



Beyond Governance
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Theranos: What We Can Learn

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Summary of learnings – Theranos

The rise and fall of Theranos has been widely documented but what can we learn from what went wrong so we can avoid the same mistakes being made in the future.

Here we provide a summary of five key governance learnings from the collapse of Theranos:

- **Appointing the right board:** Elizabeth Holmes started Theranos when she was nineteen; around the time she dropped out of Stanford University. With Holmes having no prior experience of running a business or acting as CEO it was arguably even more important that the company was led by an experienced board. A company's board is responsible for its overall effectiveness, for it to be successful it needs an appropriate combination of skills, experience and knowledge. Whilst the Theranos board was made up of powerful, intelligent, and well-educated individuals, a lack of industry specific knowledge and experience would have made it difficult for them to really add value and to properly challenge the information they were being given. Good governance fundamentally comes down to the people involved, a particularly dominant CEO (such as Holmes) combined with a board lacking in industry knowledge will cause issues in establishing the sound decision-making processes and frameworks required for a well-run company.
- **A strong corporate culture:** the culture of fear and secrecy at Theranos meant that serious problems were covered up and hidden from investors and directors. This led to significant issues with retaining the high calibre employees they recruited who were often forced out for raising their concerns or resigned when their worries were ignored. A strong culture is vital for the spread of good governance throughout an organisation. It sets out the standards and behaviours expected of all its employees. A toxic culture at the head of a company will permeate all other aspects of the organisation and create a negative working environment for all involved. Ultimately a company is only as good as the people working for it, a negative culture at Theranos resulted in the loss of knowledgeable and skilled staff and was a contributing factor to its failure.
- **Maintaining the company's reputation:** There shouldn't be a significant gap between the company's external reputation and the internal reality. This was the case at Theranos where Holmes projected a much more positive image of the situation within the company than was the case. Publicly released information regarding the company's operations should be balanced and truthful to give stakeholders a realistic understanding of the company's position. A good reputation can be difficult to build but lost in an instant. Governance is a significant driver of a company's reputation and can be seen as an evaluation of a company's character and integrity.

- **The need for investor due diligence:** The Theranos technology had two elements, the first collected blood through a finger prick. The blood was then be tested by a device, named the Edison. The company published very little data in peer-reviewed journals describing how the Edison device worked or demonstrating the quality of the results it provided. Investors parted with millions of dollars largely based on the positive “story” they were sold by Holmes rather than any scientific evidence that the technology actually worked. The lack of transparency around the technology should have been a red flag to investors and raised concerns around the confidence they could have in the information they were given. Trust between a company and its investors is essential and governance is the key to both building and demonstrating this.
- **Acting with honesty, integrity, and transparency:** Holmes went to great lengths to conceal the truth about the company’s operations from key stakeholders such as employees, customers, regulators, investors, and the board. Hiding the problems and challenges a company faces prevents an open discussion on how they can be overcome and is unlikely to lead to a successful business. Generally, investors are more forgiving of leadership teams that are clear about both their company successes and failures. More open and honest engagement with key stakeholder groups could have resulted in a different outcome for Theranos.

Conclusion

By applying the above learnings, an organisation can set the score for a more robust governance framework which preserves value to all stakeholders and helps avoid reputational damage.