# Lifesciences Company: Theranos

## A Case study on How to Build an Ethical Workforce

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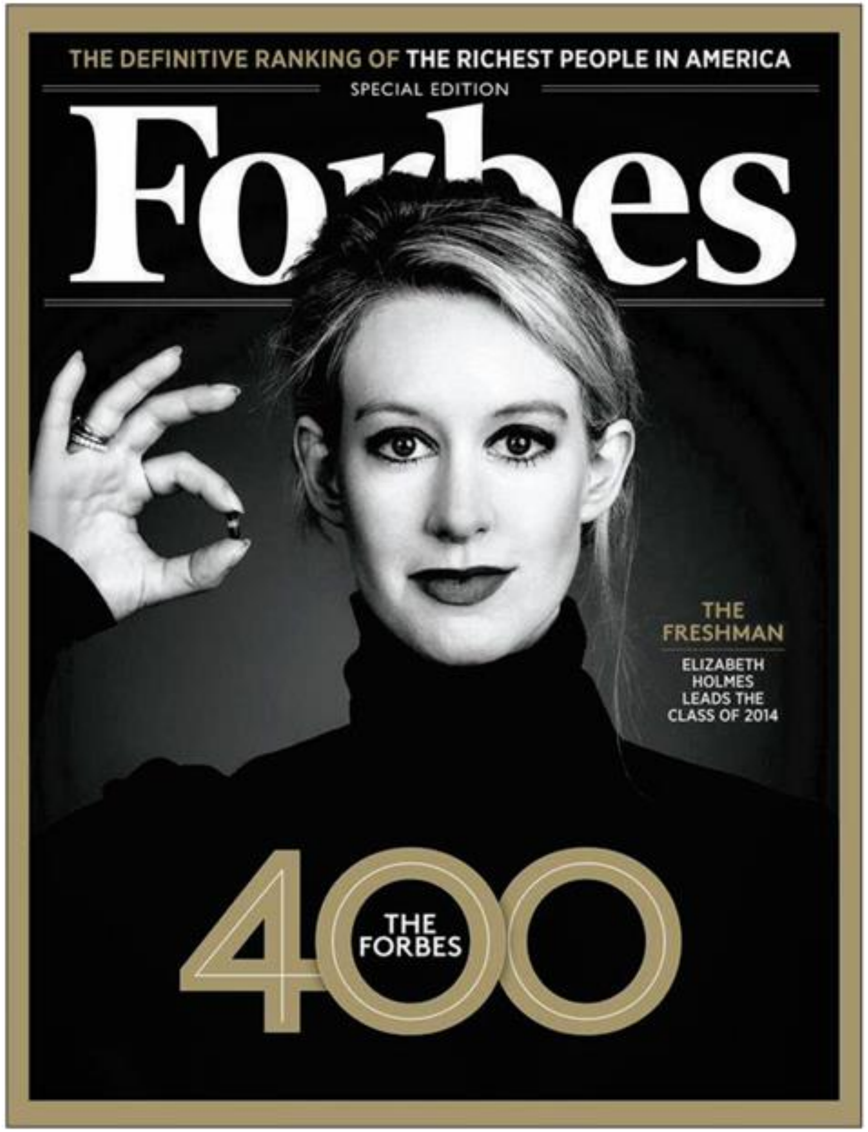
# 🎯 Objective

To critically evaluate the Theranos case, understand what went wrong, and develop actionable strategies that could have prevented the failure or mitigated the damage.

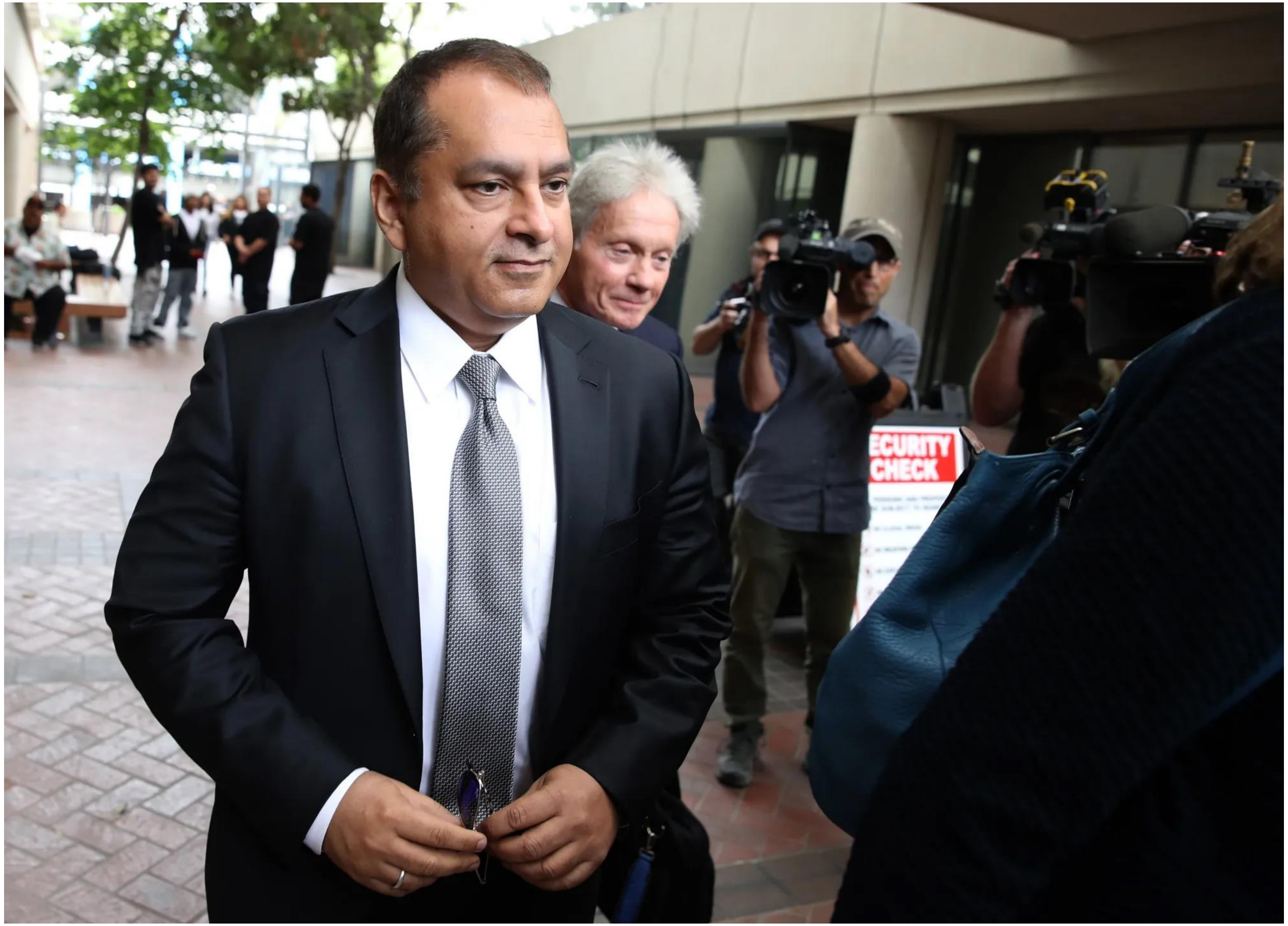
*Focus: Governance, ethics, leadership, innovation, risk, and startup culture.*

