

## **Out of Gas: Tesla's Struggles**

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### **Abstract**

Investors have mixed reactions about Tesla. Its valuation rivals major technology companies, although its operations align closely with carmakers. Still, the disruptive nature the firm brings to the industry leaves room for interpretation of what Tesla does precisely and how its operations align with its mission. Led by a charismatic leader, the firm's vertically integrated nature blurs the lines on exactly what is and is not its core competencies. The challenge presented is finding an evaluation tool for analysts to consider for firms with disruptive power that bridges multiple industries.

*Keywords:* Tesla, Corporate restructuring, Leadership, Disruptive innovation, Mission statement

## **Out of Gas: Tesla's Struggles**

Shortly after Tesla's Q2 2020 investor meeting, CEO Elon Musk will reveal Battery Day. While the details remain a mystery, investors speculate the announcement of cheaper batteries with higher capacity and better efficiency (Root, 2020). Most companies hold off showcasing accomplishments like this for product launches, but not Tesla. Led by the most inspiring leader in the technology space, Tesla rose from a team of engineers in the 2000s to a firm with the highest market capitalization in the auto industry (Taylor, 2019; Richter, 2020).

Tesla remains dedicated to "accelerate the world's transition to sustainable energy" (Tesla, 2020a). The company owns and operates charging points all over the United States and is in talks to collaborate with other car manufacturers to support other technologies (Sull & Reavis, 2019b). Their tactics expand beyond the car and into the home, with solar roof panels and in-home batteries for energy storage. Led by its "Rockstar" CEO and his 30 million Twitter followers, the question remains how a company that produces environmentally friendly products manages to have so many legal, production, and ethical problems.

## **Problem Statement**

### **The Automotive Industry**

In 2019, the United States' automotive industry was worth \$545 billion, employing 17.9 million people and contributing 2.7 percent to the US GDP (Amadeo, 2019). Though production dropped 44 percent in 2009 due to the Recession and again in 2016 from low GDP growth and zero-interest rates from the Fed, the American Automotive Policy Council predicts an average of 16.8 million cars and trucks sold annually at a level rate through 2025 (Amadeo, 2019; Dorfman, 2016).

### **The Competition**

The top three carmakers, or original equipment manufacturers (OEMs), are General Motors, Ford, and Toyota, making 45 percent of the total market share (Statista, 2020). In total, thirteen companies compete in the United States that produce over 22 brands of cars (Statista,

2020). Truck SUVs and trucks have grown in popularity the fastest since 2017 (Statista, 2020). The average selling price of vehicles increased since 2016, reaching \$37 thousand for new and \$21 thousand for used cars in 2019 (National Automobile Dealers Association, 2020a; National Automobile Dealers Association, 2020b). As of Q4 2019, there are 280 million cars in operation in the United States, with the average vehicle age is almost 12 years (Statista, 2019a).

### **Suppliers**

While OEM's manufacture and assemble vehicles, vehicle suppliers are more profitable than OEMs (Sull & Reavis, 2019b). Over 11,000 suppliers run 60,000 factories, employing 7 million people worldwide (Sull & Reavis, 2019b). The industry is highly fragmented, making a \$2.2 trillion global business (Sull & Reavis, 2019b). The auto supply chain exists due to its specialization, opportunity cost, scale, and regulation (Silver, 2016).

### **Customers**

#### ***Car Buyers***

Americans are getting their licenses later in life. Buying power has shifted as Generation X has the most disposable income, nearly \$20 thousand more than Baby Boomers (Statista, 2019a). Though the United States population is getting younger and buying power reflects that population growth has slowed in recent years, younger people, such as Millennials, will be the most influential consumers (Statista, 2019a). According to recent surveys, a quarter of the US population lives in the ten largest metropolitan cities (Statista, 2019a). Yet, due to virus concerns, the need for more space, and the rising popularity of remote workers who no longer need to be close to work (Mitchell, 2018). Americans move to the suburbs at 11.7 percent, rather than urban settings at 1.6 percent (Olick, 2020). As Americans migrate to suburban neighborhoods, the need for autos increase.

