

ELON MUSK'S BUSINESS STRATEGY AND LEADERSHIP MODEL

STRATEGIA BIZNESU I MODEL PRZYWÓDZTWA ELONA MUSKA

Summary

Article describes Elon Musk's business and innovative solutions that will shape the future of whole planet, the new, confident way of managing business and how to become a successful leader.

Keywords

technology, innovation, future, business leadership

Streszczenie

W artykule opisano rozwiązania biznesowe oraz innowacyjne działania, których autorem jest Elon Musk, a które będą miały wpływ na przyszłość naszej planety. Przedstawiono charakterystykę nowego i odważnego sposobu zarządzania biznesem oraz w jaki sposób stać się liderem odnoszącym sukcesy w biznesie.

Słowa kluczowe

technologia, innowacja, przyszłość, przywództwo w biznesie

“Musk has taken industries like aerospace and automotive that America seemed to have given up on a recast them as something new and fantastic.”

[Vance, 2015]

INTRODUCTION

Elon Musk is known mostly as a CEO of Tesla, SpaceX and SolarCity. But his history didn't start and at those companies and projects. He started his story with technology at age 10, when he received the Commodore VIC-20 and thought himself a computer programming and sold for US\$500 the code of BASIC-based video game called

Blastar to the magazine PC and Office Technology [Belfare, 2007]. That was the first money he earned.

In 1995, with his brother Kimbal and Greg Kouri, he created his first start-up – Zip2 [Strauss, 2017]. This was a web software company, with capital raised from a group of angel investors, and it was an online city guide for newspapers. It was acquired by Compaq company in 1999 for US\$307 million and US\$37 million in stock options. Musk received US\$22 million from his 7 percent share from the sale [Vance, 2015] at age 27.

After selling Zip2, in 1999, Musk co-founded X.com with US\$10 million from the sale, online financial services and payment via e-mail. This was one of the first online banks. One year later, in 2000, the company merged with Confinity, the biggest competitor which had money-transfer service called PayPal. Then Musk was the biggest shareholder and became CEO (he was released from this role due to disagreements with other company leaders the same year, but stayed as a member of the board). In 2002 PayPal was acquired by eBay for US\$1.5 billion in stock. From 11,7 percent PayPal's share Musk gain US\$165 million [Penenberg, 2012].

Another company that Elon Musk co-funded is SpaceX, a company known mostly for launching Falcon Heavy¹ with Tesla roadster² (called Starman to tribute for David Bowie) that supposed to reach Mars in July, and also of private space program which target is to colonize Mars in 10 year time, and as well of program or rocket airlines which will permit space travels from two different end of the world in only one hour or less as says Gwynne Shotwell. [Shotwell, 2018] SpaceX was founded in 2002, with US\$100 million that Musk invested from his own pocket [Vance, 2015].

Tesla Inc. was co-funded in July 2003 by Martin Eberhard and Marc Tarpenning, who financed the company until the Series A round of funding. Both men played active roles in the company's early development before Elon Musk's involvement. Musk invested US\$70 million of his own money into that project. In 2014, Musk announced that Tesla would allow its technology patents to be used by anyone in good faith to entice automobile manufacturers to speed up development of electric cars. Right now Tesla is facing some troubles with financial loses, but as Musk says, in quarters 3 and 4 of 2018 there will be finally noted income of the company.

Strongly connected to SpaceX and Tesla is another company of Musk, which is SolarCity. Musk provided the initial concept and financial capital for SolarCity, which was then co-founded in 2006 by his cousins Lyndon and Peter Rive. Musk invested US\$10 million of his own money into that project. In 2012, Musk announced that SolarCity and Tesla are collaborating to use electric vehicle batteries to smooth the impact of rooftop solar on the power grid, with the program going live in 2013. What is more, SolarCity

is a company that is providing electricity to factory's of Tesla and SpaceX. On June 17, 2014, Musk committed to building a SolarCity advanced production facility in Buffalo, New York, that would triple the size of the largest solar plant in the United States. Musk stated the plant will be "one of the single largest solar panel production plants in the world", and it will be followed by one or more even bigger facilities in subsequent years.

