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In the first episode of our “Entrepreneurship and Ethics” miniseries, Stanford professor Tom Byers speaks with Stanford lecturer Jack Fuchs and Jazz Pharmaceuticals CEO Bruce Cozadd about how strong principles can help a leader navigate a crisis. Fuchs discusses his “Principled Entrepreneurial Decisions” course, and Cozzad walks through a case study he first presented in that class, focusing on how he leaned on his principles when his company hit a wall during the 2008 economic crash.



Transcript

(chiming music) - I felt like I was living a charmed life.. I was running a company I had founded.. Things were going great.. You know what do you do when you wanna figure out whether you're gonna get the \$40 million dollars and nobody answers the phone? Well you better love what you do and you better be doing it because you really believe in it because when you're struggling through hard times, you need to believe the work you're doing really matters.. - Welcome to Entrepreneurship and Ethics, a new mini-series we're presenting on the Stanford Innovation Lab podcast.. I'm Professor Tom Byers and I teach entrepreneurship here at Stanford's School of Engineering.. We were planning to launch this series closer to the beginning of the summer but the first episode we recorded just seems to relevant to sit on it any longer.. So we're releasing it now.. When Jazz Pharmaceuticals CEO, Bruce Cozadd, sat down with my colleague Jack Fuchs and me a few months ago, we had no idea how Bruce's story about navigating the 2008 financial crisis would feel so relevant today.. As entrepreneurs all over the world respond to the COVID-19 crisis, and think about saying farewell to employees and rethinking their growth plans, I hope that Bruce's principled approach to his own company's existential crisis provides a useful perspective..

I first learned about Bruce's story when Jack used it as a case study in his new Stanford course called Principled Entrepreneurial Decisions.. That course explores how entrepreneurial leaders can develop strong principles to guide their decision making and I began our conversation by asking Jack to describe that brilliant course.. We'll get to that in just a second.. Thanks for listening and I hope you'll stay tuned for future entrepreneurship and ethics conversations on the Stanford Innovation Lab Podcast.. We'll publish the next installment featuring the Theranos Whistleblower, Erika Cheung next month.. Now here's Jack.. - Yeah, I developed the course Principles To Entrepreneurial Decisions to try to help entrepreneurs guide them so they can develop their own values and principles that they would use as they lead organizations in the future.. We have cases that are written about CEO's that have been in difficult situations where there's not a clear right or wrong answer.. We invite those CEO's to class.. The students debate what decision they would make and what principles they think are at play and then the CEO gets up and responds to the students and reacts to the discussion and what we try to teach the students is the discussions should not be about the specific actions, they should be about the principles that underlie that decision..

And that by prioritizing those principles and understanding those principles within the context of the difficult situation they'll be best able to make the best decision.. - This is a terrific opportunity.. Let's get in the way back machine.. (chuckling) And go back 15 or 16 years to the founding of Jazz Pharmaceuticals.. Bruce, what was your vision at the time? What led you to start it? - Yeah great question and just to be transparent, I never thought I would found a company.. I was not an entrepreneur.. I was somebody that wanted to lead a biopharmaceutical company for the benefit of patients, right? Creating curative or life changing medicines but I sort of back into the decision to found a company in large part because I wanted that company to have a certain culture which is a long way of saying I cared about values when I founded the company.. - Something that seemed important to you was this notion of patient centrality.. What does that mean? Or what did that mean to Jazz then and even today? - Yeah so most people that go into the biopharmaceutical or more broadly, health care industry really do start out with this fundamental desire to make a difference in people's lives.. The question is when you're running a company, do you actually make decisions that are grounded in that mission of helping to improve patient's lives? If you're selling a drug that can help some patients and would harm other patients, is your goal to sell as much as the drug as possible? Or is your goal to sell it to those patients who would benefit and intentionally keep it away from those who might be uniquely

harmed? All right, that would be a patient centric view..

So can you build that into a company from the start? We have a mission, everything should be guided toward that mission.. Okay so let's go back to 2008 when it's famously being called the worst financial crisis since the Depression of the 1920's.. Where was the company right before those early signs started to show that it was going to be one of those terrible years? - Yeah we were a fast growing, optimistic, ambitious company consuming a lot of capital.. Investing in commercializing products but also investing in a RnD Pipeline.. And spending a lot to advance multiple programs forward.. So our expectation was our strategy would continue to work and that someday we'd turn profitable, right? Someday those investments would pay off.. I'll say as a former and reformed investment banker, I was watching with some interest as it became clear that Bear Stearns might go under.. And you know this has just never occurred to me that a household name, reputable, long lived company could go under that fast.. You know, most companies, and we were by now a public company, talk in their OCC filings about what can go wrong and we certainly talked about many things that could go wrong.. One we missed was that Lehman Brothers could go under and the listener may be saying okay it was Bear Stearns before it's Lehman now, what's the difference? Well Lehman was our prime lender..

