From then on, a financial overview of this complex group became necessary. Secondly, central challenge was now to financial control the capital. As a consequence, the directors distanced from the operational issues linked to automobile production.

## **Conclusion**

This article shows that a kind of financialization constitutes a condition for building PSA as a large multidivisional company. Considering the profound transformations in French capitalism during the 1960s, the Peugeot financialization can serve as an emblematic and contrasting case from the classic narrative. The major rationalization and merger-acquisition movement within the industrial sector driven by the Gaullist government conducted to restructuring and concentration of industrial capital. At the same time, the development of financial groups and their links with large enterprises can be observed.

Embodying these general transformations, the managers of the Peugeot group were then confronted with three classic issues of the Chandlerian enterprise history that rest in the context described above. Firstly, increasing the size of the industrial perimeter was reflected in the search for alliances with other automotive companies. Secondly, the need to access larger financing and to be in a better position to negotiate with competitors implies that all the family assets should appear in a group centred around the automotive activity. Finally, new financial control challenges and maintaining family cohesion around the assets involved a financial reorganization.

The strategy that emerged in response to this threefold challenge resulted in a major restructuring in 1965. A new legal and financial structure linked all the industrial, commercial, financial and real estate enterprises under a single control. First, the industrial group is 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 the PSA's negotiating strength, which could now face future automotive mergers from a more advantageous position. *De facto*, the takeover of Citroën in 1974 would take the form of one extra firm addition, Automobile Citroën company, which would become a new subsidiary of PSA.

Then, a former holding company FFP is placed above the whole firm. Its role, until then peripheral, becomes central for the whole industrial and family ensemble. Its objective is both to concentrate all the incomes generated by the industrial activity, but also to allow financial control of the family group over the industrial. Through PSA and FFP, all the enterprise 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 a holding.

This kind of financial structure can be seen as the institutionalization of financial control over and above the industrial group. On the one hand, all the industrial subsidiaries could now benefit from the FFP's financial power, the holding acted as an interface between the firm and the

financial market. On the other, it brought together all the family's financial resources within a single structure for the first time. Within this process, FFP, whose function was to maintain an overarching financial control, is both a consequence and a cause of the financialization dynamics. This switch to a holding changed the perception of industrial activities by head management. The remoteness of the industrial activities implies a movement of the general management away from production and industrial constraints and towards the financial issues.

This case constitutes a seminal episode of the group's future 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 multiple holding company structure. 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.

The original light that this case sheds on the more general understanding of the financialization process can be explained as follows. Firstly, this illustrates the contribution of an endogenous approach to understanding how dynamics of financialization are part of the 1960s large French companies' transformations.

Secondly, this founding stage in the financialization of the corporation is mainly due to endogenous industrial and family factors. These are intertwined with the financial issue which re-emerges in the mid-1960s. Thus, we ought to conclude that emerges is that the transformations associated with financialization are not always constructed in opposition to the Chandlerian enterprise. On the contrary, to a certain extent they form the conditions for its development.

Ultimately, we argue that financialization, particularly in the French case, is the result of longer and more complex dynamics than the classical narrative suggests and revealed other routes capitalism was taking. Thus, if this case provides a counterpoint to the reduced timeframe of corporate financialisation, it also sheds light on the historical and organizational conditions of later

financialization. As a consequence, large Chandlerian firms are not always the ‘victims’ of external financialization, they also contribute to its development.

Thus, the perspective of this article goes beyond the case of PSA. It echoes the more general transformation of French capitalism in the 1960s. It could therefore be reappropriated by other research on other large companies, but also in other European national contexts.

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