#### ***Dealerships***

There are over 18,000 dealerships in the United States, employing 1.9 million people (Wagner, 2020). Consumers spend over \$189 billion on vehicle maintenance and repair

services, with dealers making 45 to 60 percent of profits from parts and service (St. Louis Fed, 2019; Sull & Reavis, 2019b). Popularity in dealerships has declined in recent years, with 75 percent of consumers considering buying online (Sull & Reavis, 2019b). Though 62 percent of Millennials frequent dealership websites for information and spend on average 17.6 hours comparison shopping, they rarely go to dealerships (Kareksy, 2015). A recent study indicated dealers steered consumers away from electric vehicles by “not having electric vehicles (EV) available for test drive...or not having basic knowledge about [EVs]” (Sull & Reavis, 2019b).

### **New Entrants**

The top five global carmakers spend \$51.5 billion on research and development, including Volkswagen, Daimler Chrysler, Toyota, Ford, and General Motors (Statista, 2019b). Since 1920, there have been no new domestic entrants into the United States (Sull & Reavis, 2019b). Foreign carmakers started entering the US market in the early 1980s with lower-priced models and introduced higher-priced luxury models once they established a foothold (Sull & Reavis, 2019b). All the car companies have started research into electric vehicles. Because the auto industry employs so many people, the barriers to exit are as high as entry barriers.

### **Threat of Substitutes**

A recent survey estimates that 95 percent of passenger miles will be on-demand and autonomous, contributing to an 80 percent drop in private car ownership (Sull & Reavis, 2019b). The growth of autonomous vehicles makes commuting easier. Simultaneously, car-sharing and car-hailing services allow transport without investing in their car (Sull & Reavis, 2019b). In urban settings, bike rentals and electric scooter-sharing services offer quick and convenient modes of transportation. Per PwC (as cited by Sull & Reavis, 2019b), these alternative modes of transportation would lead to a 22 percent reduction of vehicles on the road by 2030.

### **Tesla Background**

Founded by a group of engineers in 2003, Tesla was determined to prove to consumers that driving electric did not need to come with sacrifices (Tesla, 2020a). In 2007, the company

had installed leadership with no knowledge in the automotive industry and ran into a budget problem creating its first car, the Roadster (Sull & Reavis, 2019b). Musk installed himself as CEO and chairman (as cited by Sull & Reavis, 2019b). His focus was automating the production line and expanding the company to 34,000 employees worldwide as of 2018 (Sull & Reavis, 2019b). They operate a manufacturing plant in Fremont, CA, with 10,000 workers that make 100 percent of its autos (Sull & Reavis, 2019b; Johnson, 2017). Tesla also developed a battery and engines in its Gigafactory in Nevada, employing 1,000 workers (Sull & Reavis, 2019b).

Rather than sell to independent dealerships, Tesla opted to sell its cars directly, giving employees a salary rather than commission, owning 102 stores across 23 states (Sull & Reavis, 2019b; Atiyeh, 2019). The dealership lobby claims Tesla is breaking franchise laws preventing OEMs from selling to consumers, but Tesla's dedication to vertical integration remains absolute (Sull & Reavis, 2019b). They also own and operate over 1,900 Supercharge stations and over 17,000 Superchargers to support its customers, touting it costs half the price of gas (Tesla, 2020b). Tesla updates its vehicles via Wi-Fi, improving the car's performance with periodic updates, reducing frequent maintenance (Sull & Reavis, 2019b).

Today, Tesla owns a 1.1 percent market share in the United States. Though it posted a net loss of \$2.2 million in 2017, it remains negative on operating margin and returns on assets, indicating inefficiencies utilizing its assets (Statista, 2019a; Sull & Reavis, 2019a). Despite these numbers, it has a market capitalization of \$443 billion, more than Toyota, Volkswagen, Daimler, Porsche, and BMW combined (Richter, 2020).