Lehman had committed to give us another \$40 million dollars of capital at the end of 2008 and we were really dependent on that.. And when a company goes bankrupt, you can call 'em on Monday and say you promised to give me \$40 million dollars but there's no one there to pick up that phone.. So the questions was, how do we reduce our dependence on external capital? Right? How do we spend less? How do we generate more income? More operating income as quickly as possible? And that meant reducing our ambitions, right? We can't work on as many parallel programs or we need to do them in a more cost effective way.. You know, we need to push off some of our investments.. We can't hire as quickly.. Maybe we need to downsize.. You know you start thinking about how can I make do with less? (chiming music) - Just to give you a sense of the timeline here, Bear Stearns collapsed in March of 2008.. Lehman Brothers, the 4th largest investment bank in the world, went bankrupt six months later on September 15th.. And the minute Lehman Brothers went under, Jazz Pharmaceuticals \$40 million dollar lifeline evaporated.. When the Jazz leadership team convened after learning about the Lehman Brother's collapse, they knew significant layoffs were on the table..

Saying goodbye to many talent colleagues wasn't going to be easy but the principles baked into the company helped them go about those layoffs in a unique and thoughtful way.. - You know one of the principles that people always talk about when you're thinking about something like this is how quickly can you get to the new organization, right? The people that are staying and talk just to them about how to move forward.. And that often leads people to the decision that you wanna get departing employees out as quickly as you can, because they're not part of the conversation anymore.. And we ended up going the opposite direction which is we held an all employee meeting, departing and staying employees.. Departing employees had been respectfully and individually informed.. They weren't hearing about it in the group.. But we asked everybody to come to the meeting and we told everybody why we were making the decisions we were making.. And then honestly, we did something that I think comes pretty close to employee counseling which was we talked directly to the people who were staying and said, "The people that are sitting next to you "who've lost jobs are no less talented "than they were yesterday.. "They're still your colleagues, "they're still great researchers, "they're still great marketers, "don't treat them differently starting now "because they're out of a job." The decisions we made weren't based on talent level, they were based on our need and then I talked directly to the departing employees and I said, "And you can't change "the way you view yourself.. "Yesterday you viewed yourself as a talented, "successful professional in our industry, "and you are still that..

"We got ourselves in an economic situation "that requires drastic action to survive.. "It was a existential for us.. "Please understand why we're doing "what we're doing and we're going "to treat you well.. "We're going to bend over backwards "to treat you well." We probably paid more severance than you normally would but recognize that awful environment that we were putting people out into and then I said, "I hope we get the company back on track "and I hope many of you come back some day." - Jack, how do you handle with Bruce the discussion about the Lehman Brothers crisis? - It's one thing to try to help students appreciate that moment in time, and it's hard especially for students whose entire careers have only seen everything moving up and to the right, when jobs are plentiful.. It is important though to try to lay the foundation and help students appreciate that there are these cycles because they're going to have to wrestle with these cycles.. The odds that we're going to keep going up and to the right the rest of their careers and their entirety is very low.. And so it's extremely important that especially with Bruce being able to show and feel his emotion up there, and be able to describe what it was like to have to go through this incredibly painful time at a company and do just about anything he could to somehow keep the company alive.. I think just seeing him and feeling that emotion was probably the best thing for the students.. - Yeah, I felt like I was living a charmed life.. I was running a company I had founded, things were going great..

And then I found myself in uncharted territory and I think one of the powerful things about this discussion in class, it was clear that no one knew the right answer, right? And we got a lot of bright people in this class, a lot of analytical people, a lot of great problem solvers.. I can figure out the answer.. For example, what do you do when you wanna figure out whether you're gonna get the \$40 million dollars and no body answers the phone? That's not in my playbook.. One of the things I had to do was get over that desire to put your head in the sand and hope things are better tomorrow.. And to move toward action.. And that's hard to do when you're looking at actions that you don't want to take.. So how do you do that? Again, why am I a leader? What am I trying to accomplish? Who do I have responsibilities to? And then how do I not be in this on my own? And so being willing to have that tough conversation with the board of directors.. "Hey, I'm getting the sense, "we're not on a good

path right now "and something's got to change." Bringing your team in, we need to attack this problem together.. Not I'm gonna go in a dark room by myself and figure this out but we are gonna explore this.. We're gonna throw out lots of ideas and I think we made it sound like this was all easy, you know, I know what my principles are, of course I know what the decisions are..

