

BEYOND THE TRILLION-DOLLAR QUESTION: WHAT TESLA'S MEGA GRANT MEANS FOR CANADIAN BOARDS

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Tesla's board has again placed executive compensation at the forefront of corporate governance discussions with the recent disclosure of a new incentive package for Elon Musk that could be worth up to US\$1 trillion.

The proposed grant, tied to financial and operational goals even more audacious than his 2018 award, represents an additional 12% of the company's equity. The board's rationale is to align the CEO's interests with those of shareholders and to retain a leader whose unique vision is deemed critical to the company's future strategy, particularly in areas such as artificial intelligence and robotics.

For Canadian directors, this development will likely elicit equal parts skepticism and consternation. While the sheer scale of the package is difficult to fathom, it surfaces useful questions on incentive design and compensation governance more broadly. This briefing highlights the core principles at play, including the role of the board in CEO retention, the design of performance-based incentives, and ultimately asks: what is reasonable?

While it is easy to ignore the Tesla saga as an anomalous situation, there are important lessons for Canadian directors navigating a landscape of increasing shareholder scrutiny and evolving compensation expectations.

The Award That Changed the Rules

To understand the current proposal, it is important to look back at the 2018 compensation plan it is meant to replace. In 2018, Tesla shareholders approved a highly unusual, 100% performance-conditioned stock option award for Elon Musk, valued at approximately US\$2.6 billion. It was designed as a series of 12 tranches that would only vest if Tesla achieved ambitious, escalating market capitalization and profitability milestones. This followed a similarly designed 2012 award, but at ten times the scale.

Over the subsequent years, Tesla's share price skyrocketed, and the company achieved all the performance targets, culminating in a package that was valued at over US\$55 billion at its peak. This success, while celebrated by many shareholders, was not without controversy. A shareholder lawsuit argued the pay was excessive and the approval process flawed. Although the 2018 award was reapproved by shareholders with 72% support at Tesla's 2024 AGM, Tesla's Board approved a "bridge" award of restricted stock in August 2025 should the Delaware decision be upheld on appeal.

1. The "Key Person" Rationale

- **Tesla's Justification:** The Tesla board's rationale for the new package is primarily based on a "key person" argument. They are essentially saying that Elon Musk's vision, leadership, and drive are so critical to Tesla's future that he must be retained at (virtually) any cost. The argument is that no other CEO could achieve these goals, and without him, the company's value would not reach the proposed targets.
- **Canadian Directors' Fiduciary Duty:** While it is reasonable to acknowledge the importance of a star CEO, directors have a duty to act in the best interests of the corporation. This includes balancing the expectations of shareholders and other interested parties with retaining (or appeasing) a powerful executive. The "key person" argument, while compelling in a unique case like Musk's, can be a slippery slope.
- **Key Questions for Directors:**
 - What is the verifiable and incremental value a CEO brings that could justify an outsized pay package?
 - Are performance milestones genuinely challenging and aligned with long-term shareholder value, or might they incent overly risky behaviour and decision-making?
 - Does the board have a robust succession plan in case the "key person" leaves, and what are the governance risks of making the company so reliant on one individual?

2. The Boundaries of Pay-for-Performance

- **A New Frontier (Round 3):** Similar to Musk's previous awards, which many market observers also deemed unachievable at the time, the underlying structure appears to be pay-for-performance in its purest form: an incredibly high payout opportunity for achieving incredibly ambitious operational, market capitalization and profitability milestones. A closer look at the package, however, reveals that Musk could earn tens of billions of dollars even if he falls well short of most of the plan's ambitious goals. Meeting just two of the easier targets, including modest vehicle sales or loosely defined product milestones, along with moderate stock growth over 10-years, would net Musk \$26 billion, a sum that eclipses the lifetime pay of the next eight best-paid CEOs combine¹.
- **Beyond the Benchmark:** While "moonshot" awards and mega-grants remain largely the domain of the biggest tech players (e.g., Microsoft, Apple, Alphabet), they represent a fundamental departure from traditional pay structures in both scale and design. Extended vesting schedules and multi-year performance horizons anchor these incentives firmly in the long term, and at unprecedented magnitude. Such structures push boards beyond simple peer benchmarking and can unlock extraordinary upside, but without robust guardrails, they also amplify governance, dilution, and windfall risks that Canadian institutional shareholders may find unacceptable.
- **Key Questions for Directors:**
 - Should Canadian boards consider more audacious, "moonshot" incentives for their CEOs, and if so, what conditions must be met to make them defensible?
 - Is our current compensation mix too conservative to drive truly transformative growth?
 - Conversely, is this creating pressure to grant larger and larger awards without sufficient justification?

3. The Reasonableness Test

- **A Trillion Dollar Question:** Elon's new package asks a fundamental question: what is a reasonable amount to pay a CEO? The Tesla board's position is that "reasonableness" is defined by the value created for shareholders. If the CEO's efforts lead to an \$8.5 trillion market cap, then a \$1 trillion payout is, in their eyes, perfectly reasonable. However, the Musk case shows that "reasonableness" can be a very subjective and legally precarious concept.
- **High Pay, High Scrutiny:** Boards will want to be prepared: this and other "moonshot" awards may usher in a new era of highly performance-leveraged structures that CEOs will cite at the negotiation table. The concept of granting extraordinary upside, but only if shareholders also achieve extraordinary gains, is compelling in theory. In practice, however, it may struggle to clear the 'reasonableness' bar, particularly for executives who may already be massively aligned with shareholder through common share ownership.

Our Take: While boards should remain open to innovative pay structures, the Musk package illustrates that quantum can undermine defensibility. Canadian boards should resist the notion that shareholder value creation alone justifies excessive dilution from executive awards. Headline-grabbing market cap growth figures must not replace an assessment of reasonableness anchored in process rigor, independence, proportionality, and alignment with long-term strategy.

¹[Musk's Tesla package pays him billions even if he misses 'Mars-shot' goals | Reuters](#)