

GM Board Backs Wagoner But...

It doesn't reject Renault alliance, and today's special board meeting may not be enough to satisfy shareholder Kirk Kerkorian's desire for dramatic results

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By David Welch

Now the dance begins. General Motors' board of directors agreed to begin "exploratory" talks with Renault-Nissan about a possible tie-up. But that hardly means that GM's board and its executives are keen on doing a deal, which is being pushed by activist shareholder Kirk Kerkorian.

This is just an interim step, analysts say. Since Kerkorian—who owns 10% of General Motors' (GM) stock—has pushed for the idea, the board and top executives must consider it. But given the off-the-record reactions emanating from GM's headquarters, the company doesn't want an equity tie-up with Renault-Nissan. "They have to at least look at this," says UBS analyst Rob Hinchliffe.

LOOK OUT. Still, that sets up GM's entrenched management and Kerkorian's activist camp for a possible duel over this deal. Kerkorian and his strategists are already concerned that GM executives—who fear losing influence in management or even their jobs if Renault-Nissan bought a 20% stake and ushered CEO Carlos Ghosn onto the board—might not give the potential deal a fair hearing. Those very same executives are in charge of researching the possibilities and making a recommendation to the board.

If Kerkorian and his deputy, GM board member Jerome B. York, don't believe that their proposal is being given a fair hearing, look out. They have already asked that a neutral third party do an independent study. If they really feel they are being stonewalled, they could try and take a proposal to GM's shareholders. That would be tough, though, because Renault's board has said they are waiting for a proposal from GM, not the company's shareholders.

So far, discussions between Kerkorian's company, Tracinda, and GM have not been acrimonious, say sources close to the situation. But at the board meeting, a few board members reiterated that they would have liked Kerkorian and York to have handed the idea to GM chairman and CEO G. Richard Wagoner Jr. and let him initiate talks with Ghosn. GM executives in the meeting made a brief presentation showing some analyst reports that question the value of the deal.

Why wouldn't GM want to do this deal? First and foremost, Ghosn won't take an equity stake in GM without some control. That threatens Wagoner and his management team.

SAVING MONEY DOWN THE ROAD. So even if they agree that GM could save a lot of money and become more competitive by sharing parts, engines and engineering, and technology with Ghosn's alliance, Kerkorian's camp feels that GM brass may beg off selling an equity stake to Renault-Nissan to preserve the status quo.

At the moment, they have the cover to do that. When GM's board agreed to examine an alliance with Renault-Nissan after a two-hour meeting on July 7, the board issued a statement saying that the board "continues to fully support the company's North American turnaround strategy." That statement at least implies that they are pleased with Wagoner's progress during the past year.

GM executives agree that the company could save money by sharing parts with Renault and Nissan. But some say it will take a few years to reap the benefits. Buying commodities like steel, aluminum, or plastics could get a quicker bang, but it takes longer to match up engineering resources to jointly develop cars.

Wagoner may have an out. He could cut a deal with Renault-Nissan to jointly purchase parts in, say, Europe. Or GM could buy diesel engines for Europe from Renault the same way Ford Motor (F) buys them from French carmaker Peugeot. They could do those sorts of joint ventures without selling Renault-Nissan any GM stock. "I don't get the cross ownership," says Hinchliffe. "You don't have to own a stake in each other to do that."

Indeed, that's why analysts say a deal is less likely, especially if the board still backs Wagoner. "There could end up being an alliance of some kind," says David Kudla, CEO and chief investment officer of Mainstay Capital Management, which manages money for many GM employees and retirees. "But getting Ghosn to run the company probably has pretty low probability."

LESS LIKELY. A few tie-ups to share diesel engines may not satisfy York and Kerkorian. Sources close to Kerkorian's Tracinda investment firm say that the two key players are not only getting impatient with the pace of recovery, they think Wagoner's decision making led GM to the state it's in. Hence, they would like a change.

Even if Kerkorian and York don't get the deal they want, they will have accomplished one thing. They will have pressured Wagoner to move more decisively not just to get GM through its current crisis, but to make sure the company fixes the long-standing problems that have gotten the company where it is today.

Editor's note: This is an updated version of a previously published story.

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