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A Maverick of Industry in Canada

By [IAN AUSTEN](#)

Frank Stronach, the chairman of the auto parts maker [Magna International](#), stood before shareholders at the company's annual meeting in May and, instead of discussing an offer he had put on the table for Chrysler, entered a debate in jest about who was more alluring to women, himself or his longtime aide, Manfred Gingl.

The question was apparently resolved when Mr. Gingl kissed Belinda C. Stronach, Mr. Stronach's daughter, who is a member of Parliament, a former federal cabinet minister, the company's former chief executive and Mr. Gingl's successor as executive vice chairman.

"He's a smooth operator," Mr. Stronach said after the kiss, his English still characterized by the accent of his native Austria.

The same cannot always be said of Mr. Stronach.

While building North America's second-largest auto parts maker (after Delphi), which he founded 50 years ago, Mr. Stronach's imperial, and often mercurial, management style has both enriched and alienated shareholders, particularly when he has taken the company into unprofitable side ventures. And over the years Mr. Stronach has poured much of his energy into promoting frequently iconoclastic economic and political theories to an often mixed reception.

"He's sort of a genius and a bit of buffoon wrapped together," said Wayne Lilley, author of "Magna Cum Laude," a biography of Mr. Stronach published last fall. "This guy could be the most beloved businessman in Canada. But greed keeps pushing that aside."

His wealth is sometimes an issue in a country where fortunes are not always admired. He is among the highest paid businessmen in Canada, receiving \$27.7 million in total compensation during 2006 from Magna, according to Equilar, a compensation research

firm, far more than the \$9.5 million [General Motors](#) paid Rick Wagoner, its chief executive.

With the big paycheck comes audacious business moves. In 2007 alone, Mr. Stronach, who declined through a spokeswoman to be interviewed, made his unsuccessful bid for Chrysler, which also happens to be Magna's biggest customer.

Even before the Chrysler decision was announced, Mr. Stronach surprised investors with another unexpected plan. He pitched to his shareholders a complex transaction that would effectively have him share control of Magna with a wealthy Russian investor, Oleg V. Deripaska.

The idea that Russia will be the auto industry's next great frontier may not be universally shared. But just as controversial are provisions in the proposed deal that would give Mr. Stronach millions of dollars a year in additional dividends without expanding his relatively small shareholding in Magna, which started 50 years ago as a two-man machine shop.

Mr. Stronach's early ambition to create something more than just another tool-and-die shop is what separated him from other skilled Europeans who immigrated to Canada during the 1950s. Within three years, Magna, known at the time as Multimatic Investments, had entered the business of making parts. It was a modest start: a metal sun visor bracket for General Motors of Canada.

Dennis Mills, a former member of Parliament and staff member in the office of Prime Minister Pierre Elliot Trudeau, has worked for Mr. Stronach on and off since 1984. Today he is vice chairman of [Magna Entertainment](#), the horse racing and gambling company indirectly controlled by Mr. Stronach.

"His focus, his intensity, his instinct are something of a phenomenon," Mr. Mills said. "And I say that as someone who has worked for four prime ministers and met most leaders of the industrialized world."

That has been tempered somewhat by his political and business theories. In 1993, Mr. Stronach, who once ran unsuccessfully for Parliament, suggested that Canada should be governed by juries of citizens selected by computers to serve one-year terms and vote in secret on legislation. Magna helped finance the promotion of the concept with some of

the 2 percent of its pretax profit that is reserved for charity, social causes, education and politics.

Mr. Stronach attributes much of his success to what he calls the Magna principles of fair enterprise that among other things require the company to offer profit sharing, employee stock ownership and a minimum level of spending on research and development as well as charity.

A version of the principles, Mr. Stronach said, is carved in stone at the company's head office, an Austrian-style castle in Aurora, Ontario, an affluent community north of Toronto. The complex includes an auto parts plant — also designed with a castle motif — large homes for Mr. Stronach and his two children, a golf course and riding stables.

Outsiders, however, tend to credit to the company's early success to its operating structure rather than Mr. Stronach's code for conducting business and treating employees.

In particular, Magna expanded by building a large number of small factories rather than combining operations within sprawling plants. Each plant manager, in turn, was given considerable decision-making power and a share of the plant's profit.

