



## TESLA & THE MOST BEAUTIFUL DREAM YOU EVER HAD

Kübra Koldemir / Poly Consulting General Manager

We all have dreams. Goals we aspire to. Some of us merely dream of a quiet and simple life. Others may dream of achieving an impossible personal or professional goal, whatever that may be. When the dreams of others are about the impossible, we call them irrational. Sometimes it is because we don't understand the context where this idea could thrive for the very first time or because we don't fully grasp the factors that make the idea in reality much less irrational than it seems.

It must have been a most beautiful dream when Elon Musk first came up with the original and inspiring thought of creating an electric car company – Tesla - with the intention of saving the world from toxic emissions. Initially, he must have been surrounded by skeptical opinions questioning his idea. Yet today, in spite of electric cars not being at the mass production stage yet, we all can see the possibility of the electric car being the future of transportation. The idea has become real and tangible. This is thanks to a person like Elon Musk, whose personality has not only been inspiring and entrepreneurial but also daring and even fearless.

It is needless to say that Elon Musk is one of the brightest visionaries of our time. Besides Tesla, he also founded and ran PayPal, which transformed how we make internet purchases. While serving as Chief Executive Officer of Tesla, he used his spare time to take over Solar City and launch SpaceX and The Boring Company. <sup>i</sup>

His vision is to create a better world. When he mentioned the idea of colonizing Mars, he said "life needs to be more than just solving everyday problems; you need to wake up and be excited

about the future" and "you can't show up at Mars in something the size of a rowboat. What if there are Martians? It would be so embarrassing".<sup>ii</sup>

Superstar CEOs don't get where they are solely with an extraordinary imagination. It requires their imagination to unite with a willpower that drives them to pursue those dreams ambitiously and relentlessly, without taking no for an answer. However, for some time now, Elon Musk may have started endangering the progress Tesla made since inception. Unfortunately, he is putting the future of that company at risk through decisions that can no longer be considered ambitious, but rather spontaneous in an erratic and unreliable way.

A visionary sometimes should only lead the first stage of a corporation. At some point, the visionary needs to step aside and give way to professionals who can pick up the ball and run the operational part to deliver on the vision. The reason is because skills needed for delivery are often very different from the first vision.

Furthermore, investors provide capital. The dream/vision requires capital to scale up. The people who provide capital to the visionary need to be informed, and there is a fiduciary responsibility to them as much as to the visionary founder. Elon Musk sometimes creates the impression that he is Tesla's sole owner, but he is in fact only one of Tesla's many shareholders (with 22% of outstanding stock). Similarly, there are suppliers who are investing with Tesla – they need to be confident of the future of Tesla.



All this does not mean the visionary cannot remain a leader in the organization. The visionary can continue to be the guiding light to stakeholders, but only if he or she also has the ability (and willingness) to delegate executive tasks to professionals at executive levels, and a board with stringent oversight and independent committees.

Unfortunately, in Tesla neither has been the case. The turnover rate of executive employees is at a record level. In spite of all advice by investors, Tesla was unable to appoint a viable COO to take over some of the operational duties from Mr. Musk. Again, in spite of reactions from investors, the board remained unable to fulfill its responsibilities objectively.

The board's fiduciary duty is to maximize value for all shareholders; this duty gets very complicated when the firm's identity - and its value - is inextricably tied to one individual. The structure of the board and its relationship to Elon Musk could be the cause of this disconnect. Mr. Musk's brother Kimbal is a co-founder of the company and has served on the board since 2004. Four of the seven non-Musk family board members have served since 2009; it's possible that they have become so committed to Elon Musk that they cannot serve independently and objectively. Thus, six of the nine directors - including the Musks - seem to be deeply entrenched.<sup>iii</sup>

No wonder there is currently no suitable mechanism at Tesla to rein in a CEO who has become impulsive. And no wonder the board is blindsided in a renewed fashion by every new incident as if it has not already happened before.

As a publicly listed company, there is also an expectation of accountability. This is a very serious matter because if something goes wrong in a particular incident, the regulatory agencies, investors or key stakeholders cannot make certain executive leaders accountable for their actions while letting others go because of "special circumstances." Even being one of the most entrepreneurial CEOs in the United States or having the ability to run "companies of the future" can take you this far if a serious legal or ethical matter comes up.

Indeed matters may have reached a level where Tesla has become a case for "what not to do" as opposed to the exemplary company it used to be.