# Theranos Case: Background

- Founded in 2003 by Elizabeth Holmes, it aimed to revolutionize blood testing.
- Claimed technology could run tests using a few drops of blood.
- Rapid valuation growth driven by secrecy, charisma, and investor hype.
- Lacked peer-reviewed evidence or regulatory transparency.




Forbes cover featuring Elizabeth Holmes –CEO, Theranos. *(Source credit: Forbes)*




Ramesh “Sunny” Balwani –President and COO, Theranos (Source credit: Getty Images)

# Key People Involved

- Elizabeth Holmes (CEO): Visionary figure, later charged with fraud.
- Ramesh 'Sunny' Balwani (President): Oversaw operations, also convicted.
- Board: High-profile individuals with limited medical/scientific oversight.
- Advisors and investors failed to demand proof or validation.

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# Timeline & Sequence of Events

- 2003 — Ideation
- 2010 — Funding and stealth growth
- 2014 — Peak media attention and corporate deals
- 2016 — WSJ exposé triggered scrutiny
- 2018 — Regulatory action, company collapse
- 2022 — Holmes and Balwani convicted and sentenced for 11 years

# Major Lapses & Oversight Failures

- Technological misrepresentation: unreliable and unvalidated.
- Weak board governance: no scientific checks or balances.
- Deceptive practices: falsified test results and reports.
- Regulatory blind spots: delayed intervention by authorities.

# Breakout Groups Exercise

## Deep dive in to each of the topics below:

1. Rebuild Governance – New board structure, ethics controls, compliance
2. Due Diligence – Create a better VC/PE evaluation framework
3. Ethical Innovation – Design founder decision-making models
4. Culture & Whistleblowing – Build a culture of transparency
5. Turnaround Strategy – 100-day plan before public exposure

# 1. Rebuild Governance

- Board Composition – Add independent directors with healthcare, biotech, and ethics experience.
- Control Mechanisms – Establish risk, audit, and ethics committees with regular oversight.
- Information Rights – Ensure real-time access to performance and compliance data.
- Red Flags Monitoring – Build escalation pathways for design, testing, and product failures.

# 2. Investor Due Diligence Failure

- Technology Validation – Demand independent clinical trials and lab audits.
- Operational Transparency – Interview employees anonymously and examine core workflows.
- Key Metrics – Track validation rates, product reliability, and partner usage data.
- Soft Signals – Investigate secrecy, staff turnover, and resistance to questions.

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# 3. Ethics in Innovation

- 'Do No Harm' Principle – Prioritize public safety over product hype.
- Ethics vs. Speed – Introduce decision checkpoints for every development phase.
- Scenario Planning – Apply your ethical framework to common gray-zone dilemmas.
- External Checks – Mandate advisory panels, peer reviews, and audits.

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# 4. Whistleblower & Culture Strategy

- Cultural Values – Integrate transparency and integrity into hiring, reviews, and incentives.
- Speak-Up System – Design an anonymous hotline with protection protocols.
- Psychological Safety – Train leaders to accept and reward dissent.
- Metrics – Monitor complaint volumes, response rates, and engagement surveys.

# 5. Crisis PR & Turnaround (Pre-exposure)

- Internal Audit – Review lab data, tech validation, and contract reviews.
- Regulatory Relations – Proactively disclose gaps to CMS and FDA and seek safe harbor.
- Repositioning the Narrative – Refocus brand story on gradual rollout and learning.
- Leadership Reset – Evaluate Holmes' role and plan for board-backed leadership transition.

# What Could Have Been Done Differently

- Stronger board with relevant expertise and independent oversight.
- Mandatory third-party technology audits and disclosures.
- Ethics and compliance frameworks for early alerts.
- Whistleblower protection and anonymous reporting channels.

# Similar Scandals in India

1. Satyam (2009): ₹7,000+ crore accounting fraud, governance failure.
2. Sahara: Unauthorized instruments used for mass fundraising.

*Common traits: Lack of transparency, weak oversight, board compliance gaps.*

*Reinforces need for robust governance in high-growth firms.*

# THANK YOU

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