Case Analysis of risk, uncertainty, and managing incentives

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**“Tesla”**

**Risk and Uncertainties**

Tesla has been facing different risks and uncertainties in terms of financial investments, business opportunities, market competition and the productivity of newly launched projects such as SpaceX. Under the impact of those issues, Tesla has made some major decisions to address the complication, which have claimed to be productive in the present year. The actions taken by Tesla to deal with risks and uncertainty discussed as follows

**Open Financial Investments**

#### It is asserted that the Tesla is facing some financial crisis in the recent year, where the stock price was less than 22%. In order to address those financial challenges, the owner of Tesla has formulated strategies that could help them incorporate equity, which means Tesla has opened the doors to fresh equity. Although it is not sure that the investors would be greatly attracted or not, but it is one of the best actions taken to address financial crisis (Perkins, et al. 2018).

**Model 3**

#### According to the report that was published by Forbes, it is found that Tesla has been facing some quality issue because the demand for vehicles was becoming low. In order to address this issue, Tesla has made an electric car which is both environmentally friendly and travel 50 -70 miles per hour within five seconds. It is one of the most positive actions that has been taken by Tesla to mitigate and overcome the vulnerabilities in terms of quality (Perkins, et al. 2018).

**Space X**

#### Taking into account both, economic and technological complications and uncertainties, Tesla has made a number of actions to promote SpaceX. As a result of these actions, today, SpaceX is considered of more worth as compared to Tesla. Tesla has launched 60 links satellites that have increased fresh funding of more than $1 Billion in the year 2019. Today, SpaceX is of more value than $33.3 billion just because of strategic planning (Perkins, et al. 2018).

**Advice for improving risk management**

There some specific advice that can be given to Tesla in order to manage risk

**Quality Management and Improvement**

#### As Tesla is an automobile company and this department is evolving and becoming technologically strong with the passage of time so Tesla should take significant steps that can help to manage the quality and improve the quality of the products. These improvements and management should be addressed in terms of a competitive market, adhering to the opportunities that can allow customers to prefer it on other opportunities (Perkins, et al. 2018).

**Stress on green economy**

#### It is suggested that Tesla should give special significance to green economy because it is one of those strategic platforms that can help this organization and industry to keep growing. In accordance with the assumed trends of future, only environmentally friendly products would be able to sustain, it affirms that Tesla should try to mold its industry more towards green economy so that both economic and safe products can be launched (Perkins, et al. 2018).

**Finance management**

#### With the information collected from financial reports, it is found that Tesla has made a lot of financially risky investment that has compromised the growth and productivity of industry in this area. It is suggested that Tesla should make stable financial adjustments that would be parallel to the economic paradigms. Moreover, Tesla should try to keep its all projects on the same paradigms of financial adjustments such as SpaceX as well as Automobile industry because primary business is one of the strong support in terms of both economy and expertise. Although SpaceX is also important it should be treated as a secondary business because making it primary business would challenge the basic expertise of the industry (Perkins, et al. 2018).

**Adverse Selection Problems in Tesla**

#### Taking into account the reports and announcements made by Tesla, it is found that the use of term "Autopilot" used by Tesla for Model S Sedan in Florida in May. It is recorded that the word autopilot is meant for the commercial airline pilots which are meant to relieve the human operator from the aircraft control *(Ir.tesla.com*, 2019). The Tesla Autopilot was supposed to be a driver system in terms of activating the system, where a driver is presented with a warning that safe operation should be ensured. Controversy occurred when some of the drivers were tempted to explore the novelty of system which ultimately resulted in the posing a threat to the lives of the drivers. Here, it is found that Tesla has used a connotation that is actually misguiding drivers and the service of “Autopilot” is not with the efficiency and productivity with which it is presented and supported for the people. Ultimately, it has caused massive threats for the people and drivers *(Ir.tesla.com*, 2019).

#### Taking into account the severity of the issue, it is inferred that the negative impact on the transaction can be minimized by following the code of ethics. According to the code of ethics, Tesla should highlight and work on “Trolley Problems” in ethics. It will help tesla reduce the transaction because the automobile would be made and programmed to retake the control and serve in case of any emergency. Another recommendation that could be suitable for Tesla is to incorporate Automatic Emergency Braking where the vehicle computer twill use the cameras and radars sensors so that distance from different objects can be determined. It will help Tesla to regain the effectiveness of Autopilot term where at least the drivers and passengers could be saved from different accidents and mishaps *(Ir.tesla.com*, 2019).

