



Tesla's Governance Model: Leadership, Accountability, and Performance Consequences

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Abstract

This paper explores the corporate governance model of Tesla, Inc., focusing on the tension between Elon Musk's centralized leadership and the firm's structural accountability mechanisms. While Tesla is a global innovator in electric vehicles and sustainable energy, its governance practices – particularly CEO duality, board independence, and executive compensation – raise important questions about long-term stability, risk exposure, and shareholder trust.

Grounded in both agency and stewardship theory, the analysis highlights how Tesla's governance structure has enabled an outsized concentration of executive power, with limited checks from the board or institutional shareholders. Case studies, including the “funding secured” incident and Musk's \$56 billion compensation package, underscore the weaknesses of Tesla's oversight model and the regulatory and reputational risks it introduces. Despite repeated warnings from proxy advisors and dissent from major investors, Tesla's governance approach remains resistant to reform, in part due to Musk's popularity and the company's past performance.

The paper proposes a set of governance reforms, including the appointment of a genuinely independent lead director, stronger board refreshment practices, more balanced compensation frameworks, and enhanced shareholder engagement mechanisms. These reforms are essential not just to improve oversight but to protect the company's innovative edge from the risks associated with founder dominance.

This work is informed by the author's professional background in the energy sector, interest in leadership and governance, and personal investment in Tesla as a shareholder. It offers a balanced yet critical view of how even industry-leading companies can suffer when governance fundamentals are overlooked.

Why this topic – personal note

Among a variety of interesting subjects to pick from, I chose to do research on Tesla's corporate governance as it is directly applicable to both my professional and personal interests. As part of my professional career in the energy sector, I am directly involved in sustainable energy transition, and I view Tesla as one of the primary drivers of innovation in that area. Analyzing how its governance supports or subtracts from its purpose offers valuable insights for the industry as a whole.

I also keep a close eye on global news and have watched as Elon Musk's influence has extended far beyond the corporate sector, prompting pressing questions about the risks of centralized authority and how governance can be used to counter them. More selfishly, as a Tesla shareholder, I have an interest in understanding how Tesla's governance practices foster long-term stability and accountability.

Overall, this topic gave me the chance to bring together my interest in leadership and its wider implications, and my perspective as an investor into one meaningful analysis. I found it an engaging and rewarding subject to examine.

Introduction and Tesla background

Corporate governance aligns managers' interests with those of shareholders, ensuring decisions are ethical and performance-driven (Shleifer & Vishny, 1997). It underpins accountability, transparency, and long-term success by establishing checks and balances, especially when power is concentrated in a single CEO. Such centralization can lead to entrenchment and agency problems, particularly when the board lacks independence (Jensen & Meckling, 1976).

As companies grow, especially in fast-moving industries like technology or automotive, maintaining strong governance becomes harder. Some argue visionary leadership is essential in high-growth environments (Miller & Sardais, 2011), while others warn it can foster excessive risk-taking without proper checks (Fahlenbrach, 2009). Tesla exemplifies this balance – achieving breakthroughs in EVs and energy while facing legal challenges, high turnover, and reputational risks tied to its governance.

Founded in 2003 by Martin Eberhard and Marc Tarpenning, Tesla aimed to rival traditional cars. Elon Musk joined in 2004, leading funding rounds and becoming CEO. Its first success, the Roadster (2008), was followed by acclaimed models like Model S (2012), X, 3, and Y. Model 3 marked its first profitability in 2013, cementing its leadership. Beyond vehicles, Tesla expanded into solar and energy storage to accelerate the clean energy transition. Despite controversies – production delays and Musk's public behavior – Tesla became one of the world's most valuable companies.

Yet, Tesla illustrates how visionary leadership can clash with governance needs. Success has not shielded it from scrutiny over CEO behavior, board independence, executive pay, and shareholder engagement, reflected in stock volatility. These issues raise serious concerns about

authority concentration, board oversight, and risk management, offering a cautionary lesson: even successful firms suffer when governance fundamentals are overlooked.

Governance model and managers performance negatively impacting the company's performance?

