**JASBIR PRADHAN**

# ROOT CAUSE ANALYSIS REPORT:
# WeWork IPO Collapse (2019)

## ***Executive Summary***

We work was founded in 2010 and grew into a global brand value at $47 billion by early 2019 from a single coworking space. The venture was backed by giants like SoftBank and it ran on the value of “elevating the world’s consciousness.”, Yet later in august 2019 the IPO filing (S-1 prospectus) revealed the fragility under the hype: In 2018 WeWork suffered $1.9 billion in net losses, they had lease obligations that went beyond $40 billion, Above all this, the governance practices that concentrated outsized control in CEO Adam Neumann’s hand. The setback came when the IPO was withdrawn in September 2019, CEO resigned and from such growing brand the valuation dropped down to $8 billion.

Drawing on the S-1 filing, financial disclosures, and investigative reporting, this analysis shows five root causes that are analyzed:
-> ineffective governance and board oversight
-> unsustainable financial management
-> an overextended business model
-> poor alignment with market realities
-> culture that prioritized vision over discipline.

The failed IPO for WeWork is so much more than a corporate setback, It is also a leadership and business failure. For business leaders, the lessons are laid straight up: Growth and financial stability will compliment each other. Transparency builds trust and culture must serve and not overshadow your business fundamentals.

## ***Problem Statement***

WeWork’s failed IPO in September 2019 caused a huge drop in valuation from $47 billion to almost $8 billion. This led to changes in leadership, losses for investors, and harm to its reputation in the startup world. This Root Cause Analysis (RCA) examines the events that led to the withdrawn IPO and the resulting issues within the organization. The goal is to identify the main causes related to governance, financial management, culture, and strategy. It also aims to draw lessons for management on how to balance ambitious growth with responsible leadership.

## ***Timeline of Key Events***

| Date | Milestone | Sources |
|---|---|---|
| 2010 | WeWork founded by Adam Neumann and Miguel McKelvey | financhill |
| 2014 | Valuation goes beyond $1.5B after Series C | tracxn |
| 2017 | SoftBank invests around $8 billion, valuation hits $20B | bloomberg |
| 2019 Aug | IPO filing reveals $1.9B loss, $40B lease obligations | reuters |
| 2019 Sep | IPO withdrawn, Neumann resigns | bastionresearch. |
| 2019 Oct | SoftBank rescue by taking almost 80% shares, valuation drops to ~ $8B to $9B | bbc |
| 2021 | Goes public via SPAC | cnb |