Elon Musk is as well sponsor and co-founder of other projects that will shape future of a humankind, and this is OpenAI and The Boring Company. OpenAI was founded in December 2015. It is a not-for-profit artificial intelligence (AI) research company. OpenAI aims to develop artificial general intelligence in a way that is safe and beneficial to humanity. By making AI available to everyone, OpenAI wants to "counteract large corporations who may gain too much power by owning super-intelligence systems devoted to profits, as well as governments which may use AI to gain power and even oppress their citizenry" [OpenAI, 2018]. One year later, in 2016 while Musk was stuck in the traffic, he had an idea, that currently is known as The Boring Company (see: Visualisation of tunnels of The Boring Company). Then he tweeted "Am going to build a tunnel boring machine and just start digging..." [Musk, 2016]. In February 2017, the company began digging a 30-foot-wide, 50-foot-long, and 15-foot-deep "test trench" on the premises of Space X's offices in Los Angeles, since the construction requires no permits.

1. Innovation

What is particular about Elon Musk's example of entrepreneurship and leadership is the innovation. As we can observe from his history of companies, every idea he had was innovative and one of the kind. Peter Thiel said "We wanted flying cars, instead we got 140 characters" (Maximum in post on Twitter, user can use 140 characters.). And Jeff Hammerbacher, an early Facebook engineer observed "that the best minds of my generation are thinking about how to make people click ads" [Vance, 2015]. When most of people at Silicon Valley focused at online and internet development, being sure that they are inventing the future, but Elon Musk went forward and made his craziest ideas coming true. It is not an easy thing to bring to life, because it requires a lot of courage, confidence and money resources, that possibly only Musk was able to invest all of his money into projects that everybody at the beginning were not even thinking seriously and seemed unrealistic and unachievable.

Innovation by Merriam-Webster dictionary is defined as a new idea, method or device and introducing something new (Innovation, n.d.). Innovation is much related to invention, but not the same [Bhasin, 2012]. To understand it better. An invention is the creation of a product or introduction of a process for the first time. For example

Thomas Edison was an inventor. On the other hand, innovation happens when someone improves on or makes a significant contribution to something that has already been invented. Apart from Elon Musk, Steve Jobs as well is excellent example of an innovator [Bhasin, 2012].

One of the most innovative ideas for a humankind was the wheel, electricity, the aeroplane or the telephone. Of course, no one can say that in last decade there was no innovation in the other areas. Areas like the telecommunication or robotics were extremely developed and we can observe it only by taking into our hands last 5 mobile phones that we have owned and notice the difference in the parameters and design. That was the main areas that our world had focused on in last years. But ideas like Mars colonization, 100% electric cars, using at own home only solar energy, from own solar factory or AI development were mostly know from science-fiction movies, not from the real life.

Innovation cannot stop only by creating something new. The most difficult part is to inspire a society and acknowledge them with the profit coming from it. Regarding Elon Musk's innovative ideas, they are important for all humankind. With the climate change and fast growth of world population, contamination of the environment in every part of the globe we need to find another solution to survive and keep the Earth in good condition. That is why Elon Musk went much forward with his business because the world population in the era of him was suffering from decadence.

2. Visionary Leadership

To understand what a visionary leadership is, essential may be to explain first what is a leadership. Anthropologists analysing homo sapiens behaviour observed that already during the Cognitive Revolution there existed individuals that lead the tribes and groups with a special character features, and it was not all about a strength as is commonly thought, but about a communication skills and relationships with other members of a tribe. Since then this concept was only developed but it is based on the same motives [Harari, 2011, p. 29]. Nowadays leadership is understood as an ability to manage plans, targets and achieve goals by taking an initiative, fast decisions and decisive actions. It is mostly a part of a character, natural feature of someone that comes easy and may help with life success. People that have that attribute usually finishes at high positions in a business or a political world. But it is not all, good leadership requires a clear vision, confidence, ability to coordinate and balance the own environment during conflict and peace time. Currently with the development of studies about human nature was possible

to difference few types of a leadership, like for example autocratic, democratic, bureaucratic, charismatic, team or visionary leadership.

Elon Musk is an example of the visionary leader. He dreams about stuff that no one else would dare or no one else would be capable of dreaming at the level of complexity that he does. He has an ability to think at system level of design that pulls together design, technology and business, and that requires a lot of confidence and coming from that ability of crazy risk taking. This type of leadership involves a personality that recognizes, that methods, steps, processes of leadership are all obtained with and through people. They have a nature that they will do everything to transform their ideas and plans into reality. They are good with communication skills and management and they have a talent of inspiring other people with their visions, which they will keep like their personal ideas and do everything to achieve it [Patrick, 2018].

