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Tesla Company Governance

Tesla: An Interesting Success With Bad Governance?

There are only two major automotive startups in the United States that did not go bankrupt, Ford and Tesla. It might be unfair to consider Tesla as an automotive company since Tesla's goal is to accelerate the world's transition to sustainable energy. But this doesn't change the fact that out of these two companies the former might be joining the bankruptcy club if the amount of profits are an indication. This poor statistic with automotive companies is caused by how expensive it is to run a business in the US. According to the business anti-corruption portal, "Business costs are increased by extensive anti-corruption legislation and tough requirements for compliance and internal controls" (Gan). On the other hand the United States is a hub of innovation and technology after all, it is the land of opportunity as the saying goes.

Tesla didn't make a profit for 13 quarters until 2016 Q3, and is back to losing money with the fourth quarter of 2016 followed by Q1 2017. However Tesla stock increased over 40% in this 4 year period. There is something pulling investors towards Tesla even though the company is not profitable. Elon Musk might have the answer to what is pulling all these investors to his company, as he said "When all of that's lumped together, it can be confusing. And then they would think Tesla's a money-losing company but, well, not really. Not if you're growing at like 100% a year" (Owens). They are investing in growth, not immediate returns. Buying Tesla stock is a long term investment, people believe in Tesla and Elon Musk's vision. This trust comes from several different things. Tesla has exceptional customer loyalty since people buy the idea not the car and they have good customer relations. This February a Tesla user stopped an unconscious driver's car by breaking in front of it and eventually saving the driver's life. All the damages to both cars were covered by Tesla as an appreciation. Trust in Tesla doesn't end with customers, investors are part of it too. This trust is not to earn money but to have a better future. Tesla

patents are open sources which allows competition to emerge easier. A company with a goal to make as much money will not do this. As it is already clear from their everlasting losses, Tesla is not a company of that type. Tesla wants to create an industry around sustainable energy and transport, not a monopoly in the electric car business. This approach is similar to Google's slogan, "Don't be evil.". Instead of seeing it only as an investment to earn money, people see it as an investment for their future.

Another way to attract investors is to surprise them, create value in your company that was not noticed by the investors before. According to Forbes "To persistently create shareholder value, managers must therefore do something that investors have not already taken into account" (Yu). Tesla does this incredibly well with the vision of an entrepreneur who is Elon Musk. He spots the problem, finds a solution and implements it. For example there are lithium-ion battery suppliers in the market like Samsung and Panasonic. However their production is not enough for Tesla's demand. Even though it might be cheaper to sign a deal with one of these companies for enough lithium-ion batteries to meet the demand, Tesla preferred to create their own factory. Now they are working on a gigafactory dedicated to producing lithium-ion batteries. This way they surprise their investors and they don't have to worry about a shortage of batteries. Also creating competition in the lithium-ion battery market aligns with Tesla's goal of creating a world with sustainable energy. Having minimal suppliers hurts Tesla financially in the short-term which can clearly be seen by how much profit Tesla made in the recent years, none. But in the long run keeping everything in-house gives Tesla great independence.

Ability to operate independently is surely something Elon Musk likes. He dominates his company's boards with family members and friends. In a recent letter from investors this issue was brought up. "While meeting the technical definition of independence, five of the six current non-executive directors have professional or personal ties to Mr Musk that could put at risk their ability to exercise independent judgment," the letter said. ("Tesla Board) Elon Musk's response to this issue was rather aggressive as he tweeted "This investor group should go buy Ford stock. Their governance is amazing...". Investor's argument was that the board could act with

groupthink while Musk supporters think the company should continue with Elon Musk and his team's vision. This vision might have been successful since now, but there is no guarantee that it will continue its success.

Workers at Tesla factories are Tesla investors too. Probably due to not making any money, Tesla pays their employees in stock equity as well as cash. In total Tesla workers earn 100-70 thousand dollars more in 4 years compared to other automotive companies. However if stock equity grants are not considered, Tesla employees earn less. They earn 10-40 thousand less cash and 30 thousand less in additional benefits in 4 years (Lambert). After recent complaints from workers, Elon Musk emailed all his employees and addressed some of the issues. He declined that there were safety problems and said Tesla is safer than industry average. He also said that Tesla hired a third shift to lower working hours and that they are working on making the workspace more fun with free frozen yogurt dispensers and a roller coaster type train to connect the Tesla campus (Lambert).

Tesla has a lot of problems mainly due to being ambitious and starting new businesses. These financial problems affect their employees in a negative way, but with the support of the public Tesla manages to survive. The Elon Musk controlled board is worrying but it can be acceptable since Tesla is still a company in the startup stage. It might be worth billions, but with new ideas everyday, Tesla is still a startup and during this period strict management can be beneficial. When Tesla starts to sell more cars and make more money, problems with employees being underpaid should end. However having an independent board is more of a challenge for Tesla and Elon Musk. It seems like Tesla is not going to stop joining new markets any time soon. This not ending startup stage requires an innovative and strict board like Elon Musk's team. Tesla should create a culture where the board would remain innovative but independent. Right now everything is going fine with the board and their vision but it is a matter of time before they fall into the trap of groupthink. Tesla has a lot of problems with company governance, however at the moment they can't do anything without sacrificing their fundamental values.

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