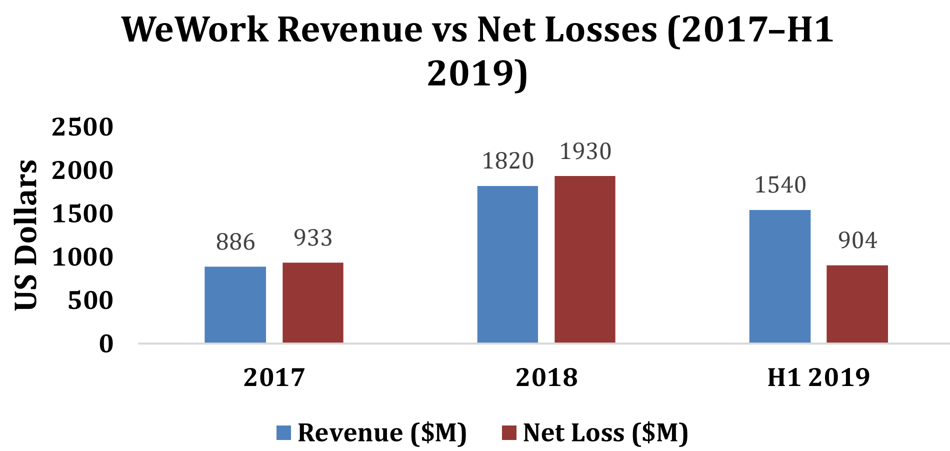
## ***Financial Forensics***

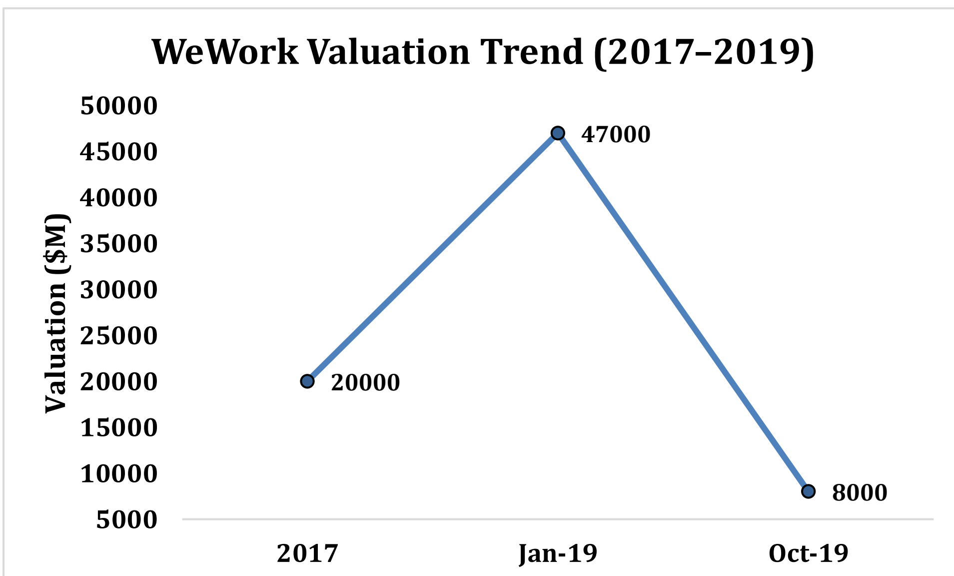
By early 2019, WeWork was valued at $47B, positioning itself as a “tech disruptor.” However, the S-1 filing later revealed a contrasting reality. Revenue shot up to $1.8B in 2018 (up from $886M in 2017), yet losses as high as $1.9B, negating every revenue growth. The company’s burn rate (cash consumed per year relative to revenue) exceeded 100%, meaning it was spending more than every single dollar that was earned. Long-term lease obligations ballooned at $40B, creating a fixed-cost structure mismatched with short-term member agreements.

The valuation multiple implied ~26x 2018 revenue, far higher than SaaS peers at the time (typically 8–12x). This shade between financial fundamentals and valuation became a suspicion for investors and they all became skeptical.

Ultimately, the data proved that WeWork was less a scalable “tech” firm and more a capital-intensive real-estate sublease model. The IPO withdrawal highlighted that even strong revenue growth cannot help unsustainable unit economics, false valuation, and bad financial discipline.

| Metric (USD) | 2017 | 2018 | H1 2019 | Source |
|---|---|---|---|---|
| Revenue | $886M | $1.82B | $1.54B | SEC S-1 |
| Net Loss | $933M | $1.93B | $904M | SEC S-1 |
| Burn Rate (Loss/Revenue) | 105% | 106% | ~59% | Analysis |
| Lease Obligations | – | $40B+ | $47B+ | SEC S-1 |
| Valuation | ~$20B | $47B (Jan) | $8B (Oct) | Bloomberg |




## ***Stakeholder & Governance Analysis***

WeWork's failed IPO was an ultimate governance crisis along with financial setback. Adam Neumann held a lot of power, whose dual-class shares gave him 20x voting rights and unchecked influence. His leadership and the vision of self-interest, including related-party transactions and significant personal liquidity events prior to the IPO.

