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<https://ecorner.stanford.edu/podcasts/theranos-whistleblower-erika-cheung-on-incentivizing-ethics/>

In the second episode of our "Entrepreneurship and Ethics" miniseries, Stanford professor Tom Byers connects with Theranos whistleblower Erika Cheung. Together, they explore how she found the courage to speak up, and why she's starting a nonprofit organization focused on creating ethical toolkits for entrepreneurs.



## Transcript

- It's not good guys versus bad guys.. It starts off with a sort of, white lie, of, you know, over-promising and, and not delivering.. The potential of someone dying because you didn't come forward, you didn't say something, everything else seems to kind of melt away.. - If you've been following the Theranos saga at all, and it's been hard to miss lately, you know that Erika Cheung and Tyler Shultz were the two main whistle blowers in that dramatic story of entrepreneurship gone way wrong.. Theranos was an example of Silicon Valley's fake it 'till you make it mentality, taken to an extreme, and it was that story actually that caught my eye and made me start asking whether we're doing enough to emphasize ethics in our Innovation and Entrepreneurship curriculum.. That's why I'm personally so excited to have a chance to chat with Erika today.. It's a great opportunity to think about what people working in a start-up can do when they see a venture heading in a drastically wrong direction, and it's also an opportunity for me as an educator, to think about how I can better prepare my students to face these issues some day.. After we talk about Theranos, we'll fast forward to the new non-profit that Erika started, which focuses on bringing ethics to the center of tech entrepreneurship.. (soft electronic music) So first of all, Erika, thanks so much for joining us today.. If I understand, you were, you became aware of Theranos at a job fair or something like that..

Why were you so excited to, to join the company? - Yeah, I think at that time when I graduated, what you were seeing was this sort of height of the Silicon Valley and all these new internet companies.. I remember going to this job fair and being a little dismayed that I should have been a software engineer versus a biologist.. And Theranos was sort of this like, star of, of light and hope for scientists who were also interested in sort of, riding this very exciting wave of, you know, working for these, these big giant, you know, tech companies that seemed, at least at the time, very invincible and just an exciting place to be if you were young and really wanted to join a company that not only was, you know, lucrative or financially viable, but also had a strong mission associated with it as well.. - What values or principles pushed you over the line there to do that? Was, was it the fact that the tech companies, you had a harder time seeing how their mission was gonna make a difference, and Theranos with it's old mission was the place to be? - Well I was kind of on the R and D track.. So for me it was like, you're gonna get a PhD, because you wanna become a scientist, and really, had focused a lot of my career more on research and development, working within academia.. So I think it was exciting because Theranos was actually taking an applications approach, "What was the research that had been studied for decades "in microfluidics," and, you know, the new and exciting kind of, "Nano technologies "that we're using to create these really sensitive sensors," be applied and distributed amongst the masses within, you know, they were gonna launch throughout Walgreens to test on patients.. So I think it was just exciting, right? It was seeing all the research that I'd been reading about as a student and actually putting it in, into practice.. - And you weren't alone, I mean the vision was something to behold.. I, I think the whole Valley was excited, if not the world about what was being promised or envisioned by Theranos.. I remember going to my Walgreens there on University Avenue in Palo Alto and seeing the Theranos station and just thinking, "Oh I can't wait to try this sometime." (quirky electronic music) To summarize Erika's story in case you're not familiar or need a refresher, she was just out of college and working in the Theranos lab back in 2014 when she started to notice regular failures in their blood testing technology..

She escalated her concerns and eventually approached Theranos COO, Sunny Balwani, arguing that they needed to stop processing patient samples.. When Balwani discounted her concerns, she quit.. She then spoke off the record to "Wall Street

Journal" reporter John Carreyrou and reported her concerns to the Centers for Medicare and Medicaid Services which spurred a federal investigation.. She didn't intend to become a public whistleblower, but a lawsuit made her name public, so she began talking to the press on the record.. (quirky electronic music) But there you are, just joined the company, you were there for a few months, and you had this, you had these failures goin' on with the work you were doing, did you ever feel like you were blowing it out of proportion? - Oh yes, all the time.. Especially when you're a recent graduate you have no other context.. So it wasn't like I had been coming from a hospital setting or another clinical lab or even a really advanced, you know, diagnostics lab or research and development lab, so I thought, you know, "Maybe I'm not seeing "the full picture of what's going on.. "Potentially I am misinformed about the data that I'm seeing," there was a lot of doubt going through my mind through the majority of this process and yeah, it was really hard to tell who was right, who was wrong, what was actually going on in the company.. It was surrounded by so much secrecy and siloing, so even when I was trying to paint a whole picture of what was going on I was often blockaded from even doing that, because the company was becoming more and more fragmented with time as I started working there, and especially as more people had illustrated that there were a lot of concerns and red flags going on within the company.. - Who were you talking to about this, just as a sanity check? - Yeah I talked to a lot of people in there..

