**Stacked Against: Tesla's Fight Against Itself, Part 2**

Brandon Leipzig

University of the People

BUS 5910: Management Capstone

Dr. Angela Palmer

October 14, 2020

Stacked Against: Tesla's Fight Against Itself, Part 2

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.

# Suggestions and Alternatives

## 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 employees were fired for 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 manegement’s comittment 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 organziational, group, and invidual 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 heirarchy of needs and Herzberg’s two-factor theory (Ozguner & Ozguner, 2014), demonstrating an opportunity for improvement that does not sacrifice employee safety but can “accelerate the world's transition to sustainable energy” (Tesla, 2020).

Though the position of CSO 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 chief operating officer (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 new style, practicing relationship theory. Relationship theory “should create positive change in subordinates by taking care of them thus enhancing motivation and performance of subordinates” (Rusell, 2011, p. 7). These leaders have a high moral and ethical standards, qualities lacking from Musk (Russell, 2011, p. 7). Huang et al. (2009) expands 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. His charismatic leadership style, while exudes contagious enthusiasm designed to inspire, 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 greatly.

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 posibility of a place for “risk-free discussion of new ideas” (Duhigg, 2018; Freiling & Fichtner, 2010). As a result, knowledge is dissiminated asymmetrically, requring 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 bringing Musk’s vision to reality, which has been the goal of the board all along.

## Focus

Per Quinn (2010), the mission statement must tell people what the company does, what defines them and serve 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, 2020). 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 CO2 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. It’s 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 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-seeded roots in the auto industry dating bavck to the 1930s with Ford and GM, its configuration depends on “the nature of industry, product lifecycle and competitive envrionment” (Lu, 2012). It’s very nature is to help the firm save costs in the long-term, yet, it risks distracting Tesla and diluting its assets. Alternatievely, vertical disintegration may help Tela 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, 2019). 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 own 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 CO2 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 can 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 alliance 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, 2019, p. 13). At one point, analysts questioned Tesla's position, asking, "Is [producing car seats] really the core competency of an auto maker?" (Sull & Reavis, 2019, 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 they continue to develop their own 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 OS, 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).

# Recommendation and Conclusion

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, and that attracts 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 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’ stock price (Matousek, 2020). Others point to they way the firm treats its cutomers, the long hours, lack of job security, and not knowing if the firm would go bankrupt (Matousek, 2020).

Despite the firm’s shortcoming’s, 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 difficult 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 Tela’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. Orgnizations that align operations with its mission will have a guiding principle in its decision-making that will 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 turns down the benefits of the supply chain, notably innovation and diluting its resources over a diversified project portfolio.

Deciding whether to “make or buy” is tough for any firm and management must make this decision carefully. Yet, when management churn is a problem and the firm is led by a charismatic leader, organizations must be careful on its effects on corporate culture. A toxic work environment effects not only employees, but 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.

**References**

Butler, C. (2019, November 23). *Tesla's plan to leave the auto industry behind on in-car infotainment*. CNBC. https://www.cnbc.com/2019/11/23/teslas-plan-to-leave-auto-industry-behind-on-in-car-entertainment.html

Duhigg, C. (2018, December 13). *Dr. Elon & Mr. Musk: Life inside Tesla’s production hell*. Wired. https://www.wired.com/story/elon-musk-tesla-life-inside-gigafactory/

Duprey, R. (2020, August 19). *Tesla gigafactory 1 to boost battery production capacity 10% after new $100 million Panasonic investment*. The Motley Fool. <https://www.fool.com/investing/2020/08/19/tesla-gigafactory-1-to-boost-battery-production-ca/>

Enderwick, B. W. (2018, August 24). *What Elon Musk gets wrong about leadership*. Medium. https://medium.com/s/story/what-elon-musk-gets-wrong-about-leadership-b97794a0e330

Environmental Protection Agency. (2019, March 6). *Highlights of the automotive trends report*. US Environmental Protection Agency. <https://www.epa.gov/automotive-trends/highlights-automotive-trends-report>

Ferris, R. (2018, September 1). *Everyone seems to agree musk needs help running Tesla — Here’s who could do it*. CNBC. https://www.cnbc.com/2018/08/31/the-people-who-could-help-musk-run-tesla.html

Freiling, J., & Fichtner, H. (2010). Organizational culture as the glue between people and organization: A competence- based view on learning and competence building. *Journal of Research in Human Resource Management*, *24*(2), 152–172. JSTOR. https://doi.org/10.1688/1862-0000\_ZfP\_2010\_02\_Freiling

Huang, X., Iun, J., Liu, A., & Gong, Y. (2009). Does participative leadership enhance work performance by inducing empowerment or trust? The differential effects on managerial and non-managerial subordinates. *Journal of Organizational Behavior*, *31*(1), 122–143. JSTOR. https://doi.org/10.1002/job.636