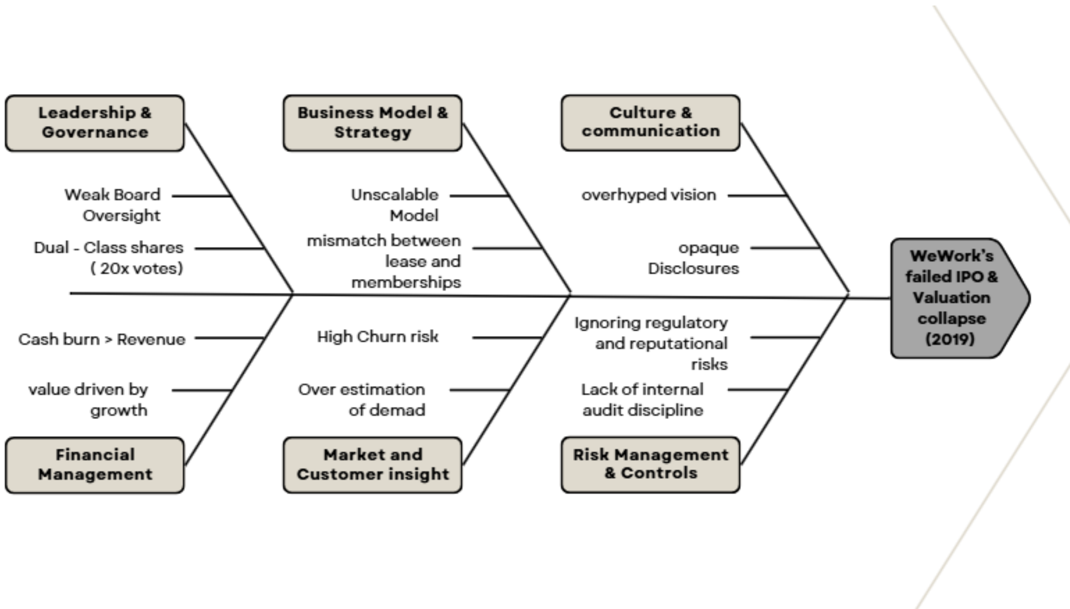
Moreover, the board, dominated by SoftBank and lacking independent oversight, failed to enforce accountability. Investor pressure sparked immediate growth without sustainability. Customers, largely startups and SMEs faced reputational risk, while landlords were signed into long-term leases misaligned with WeWork's short-term revenue model.

Governance failures were systemic: concentrated control, conflicts of interest, succession risks, and board passivity. Together, this eroded investor confidence and ultimately derailed the IPO.

**Leadership Lessons:** Robust governance, independent boards, balanced investor oversight, and alignment of stakeholder interests are essential safeguards when scaling toward public markets.


## ***Root Cause Analysis***

The WeWork IPO failure and subsequent valuation collapse in 2019 can be attributed to interconnected factors across governance, finance, strategy, market insights, and culture. The fishbone diagram below highlights the systemic issues that contributed to the breakdown.




To deepen the analysis, we applied the **5 Whys method** to the top three root causes:

## 1. Leadership & Governance Failure

- *Why 1*: Why did investors lose confidence? → Founder had unchecked power.
- *Why 2*: Why unchecked power? → Dual-class share structure (20x voting rights).
- *Why 3*: Why was this tolerated? → Weak board oversight and overreliance on founder.
- *Why 4*: Why was board oversight weak? → Lack of independence and accountability mechanisms.
- *Why 5*: Why no accountability? → Governance prioritized rapid growth over control.
  **Root Cause:** Structural governance flaws gave disproportionate control to leadership