### **Problem Statement**

The automotive industry is growing at a steady pace. Though competition is fierce, consumers show no brand loyalty. Growing trends towards consumers relocating towards the suburbs indicate that automakers can differentiate themselves with technology, particularly value-added technology that lowers overall maintenance and fuel costs. The industry is ripe for disruption, and firms like Tesla are likely to be in a good position. Yet, Tesla's leadership is

frequently questioned and subjected to SEC investigations. Their production methods produce low-quality vehicles. It remains challenging to determine what its core competencies are, leading some to question its focus. Skeptics believe “without any doubt, [Tesla] is on the verge of bankruptcy” (Sull & Reavis, 2019b).

### **Literature Review**

Tesla has one percent market share and a market cap more than the top five car makers combined (Statista, 2020; Richter, 2020). That’s because Tesla sits at the nexus of technology and car making, disrupting an existing industry and setting the bar for competitors to follow. Lu (2012) describes the strategic challenges firms face in the global business environment, particularly the technology and resource dimensions. The technology dimension itself has three challenges: lead-time, disruptive power, and supply chain (Lu, 2012). The innovation in testing, prototyping, manufacturing, and marketing has shortened development lead-times, leading to first-mover advantages and creating barrier entries like Tesla has done (Lu, 2012). The disruptive power of technology relates to the slow adoption of EVs and creates a problem for carmakers. Consumers are not often early-adopters of new technology and do not see the value it brings (Lu, 2012). However, firms that do not pursue innovative technologies and wait for firms like Tesla to move first lose market leadership (Lu, 2011). Besides, technology also creates markets just as quickly as making them, ruining supply chains in the process (Lu, 2011). Resources, in the form of finances, workforce, intellectual property, and other assets, must be deployed strategically (Lu, 2011). Careful use of downstream supply chains makes for more efficient use of internal resources while improving the market conditions (Lu, 2011).

These challenges are not limited to Tesla; yet, the firm’s leadership takes careful notice of its external environment and operates accordingly. Weick (as cited by Lægaard & Bindslev, 2014) suggests management to be aware “that the external environment is ambiguous and exists on the basis of the observer’s viewpoint” (p. 79). As a result, the necessity of loose couplings, the core tenet of an open organizational form, allows firms to shape and act following

a rapidly developed, technological world (Lægaard & Bindslev, 2014). De-centralizing decision-making that allows for empowerment promotes organizational flexibility, and combined with studies from March and Olsen (as cited by Lægaard & Bindslev (2014), supports organizational learning. Russell (2011) affirms the role of relationship theory, especially the participative leadership style, that emphasizes employee involvement and promotes a sense of belonging and ownership, and employee learning that contributes to informative and relevant suggestions. More importantly, Lægaard and Bindslev (2014) state that the actions of these leaders may shape organizational culture, and “those [organizations] having an internal structure that matches the demands from the surroundings best have the best chance to survive” (p.87). Finally, Mintzberg (as cited by Lægaard & Bindslev, 2014) identifies the role the external environment plays in organizational structure, with dynamic environments benefiting from “decentralized organic coordination by mutual adjustment” (p.89).

Firms like Tesla may respond to dynamic markets in many ways, some choosing to restructure to refocus. Studies by Liebeskind and Opler (1992) that firms take a reactive approach when markets change, leading to diversification and rededicated focus on improving margins. More massive, established firms could afford to invest in peripheral businesses during these times, while smaller companies focused solely on its core business (Liebeskind & Opler, 1992). Though it's debatable where Tesla falls on the spectrum of large and established or small and hurting businesses, there are inadequate financial indicators, such as its cash flow problems, that indicate otherwise (Atkins, 2019). Firms who over-diversified re-focused in the 1980s due to their inability to “efficiently exploit economies of scope or information asymmetries, or to avoid agency costs, capital misallocation, and misvaluation” (Liebeskind & Opler, 1992, p. 15). Still, investments in research and development were an essential source of competitive advantage in the global markets (Liebeskind & Opler, 1992).