Early in the 1980s Magna also pioneered the design and engineering of parts in addition to producing them. When Chrysler emerged from its overhaul under Lee A. Iacocca, it reduced the development costs of its ultimately successful line of minivans by contracting out the design and production of most of their interiors to Magna. Magna still handles that minivan work as well as systems for other vehicles, including the electrical systems of the Mini Cooper by BMW.

"They were at the right place at the right time," said Johannes Van Biesebroeck, a University of Toronto economist who studies the auto industry and manufacturing. "The outsourcing of interior modules has been great for them."

Magna's growth was not always matched with corresponding financial skills. By late 1989 the company was heavily burdened with debt when it was hit by a slowdown in orders from customers. The result is what Mr. Stronach now calls "a speed bump," but what most people saw as a brush with bankruptcy.

A cost reduction program and reorganization, mostly during 1989 and 1990, saved Magna. Among the items eliminated were Mr. Stronach's forays into distinctively nonauto lines of business, including Belinda's, a one-outlet restaurant chain, and a media group that included a radio station and a glossy big-budget business magazine, Vista.

Not all of Mr. Stronach's side interests have been exorcized from Magna. While it separated from Magna International in 2000, Magna Entertainment, which lost \$87.4 million last year, continues to deal with the parent company. Last year, for example, Magna International paid \$84.7 million to acquire two golf courses from the gambling and horse racing company.

In late June, Mr. Stronach became Magna Entertainment's interim chief executive after Michael Neuman, a former president of the satellite television provider [EchoStar Communications](#), left after four months on the job. Mr. Neuman was the company's fourth chief executive since 2001, including a previous interim stint by Mr. Stronach.

While Mr. Mills declined to comment on Mr. Stronach's ultimate goal, Magna has gradually moved in recent years into the business of manufacturing complete cars.

In Austria, the Magna Steyr unit assembles 248,000 passenger cars and S.U.V.'s annually for BMW, the Saab operation of G.M. and the Mercedes-Benz, Chrysler and [Jeep](#) brands.

Most Magna-built models have relatively small production runs that fully integrated automakers have traditionally not been able to produce efficiently themselves. Mr. Stronach has made it clear that outsourced assembly is an idea that he would like to import to North America.

Like many people who watch Magna, Professor Van Biesebroeck speculated that Magna's interest in Chrysler was partly linked to Mr. Stronach's desire to assemble cars in North America. But while all North American manufacturers are producing an increasing number of niche models, Professor Van Biesebroeck is not confident that trend will create opportunities for Magna.

After investing heavily in plants that can produce a variety of models, a system often called flexible manufacturing, most automakers have almost eliminated any

inefficiencies they once encountered in producing small production runs within their own plants, Professor Van Biesebroeck said.

Mr. Stronach's answer to his critics is Russia. In his surprise announcement at the annual meeting, Mr. Stronach unveiled a plan to sell 20 million Magna shares and partial control of the company to a company controlled by Mr. Deripaska, a Russian billionaire whose holdings include the GAZ Group, the big Russian carmaker. If the deal is completed, Mr. Deripaska and Mr. Stronach will jointly control a holding company that, in turn, will control Magna.

Mr. Stronach predicted that entering the Russian market might double or triple Magna's revenue, which was \$24 billion last year. Certainly the Russian market is growing. It increased 23 percent in 2006. But it is also relatively small, just 1.78 million units that year. Also, by linking Magna to a single producer, it is not clear whether the company will receive a warm reception at other Russian auto plants, both domestic and foreign-owned.

But before any of that happens, the complex transaction must be approved by a majority of Magna's Class A minority shareholders. The plan has come under widespread criticism in Canada for excessively benefiting Mr. Stronach and senior managers. While Mr. Stronach will not contribute any money to the reorganization, the arrangement will increase his annual dividend payments to just under \$8 million, from about \$700,000.

Exactly how Mr. Deripaska is benefiting is unclear, beyond speculation that he is setting himself up for ultimately taking over Magna.

"Whatever it is, the only sure thing is that Mr. Stronach and management are getting a slick deal here," wrote Derek DeCloet, a business columnist for The Globe and Mail who urged shareholders to use their votes to "deliver a message: Give us a better deal, Mr. Stronach, or we'll kill this one."