Definitely. It is my opinion that Tesla's unique governance strategy, which is characterized by concentrated executive authority, low board independence, and a lack of conventional oversight, has presented significant risks to both the company and its shareholders. By looking at Tesla's boardroom dynamics, management decisions, and their effect on stakeholders, it is clear that robust corporate governance is needed to make sure that there is sustained innovation and the retention of investor confidence even in high-growth firms. The trajectory of Tesla's share price can be considered a reflection of the company's governance framework and its influence on investor confidence. Tesla's stock has been extremely volatile (naturally raising questions about its long-term profitability), which can be traced back to the company's governance, such as its centralized management and provocative executive actions, including Elon's social media posts and executive actions that sometimes elicited regulatory inquiries. Even this week, the stock immediately reacted (down 7%) in the day Elon Musk announced a new political party.

Tesla's governance failures and risks

Tesla, under the leadership of Elon Musk, has experienced explosive growth, establishing itself as a dominant player in the electric vehicle and energy sectors. However, the company's governance practices have frequently drawn criticism from investors, regulators, and academics alike. Tesla is often cited as an example of weak governance, largely due to the concentration of power in the hands of CEO Elon Musk, who also holds significant stock and wields considerable public influence. Bebchuk and Fried (2004) argue that excessive executive control over compensation and strategic decision-making is a major flaw in corporate governance in many U.S. companies, leading to inefficient outcomes and less oversight from shareholders. Tesla's stock-based compensation packages and Musk's public actions – sometimes unfiltered and legally controversial – illustrate these concerns.

Below, let's deep dive on some of those challenges/ structural issues and examples that illustrate how governance weaknesses at Tesla have contributed to reputational risks, regulatory scrutiny, and shareholder concerns.

1. CEO dominance and dual roles

The first problem is related to CEO dominance and dual roles. Elon Musk simultaneously holds the positions of Chief Executive Officer and the leading visionary figure behind Tesla's brand and product direction. While visionary leadership can be a competitive advantage, Musk's outsized role has raised concerns about accountability. The combination of strategic decision-making power, media influence, and direct engagement with the public – often via Twitter – has blurred the boundaries between personal influence and corporate responsibility.

In August 2018, Musk tweeted that he was considering taking Tesla private at \$420 per share and that “funding [was] secured.” This statement caused significant volatility in Tesla’s share price and led to an investigation by the U.S. Securities and Exchange Commission (SEC). The SEC later concluded that the tweet was “false and misleading,” resulting in a \$40 million settlement and Musk’s temporary removal as chairman of the board. Despite this, Musk retained his role as CEO, illustrating the board’s reluctance or inability to curtail executive misconduct.

Building on this example, it is useful to frame Tesla’s situation in terms of classic governance theories. *Agency theory* (Jensen & Meckling, 1976) would interpret Musk’s unchecked authority as a textbook agency problem – the CEO (agent) may pursue actions that diverge from shareholders’ (principals) best interests unless strong controls are in place. Indeed, Musk’s 2018 “funding secured” fiasco embodies this risk: a single tweet, sent without board vetting, temporarily inflated Tesla’s stock 11% and provoked SEC charges, underscoring how personal motives or impulsive behavior can harm shareholders. However, *stewardship theory* offers a counterpoint. Donaldson and Davis (1991) argue that when a CEO also serves as board chair, the unified leadership can *increase* shareholder returns, as the executive is presumed to act as a conscientious steward of the company. Musk’s proponents often invoke this view – pointing out his 17% stock ownership and mission-driven ethos – to claim his interests naturally align with shareholders. By this logic, empowering a visionary founder at the helm (rather than diluting authority across independent overseers) can foster bold, long-term strategies that benefit everyone. In Tesla’s case, however, the evidence tilts toward the agency camp: even if Musk *is* a passionate steward of Tesla’s vision, the lack of conventional oversight has led to lapses (like the 2018 tweet) that required external enforcement.

In practice, Tesla’s governance dilemma illustrates the tension between agency theory’s call for accountability and stewardship theory’s trust in benevolent leadership – a balance the company has yet to reconcile.