You know when you're brainstorming, throw everything up on the wall.. Don't edit yourself yet.. You can come back and apply the principles and the values to various actions once you've got 'em up on the board but bring people into that.. Inaction is failure.. We need to act.. Now let's talk about what our options are.. There was a great story that Captain Sullenberger told after the amazing plane landing on a river where he said, "My job, as soon as I realized we had no engines "was to think about what our options were, "pick the best one and execute the hell out of it." The best option by the way was not a particularly good option but it was the best one.. And then it was about execute the hell out of it and I remember thinking as I was going through this period, I gotta pick the best option whatever it is and execute the hell out of it.. (soft chiming music) - If you didn't get that Captain Sullenberger reference, he was the airline pilot who made a successful emergency landing in the Hudson River back in 2009.. It's a powerful metaphor for what it can feel like to lead an organization when there are no good options on the table..

As the financial crisis deepened, Jazz Pharmaceuticals was focused on a drug that showed promise for treating narcolepsy, a condition that disrupts normal nighttime sleep.. Bruce was encouraged that the clinical trials for this drug was showing beneficial results.. But instead of receiving an additional \$40,000,000 from Lehman Brothers to fund it's growth, Jazz found itself the now bankrupt Lehman Brothers millions of dollars for previous loans with no lifeline in site.. At the beginning of this episode, Bruce talked about patient centricity as one of the core principles at Jazz Pharmaceuticals.. So it's worth asking, how did that principle affect Bruce's decision making as he struggled to keep both his company and this clinical trial afloat? We've made available to patients with narcolepsy, a very serious neurologic sleep disorder, a drug that helps them function better during the day by reducing their excessive daytime sleepiness and their cataplexy attacks.. The important thing to know about a narcolepsy patient is they don't get restorative, slow way of sleep at night and so they can't really function during the day.. Their sleep wake switch is broken.. So not a common condition.. Narcolepsy affects about one out of 2000 people in the United States, a so called orphan disease meaning fewer than 200,000 sufferers in the U.S.. but it is life changing for these patients and our therapy I think is an important sort of gold standard treatment for these patients and so again, us thinking about what would happen if Jazz Pharmaceuticals went out of business, it wasn't clear to me how those patients would continue to benefit from therapy..

So as we approach the end of 2008, we had an interest payment due on our debt which required us sending millions of dollars to this now bankrupt institution, and it became clear to me we didn't have enough money to make the interest payment, continue our operations including an ongoing clinical trial where we were trying to help patients with a tough disease and get the company to break even.. We were just gonna run out of money and so we weren't done with our problem solving and the question was, what could give? Do you stop the clinical trial? Do you let the company hit a wall and go bankrupt? What do you do? And we ended up not making the interest payment and hanging onto that money in the belief that without making those interest payments, we'd just make it, right? We'd just get to profitability before we ran out of money and we got a lot of great advice from folks who do this for a living, bankruptcy attorneys, and they said, "You know what you're doing "is actually protecting the interest "of the debt holders as well as "your stockholders and patients, because you need "to stay solvent or they're not going "to get anything." But again, there was nobody at Lehman Brothers to answer the phone and say, "We agree.. "We'll give you a waiver.. "We'll extend your payments." They just kept threatening, "We can put you into bankruptcy," which they had the legal right to do.. - I remember one question from a student, you said you did everything to try to navigate and make the company survive, did you raise prices? - We did.. We also took management salary cuts, we eliminated bonus programs, we rolled back benefits.. I mean, it was everything on the table but again, why? Right? What was the principle that drove this? And I wrestled a bit with is my duty only to stockholders? Right, am I just trying to protect equity value, and you know eventually I recognized as most of us do that investor invest in higher risk and lower risk securities and at some point they understand they're taking some risks and we'd certainly been clear about that so I felt bad that I might lose money for investors who bet on me but I got past that and then I wrestled with the employee issues, putting people out into a bad job market.. But again, I thought we did everything we could.. The thing I couldn't get past, were these patients who were counting on us.. There was nobody else that was gonna step in and run that clinical trial..

They had enrolled in the clinical trial with the promise that they'd get treatment or placebo but they'd have the opportunity to see if that treatment benefited them.. To pull the plug in the middle of a clinical trial is just a violation of the trust of those patients who volunteered to help you learn something about a potential treatment.. And that one I couldn't get past.. And that's why that went to the top of my priority list was we cannot let these patients down.. We can disadvantage employees, we can disadvantage stockholders but we owe it to these patients to do the right thing.. - It's incredible so, let's leap ahead to 2009 out of 2008.. Can you just tell us a little bit about what happened then? But then I'd love to hear about the last 10 years.. - Well it was a white knuckle time for the management team and the board.. We had 26 board meetings in 2009, at my company as I went back and looked at our proxy statement to check that fact.. I use to do meetings where we would forecast how many more weeks of cash we had and my goal was every week when we updated that forecast that that number would not have gone down..