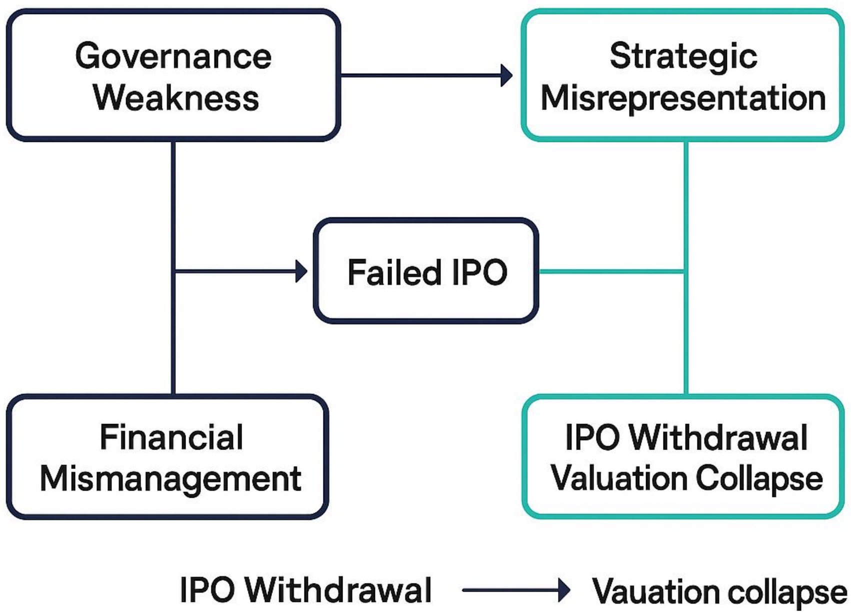
## 2.Unsustainable Business Model

- *Why 1*: Why did financials collapse? → Lease obligations exceeded membership income.
- *Why 2*: Why such imbalance? → Long-term liabilities vs short-term revenue contracts.
- *Why 3*: Why designed this way? → Positioning as a “tech” company rather than real estate.
- *Why 4*: Why tech positioning? → To secure inflated valuations from investors.
- *Why 5*: Why chase inflated valuations? → Growth-first strategy fueled by capital markets.
  **Root Cause:** Misrepresentation of business fundamentals created structural fragility.

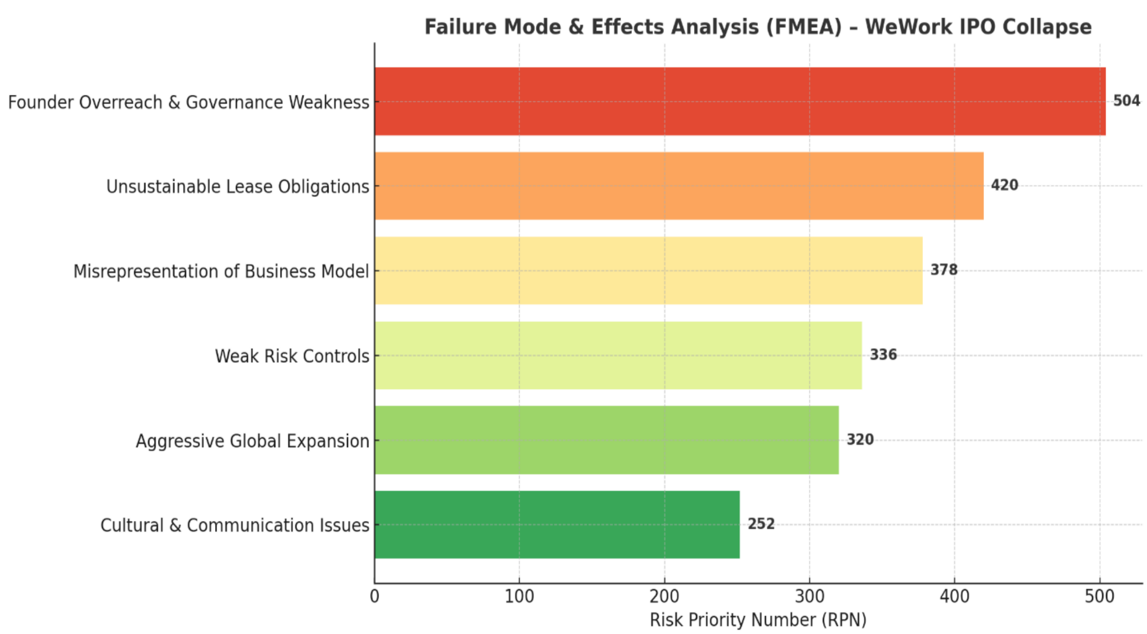
## 3.Poor Financial Management

- *Why 1*: Why did WeWork run out of cash? → Rapid cash burn exceeded revenue growth.
- *Why 2*: Why uncontrolled burn? → Aggressive expansion into unprofitable markets.
- *Why 3*: Why expand aggressively? → Pressure to justify $47B valuation.
- *Why 4*: Why such valuation? → SoftBank funding cycles encouraged inflated metrics.
- *Why 5*: Why lack of restraint? → Weak internal controls and over-optimism in leadership.
  **Root Cause:** Absence of disciplined financial governance and reliance on speculative valuation