### Case Elements

As automotive trends align with Tesla's product offerings, the firm faces many obstacles. Investors have called for Musk to resign or hire a chief operating officer (COO) to help. The production process and vertical integration have burdened the factories to near catastrophe. And perhaps most puzzling is in what area Tesla specializes. Due to these issues, Tesla's financial performance suffers, and its focus is wavering.

Atkins (2019) points to the belief that Musk's late-night Tweets as that of "an eccentric genius CEO" (para. 1). Yet, problems extend beyond Twitter. For example, the company received a \$29K fine after an inspection in its Fremont plant. While the cost is insignificant, the root problems indicate poor planning, no permits, and safety violations (Atkins, 2019). Besides, Musk's tweet about taking the company private without discussing the move with anyone, including the board (Gelles et al., 2018). Musk ultimately paid a \$20 million fine for misleading the public after an SEC investigation. In 2019, after misleading the public again following another tweet, Tesla's legal in-house and outside legal counsel both left the company, indicating ongoing problems (Lopez, 2019).

Tesla also faces an identity problem. Though its mission statement says, "Tesla's mission is to accelerate the world's transition to sustainable energy," the company's actions leave outsiders perplexed. Due to Tesla's large market capitalization, some would say Tesla is a car company (DeBord, 2020). Others believe Tesla develops highly innovative technology products, like Apple or Google, and is, therefore, a technology company (DeBord, 2020). In describing the Model 3 production, Musk eluded to the real product being the factory, formerly a Toyota plant, touting its high-level of automation and use of artificial intelligence (Sull & Reavis, 2019b). Yet, the company's product portfolio includes solar panels, batteries to store energy in the home, and Superchargers for cars located all over the United States – Tesla appears to be spread thin over many initiatives. The question remains what, if anything, from which the company specializes.

## **Case Solution**

How to evaluate Tesla is debated among many. Battery, artificial intelligence, electric vehicles, software, and solar panel development is its identity. The quality of its cars is widely known to be low. Musk remains the firm's leaders despite his constant tweeting promises that manipulate stock prices and a board of directors who seek to find him help. As a result, investors claim to see bankruptcy is coming.

### **Leadership**

Gelles et al. (2018) explore the personal toll production of Model 3 took on Musk. Executives at Tesla are concerned for his health, notably his use of Ambien and its effects when he sends tweets. Reports indicate the board is looking for another executive to help alleviate Musk's pressure. However, Musk claims not to know of such an endeavor, suggesting there might be trouble in leadership (Gelles et al., 2018). These reports compound with the recent departure of the company's CFO, VP of Global Recruiting, and general counsel (Matousek, 2019).

These departures will prove to be an opportunity for the firm to make significant changes. Among them is the need to commit to safety. California's safety commission fined Tesla for safety violations in their Fremont during Model 3 production, and there was the termination of employees or not reporting to work during the coronavirus pandemic (Atkins, 2019; Siddiqui, 2020). Firms often set aggressive production goals to meet growing consumer demand and maximize profit potential. Nagy (2014) points to the growing popularity of the health and safety manager whose goals are for zero deficiencies and injuries, to ensure top-line management's commitment to safety is "aligned with the organization's mission and vision," and review "green" options and alternative to achieve zero impacts to society (p. 90). Installing transformational leadership as a chief safety officer (CSO), one that aligns with a "higher order of values and thinking" who strive "to ensure organizational, group, and individual success," can balance both an aggressive production schedule and the firm's mission (Russell, 2011, p. 7).

Besides, studies indicate a positive correlation when firms provide safety needs through Malow's hierarchy of needs and Herzberg's two-factor theory (Ozguner & Ozguner, 2014). These studies demonstrate an opportunity for improvement that does not sacrifice employee safety but can "accelerate the world's transition to sustainable energy" (Tesla, 2020a).

