

# Tesla Motors Inc.

## RepRisk: Key facts

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### **July 13, 2016: Tesla investigated over failed autopilot function linked to two accidents**

Tesla Motors Inc has been under investigation over failed autopilot function since June 2016, when the first fatal crash involving one of its electric car models occurred on May 7, 2016. The accident was allegedly caused by the deficient driver-assist function. The second, but non-fatal, crash followed less than a month later. Reportedly, the autopilot was activated when the accident happened. However, Tesla stated that the feature was being used improperly.

### **August 5, 2016: Autopilot accident in China**

An owner of a Tesla Model S vehicle in China has reported on the Internet that the car's apparently defective autopilot system caused it to crash into another vehicle parked in front. According to the Tesla owner, the autopilot system had at least five seconds of reaction time before colliding with the other car, but the system decided to accelerate instead. The China sales representative of Tesla Motors, Tesla Automobile Distribution Beijing, has responded that no car autopilot system in use today can guarantee absolute safety.

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**Tesla is currently being investigated by the US Securities and Exchange Commission for a possible violation of securities law. The company sold USD 2 billion in stock to investors in order to fund a manufacturing expansion without informing them about the fatal crash, although Tesla claims that auto safety regulators were informed on May 16.**

## Issue Analysis of Tesla Motors Inc since July 2012

Environmental Footprint	Community Relations	Employee Relations	Corporate Governance	Product-Portfolio Related Risks
Global Pollution and Climate Change	Human Rights Abuses, Corporate Complicity	Forced Labor	Corruption, Bribery, Extortion, Money Laundering	Controversial Products and Services
Local Pollution	Impacts on Communities	Child Labor	Executive Compensation	Products (Health and Environmental Issues)
Impacts on Ecosystems and Landscapes	Local Participation Issues	Freedom of Association and Collective Bargaining	Misleading Communication, e.g. "Greenwashing"	
Overuse and Wasting of Resources	Social Discrimination	Discrimination in Employment	Fraud	
Waste Issues		Health and Safety Issues	Tax Evasion	
Animal Mistreatment		Poor Employment Conditions	Anti-competitive Practices	
Violation of International Standards				
Violation of National Legislation				
Supply Chain (Environmental, Social, and Governance Issues)				

1      5      10      20+  
No. of news

## GEC Risk: Analysis and recommendations

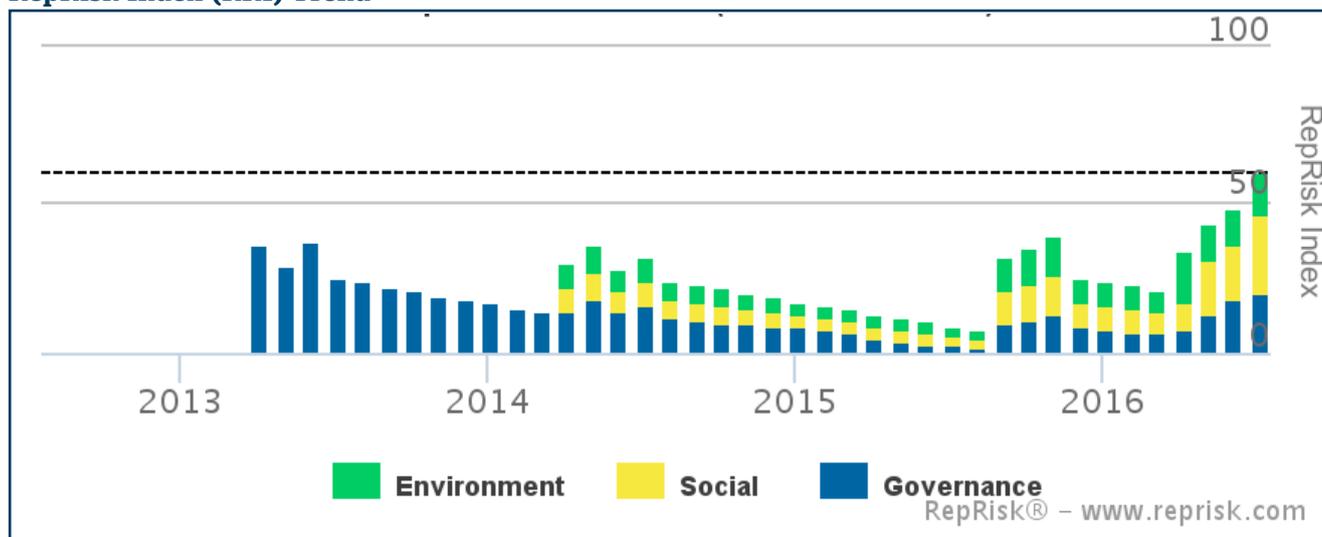
### 1. Where Tesla is today: Analysis

As these stories show, Tesla has recently suffered adverse press based on incidents involving its auto-pilot-driven cars, especially in the US but elsewhere as well. Crisis communications – both formal (such as press releases) and informal (such as tweets/emails from the CEO, Elon Musk) – on the death of a US motorist using autopilot were generally ineffective as short-term crisis management measures and did not generally serve the longer-term interests of Tesla and its principal stakeholders. More such incidents can have a significant impact on Tesla’s business and long-term prospects.

In particular, the public Twitter fight between Elon Musk and Fortune Magazine made the Tesla CEO look uncaring about safety and too focused on narrow legal concepts of “materiality.” Furthermore, Tesla is currently being investigated by the US Securities and Exchange Commission for a possible violation of securities law: On May 18 and 19, Tesla sold USD 2 billion in stock to investors in order to fund a manufacturing expansion without informing them about the fatal crash, although Tesla claims that auto safety regulators were informed on May 16.

Such developments could lead to longer-term reputation erosion or, put another way, an increase in reputation risk, as the RepRisk Index (RRI) Trend chart on page 3 demonstrates (the RRI is RepRisk’s proprietary algorithm that quantifies reputational risk exposure related to ESG Issues). And, as the RepRisk ESG Issues Analysis chart above shows, the ESG issue that is most concerning to Tesla at this time is that of “Products: Health & Environmental Issues,” which clearly reflects concerns around the auto-pilot safety and soundness.

## RepRisk Index (RRI) Trend



## 2. Tesla's way forward: Recommendations

Based on these recent developments, there are a few short-term and longer-term steps Tesla management should consider, if they haven't already:

Short-Term steps:

- Integrated PR: Better communications and public relations coordination and planning, including social media tracking and training for senior management
- Crisis Management Plan: Better crisis management coordination and planning – readiness of a properly prepared and trained team to jump into further possible crises on this particular topic (autopilot safety) and others that may be related

Longer-Term measures:

- Stakeholder Analysis: Stakeholder identification, prioritization and expectations analysis – if this hasn't been done, it should, especially in tandem with risk management, and shouldn't only focus on shareholders and investors but existing/prospective customers and regulators, among others
- Enterprise Risk Management: Is enterprise risk management in place? If not, it should be developed. If so, does it include reputational risk considerations relating to the top risks identified?
- Risk and Crisis Alignment: Alignment of crisis management with risk management – develop a crisis management team and plan, including exercises and scenario planning involving likely or potentially heavily damaging risk occurrences, including autopilot safety concerns

This incident illustrates a broader point: all organizations – whether companies, non-profits, or government agencies – need to understand the interests of a broader set of key stakeholders. While the death of a Tesla motorist may not have been “material” to Tesla's stock from a legal standpoint, it certainly was to the deceased motorist's family and may very well be material to actual and potential car buyers, other key stakeholders such as regulators, employees, and communities – and Tesla's longer-term reputation.