2. Board structure and independence issues

The issue of board independence is another key topic in governance discussions. Both the Cadbury Report (1992) and the OECD Principles of Corporate Governance (OECD, 2015) emphasize the importance of independent directors who can challenge management and uphold accountability. Research by Adams and Ferreira (2007) suggests that companies with more independent boards tend to perform better in the long run, especially when proper oversight is essential.

In Tesla’s case, the board has historically included several individuals with close personal or professional ties to Musk, including his brother Kimbal Musk and long-time allies, raising questions about their ability to provide objective oversight. Until recently, the board lacked a lead independent director, a standard feature in well-governed companies to ensure balanced oversight. This year, Tesla added longtime Chipotle executive Jack Hartung to its board of directors.

In 2020, proxy advisory firms such as Institutional Shareholder Services (ISS) recommended voting against the re-election of several Tesla board members due to concerns about

independence and oversight failures. Although some reforms have occurred, including the addition of independent directors, these changes were largely reactive and slow to materialize.

Comparatively, Tesla's governance approach is an outlier when measured against industry peers and best practices. Most large companies – including major automakers and tech firms – emphasize robust independent oversight. As of 2023, only about 44% of S&P 500 companies still combined the CEO and chair roles (often tempered by a lead independent director), and 36% had an independent board chair. In addition, a majority of these firms ensure the board has a substantial majority of independent directors and no familial ties to the CEO. Tesla, by contrast, has historically featured a board with personal and familial connections to Musk, and only very recently appointed a lead independent director.

3. Executive compensation and incentive risks

In 2018, Tesla voted in a controversial compensation package for Elon Musk worth up to \$56 billion, subject to aggressive market capitalization and performance goals. Although defended as "performance-based," the package is seen by critics as encouraging short-term stock price optimization at the expense of long-term value creation. Delaware courts subsequently held that the procedure leading to this compensation package was inside-dominated and flawed. Very recently – last month – this package was approved despite opposition from some large institutional investors and proxy firms

Such an imbalanced reward system, unchecked by an independent compensation committee, supports the concerns raised in Bebchuk and Fried (2004) about managerial rent extraction in poorly governed companies.

4. Shareholder reactions and legal challenges

Despite Tesla's stock price increase during the last decade, investors' faith in its governance has remained volatile and shareholder voting outcomes at Tesla further reflect the company's unusual governance dynamics.

While investors – in particular institutional ones such as Norges Bank (NBIM) and CalSTRS – have voiced discontent through proposals, Musk's influence often sways the results. For example, in 2018 a shareholder proposal to require an independent board chair (splitting Musk's roles) won support from major institutional investors like BlackRock – yet it was defeated by an overwhelming margin, with 86 million shares voting against versus only 17 million in favor. The board, at the time, argued that Musk's "day-to-day exposure" was indispensable to Tesla's success and that seven "independent" directors already provided sufficient oversight.

Fast-forward to 2023-24, and a more dramatic scenario unfolded: Tesla's board had been sued by shareholders over Musk's \$56 billion pay package (previously stated) – the largest in corporate history – which a Delaware judge criticized as an "unfathomable sum" engineered by a conflicted board too close to Musk. Rather than bow to governance concerns, Tesla put the award back to a shareholder vote in May 2024. Nearly 72% of non-Musk shares (roughly 77% including all votes) approved the gigantic pay deal a second time, effectively reaffirming Musk's compensation despite proxy advisors and pension funds lobbying against it. In the same meeting, shareholders also greenlit reincorporating Tesla from Delaware to Texas (with 84% approval) – a move widely

seen as a way to nullify the Delaware court's ruling by shifting to a more management-friendly jurisdiction.

Furthermore, recent director elections show mixed signals: while all directors were re-elected, Musk's brother Kimbal received only 69% support (far below typical 95% support for S&P 500 directors).

Taken together, these outcomes reveal a paradox in Tesla's shareholder base. On one hand, investors recognize governance shortcomings and register unusually high dissent (e.g. significant votes against insiders). On the other hand, Elon Musk's outsized charisma and Tesla's performance narrative have so far neutralized any shareholder uprising – with many stockholders effectively choosing to trust Musk's leadership, even at the expense of orthodox governance. This dynamic highlights how standard accountability mechanisms – like “Say on Pay” votes or independent board proposals – are less effective when a company's fanbase of retail investors and aligned institutions repeatedly side with an iconic founder-CEO.

