



Massive car recalls: Product safety still a key challenge for the automobile industry

In 2014, 64 million cars were recalled in the U.S. alone, passing the record 31 million in 2004.

In the past few years, historic recalls and allegations over car safety have impacted the reputation of major car manufacturers, and have led to losses in sales, fines, compensation to victims of accidents, and significant costs for organising recalls. The controversies involving General Motors and Toyota, and the massive recall by ten automobile manufacturers due to defects in airbags manufactured by the Japanese supplier Takata, highlight product safety as one of the industry's key CSR challenges today.

To tackle this challenge, car manufacturers need to establish a group wide product safety management system, which should be overseen by top management to ensure its effective implementation. An active collaboration with suppliers on safety controls and tests also becomes crucial, as car manufacturers rely on suppliers for developing and manufacturing the different parts of the vehicle.

Vigeo's analysis of sixteen European, American and Japanese car manufacturers on their management of vehicle safety shows that all of the companies commit to promote car safety, conduct R&D on vehicle safety, and have established after sale emergency systems. Key areas for improvement have also been revealed for effectively tackling this challenge:

- Vehicle manufacturers under analysis lack transparency on how they collaborate with their suppliers on product safety controls. None of them provide relevant information on this subject, while only three describe steps to helping suppliers with process improvement and quality.
- Manufacturers were not sufficiently clear on who is responsible for product safety company-wide. Only six (of which five are European) report that they have established a group-wide structure responsible for car safety or that heads of business units are held accountable on this issue.
- Finally, product safety does not appear to be considered a key priority at the strategic management level. It is unclear whether product safety is overseen by independent board members at any of the companies. Only five under our review report that product safety risks are covered by the corporate internal controls system. None report any clear link between executive remuneration and vehicle safety performance.

The growing number of recalls can be explained by an increased reliance on a few number of key suppliers (one defective part therefore affects several brands), stricter mandatory safety standards and the



progressively complex technology used in cars. As these trends continue, manufacturers will need to prioritise car safety to mitigate risks for costly recalls and their consequences on reputation and sales. While 2014 saw signs that companies increasingly consider car safety at high management level, for example with General Motors appointing a Vehicle Safety Chief reporting directly both to the CEO and the Board, there are not yet concrete signs of an industry response to improve collaboration with suppliers on this subject.

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