I had talked to people from different departments as much as I could, whether they were statisticians.. I luckily had the ally of the lab director who had informed me a lot of, "Okay, what do you see "in a proper clinical lab? "What are the things that you should be doing "to, again, sanity check yourself?" He advised that I write a journal while I was in the organization just to make sure that I couldn't, that I could remember actually the history of the things that I had done while working for the company and get more of an objective perspective on, you know, were these real errors? What kind of studies were we running? What was the evidence to show that there were failures? I, I mostly had a lot of internal allies within the organization of just trying to chat with different people and fact check and, and figure out, like, "Are you guys seeing what I'm seeing? "What's kind of going on here? "Is this right, is this wrong?" But you definitely can feel a little gaslit and like you're the crazy one while, while you're doing this, but I think working initially for the company I really went in with a sense that, "Maybe, you know, Sonny and Elizabeth didn't know "what was going on, that they didn't see the failures, "that somehow what we were doing on the ground "wasn't getting translated to the upper level management." - When did you think you were a whistleblower, 'cause that's, you know that's, that's a term right now that isn't just applied to startups.. It's applied, my goodness to the government, you know, as you know, in the news.. So when, at what point did you think you were becoming one of them, a whistleblower? - Honestly, I didn't consider myself a whistleblower until other people started calling me a whistleblower.. You know initially going in and asking questions and being curious about "Is this right or is this wrong," this was just me trying to do my job and to do it well.. And then going externally was really because of that commitment to patients of, "Look, the vision of Theranos "was to provide good quality care for patients" and the moment that gets violated, you need some sort of accountability and, and some oversight to make sure that these things don't get disastrous, and to, you know, especially 'cause I knew the company was scaling to a degree that could really endanger a lot of, a lot of lives.. - I'm still just, ah, you know, moved by the courage that you had.. I mean, did you see yourself as being courageous at the time, or it just felt like the right thing to do? I mean, where did that come from, is that from your parents, is that from your own set of values and principles? From college at Berkeley, I'm just, I'm just thinkin', what do we tell students like yourself to draw upon? - At the end of the day, as much as it's scary to face legal action and to, you know, get lost in the details of what the future could hold and how much damage this can have your reputation, it's like, you have to come back to those fundamentals, right? The potential of someone dying because you didn't come forward, you didn't say something, right? Like this is, everything else seems to kind of melt away when you just re-contextualize, you know, what was your intention going into this? Your intention to go into this was to provide people with good health care and you know, I, I was lucky enough that I had parents that had a lot of faith, a lot of trust in me.. My dad even, when all this stuff was going on and, and lawyers were contacting me, he's like, "Erika, you're a smart girl, you'll figure it out," and just had a lot of, of faith and trust in my ability to kind of move forward even if things got, got rough.. (quirky electronic music) - It takes a lot of courage to be a whistleblower and Erika's courage is nothing short of inspiring, but whistleblowers only come into play when an organization is already way off course, so how can we encourage innovators to build ethics into their organizations from the very beginning? That question has been on Erika's mind ever since her experience at Theranos back in 2014 and she recently launched a new non-profit that's trying to answer it..

You know, I keep (exhales) resonating on your comment about patients lives were at risk.. You know, so here we have a situation, and this is probably a good time to start talking about the Ethics in Entrepreneurship non-profit that you started.. So tell me more about Ethics in Entrepreneurship and why you started that, because that's gonna be a great contributor to the change that we so badly need.. - Yes, after I'd worked in the biotechnology industry after Theranos, I had launched, I had helped launch an accelerator program in Asia.. So we were doing early stage tech investments and what I started to realize (chuckles) was, that when we were educating these startups, we weren't really talking about, you know, "Okay, when you build your products, "what kind of consequence does that have on society? "Can you not see, you know, for example, like "facial recognition software and telling everyone "and telling your investors that you're gonna sell the data "of these people and everything that they do "to potentially health insurance companies or something.. "Do you realize that, you know, this, "this could have really grave consequences "for the people that you're intending to serve?" And that there was really a lack of conversation and a lack of education for these entrepreneurs regarding ethics and what are the consequences of the technologies we're building.. And then also internally with an organization, you know, what happens when you have abusive leadership? What happens when you know, the intention that you had going into an organization when you go from five people to a thousand, how does that get degraded with time and how do you, you know, maintain the principles that you set

out, while the company expands and grows? So really these questions had prompted us, the fact that we saw there was a lack of education especially from the incubator/accelerator space that I was in, to sort of, equip these entrepreneurs with these tools, these ideas, this line of questioning and, and the basic frameworks they need to start incorporating ethical thinking and decision making within their businesses was what prompted us to launch, to sort of, get that conversation going within these various entrepreneurial communities around the world.. - Yeah well this is why I'm encouraging everyone to, to have a look at the Ethics in Entrepreneurship website, but it, it is, I'd still think it's a pretty steep hill to put ethics on the same importance level as innovation.. I mean everybody agrees if, if a startup isn't innovative, it's game over.. And so, yeah yeah, we know, so they, and there's all kinds of models like product-market fit and you know, lean startup, how to raise capital..

