



## MASTER OF NONPROFIT ADMINISTRATION

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### **Nonprofit Ethics Case**

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Spring / 2022

#### **1. Title**

Theranos: Elizabeth Holmes: Toxic Leadership. Fraud - Leading with Ego...To what cost?

#### **2. Summary**

Theranos's business model was based around the idea that it could run blood tests, using proprietary technology that required only a finger pinprick and a small amount of blood. Elizabeth Holmes said the tests would be able to detect medical conditions like cancer and high cholesterol.

This gained a lot of interest from funders and future employees. Whistleblowers reported that the work environment was hostile, secretive, and employees were demanded to produce the desired results at any cost. After investigations and reports Theranos stopped operations and Elizabeth Holmes was charged with felonies.

#### **3. Applications**

This case study covers Toxic Leadership, Fraudulent Business practices, and the ethical implications that those work environments can cause. Additionally, it covers how government regulations play a part in the development of new businesses.

#### 4. Outcomes

- Students will learn the importance of whistleblower policies and how they protect employees and business owners.
- Students will learn the importance of the Board of Directors Role regarding the ethics of the organization.
- Students will be able to identify systematic responsibilities that were or should've been implemented in this case study to ensure ethical practices.
- Students will be able to identify the leadership style of the Theranos leadership.
- Students will be able to conduct a stakeholder analysis and how the decisions of the Theranos leadership affected the work environment, consumers, business partners, the board of directors, funders, and the community.
- Students will learn about conflicts of interest and be able to identify measures organizations can put in place to create policies around conflicts of interest.

#### 5. Video

<https://www.youtube.com/watch?v=PvznWSEKoEE>

#### 6. Description

Theranos was a company that was founded in 2003 by 19-year-old Elizabeth Holmes in Silicon Valley. <sup>1</sup> Theranos raised more than \$700 Million from venture capitalists and private investors. The company claimed to use only one drop of blood to conduct hundreds of medical lab tests that were cheaper and more accurate than other labs. The company drew lots of interest and gained respect as, based on the claims, this would make blood testing more accessible to many people.

Elizabeth was looked up to as a self-made young female entrepreneur and was compared to Steve Jobs. She was featured in many magazines and interviews.

Theranos partnered with many well-known companies to deploy the Theranos devices, including Safeway, Walmart, Walgreens, Pfizer, Cleveland Clinic, and GlaxoSmithKline.

Tyler Shultz and Ericka Cheung are well known for being the whistle blowers for Theranos. They were both hired straight out of college and had similar experiences as employees of Theranos. In interviews, both discussed that they noticed data was being cherry picked to produce data that was "pleasing" to Elizabeth. They noticed that the Theranos devices were inaccurate, and the design of the devices were things that they had seen before (meaning nothing revolutionary

or proprietary). Accurate test results were said to be produced by other testing devices that weren't Theranos devices. Noticing that procedures didn't seem ethical and there were concerns of the product and marketing, Tyler addressed his concerns directly to Elizabeth Holmes and her responses often were, "I can't tell you because they're trade secrets"<sup>2</sup>.

Tyler and Ericka both experienced retaliation and harassment when they voiced their concern to the company. Tyler spent \$400,000 on legal fees, was served a restraining order, and was followed by private investigators. Ericka was also followed by private investigators and was shown a temporary address not known to anyone else to intimidate her. Tyler described Elizabeth's personality as "smart, charming, and a bully".

John Carreyrou was the reporter that broke the story on Holmes approximately seven years ago. This put more attention on Theranos and the fact that their machines were not as they were believed to be, and that Elizabeth was committing fraud by lying to investors and consumers.<sup>3</sup>

"Elizabeth Holmes and Ramesh "Sunny" Balwani [were] charged with two counts of conspiracy to commit wire fraud and nine counts of wire fraud"<sup>4</sup> in March 2022. "The indictment alleges that the defendants used a combination of direct communications, marketing materials, statements to the media, financial statements, models, and other information to defraud potential investors". Elizabeth Holmes was found not guilty of defrauding patients and conspiracy to defraud patients. Speculation on why she was not found guilty of those charges were that Elizabeth wasn't performing or directly interacting with the patients.

## 7. Questions

1. What do you think the Board of Directors role was in this case?
2. Should they (Board of Directors) be held accountable?
3. What do you think the role of universities is to prepare students to make ethical decisions?
4. Are there other systematic responsibilities that should be put in place or changed for companies or agencies? (Regulations, processes, etc.)?
5. Do you think Elizabeth Holmes deserved the criminal charges that resulted from the investigations of Theranos?
6. Do you think Elizabeth set out to fraud investors with her company or do you think Elizabeth set out to "do good" and lied to keep the vision going?

## 8. Resources

Overview of Theranos: <https://en.wikipedia.org/wiki/Theranos>

Interview from Ethics in Society Stanford with Tyler Shultz (Stanford, '13) and Erika Cheung

<https://www.youtube.com/watch?v=YJx-cU9CKLI>

Hulu Series: <https://press.hulu.com/shows/the-dropout/>

## 9. Endnotes

- 1) [https://en.wikipedia.org/wiki/Elizabeth\\_Holmes](https://en.wikipedia.org/wiki/Elizabeth_Holmes)
- 2) <https://www.youtube.com/watch?v=YJx-cU9CKLI>
- 3) <https://www.cnn.com/2021/10/01/tech/elizabeth-holmes-trial-reporter-john-carreyrou/index.html>
- 4) <https://www.justice.gov/usao-ndca/us-v-elizabeth-holmes-et-al>

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