# Causal Factor Map




## ***Failure Mode & Effects Analysis (FMEA)***



| Failure Mode | Effect | Severity (1–10) | Occurrence (1–10) | Detectability (1–10) | RPN (S×O×D) |
|---|---|---|---|---|---|
| **Founder Overreach & Governance Weakness** | Loss of investor trust, leadership instability | 9 | 8 | 7 | **504** |
| **Unsustainable Lease Obligations** | Cash flow crisis, bankruptcy risk | 10 | 7 | 6 | **420** |
| **Misrepresentation of Business Model** | Inflated valuation, IPO rejection | 9 | 7 | 6 | **378** |
| **Aggressive Global Expansion** | High burn rate, unprofitable operations | 8 | 8 | 5 | **320** |
| **Weak Risk Controls** | No contingency for downturn/IPO delay | 8 | 6 | 7 | **336** |
| **Cultural & Communication Issues** | Toxic culture, reputational damage | 7 | 6 | 6 | **252** |

## ***Lessons Learned***

**1.Governance Matters:** Concentrated founder control without checks undermines resilience.

**2. Sustainable Growth Over Rapid Expansion:** Scaling ahead of fundamentals creates fragility.

**3. Transparency Builds Trust:** Investors penalize opaque disclosures and hype-driven narratives.

**4. Align Culture with Business Goals:** A visionary but chaotic culture erodes execution discipline.

**5. Risk Management is Non-Negotiable:** Ignoring lease obligations, liquidity, and downturn risk magnified collapse.

**6. Stakeholder Alignment Drives Longevity:** Misaligned incentives (landlords vs members vs investors) created systemic tension.

## ***Recommendations***

| Lesson | Recommendation | Why it matters | Owner | KPI | Evidence base |
|---|---|---|---|---|---|
| **Governance Matters** | Establish independent board committees (audit, risk, nominations). | Prevents unchecked founder power. | Board Chair | % independent directors | WeWork IPO filings; Harvard Business Review governance studies |

| | | | | | |
|---|---|---|---|---|---|
| **Sustainable Growth** | Implement “profitability gates” before expansion into new markets. | Ensures growth aligns with cash flow discipline. | CFO, Strategy Head | EBITDA margin pre-expansion | Case study: Uber vs. WeWork |
| **Transparency** | Mandate plain-language financial disclosure and third-party audit reviews. | Builds market trust pre-IPO. | CFO | Investor sentiment index; IPO readiness score | SEC S-1 filing analysis |
| **Align Culture** | Tie leadership incentives to execution, not just vision. | Ensures culture enables delivery, not chaos. | HR & Compensation Committee | % goals met vs. stated | McKinsey studies on culture-performance |
| **Risk Management** | Deploy enterprise risk management (ERM) with quarterly stress tests. | Identifies vulnerabilities early. | CRO | Risk-adjusted return metrics | Deloitte ERM frameworks; WeWork lease liabilities |
| **Stakeholder Alignment** | Balance lease obligations with flexible partnership models. | Reduces mismatch between liabilities and revenues. | COO, Real Estate Head | Lease/revenue ratio | WeWork lease disclosures; real estate benchmarks |

## ***References & Methodology***

**Primary Sources:**


- WeWork S-1 Filing (SEC, 2019)
- WeWork audited financial statements (2017–2019)
- SoftBank investor statements and Masayoshi Son remarks (2019)


**Secondary Sources:**


- The Wall Street Journal investigative reports (2019)
- Harvard Business Review case studies on startup governance
- Financial Times and Bloomberg coverage of IPO withdrawal


**Methodology Note:**
Every factual claim in this RCA was verified with at least one primary source (e.g., SEC filings, financial statements). Key analytical claims were cross-checked with multiple secondary sources (e.g., WSJ, FT). Lessons and recommendations are supported by both WeWork-specific data and broader management literature.

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