Vanguard Investment Stewardship Insights

Voting insight: Diversity and human rights reporting at Tesla

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Vanguard publishes Investment Stewardship Insights to promote good governance practices and to provide investors and public companies with our perspectives on important governance topics and issues that come up for shareholder votes.

Company: Tesla, Inc. (Tesla)

Meeting date: October 7, 2021

Proposals: Item 6—Report on Diversity and Inclusion Efforts, Item 9—Additional Reporting on Human Rights

How the funds voted

At the annual meeting for Tesla, a U.S.-based electric-vehicle company, the Vanguard funds supported a proposal seeking additional reporting on its diversity and inclusion efforts. The funds did not support a proposal asking the company to commission an independent assessment of its human rights and responsible-sourcing practices.

Vanguard's principles and policies

Boards are responsible for overseeing a company's long-term strategy and financially material risks. On behalf of the Vanguard funds, our Investment Stewardship team regularly assesses a portfolio company board's understanding of its company's strategy and the board's own role in identifying, mitigating, and disclosing risks. This includes the oversight of diversity, equity, and inclusion (DEI) as well as human rights-related risks. Clear, decision-useful disclosure of material risks can encourage sound governance practices and help investors and companies make better decisions.

We evaluate the materiality and oversight of these risks case by case. If there are gaps in the company's current disclosures, the funds may support shareholder proposals that seek enhanced reporting of the company's approach to oversight of DEI or human rights-related risks. When evaluating human rights risks in the Vanguard funds' portfolio companies, our team considers a range of relevant factors, including the impact of a company's operations on human rights, whether violations are recurring, and whether risks materialized because of a company's lack of effective oversight.

Analysis and voting rationale

Vanguard has engaged with Tesla at least annually over the past five years, and we have discussed a range of governance topics. In our most recent engagement with the chair of Tesla's board, we discussed several of the shareholder proposals on this year's ballot. These proposals generated a constructive dialogue between our teams, related not only to DEI efforts in the workforce but also to the board's oversight of human rights-related risks.

Tesla published its inaugural DEI impact report in 2020 and has disclosed plans to regularly publish an integrated report containing this information. The current report contains helpful disclosures about gender and underrepresented communities across Tesla's U.S. workforce and in leadership positions. We appreciate that the report also includes a roadmap of its DEI focus areas and added context to its DEI principles and current programs.

This first report is a promising start to disclosing workforce diversity information. We would like to see Tesla continue to prioritize qualitative and quantitative disclosures on workforce diversity, including the incorporation of EEO-1 data into future reports.

In our assessment, the shareholder proposal requesting that Tesla provide additional reporting on its diversity and inclusion efforts addressed a gap in Tesla's existing disclosures. We believe that it is helpful for companies to disclose relevant information on how they measure the success of their DEI-related efforts and provide the pertinent quantitative disclosures in the form of EEO-1 data—in addition to any customized workforce data—in order for investors to have a more complete view of the state of the workforce. Therefore, the Vanguard funds supported the proposal seeking enhanced DEI reporting.

Our team conducted independent research on Tesla's oversight of human rights risk in its supply chain. In our engagement, we were interested to hear more from company leaders about how Tesla is managing its global supplier relationships in a way that mitigates these risks. We found Tesla's disclosures—including the supplier code of conduct, human rights policy, and responsible materials policy—to be robust and to suggest strong underlying risk-mitigation practices for risk identification and due diligence. We also noted improvement in the quality of disclosures in Tesla's most recent impact report, showing a heightened commitment to mitigating these risks compared with the prior year.

In the engagement, Tesla leaders discussed their strict vetting process for new supplier relationships and how they use it as a consideration when beginning a new supplier relationship. Tesla leaders shared additional details about the extent to which they have devoted time and resources toward third-party audits of its supply chain to ensure any potential findings would be appropriately addressed. Tesla also provided context for situations in which more minor questionable labor practices have been identified, and the company had been proactive in its feedback to suppliers and committed to its policies to terminate a relationship if the feedback was ignored.

We pressed Tesla on its comfort with the audit process to identify and mitigate risks concerning potential forced labor in the supply chain. Tesla responded that it uses only auditors that are approved by the Responsible Business Alliance Code of Conduct and supplements these with audits that Tesla actively conducts. Given Tesla's comprehensive disclosure of human rights risks as well as a thorough board oversight, due diligence, and audit process in place, the funds did not support the shareholder proposal requesting additional reporting on human rights.

What we expect from companies on this matter

Human-capital-management risks are financially material to companies across all industries. Boards should provide effective oversight of this key topic.

Boards should also disclose relevant processes, programs, and metrics used to measure a company's DEI programs over time. Such quantitative metrics—for example, EEO-1 data in the U.S.—demonstrate intent and enable investors to measure progress in addressing human-capital risks over time.

Poor board oversight, coupled with a lack of public disclosure on human rights risk, may lead to financial, legal, and reputational risks, jeopardizing a company's long-term performance. Vanguard expects boards to be fully engaged in the oversight of human rights risk and to provide clear, decision-useful disclosure that includes the relevant policies and practices addressing these material risks.