Visionary leaders, especially in business, are effective at leading a workers to achieve a common goal. These leaders promote organized learning, creativity, and the development of strong relationships within the team.

Daniel Goleman, in 2002, in his book points out 4 types of leadership: visionary, coaching, affiliative and democratic. He observes there that only emotionally intelligent leaders are able to create a climate of enthusiasm, where people can feel most innovative and give their personal best at work. He defines visionary leadership as follows “This kind of leadership moves people towards shared dreams. Visionary leaders help people to see how their work fits into the big picture. People get the feeling that their work matters and they also understand why. To articulate a truly inspirational vision, the leader must be able to sense how others feel and understand their perspectives. This kind of leadership style is particularly effective when the business is badly in need of a new vision or has to be turned around” [Goleman, et al., 2002, p. 57].

By following an actions of Musk he fulfil all requirements of a visionary leader. From the statements of his co-workers and employees we know that he is not an easy person to work with. As Gwynne Shotwell observed, the biggest challenge of working with him is that, that he never accepts “no” as an answer [Shotwell, 2018]. By himself he is very committed to work, even when he was younger and working at Zip2, he was sleeping next to his desk, and he asked his workers “kick me when you will come to wake me up” [Vance, 2015]. Right now he is working usually 6 days per week, sometimes 7, trying to make his best and to force people to do their best. He is verbally assaulting everybody at work, and as Ashlee Vance observed “you love Elon, or you hate him” [Vance, 2015].

3. Tesla

Tesla's main mission is to accelerate the world's transition to sustainable energy. In 2003, when the company was founded, the world was far away from the idea of electric vehicles. For April 2017 they were regarded as the most valuable automaker in the U.S., overtaking General Motors and Ford. This is partly attributed to the launch of the Model 3, an incredibly popular electric affordable five-seater. But his new car is only one aspect of an impressive success story which shows just how important it is to embrace, and even cause, disruption [Cox, 2017] Tesla become so important company because it has a US\$50 billion equity value and massive media presence. But what is important has sold fewer than 350,000 cars in total – all at a loss. It has little experience in repair, used sales, recycling, scrap and waste. It is not near scale or profit on any of these other parts of the business. On the contrary, Ford also has a total equity value around US\$50 billion, but they sell around 6.5 million cars per year all around the globe. Not like Tesla, they have stable post-sales businesses, what is coming from more than 100 years of experience on vehicles market, all the way through recycling and waste management [Anderson, 2018].

The company is successful not only by design of cars and modern marketing actions, but also by its business strategy. Official business strategy of Tesla Inc. is a very particular one.

So, in short, the master plan is:

- build sports car,
- use that money to build an affordable car,
- use that money to build an even more affordable car,
- while doing above, also provide zero emission electric power generation options,
- don't tell anyone [Musk, 2006].

In different words, Tesla Inc. has three stages of manufacturing cars, Step one was to build expensive cars, with average price US\$100,000 at low volume, step two in which the company is currently is build medium-priced cars, with average price US\$50,000 at medium volume and at step the to build low price cars, with average price US\$30,000 at high volume [Musk, 2013].

Particular in case of Tesla is as well way of selling those cars. Like with every other brand like Fiat, Ford, Mitsubishi to buy a new car, the customer have to go to official dealership of those brands and buy it. Not in the case of Tesla. By entering the website of Tesla, everybody can personalize future car, choose payment method, and later on wait till factory in California will manufacture the car and will ship to the customer house.

100% shop online [Tesla, 2018]. It is very innovative solution, because to the price of the product are not added extra costs like renting a real estate to have a dealership or to pay salary to bigger amount of workers etc.

What is more, by buying a Tesla car, the charging of it, is for free entirely. In many countries still there is no infrastructure, but this is a problem that will be resolved in close future. [Musk, 2013]. Thanks to that, another plus for a customer is long distance perspective for making savings on the fuel that was used to the traditional petrol car.

CONCLUSION

Elon Musk definitely gave some new fresh air not only for world innovation but as well opened mind of many people. As Ashlee Vance observed in her book “When Mark Zuckerberg wants to help you share baby photos, Musk wants to... well... save the human race from self-imposed or accidental annihilation” [Vance, 2015]. Even if he is a difficult and complicated person and leader, definitely every entrepreneur should take him like an example or at least acknowledge his history and never forget that the world of innovation and confidence, is our future. He is an example that everybody's childhood dreams even if they seem difficult to achieve are possible. And there are no limits. Every future leader and entrepreneur have to be able to take risk. Elon explains his actions in easy statement “I'm not trying to be anyone's saviour. I'm just trying to think about future and don't be sad” [Musk, 2017].

