Stanford eCorner

Encouraging Innovation and Risk Taking

Richard Scheller, *Genentech*

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In this clip, STVP Executive Director Tina Seelig asks Genentech Executive Vice President Richard Scheller to explain how he encourages his team to innovate in the face of financial risks. As the head of Genentech's research and early development, Scheller accepts failure as part of the process. He also describes how the company mitigates risk by maintaining a balanced portfolio of products, with each drug in the portfolio measured by commercial value and probable technical success.

Transcript

If you're going to take some risks and some big risk, you're going to have a higher chance of failure. But these risks if they work out, you can have some really big hits. So, how do you encourage that type of innovation and risk taking in the organization if people know that, "Boy, if I fail, this is going to be an incredibly expensive failure."? So there must be a lot of tension between that or how do you walk that line - trying to encourage risk-taking and innovation and not wanting to have some big failures. Yeah. Well, we just have to accept that we're going to have big failures. So we have a portfolio balance portfolio approach. So, for instance, in the Phase III, portfolio now has 13 new molecular entities. So with that, that's a new compound. I say 13 because there are probably 50 clinical studies going on. Sometimes the molecules are tested in more than one type of cancer, for example, and those are separate studies.

So 13 new molecular entities, each one, by that stage, has a commercial value associated with it. That's also getting better but those are usually wrong. I mean, the drug that we sell a lytic for dissolving blood clot was supposed to be a several billion dollar drug and it sells $200 million a year. And a drug for non-Hodgkin's lymphoma was supposed to be a couple of hundred million a year and last year, it was the largest selling drug in the Roche group and sold $6 billion. So it's just the opposite of what the commercial prediction's worth. But that's better now than it was 10 years ago. So we have a commercial value associated with each molecule. And then, we have associated with that a probability of technical success, a probability that the molecule will work in Phase III. And we take that all the way back, even to the portfolio that I managed in Phase I, where we have a probability of technical success of the molecule getting to the market. So what's the probability it will make it through Phase I, probability through Phase II, Phase III, through regulatory.

Obviously, as a molecule moves through the pipeline, the probability goes up as it passes one hurdle, and the next hurdle and the hurdle. So, we have a portfolio with known value for each molecule and the probability of the molecules working. And then, we balance the portfolio with more risky projects and projects that we feel are close to a slam dunk, if there ever is such a thing in our business, and manage the portfolio that way.