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General motors: A financialized account of corporate behaviour 1909–1940

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ABSTRACT

This paper constructs an alternative account of resource stewardship at General Motors (GM) during the period 1909–1940. Alfred Chandler employed GM in his text 'Strategy and Structure' to explain the development of the modern corporation. This understanding can be employed to contrast an 'old-economy' with a 'new-economy' financialized corporate business model. In this paper we find that many elements of the financialized firm were present in the early history of GM's development. Our analysis reveals the financialization of a non-financial corporation and how this influenced corporate behaviour and impacted on financial performance at GM during the period 1909–1940.

1. Introduction

This paper aims to modify our understanding of the management and stewardship of corporate resources in General Motors (GM) during its formative years from 1909 to 1940. GM holds an iconic place in international business history as it is one of the American industrial groups at the centre of Chandler's analysis of the dynamics of managerial capitalism. Significantly, Chandler's work led to a lasting legacy in contemporary business history, namely the conceptualization and implementation of a general interpretative paradigm to analyse the emergence and development of modern industrial capitalism (Fligstein, 2007; Wilson & Toms, 2012). This revolved around the relation between strategy and structure and how these elements interconnect in a way that underwrites long-term competitive industrial groups. Accordingly, it was possible to identify common trajectories and dynamics. These centred on the implementation of 'investments' in productive capacity and its coordination within a multi-divisional structure or M-form organisation. And how, in combination, investment within the M-form organization could help to minimize transaction costs, maximize throughput, and inflate returns on capital. Thus, investments in minimum efficient size and a separation between ownership and control associated with M-form organization provided a 'template' upon which to judge the presence of national and regional trends towards modern economic development (or the lack thereof).

Over the years, empirical research exposed various limitations in Chandler's work. For example, Chandler did not entirely grasp how national differences in institutional frameworks of corporate governance affect managerial accountability and variations in scale and scope economies (Toms & Wilson, 2010). Furthermore, Chandler's narrative tends to depict the emergence of multi-divisionalization as the outcome of a 'discovery' that suddenly changed the US economy from the 1910s onwards (Chandler, 1962). Nonetheless, empirical research suggests that in most cases multi-divisionalization was

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actually the outcome of a path-dependent process of incremental transformation (Quail, 2008). Finally, Chandler identifies the separation between ownership and control as the 'historical' phenomenon that defines 'modern' American industrial capitalism. Although it has been noted by Foreman-Peck and Hannah (2013) that ownership was more separated from control in the largest stock market of 1911 (London) than in the largest stock market in 1995 (New York).

Nonetheless, by addressing organizations as evolving institutional forms, Chandler changed the way corporations were perceived. His analysis implied a business model based on the coordinated and efficient expansion of physical assets that could achieve efficiency combined with growth (Quail, 2008:127). Thus, in spite of its limitation, Chandler's interpretative framework still holds substantial currency in contemporary debates about industrial development and sustaining competitiveness. For example, Lazonick employs a specific interpretation of the 'Chandlerian' corporation to construct a dichotomy between 'old economy' business models which are committed to product and process renewal, employment and reinvestment, and 'new economy' business models characterized as being 'financialized' (Lazonick, 2010, 2013). Lazonick employs the term financialization to describe how a 'new economy' business model replaced an 'old economy' business model where managers were committed to product and process innovation. This change to a 'new economy' form of corporate behaviour has, since the 1980s' according to Lazonick, progressively undermined US competitiveness and economic growth. Lazonick's argument is that senior executives, in the financialized corporation, are motivated by financial incentives tied to delivering shareholder value performance metrics. These financial metrics coupled to the award of stock options and additional bonuses have encouraged US managers to distribute profit rather than reinvest in productive innovation necessary to sustain US competitiveness. Lazonick notes that 'by the 1980s . . . the retain-and-reinvest investment strategies of many established U.S. industrial corporations had become vulnerable' (Lazonick, 2015:6). This recent financialization of the US corporation has been represented as a new form of institutional and cultural logic which drives managers to adhere to shareholders demands and which has 'profoundly reorganized the American Corporation' (Soener, 2015).

In Chandler's (1962) text 'Strategy and Structure' GM is one of four extended company cases employed to describe how changes in organisation form facilitated the productive co-ordination and stewardship of resources from 'the purchase of supplies to the final sale to the customer' (Chandler, 1962:145). In this paper we argue that many elements of the 'new economy' or 'financialized' corporation are also present influencing GMs corporate behaviour and financial development. To structure our argument and the supporting analysis we employ four organizing elements drawn from the financialization literature. Krippner, for example, observes that financialization is about changes in the composition of corporate balance sheets from tangible to financial asset accumulations where: 'Non-financial corporations are beginning to resemble financial corporations – in some cases, *closely* – and we need to take this insight to our studies of corporate behaviour' (Krippner, 2005:201). Second, financial incentives included in remuneration packages, such as stock options and profit share schemes encourage the alignment of managerial and employee interests with that of stockholders (Lazonick, 2015; Fligstein & Shin, 2007). Third, these incentives manifest in the financialized firm as a commitment, by managers, to 'downsize and distribute', that is, prioritise the distribution of profits to satisfy the demands from shareholders at the expense of reinvesting in firm competitiveness (Lazonick, 2015). Finally, we draw upon the Froud et al's (2006) argument that financialization can be understood as the intrusion of capital markets and how this encourages optimistic managerial narratives about strategic intervention(s) and financial transformation. Using reported financial numbers at both a macro and firm-level Froud et al. reveal that, in the financialized firm, contradictory forces are in play limiting the transformation of a firm's return on capital employed for shareholder value (Froud et al., 2006: 65–94).

Chandler (1962) frames his analysis of the development of GM as structure and strategy whereby a decentralized co-ordinated organization structure facilitates the stewardship and deployment of resources. Alfred Sloan, in his text *My Years with General Motors*, also reinforces the importance of policy formation (strategy) and the co-ordination of GM's divisional resource management through 'co-ordination by committee' and its associated use of 'financial controls' (Sloan, 1964). Our supplementary argument is that at an early stage in its development GMs corporate behaviour incorporates many elements of the new economy financialized firm.

Sloan, for example, devotes a chapter in *My Years with General Motors* to the General Motors Acceptance Corporation (GMAC) and the importance of providing credit finance to customers and another chapter on the creation of, and investment by, GM into a holding company to underwrite dealership financing and risk management. Both GMAC and the Holding Company were heavily capitalized to facilitate credit finance to customers and thereby support the conversion of mass-produced outputs into costs recovered and profits realized. GM's corporate behaviour, at this early stage of its development, resembled the *modus operandi* of a financial corporation in terms of raising and issuing bonds, generating wholesale funds and providing different types of credit funding and insurance products to customers.[1] Sloan devotes yet another chapter to broad company-level 'incentive compensation' schemes where the purpose of these was to ensure senior executives and employees were 'partners' sharing in profits and capital gains from GM's profit and stock price performance. The purpose of these incentive plans was not only to hold on to or limit senior staff turnover but also align staff financial interests with those of GM's stockholders. In a further chapter 'Financial Growth' Sloan justifies the generous distribution of profit to stockholders on the basis that they would, at times, be called upon to provide additional refinancing facilities if, and when, GM was short of cash. He was also aware that contradictory forces operated to constrain the transformation of GM's return

[1] As from 1925 GM provided customers with insurance protection policies against fire, theft and collision though GMs subsidiary 'General Exchange Insurance Corporation' (Sloan, 1964:307).