REFERENCES

1. Anderson M. (2018, January 27), *Tesla Cars are Great, their Ecosystem Strategy not so Much*, <https://www.forbes.com/sites/babson/2018/01/27/tesla-cars-are-great-their-ecosystem-strategy-not-so-much/#143eee37129e>, access date: 7.05.2018.
2. Belfore M. (2007), *Rocketeers: How a Visionary Band of Business Leaders, Engineers and Pilots is Boldly Privatizing Space*. HarperCollins Publishers.
3. Bhasin K. (2012, April 2), *This is the difference between invention and innovation*. Retrieved from *Business Insider*, <http://www.businessinsider.com/this-is-the-difference-between-invention-and-innovation-2012-4?IR=T>, access date: 4.05.2018.
4. Cox L. (April 24, 2017), *Disruption*. Retrieved from *Tesla Motors Disruption Strategy*, <https://disruptionhub.com/tesla-motors-disruption-strategy/>, access date: 5.05.2018.
5. Goleman D., Boyatzis R. and McKee A. (2002), *Primal Leadership: Unleashing the Power of Emotional Intelligence*, Harvard Business School Press.
6. Harari Y.N. (2011), *Sapiens: A Brief History of Humankind*, Vintage, pp. 22–44
7. *Innovation*. (n.d.), <https://www.merriam-webster.com/dictionary/innovation>, access date: 3.05.2018.

8. Musk E. (August 2, 2006), *Tesla Inc. Retrieved from The Secret Tesla Motors Master Plan (just between you and me)*, <https://www.tesla.com/blog/secret-tesla-motors-master-plan-just-between-you-and-me>, access date: 18.04.2018.
9. Musk E. (February 2013), *The mind behind Tesla, SpaceX, SolarCity. TED (C. Anderson, Interviewer)*, https://www.ted.com/talks/elon_musk_the_mind_behind_tesla_spacex_solarcity, access date: 1.05.2018.
10. Musk E. (December 16, 2016), <https://twitter.com/elonmusk/status/810108760010043392>, access date: 28.04.2018.
11. Musk E. (April 17, 2017), *The future we are building – and boring (C. Anderson, Interviewer) TED*, https://www.ted.com/talks/elon_musk_the_future_we_re_building_and_boring, access date: 28.05.2018.
12. OpenAI, (December 11, 2015), <https://blog.openai.com/introducing-openai/>, access date: 5.05.2018.
13. Patrick M. (April 5, 2018), *Characteristics of Visionary Leadership. Small Business*, <http://smallbusiness.chron.com/characteristics-visionary-leadership-31332.html>, access date: 5.05.2018.
14. Penenberg A.L. (August 9, 2012), *Reid Hoffman On PayPal's Pivoted Path To Success. Fast Company*, <https://www.fastcompany.com/1837839/reid-hoffman-paypals-pivoted-path-success>, access date: 28.05.2018.
15. Shotwell G. (April 2018), *SpaceX plan to fly you across the globe in 30 minutes. (C. Anderson, Interviewer)*, https://en.tiny.ted.com/talks/gwynne_shotwell_spacex_s_plan_to_fly_you_across_the_globe_in_30_minutes, access date: 29.05.2018.
16. Strauss N. (November 15, 2017), *Elon Musk: The Architect of Tomorrow. The Rolling Stone*, <https://www.rollingstone.com/culture/features/elon-musk-inventors-plans-for-outer-space-cars-finding-love-w511747>, access date: 29.05.2018.
17. Tesla (2018), https://www.tesla.com/en_GB/models/design, access date: 29.05.2018.
18. Vance A. (2015), *Elon Musk: How the Billionaire CEO of SpaceX and Tesla is Shaping Our Future*, Virgin Books.
19. *Visualisation of tunnels of The Boring Company*, https://www.youtube.com/watch?v=u5V_VzRrSBI, access date: 29.05.2018.

NOTES

¹ Falcon Heavy is the fourth-highest capacity rocket ever built after Saturn V, Energia and N1.

² The Tesla roadster with manikin of spaceman is called Starman like a tribute for David Bowie, which Elon Musk is very big fan.