Though CSO's position can serve both as a motivator and a method to align operation with the firm's values and goals, no role is more important than hiring a COO to support Musk. Ferris (2018) suggests a strong executive with an additional level of emotional intelligence is of paramount importance, making up for Musk's shortcomings. The search is difficult since recruits believe industry veterans will not be excited about leaving their positions for a company like Tesla in turmoil and report to an erratic boss (Ferris, 2018). The firm has tried to hire the likes of Sheryl Sandberg before, to no avail. The board may need to be creative and consider venturing outside traditional incentive packages in finding "the right person." It must commit to the executive, providing insurance against Musk's behavior, such as a direct report to the board – a lifeline to save themselves from Musk when needed.

By filling these two positions, the firm leaves an opportunity to re-structure itself under new leadership with a unique style, practicing relationship theory. Relationship theory "should create positive change in subordinates by taking care of them, thus enhancing motivation and performance of subordinates" (Russell, 2011, p. 7). These leaders have high moral and ethical standards, qualities lacking from Musk (Russell, 2011, p. 7). Huang et al. (2009) expand that relationship theory, notably a participative leadership style, generates intrinsic motivation, feelings of empowerment, and trust among subordinates. These characteristics are noteworthy, as Enderwick (2018) states, Musk is a contributing figure to a "revolving door of executives since 2016," a workplace culture lacking trust and churn (Enderwick, 2018). Besides Musk's controversial tweet about taking Tesla private, he referred to contractors as "barnacles on barnacles" and pushed for 24/7 to increase production output, among other controversies. While Musk exudes contagious enthusiasm designed to inspire, his charismatic leadership style

typically leads to concerns of self-interests that, when becomes apparent, can “lead to resentment and disaster for the organization” (Russell, 2011, p. 8). Hence, the need for a participative leader, one that can move the enthusiasm towards realistic and actionable goals, will benefit the organization significantly.

Organizational culture is influenced by leadership, whose role is to promote learning by “unlearning” and build subordinate’s competence (Freiling & Fichtner, 2010). Though Musk has impressed engineers by challenging assumptions, his emotional approach has led to emotional outbursts that have diminished the possibility of a place for “risk-free discussion of new ideas” (Duhigg, 2018; Freiling & Fichtner, 2010). As a result, disseminating knowledge is asymmetric, requiring the need for a flatter organization (Freiling & Fichtner, 2010).

Musk’s “unfettered genius” yet “unpredictable rages” requires balance in the form of a COO displaying participative leadership; however, while changing organizational structure, an opportunity remains to change its structure as well. Tesla's organizational structure is functional, where the division of the structural group is by roles and responsibilities (Meyer, 2018). Roles define each department, such as chairman and CEO, finance, technology, global sales and service, engineering, and legal (Meyer, 2018). The advantage of this structure is that it paves the way for future international expansion; although, its main disadvantage is its rigidity to respond to changing market conditions (Meyer, 2018). To break the hierarchical structure into a product organization, spreading out functions across projects rather than roles will improve Tesla's agility. A product organization allows specialists to "focus on one specific product group and make quick decisions" (Lægaard & Bindslev, 2014, p. 20). This new structure assists in one area the firm struggles – keeping up with Musk's changes. The change also takes the pressure off Musk, who can focus on the firm’s vision, leaving the COO to bring Musk’s vision to reality, which has been the board's goal all along.

## Focus

Per Quinn (2010), the mission statement must tell people what the company does, what defines them, and serves as a communication tool for internal and external stakeholders. Simply stated, "if a person who did not know what the company did were to read the organization's mission statement, would they understand what it does?" (Quinn, 2010, p. 26). Tesla's mission statement is "to accelerate the world's transition to sustainable energy," leaving it open to interpretation to an outsider as to what exactly the firm does (Tesla, 2020a). Thus, the need for the firm to re-focus starts with a new mission statement.

Tesla's most significant opportunity is operating as a carmaker. Though they have just over a one percent market share, their approach of marrying technology with electric vehicles capitalizes on many macro trends is why nearly 80 percent of US battery-electric car sales in 2019 was a Tesla (Statista, 2020; Inside EVs, 2020). The firm's cars rank highest in fuel economy and lowest in CO<sub>2</sub> emissions in the industry (Environmental Protection Agency, 2019). Tesla can embrace a generic strategy of niche differentiation and, therefore, must build on this success.