5. Operational and reputational Risks from governance gaps

Tesla has experienced high executive turnover, with more than 40 senior executives leaving the company between 2018 and 2022 (which kept on happening even until now). Analysts suggest that the lack of a stable leadership pipeline, along with Musk's dominant style, has contributed to this churn. Additionally, controversies such as labor practices, public spats with regulators, and quality control issues in vehicles have added to the reputational risks linked to weak oversight.

The company's handling of investor relations and internal dissent – such as the public firing of critics or the minimization of product failures – also signals a governance culture that prioritizes control over accountability.

Governance Best-Practice “Checklist”

Governance Practice	Best-Practice Standard	Tesla's Status (2025)
Independent Board Leadership	Separate CEO and Chair (or robust Lead Independent Director) for balanced power	Partial. Roles formally split (Musk is not chairman since 2018), but the chair (Robyn Denholm) has close ties and relies on Musk's success. A true lead independent director was only appointed in late 2023, and his independence remains uncertain.
Board Independence & Refreshment	Majority of directors fully independent; regular board refresh (tenure limits, diverse expertise)	Questionable. Tesla's board claims a majority of “independent” directors, but several have notable personal/business relationships with Musk. Board turnover has been reactive (e.g. adding independents under pressure) rather than proactive, and Musk's allies (including his brother) continue to hold seats.

Executive Compensation Oversight	Compensation committee of independent directors; pay aligned with long-term performance (with clawbacks for misconduct).	Weak. Musk's \$56 billion pay package was approved by a conflicted committee – court testimony revealed members vacationed with Musk and had deep personal ties. The plan's heavy stock-price focus rewards short-term valuation spikes, and Tesla has no known clawback policy to recoup pay if misconduct occurs.
Shareholder Rights & Engagement	One-share-one-vote capital structure; regular "Say on Pay" votes and meaningful shareholder proposal process.	Mixed. Tesla does maintain a one-share/one-vote structure (unlike many tech peers with dual-class stock), giving shareholders equal voting power. It also holds advisory Say on Pay votes. However, in practice Musk's ~17% stake and ardent retail investors give him outsized influence – e.g. shareholders reapproved his pay despite proxy advisor opposition. Most shareholder proposals (independent chair, etc.) have been consistently defeated, suggesting limited responsiveness to investor concerns.
Risk Management & Succession Planning	Active board oversight of major risks; transparent CEO succession plan to ensure stability.	Needs Improvement. Repeated public incidents (SEC sanctions, legal disputes) indicate insufficient board oversight of Musk's risk-taking. Tesla's plan for succession is opaque – Musk's dominance leaves uncertainty about who could take over in an emergency. The high turnover of senior executives further exacerbates succession risk.

What Tesla should do: restore balance and oversight

Tesla's governance challenges arise primarily from excessive CEO power, board entrenchment, and inadequate mechanisms for stakeholder accountability. While the company's performance has often shielded it from governance reform pressure, sustainable long-term success requires stronger internal controls and investor protection.

A. Appointment of a strong lead independent director [*partially done, yet to be confirmed*]

One of the most immediate steps Tesla should take is to appoint a **lead independent director** with clearly defined authority to counterbalance CEO power. As recommended by the OECD (2015) and U.S. governance best practices (e.g., NACD guidelines), a lead director should coordinate board activity, set agendas, and serve as a communication channel for shareholder concerns—functions that are currently undermined by Musk's dominance. The recent appointment of Jack Hartung seems a good first step, but Tesla did not disclose details about Hartung's relationship with Kimbal Musk, Elon Musk's brother (Kimbal Musk sits on Tesla's board

and served on the board of Chipotle from 2013 to 2019, during Hartung's tenure). In that perspective, is still yet to be seen how independent he will be.

B. Strengthening board independence and refreshment

Tesla should revise its **board composition**, replacing long tenured or conflicted directors with independent professionals, especially in key areas like legal risk, audit, and ESG. Board refreshment policies (e.g., tenure limits or annual performance reviews) would help ensure more rigorous oversight and challenge groupthink.