It is one thing when a CEO makes an appearance in an earnings call and then abandons the call abruptly, citing an analyst's question as "dull." This is quite unheard of in the universe of publicly traded companies. However, it is entirely another level of incident when a CEO posts a random tweet about a highly confidential funding matter, which impacts the company significantly, and consequently the SEC knocks at the door. Currently, the status is that an investigation had been started as a result of the tweet "Am considering taking Tesla private at \$420. Funding secured." The investigation went on, with the intent to determine if this was a deliberate act of market manipulation. Subsequently, a settlement was reached, where Elon Musk agreed to step down as chairman of the board and consented to pay \$20mn fine.

Before listing his or her company with public markets, every CEO is warned by financial advisors and bankers that not only buying stock, but also shorting stock, is part of the game. Shorting is simply nothing other than a hedging tool for many investors. It is simply inappropriate to try to influence markets in a way to squeeze short positions.

SEC cannot be lenient for a simple reason. It cannot apply a regulation selectively; it must be consistent. If SEC does not take any action to punish Mr. Musk, it sets free a whole new set of dynamics in the public markets.<sup>iv</sup>

In this case the SEC is no different than any other institution responsible for ensuring justice in a community – here it concerns the financial community. The SEC has to be consistent in order to maintain a principle critical to its mission, one symbolized by Lady Justice. Since the 16th century, Lady Justice has often been depicted wearing a blindfold. The blindfold represents impartiality, the ideal that justice should be applied to every person the same way, without regard to wealth, power, or other status. <sup>v</sup> This impartiality now will need to apply to Tesla as well.

The real difficulty with all of this goes even beyond the investigation. It is a trust issue. At this point, the smartest investors in the capital markets, whose main job is to foresee the future, will likely be closely scrutinizing the organization for any evidence of other possible fraud issues. This is an extremely unfortunate development for a visionary company like Tesla.

Consequently, it is very urgent that Tesla addresses the current situation. While these weaknesses are lingering, Tesla's competitors are waiting at the gate. The biggest threat is imitation, and it is already happening – Jaguar has launched a copycat product I-pace, GM, Ford, and a number of other car producers are planning to launch their own electric cars. BMW, Daimler and even Chinese carmakers have looked at Tesla and also want to replicate it.

One final and hugely important issue is that Tesla could go – for the lack of a better term – spectacularly bankrupt. It is continuously burning cash, as evidenced by the negative free cash flow quarter after quarter. It does not have enough cash on its balance sheet to sustain more than two quarters of cash burn. It will need to come to market to raise capital for more debt or equity, but it already has high leverage...

The electric car has its roots in Elon Musk's extraordinary imagination. The implementation, the creation of viable sales, as well as starting off a whole new set of vendors and stakeholders (Panasonic batteries and other suppliers) in a new ecosystem is mostly a result of Tesla's perseverance. Tesla's vision is valid and it has

started a new chain. So why is Tesla making the wrong headlines? Why is Tesla not leading this whole new ecosystem by example?

A sustainable business has to move forward through various stages over time. Mr. Musk might have continued running Tesla like a start-up, meaning that it is repeatedly “discovering” ways of dealing with new problems rather than building the proper governance to allow it to scale up. Only after a sustainable business is well institutionalized will it be capable of imposing the same standards to all stakeholders, including its suppliers, customers, and other key participants.

Tesla still has the potential to guide a whole new ecosystem that it created on its own. After achieving a set of viable sales, perhaps the next two most beautiful dreams for Tesla are to scale its sales to mass production and to lead suppliers of a new ecosystem by example. Tesla should not lose these beautiful dreams to any copycat company due to an inability to properly execute and deliver. Then the question remains: Will Elon Musk rise to the challenge?

---

<sup>i</sup> <https://www.straitstimes.com/opinion/can-elon-musk-be-governed>

<sup>ii</sup> <https://www.straitstimes.com/opinion/can-elon-musk-be-governed>

<sup>iii</sup> <https://www.straitstimes.com/opinion/can-elon-musk-be-governed>

<sup>iv</sup> <https://www.ft.com/content/dd9e7f14-a524-11e8-a1b6-f368d365bfoe>

<sup>v</sup> [https://en.wikipedia.org/wiki/Lady\\_Justice](https://en.wikipedia.org/wiki/Lady_Justice)