By building on this success, Tesla faces tough decisions. Its diversified portfolio includes solar panels, house batteries, car batteries, car making, factory automation, and software automation. Studies by Liebeskind and Opler (1992) suggest divesting solar roof panels and house batteries would allow Tesla to enjoy economies of scope through the joint production of batteries and position itself to compete as competition intensifies in the future. This change can align with a flatter organizational structure that supports agility and market responsiveness. Though vertical integration has deep-seated roots in the auto industry dating back to the 1930s with Ford and GM, its configuration depends on "the nature of industry, product lifecycle and competitive environment" (Lu, 2012). Its very nature helps the firm save costs in the long-term, yet, it risks distracting Tesla and diluting its assets. Alternatively, vertical disintegration may help Tesla focus on its core competencies, further differentiate itself to sustain its competitive edge,

improve supply chain responsiveness, raise entry barriers, and enhance “ROI and ROE through downsizing the fixed asset” (Lu, 2012, p. 34).

In 2012, the firm's chief technology officer stated that to meet production goals of 500K cars annually by 2020, Tesla would require "the entire 2012 output of lithium-ion batteries" (Sull & Reavis, 2019b). To meet demands, Tesla invested in research and development, necessary infrastructure, and partnered with Panasonic (Duprey, 2020). Yet, Musk's announcement that Panasonic's production capabilities hindered production, the firm set a new goal to open a Texas facility to boost its production of lithium-ion batteries (Lyons, 2020). Because batteries are one of the most expensive electric vehicle components, it creates agility and price-setting power. For example, selling a \$25K electric car that runs on a more efficient battery and emitting virtually no CO<sub>2</sub> sets the bar high for competitors to match.

Specializing in battery development has far reaches outside of price-setting capabilities. New battery manufacturing trends indicate squeezing radioactive waste into diamonds can produce energy currently to power a cell phone (Rocess, 2020). Though more studies are needed, and the technology presently cannot power an electric vehicle, it promises the ability to charge an iPhone from zero to full five times in an hour, with a charge potentially lasting weeks or months (Rocess, 2020). Though the applications for electric vehicles will not eliminate the need for charging stations, it can help deplete the 2,000 metric tons of nuclear waste produced annually that would otherwise store in one of 76 storage sites in the US (Office of Nuclear Energy, 2020). Research in this technology will reduce production costs in the long term, combined with negotiated tax incentives for this service, and offer consumers savings.

Tesla's commitment to battery production can realize industry results through a strategic alliance with other carmakers. Per Ketchen and Short (2012), a strategic partnership is an arrangement between organizations to "share knowledge about local conditions, facilitate acceptance of their involvement by government officials, or both" (p 279). For Tesla to pool its resources with other carmakers, it can help Tesla lean into its battery manufacturing expertise

while utilizing other carmakers' knowledge in manufacturing automobiles. Tesla's quality issues stem from its highly vertical supply chain, unrefined deployment of artificial intelligence, and the necessary re-work in production and changing design specifications as components were "rolling off the line" (Sull & Reavis, 2019b, p. 13). At one point, analysts questioned Tesla's position, asking, "Is [producing car seats] really the core competency of an [automaker]?" (Sull & Reavis, 2019b, p. 12). Entering a strategic alliance will allow Tesla to re-focus its efforts on what it does best, battery development while employing local expertise in improving operations and, ultimately, product quality. This partnership benefits other carmakers by giving them access to Tesla's proprietary battery technology while developing their systems. Tesla's capital expenditures can be shared among other carmakers, allowing them to focus their investments on future growth. Besides, the National Research Council (1997) suggests there is a correlation between refining technology and accelerate expenses, such as R&D, plant, and equipment (National Research Council, 1997). Sharing these costs not only helps Tesla's bottom-line but brings the technology to the consumer faster, increasing the adoption rate of EVs, and thus, increases Tesla's market potential (National Research Council, 1997).