C. Reform of executive compensation policies

The current compensation model heavily emphasizes stock-based, high-risk packages, such as the \$56 billion plan for Musk. Future compensation structures should:

- Be tied to **sustainable performance indicators** (e.g., profitability, ESG metrics, customer satisfaction).
- Undergo transparent review by a **fully independent compensation committee**.
- Include **clawback clauses** to recover bonuses if future performance falters.

This would align with frameworks recommended by Bebchuk and Fried (2004) and emerging ESG-oriented investment standards.

D. Enhance shareholder engagement mechanisms

Tesla should strengthen its **shareholder voting processes** by allowing more binding votes on executive compensation ("say on pay") and governance matters. Expanding ESG disclosures and holding regular investor governance forums can also improve transparency and trust.

Counterarguments and Tesla's Rationale

Whenever analyzing an issue, it's important to consider both sides. In this case, Tesla's own perspective and counterarguments deserve acknowledgment. From Tesla's view, many unconventional governance choices are deliberate and strategic. Musk and the board argue that Tesla's success stems from his centralized leadership, enabling bold, fast-paced decisions that committees might stifle. When shareholders called for an independent chair, the board maintained that Tesla's achievements "would not have been possible" without Musk's hands-on oversight. Directors with long histories at Tesla are seen as bringing expertise and loyalty, vital to executing risky strategies.

Defenders also note Tesla's single-class share structure, where each vote carries equal weight – unlike peers with super-voting shares – and point to repeated shareholder approval of Musk's policies as evidence of support.

Finally, Musk's massive pay package is entirely performance-based: by 2023, 11 of 12 ambitious milestones were met, multiplying Tesla's value.

Even so, Tesla has conceded somewhat, adding a lead independent director and more independent board members – a tacit admission that oversight matters. The key question is whether Tesla can self-correct while preserving its maverick spirit, or if mounting external pressures will force deeper governance reforms.

Conclusion

Tesla presents an intriguing paradox to the world of corporate governance. It is, on the one hand, an extremely innovative, market-dominant company that has transformed the automotive and energy industries. It is, on the other hand, critically flawed in its governance that has tested accountability, risk management, and sustainability. What I tried to demonstrate with this work is that Tesla's governance system, founded on CEO Elon Musk's dominance, a non-independent board, and an uncertain communication policy, exposes the company to substantial reputational and operational harm.

Despite its strong market record, Tesla has repeatedly stretched the limits of acceptable governance practice, namely in board independence, executive compensation, and shareholder engagement. The Tesla experience underscores a broader truth in corporate governance: financial success is no excuse for structural weaknesses that undermine stakeholder confidence and firm endurance. As a personal note, as a shareholder, that undermines my confidence and raises questions about the long-term sustainability of the company.

For Tesla to transition from a founder-led success story to a mature, sustainable company, substantial governance reforms are required. Appointing a strong lead independent director, revitalizing the board with objective expertise, and establishing robust oversight systems would make internal accountability more efficient and prevent repeating mistakes of governance.

The broader consequences of Tesla's governance gaps are increasingly evident. Poor governance not only heightens regulatory and legal risks; it can also erode the company's performance and public trust. Analysts have openly warned that Musk's penchant for "*part-time CEO*" distractions – from launching political initiatives to spending time on his other companies (Twitter/X, SpaceX, etc.) – is hurting Tesla.

At the same time, major institutional investors – once enthusiastic backers – have started to voice that Tesla's governance lapses translate to real financial and operational instability (e.g. high executive turnover, talent drain, and an "increasingly polluted". Perhaps most tellingly, a proxy advisor report in 2024 described Tesla's board as operating like a Musk "fan club" rather than an effective check on his power.

All these repercussions illustrate the classic governance lesson: unchecked leadership may work for a time, but eventually the costs – in reputational damage, strategic incoherence, and shareholder value volatility – begin to mount. **Tesla's challenge now is to address these issues before a true crisis (or a forced intervention by regulators or investors) does it for them.**

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