Inside EVs. (2020, January 17). *Breakdown of US battery electric car sales in 2019, by manufacturer [Graph]*. Statista. <https://www.statista.com/statistics/557380/sales-of-battery-electric-cars-in-the-us-by-manufacturer/>

Ketchen, D., & Short, J. (2012). *Strategic management: Evaluation and execution*. Licensed under Creative Commons by-nc-sa 3.0 License. http://jsmith.cis.byuh.edu/books/strategicmanagement- evaluation-and-execution

Lægaard, J., & Bindslev, M. (2014). *Organizational theory*. Bookboon. https://bookboon.com/en/organizational-theory-ebook

Lambert, F. (2020, February 20). *Tesla loses one of its most senior executives and Ggigafactory builder Kevin Kassekert*. Electrek. https://electrek.co/2020/02/20/tesla-loses-senior-executives-behind-gigafactories/

Liebeskind, J., & Opler, T. (1992). The causes of corporate refocusing the causes of corporate refocusing. In *SMU Scholar* (pp. 1–38). Southern Methodist University. https://scholar.smu.edu/cgi/viewcontent.cgi?article=1154&context=business\_workingpapers

Lu, D. (2012). *Fundamentals of supply chain management*. Bookboon. https://bookboon.com/en/fundamentals-of-supply-chain-management-ebook

Luna, J. (2018, August 17). *Why every business will soon be a subscription business*. Stanford Graduate School of Business; Stanford. https://www.gsb.stanford.edu/insights/why-every-business-will-soon-be-subscription-business

Lyons, K. (2020, September 22). *Here are Tesla's biggest announcements from battery day*. The Verge. https://www.theverge.com/2020/9/22/21450840/tesla-battery-day-production-elon-musk-tabless-range-cathode-cobalt-plaid

Matousek, M. (2019, March 23). *Tesla's biggest challenges in 2019*. Business Insider. https://www.businessinsider.com/teslas-biggest-challenges-in-2019-2019-3#layoffs-1

‌Matousek, M. (2020, February 20). *Ex-Tesla employees reveal the worst parts of working at the company*. Business Insider. https://www.businessinsider.com/ex-tesla-employees-reveal-the-worst-parts-of-working-there-2019-9#the-feeling-that-tesla-doesnt-care-about-you-3

Meyer, P. (2018, September 8). *Tesla Inc.'s organizational structure & its characteristics (analysis)*. Panmore Institute. http://panmore.com/tesla-motors-inc-organizational-structure-characteristics-analysis

Morris, D. Z. (2016, March 13). *Today's cars are parked 95% of the time*. Fortune. https://fortune.com/2016/03/13/cars-parked-95-percent-of-time/

Nagy, A. (2014). The role and responsibility of the environmental, health & safety manager in establishing an organization’s commitment towards environmental stewardship and workplace safety [as elements of social responsibility] [Thesis]. In *RIT Scholar Works* (pp. 1–107). <https://scholarworks.rit.edu/cgi/viewcontent.cgi?article=9029&context=theses>

National Research Council. (1997). *International friction and cooperation in high-technology development and trade*. National Academies Press. https://doi.org/10.17226/5902

Office of Nuclear Energy. (2020, March 20). *5 fast facts about spent nuclear fuel*. US Department of Energy. https://www.energy.gov/ne/articles/5-fast-facts-about-spent-nuclear-fuel

Ozguner, Z., & Ozguner, M. (2014). A managerial point of view on the relationship between of Maslow’s hierarchy of needs and Herzberg’s dual factor theory. *International Journal of Business and Social Science*, *5*(7), 207–215. https://ijbssnet.com/journals/Vol\_5\_No\_7\_June\_2014/26.pdf

Quinn, S. (2010). *Management basics* (1st ed.). Bookboon. https://bookboon.com/premium/books/management-basics

Rocess, G. (2020, August 27). *"Self-Charging Nano-Diamond Batteries" that can run an electric car for 90 years?* Medium. https://medium.com/@glennrocess/self-charging-nano-diamond-batteries-that-can-run-an-electric-car-for-90-years-57b0a9aa803a

Russell, E. (2011). *Leadership theories and style: A transitional approach* (pp. 1–18). Military Leadership Writing Competition. https://usacac.army.mil/sites/default/files/documents/cace/DCL/dcl\_SecondPlaceEssay\_1102.pdf

Siddiqui, F. (2020, June 25). *Tesla gave workers permission to stay home rather than risk getting covid-19. Then it sent termination notices.* Washington Post. https://www.washingtonpost.com/technology/2020/06/25/tesla-plant-firings/

‌