Finally, Musk's vision is for Tesla car owners to monetize ownership through autonomous driving, allowing others to borrow the car and return when not in use. Monetizing car ownership is disruptive since cars are parked 95 percent of the time, offering owners a chance to recoup on their investment (Morris, 2016). In support, the need to focus on software development, notably infotainment and autonomous driving, showcases a new revenue stream outside of manufacturing. Tesla can find licensing fees by adding streaming services or video games to vehicles, creating its proprietary operating system, and bundling music and movie services (Butler, 2019). Per Luna (2018), the future of business is moving towards subscription-based pricing. Though the switch scares investors, the change eventually lower labor costs while increasing revenue, adding sustainable growth to Tesla's portfolio (Luna, 2018).

### Case Conclusions

One of Tesla's chief problems is churn. One industry insider indicates that, despite the optics, Musk isn't the problem. Schaffer (as cited by Lambert, 2020) suggests that Tesla is renowned for solving the world's biggest problem, attracting brilliant people. At some point, both the company and the employee learn enough from each other, meaning it's time to part ways (Lambert, 2020). However, former employees claim that Tesla fosters a toxic work environment created by Elon Musk and his "unrealistic stretch targets," this guiding feeling the company does not care about its employees and Musk's unpredictable influence on the firm's stock price (Matousek, 2020). Others point to how the firm treats its customers, the long hours, lack of job security, and not knowing if the firm would go bankrupt (Matousek, 2020).

Despite the firm's shortcomings, Tesla's mission is noble. It still must take strategic steps to clarify its mission and align its operations with boosting investor confidence. By converting the organization from a functional to a product organization, Tesla will improve the agility to respond to Musk's eccentric vision and market conditions. Each division can then specialize in certain aspects that bring value to the firm, including a CSO to oversee working conditions. Unfortunately, this reorganization does mean shedding solar panel and home battery production, but these resources synergize with other parts of the company and benefit the other teams. These changes will define Tesla as "making sustainable transportation that powers humanity." Operationally speaking, the firm makes cars, batteries, and software.

The reorganization also fits Musk's visionary sense, allowing him to position Tesla for future and sustainable growth. Musk's second in command will bring his vision to the market. Dividing responsibilities will alleviate the pressure that plays with each other's strengths.

Looking forward, software development, particularly in autonomous driving, allows owners to recoup their investment and introduce subscription-based pricing, up-selling features it can develop organically. But Tesla should not consider shutting itself off from other companies. Instead, entering a strategic alliance with other car companies will benefit all



Americans by lowering electric vehicle costs, improve the quality of Tesla's cars, and proliferate EV technology that improves adoption rates. Lastly, licensing opportunities will present themselves with Netflix, Apple, and other streaming services that integrate with Tesla's infotainment system.

Firms like Tesla are challenging to evaluate, both financially and operationally. The company sits at the next of technology and car making, disrupting an existing industry and setting the bar for competitors to follow. Though Tesla's valuation is the highest in the auto industry and rivals those in the technology sector, "diversified firms may be more subject to misvaluation by the market than focused firms because of the difficulty of valuing synergies between line of business" (Liebeskind & Opler, 1992). Analysts looking for other measures of a firm will look at its mission statement to understand what it does; however, one that is vague is indicative of its operations. Organizations that align processes with its mission will have a guiding principle in its decision-making to boost investor confidence. The disruptive power of technology has given Tesla first-mover advantages but has also distracted it from its core competencies, making cars, batteries, software automation. Firms committed to vertical integration will save costs in the long-run but turn down the supply chain's benefits, notably innovation and diluting its resources over a diversified project portfolio.

Deciding whether to "make or buy" is challenging for any firm, and management must carefully choose this decision. Yet, when management churn is a problem, and a charismatic leader leads the firm, organizations must be careful about their corporate culture's effects. A toxic work environment affects not only employees but also suppliers and customers. A firm's work culture affects its product quality and reputation. When customers become concerned about the firm and its product, investors will panic, prompting bankruptcy concerns.

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