

Heat's on GM board

Directors likely to form study committee on Renault-Nissan deal; management team seems cool to idea.

Bill Vlasic and Christine Tierney / The Detroit News

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Despite serious reservations by General Motors Corp. CEO Rick Wagoner and his management team, GM's board of directors is expected today to endorse preliminary discussions with Renault SA and Nissan Motor Co. about a three-way alliance.

It's the next move in a high-stakes chess match over the future of GM, and sets the stage for a pivotal meeting on July 14 between Wagoner and Carlos Ghosn, the chief executive of Renault and Nissan.

With billionaire shareholder Kirk Kerkorian demanding action, GM's directors likely will form a committee today to explore the possibility of GM entering into a partnership with Renault-Nissan.

Wagoner and his team hardly support the radical move proposed by Kerkorian, and ultimately may fight it, according to people close to GM. One GM official said the deal might make sense for Renault-Nissan but saw "no upside" for GM. Given management's likely opposition, Kerkorian may demand an independent assessment of the deal.

Some observers believe Kerkorian's end game is moving Wagoner out and putting Ghosn at the controls of the world's largest automaker.

While acknowledging that Wagoner has made strides in cutting costs at GM, Kerkorian and GM director Jerry York believe he hasn't sufficiently tackled the automaker's product and brand weaknesses.

Several of GM's outside directors are said to be keenly interested in any strategic options -- including a Renault-Nissan linkup -- that can revitalize the company after its mammoth \$10.6 billion loss last year.

Philip A. Laskawy, retired chairman of Ernst & Young; Erskine B. Bowles, president of the University of North Carolina; and John H. Bryan, retired chairman and CEO of Sara Lee Corp., have been among the more impatient outside directors, according to one person familiar with the matter.

Kerkorian's tactics an issue

Some directors, however, have raised questions about the way Kerkorian took the deal public last week rather than take it to the board.

GM's board will ultimately make or break the deal since Renault and Nissan have said they don't want to press ahead unless GM is willing.

The board will meet by telephone today to consider the GM-Renault-Nissan partnership proposed by Kerkorian and his top adviser, York, in secret meetings with Ghosn.

Wagoner is not expected to directly attack the proposal in the board meeting, but instead will suggest the idea requires close study by both GM management and its 12-member board.

"We believe it's meant to be a serious idea advocated by one of our largest shareholders and a member of our board," said GM spokeswoman Toni Simonetti. "We expect the board is going to consider it carefully."

GM is being advised by investment firms Goldman Sachs and Morgan Stanley, say people familiar with the matter.

Tracinda may fight inaction

On June 30, Kerkorian -- who owns 9.9 percent of GM -- made public his strongly worded letter to Wagoner calling for GM to "immediately" form a board committee to consider selling a stake to Renault-Nissan. Sources at Renault-Nissan said York proposed the Franco-Japanese alliance buy 20 percent.

Kerkorian's Tracinda Corp. investment arm would likely retaliate against GM if board action isn't taken today, according to a person familiar with Tracinda. One possibility would be Kerkorian increasing his stake in GM to bring more pressure on Wagoner.

But based on interviews with people familiar with GM, the automaker's board is expected to approve exploratory talks with Renault and Nissan, which formed their alliance in 1999.

"The only question is whether the (GM) board will form a committee or management will form a committee -- or both," said a person close to GM.

For his part, Ghosn told Renault's board of directors Monday that he wanted a small, focused team to study a three-way deal, rather than a large group.

Ghosn outlined GM's global operations in broad terms but did not make financial projections or discuss the possible terms of a deal, said a Renault-Nissan source.

French directors are leery

The strongest reservations on Renault's board appear to be coming from the directors representing the French state's 15 percent stake.

Ghosn is acclaimed as a talented industrialist, but French officials have noted that some of GM's difficulties are due to health care and other financial obligations.

With GM in the midst of a historic downsizing of its U.S. operations, Wagoner and his senior executive team are reluctant to enter an open-ended partnership with Paris-based Renault and Nissan, Japan's second-largest automaker.

The idea also elicits skepticism among auto analysts.

"GM is surrounded by very big and very American problems," Hitoshi Yamamoto, president of Commerz International Capital Management (Japan) Ltd., was quoted as saying by Bloomberg News.

On Thursday, the ratings agency Standard & Poor's expressed concerns about how GM, Renault and Nissan could work together.

Mutual harmony questioned

"The ability of all three parties to structure, agree on and execute manufacturing, purchasing and other benefits given the obvious complexity is suspect," said S&P analyst Robert Schulz.

Analyst Paul Newton at Global Insight said both GM and Renault-Nissan might suffer as a result of the distraction. "It has taken Renault and Nissan six years to witness the tangible cost-saving benefits of their platform and technology alliance," Newton said.

"Carlos Ghosn's energies would be far better put to use in ensuring that the work done at Nissan and ongoing at Renault continues at a good pace."

GM may have even less to gain, as it has already reorganized its global product development and purchasing organizations.

"The restructuring was initiated to deliver the sort of substantial savings from scale that the alliance proposal seeks to achieve," he said.

But jitters over how a deal could play out have been overshadowed by the role that Ghosn, the charismatic CEO of both Renault and Nissan, could have in reviving GM.

GM shares were little changed Thursday, closing down 22 cents at \$29.20 on the New York Stock Exchange as investors waited to hear the GM board's response.

But some financial experts say Kerkorian has made his point.

"Even if the alliance does not materialize, Kerkorian still scores a win," said David Kudla, CEO of Mainstay Capital Management LLC in Grand Blanc.

By inviting comparisons between Wagoner and Ghosn, the proposal "puts more pressure on Rick Wagoner to hasten the turnaround at GM, even after his string of recent successes, including already exceeding the goal of 30,000 job cuts by 2008."

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