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Can Teflon Last for GM's Wagoner?

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Rick Wagoner painted a rosy picture in June 2000 when he became **General Motors** Corp.'s chief executive. Global market share for GM and its affiliates could climb to 28% from 25%, he said. Profit margins would stay strong. GM would be in the top quarter of stock-market performers. "Future opportunities are virtually unlimited," he declared.

It hasn't worked out that way. Instead, Mr. Wagoner has become the Sisyphus of American industry, perpetually struggling to fix what may be unfixable. Some years, he makes progress cutting costs or perking up the product line. Then, a new crisis comes along, leaving GM in worse shape than before.

Richard Wagoner Jr

Last week, GM's stock touched a 53-year low, sinking below the nadirs it hit during the 1973-75 and 1980-82 economic downturns. Overall, GM's stock has tumbled 83% since Mr. Wagoner took the auto maker's helm. These days, GM's global market share is 12.5%.

At most companies in similar straits, angry shareholders and directors would have sacked the CEO long ago. They might have found someone more promising. Or they might have played the scapegoat game, just as perennially losing sports teams keep replacing the head coach, regardless of how many other factors might be hurting performance.

So why does Mr. Wagoner still have his job -- and is there anything that could send him packing? Some unusual factors have been in play at GM in recent years, which deserve a closer look.

GM's one-of-a-kind characteristics start with its shareholder base. Activist investors often target companies with sagging stocks; they buy up big stakes, and then ram through management changes. But at GM, famous-name activists have had about as much impact as a toddler banging on the hood of a Denali sport-utility vehicle: some minor dents, but no destiny-changing results. Carl Icahn briefly dabbled in GM stock in 2000. Kirk Kerkorian owned much more in 2006. Neither succeeded in leading a coup; both eventually sold their stakes.

It seems that activists can't provide quick fixes to GM's biggest challenges, such as its high labor costs or unfavorable product mix. As a result, frustrated shareholders tend to cash out rather than stick around to fight. Filings with the Securities and Exchange Commission show that at least a dozen hedge funds or mutual funds with activist tendencies sold their entire GM positions of one million shares or more during the first quarter.

GM's directors also have played a crucial role in Mr. Wagoner's longevity. GM's lead independent director, George Fisher, the former head of Eastman Kodak Co., has declared at several crucial junctures that he believes GM is on the right track with current leadership.

In interviews with The Wall Street Journal in May and June, Mr. Fisher endorsed Mr. Wagoner's strategy and said GM's stock price isn't a major concern of the board or management. Other board members are opting to be quietly supportive. A spokesman for GM director Armando Codina, CEO of Flagler Development Group, said Mr. Codina believes GM executives should be the ones talking about the company's performance.

Mr. Wagoner's boosters have been willing to reset the scoreboard every year or two, letting lower levels of profitability and market share become acceptable as business conditions worsen. Supporters say Mr. Wagoner has made major headway in negotiating lower labor costs in North America. They also give him credit for expansion in China, Brazil and other emerging markets, for pushing GM to develop battery-powered cars and for improvements in GM's quality rankings.

"He's an excellent CEO," says David Cole, head of the Center for Automotive Research, an Ann Arbor, Mich., group funded partly by auto makers and their suppliers.

But Mr. Wagoner's decision a few years ago to tilt GM's product mix more toward trucks and SUVs isn't looking good, as soaring gasoline prices hurt demand for those vehicles. He also hasn't figured out how to turn GM's quality gains into a compelling marketing story to win back car buyers on both coasts, who generally buy foreign models instead.

Now GM's looming liquidity squeeze could prove to be Mr. Wagoner's toughest challenge yet. The company's operating losses are eating into its cash on hand, which was about $24 billion as of March 31, and is shrinking by at least $3 billion a quarter.

Analysts say GM's routine operating needs require it to have at least $7 billion of cash available at all times, meaning that it could be in a scramble to raise more money within the next year. GM has carried a junk-bond rating since 2005. In April, Moody's Investors Service changed its rating outlook for GM to "negative" from stable. Moody's current rating of B3 on GM puts it in a class of borrowers whose probability of default within a year is considered to be 13%; their likelihood of default within four years is deemed to be 26%.

GM could do a lot of things to raise cash fast, including selling assets, splitting off its profitable overseas businesses and borrowing more, using its stronger assets as security. By 2010, some of the labor-cost savings negotiated by Mr. Wagoner last year should kick in, easing the financial pressure on the company.

But GM's shaky stock price and ragged credit rating speak to market participants' uncertainty about whether the company can get through the next tough period. If GM's fate in 2009 depends on its financial resourcefulness, directors may want to revisit the question of whether Mr. Wagoner still is the best person for the job. One prospect to watch: Fritz Henderson, GM's former chief financial officer, who was promoted earlier this year to president and chief operating officer.

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