

New Tesla chairwoman's biggest challenge is controlling Musk

November 9 2018, by Tom Krisher



In this June 14, 2018, file photo, Tesla CEO Elon Musk speaks at a news conference in Chicago. Tesla has announced that Robyn Denholm of Australia's Telstra will become its new board chair. Musk agreed to vacate his post as board chairman as part of a settlement with U.S. regulators of a lawsuit alleging he duped investors with misleading statements about a proposed buyout of the company. (AP Photo/Kiichiro Sato, File)

Australian telecommunications executive Robyn Denholm brings much-needed financial and auto industry expertise to her new role as Tesla's board chairwoman, but her biggest challenge is whether she can rein in a CEO with a proclivity for misbehavior.

Denholm, who has been a Tesla board member for nearly five years, was named to the post late Wednesday, replacing Elon Musk as part of a securities fraud settlement with U.S. government regulators.

Corporate governance experts say they would have preferred an outsider with manufacturing expertise be appointed to lead the board, now dominated by people with personal and financial ties to Musk, including his brother.

They aren't sure if Denholm was hired just to placate the Securities and Exchange Commission to comply with the settlement or whether she'll actually be able to corral the visionary but erratic Musk, who remains CEO.

"With all the crazy stuff going on, she was there," said Rohan Williamson, a finance professor who studies corporate governance at Georgetown University's McDonough School of Business. "She couldn't control him before. Is anything going to change?"

Denholm, 55, is chief financial officer and strategy head at Telstra Corp. Ltd., Australia's largest telecommunications company. Her new role at Tesla came largely because of the board's failure to control Musk, especially when he made a surprise announcement over Twitter in August that funding was secured to take Tesla private at \$420 per share.

That drove up Tesla's stock price and hurt short-sellers, investors who bet against the company's success. Eventually it drew a lawsuit from the SEC alleging that Musk misled investors.

Denholm will step down from Telstra after a six-month notice period. Then she'll work full-time at Tesla, where she has served on the board since 2014. Under the SEC settlement, Musk can't return as chairman for three years, and only with a shareholder vote.

The move vaults Denholm from relative obscurity into a high-profile position of trying to muzzle Musk and manage a company that is struggling to produce vehicles and make money.

Charles Elson, director of the corporate governance center at the University of Delaware, said Tesla should have brought in someone from outside. No matter how talented Denholm may be, and even though she appears to have fewer ties to Musk than other directors, she has a shadow over her of being on the board that did little as Musk misbehaved. "You really have got to wonder," he said. "No other CEO of any other public company would have survived this."

Making Denholm a full-time chair also creates governance problems because she could become a Tesla executive, blurring her role as an independent check on management, Elson said.



This undated photo provided by Tesla Inc. shows Robyn Denholm. Tesla's board has named one of its own as chairman to replace Elon Musk, complying with terms of a fraud settlement with U.S. securities regulators. The electric car and solar panel company's board on Thursday, Nov. 8, 2018, named Australian telecommunications executive Denholm as chairman, effective immediately. (Tesla Inc. via AP)

Email messages sent to Denholm Thursday were not immediately returned and Tesla declined comment beyond its statement announcing Denholm as chair.

Denholm brings financial experience and other positives to the table for Tesla, said Michael Cusumano, a professor at the Massachusetts Institute of Technology's Sloan School of Management.

Before Telstra, she worked in Silicon Valley as chief financial officer at Juniper Networks and head of corporate strategic planning at Sun Microsystems. She also was national finance manager at Toyota Motor Corp.'s operations in Australia, and she's a member of the board at Swiss robotics and industrial machinery maker ABB.

"She could bring some more financial discipline to Tesla," which has \$10 billion in debt and must keep manufacturing a large number of lower-priced Model 3 sedans to service its large debt and pay the bills, Cusumano said. Tesla cars also are having reliability problems, he said.

Cusumano further notes that Denholm's track record as a Tesla board member is not necessarily an indication of how she'll be as a chairwoman.

"She's had a ringside seat to the chaos and she didn't or was not in a position to change anything," said Cusumano, who has served on corporate boards. "All the information you are given comes from the CEO, COO, CFO," he said. "It really is a restricted position. So I don't think we can say that, well, she was ineffective as a director, the whole board was ineffective, so she's likely to be ineffective as chairwoman."

On Twitter Thursday morning, Musk wrote that he has great respect for Denholm. "Very much look forward to working together," he wrote.

In a statement, Denholm said she believes in Tesla and looks forward to helping Musk and the company "achieve sustainable profitability and drive long-term shareholder value."

Tesla earned a \$311.5 million net profit during the third-quarter. It was only the third time that Tesla has posted a quarterly profit in its eight-year history as a public company and the first time in two years. Tesla has never reported an annual profit.

Under the settlement with the SEC, Tesla also is required to appoint two new independent directors, and it must review Musk's posts about the company on Twitter. Musk and Tesla each had to pay a \$20 million penalty under the September deal with the SEC, and he cannot return as chairman for three years.

But controlling Musk will be a big job for Denholm. Even after the settlement was announced, Musk taunted the SEC, calling it the "Shortseller Enrichment Commission" before snidely praising it for "doing incredible work."

© 2018 The Associated Press. All rights reserved.

Citation: New Tesla chairwoman's biggest challenge is controlling Musk (2018, November 9) retrieved 25 June 2024 from <https://phys.org/news/2018-11-tesla-chairwoman-biggest-musk.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