**Moral Hazard Problem**

As Moral Hazard Problem refers to the problem for which it is assumed and inferred that the borrower knows that someone else will pay for the mistake that the buyer will make. In the case of Tesla, it is highlighted that "Autopilot" is a moral Hazard Problem because it is a general understanding that Tesla is claimed for some wrong or miscommunicated connotation of the services that are incorporated. Research highlights that the number of fatalities that are linked to Tesla is the product of cars that are produced (McCain, et al. 2019). The company has produced about 122,000 models of S and X vehicles by the year 2012 which affirms that there would be a handful of crashes every year. As it is one of the major problems that are being faced by Tesla, there are some major steps that are taken by Tesla, such as evaluation of the reported that are filed against Tesla under the title of “Trolley Problems” and “Laws of Robotics”. Moreover, Tesla has promoted its business and the complications that were taken for granted under the impression for “Autopilot” by improving the technologies that are added to the new models. According to the reports addressing the efficient of Tesla Motors, it is found that the stance of Autopilots has been addressed by the critical evaluation of the cases of accidents where drivers and passengers did not come up with any kind of authentic reports and it resulted in the evaluation of the product itself. So, Tesla has incorporated references to different legal obligations in the forms of Good Samaritan Laws and the availability and application of Advanced Sensor’s in the new models that can mitigate and help to overcome the misconception and mis-ideologies that were associated with the term, autopilot (McCain, et al. 2019).

**Principle Agent Problem**

Principle Agent Problem refers to a problem that occurs when a principle creates an environment in which the incentives of an agent does not align with the one who is working on the behalf. It is more like a conflict of priorities that occur between an asset and the controller of the asset that has been delegated. It is asserted that the Model 3 of Tesla is one of the examples that proposes Principle Agent problems because it does not seem to satisfy the mainstream buyers. There are two aspects of this issue, both in terms of commitment of quality and then of product. Addressing the principle agent problem in terms of quality it is asserted that “Auto industry” is a huge question mark in Model 3. Customers and analysts are of the view that Tesla has bought additional shares that are sold and it was expected to build a market value of established automakers much like General motors and Fords having an annual profit in million. Even the customers have paid deposits of about $1000 for each of the cars and the quality of the cars is of no values in comparison to the investment. The car is having an imminent cash crunch along with a lot of incidents and accidents that question the “automotive potentials” (Ahmad, et al. 2019). However, another principle agent problem framework highlights that Tesla had promised to provide with 1,026 vehicles per week that were aimed to be a big jump from the earlier fourth quarter but after evaluation, the overall achieved target was 2,500 per week that does not even make half of the promised target. This has also placed tesla at the end of the third quarter, it is questioning the credibility of the company by creating a question mark on the choices and contributions that are made by different investors (Akakpo, et al. 2019). Tesla has used sensor systems and better technologies to evaluate the align with profitability.

**The organizational structure of Tesla**

Tesla has a business supporting organizations structure. According to research, Tesla is using a functional or Unitary form of organization structure in which the function of an organization is one of the most defining factors. It is asserted that the corporate structure of the organization and its system is the illustration of the patterns of intersection that exist among different component of the organization. However, it would not be wrong to say that Tesla follows a traditional organizational structure where major significance is given to the control and focus of the material department along with a limited and operational expansion in the global market. It is also added that the Tesla’s Operation Management is dependent on the effectiveness of the business sector that could help to supply the strategic implementation and changes. New ideas and plans are always welcomed taking into account a strong belief in the corporate structure that has to be outrushed with innovation and technology in order to ensure success. Under the impact of this culture, different national millstones are achieved despite strong and competitive international operations. It has centralized, divided and function-based hierarchy (Ahmad, et al. 2019).

There are several ways that can play a major role in managing the overall efficiency of Tesla. It is asserted that Tesla should try to incorporate transactional leadership. It would help Tesla to improve its organization structure because employees are the only asset that can make an organization to progress by leaps and bounds. The transactional theory would direct Tesla to exchange rewards in return of good performed and it would help to achieve more targets. Tesla should invite more strategic planning so that novelty and productivity can be brought on the same board and both customers and employees can gain benefit from it. Moreover, Tesla should try to speed up its supply chain so that commitments can be addressed (Akakpo, et al. 2019).

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