Gradually that number started getting bigger and it became clear to me we would hit cash flow break even in the summer

of 2009.. Now the stock was still trading at 50 cents a share.. We couldn't raise new capital.. So things were tough but as we started to see our way to, we can get back to profitability, now we can go talk to the bank about paying 'em back that interest at default rates, at higher rates.. We can talk about can we restructure the balance sheet.. We can start moving the business forward little by little and this awful process we had gone through of spiraling down toward the ground started going in reverse.. We started spiraling up.. You have no options, now you've got one option.. Now you've got two options.. You get to make a different choice..

You get to push something forward and while you can't see 100 steps ahead, you can see a few steps ahead and keep making forward progress.. We did get the company back in stronger shape.. Many of those employees, not all, but many of those employees have rejoined the company, cause we're about 1,500 employees worldwide today.. Our company is very profitable and we can now fund out of our own cash flow much more research and development, much more development of new medications.. Of course we can often access the external, capital markets as well, but I will say I'm as a leader, probably still cautious that I don't want my strategy to be entirely dependent on continued access to cheap capital.. Probably because of that experience I went through.. - What advice do you give to young entrepreneurs? What do you hope they learned from that discussion? - Well, you better love what you do and you better be doing it because you really believe in it.. Because when you're struggling through hard times, you need to believe the work you're doing really matters.. The other thing I would say is if you do have core values that are important to you, that you wanna imbed in the organization, do that communication as often and as frequently as you can and build it into the organization.. Are you building those values into how you recruit, how you onboard, how you reward performance, what you recognize? Are you collecting data? Do you ask your employees in an anonymous survey is the culture you're experiencing day to day what we say it is? Does that match up? Be transparent about that data..

Feed it back to your employees.. Where are we on track? Where are we off track? Tell 'em what you're gonna do when you're off track.. Measure again, right? So it's not just talk, you're building into the organization.. And the advantage of that is when you hit these tough moments, and you now say to your employees including in our case unfortunately departing employees, here are our principles, here's how we make decisions.. They're not hearing something new.. They know that's how the company makes decisions, right? It feels consistent but trying to figure that out during the crisis is exceptionally hard.. - Wow, Jack, as a colleague in this wonderful discipline of entrepreneurship education, this type of conversation and these kinds of lessons have not been emphasized.. What do you hope students get out of this session that you do but the whole course because I've watched you just dive into this with such verve and intensity over the last year or year and a half and I've been so impressed by that but what's been motivating you to build this course and these kinds of lessons? - Well I hope that by having folks like Bruce and other wonderful leaders at our class sessions and I hope that by helping prepare the students minds with these ideas about what values and principles are and getting in touch with their own values and principles that we enable them to bring those values and principles and when times get tough and when you're faced with these difficult situations that those values and principles will shine.. I know of no other way that we can do a better job of helping folks make the right kind of decisions for themselves than by giving them an opportunity to share experiences with people like Bruce.. - And can I just jump in and say, it's fun to share the last chapter of the story or the next chapter, but this story isn't important because it worked..

The importance of this story is I got to be the leader I wanted to be in a tough time.. And I can live with myself, right? I felt like there was a reason that I was making the decisions I was making.. And I think for any leader to go through a tough time and feel comfortable that they can be proud of the way they acted is important.. Whether or not it succeeds, right? And I just want to emphasize the importance of this case is not that it worked.. The importance of this case is the principles actually were the principles and when times got tough, you stuck by 'em and you can feel good about that.. And we also encourage the students to be explicit about their principles and walk the talk as Bruce described.. We talk about how your employees not only listen to what you say, but they are watching every little move that you do.. What was the first question you asked? How did he react when we said that? You need to communicate those principles and then you need to live by those principles as a leadership team.. - You know I think this course is powerful because it is experiential in some way and the discussions, it's based on real cases.. You've got access to real speakers who live through that..

I think it's just the start for these students and I came away really encouraged.. I think they were wrestling with some of this and that's great.. (chiming music) - Like Bruce, I'm encouraged that Jack's students were wrestling deeply with the questions posed by this case study.. And I especially appreciate Bruce's comment that the point of the story isn't that his strategy worked.. The point is that no matter what happened, he could have walked away knowing that he'd done his best to balance his responsibilities to his employees, his investors, and especially the patients in the clinical trials.. If you enjoyed this episode, please subscribe to the Stanford Innovation Lab podcast to stay in the loop on future episodes.. And feel free to review us and give us some stars to help us reach more listeners with this conversation about Ethical Entrepreneurship.. - This episode was produced by Luke Cicora and Rachel Joelkowsky for Stanford eCorner and was edited by Katy Furneleis.. Danielle Stutsey is our designer and digital products manager.. Our growth marketing specialist is Nora Cotta and I'm Tom Byers..

Thanks for listening.. (chiming music)..