There, there's been a lot of resources around that and we had a hand in that the last 20, 25 years in building those resources for teaching this stuff to any student, but ethics has always been seen as sort of, the afterthought, or in the back seat, I don't know what analogy to use, so how do we change that? How can we make that as equal in importance as innovation itself? - Yeah and take a more proactive versus a, a reactive approach, right? How do we encourage and foster ethical culture within an organization, especially in the early stages, because that's honestly the, (chuckles) it's a bit of an easier, easier opportunity in a way to, to start off on a good footing and maintain that over time, than it is to go into an organization when it's in a crisis, usually, and change things.. - So, let's, let's get out of the sort of, aspirations and talk, is there a specific story you could talk about about a, what are the frameworks or, situations that you've addressed, you know, with your techniques? - I, I talked to a lot of people at Fyre Festival actually and this is a case, right, it's a digital startup, it doesn't quite have the sort of, black and white case of patient lives, but it was a lot of people who spent a lot of money to go to this festival, and it sort of blew up (laughs) in everyone's face.. But hearing, you know, just dealing with the founder who was siloing information and they didn't even know sort of, certain transactions that were going on.. The fact that, you know, money was being wired to different people, places, documents were being forged, and it's hard when you're an employee because if you're in certain positions, your reputation is on the line, but you don't even realize what's going on.. So we're seeing a lot of cases of sort of, rogue founders who do a lot to hide from their employees that are in a position where they're lying a lot.. It starts off with a sort of, white lie of, you know, over-promising and, and not delivering in many cases.. Also, a lot of tech workers that, are essentially in positions where they don't know who to turn to, and luckily there's been some great organizations that we've been seeing start to pop up to sort of, address this issue, where tech workers don't feel like they have a voice within their internal organization, so who can they turn to outward facing in an anonymous way? You're seeing things like Fishbowl and Blind kind of pop-up.. You're seeing new whistleblower networks being produced, other non-profits like The Signals Network that will help protect and provide pro-bono legal services for whistleblowers.. (quirky electronic music) - When I inquired with Erika about the solutions her own organization is proposing she told me that they're really focusing on how startups can establish an ethical culture.. If we learned anything in these past few years, it's that an organization's culture goes a lot deeper than a few slogans and a PowerPoint..

So I ask her, what tools might help entrepreneurs make ethics a core factor in decision making? - So the first thing that we've done is really try and do a canvas to help outline people, "Okay, what are your principles? "What are your values? "What are your standards, and how do these things "flow into things like governance "and flow into your product development "to be able to kind of, allow the ethics "to sort of naturally blend into "the different business operations?" And then another tool that we're working on at the moment and we're partnered with this organization called Ethical Systems, is essentially how do you assess what the climate is in your organization right now, and provide companies with the ability to sort of figure out, "Okay, in what business units "are we, either seeing issues or potentially not, "where are people performing quite well "and seem to have this nature of proactive ethical culture?" - So, say you walk into a room with just a, a prototypical client, and they look at you and say, "Our company is not Theranos, Erika.. "We don't have a problem." What do you say to that particular person, (laughs).. - Again it's, it's, you don't, it's not just about, "I'm not a Theranos now," and I think this is the common misconception about these scandals.. It's not good guys versus bad guys.. Again, if we want to achieve a situation where we don't end up with more Theranoses, we have to take a proactive approach.. These, especially for startups that have the case where they're under a lot of pressure, they're low on resources.. In addition to that, the growth cycles are just crazy, right? Going from a company with 10 people and then 300 people over a course of two years, it's, it's normal and natural for things to manifest.. That doesn't mean the founder is a bad person if things go wrong, but it's, it's very easy for those things to turn in that direction depending on what kind of stressors or pressure a company or a founder is under.. So, I would just say it's, it's, again, we gotta be proactive about it and it's much more cost effective.. It de-risks you, it, it really puts you in a position where you don't have to maybe even consider, "Oh man, how did I get here? "How did I potentially become a, a Theranos case?" - I had this awakening around the time I, you know, read about your story via "Bad Blood" and started hearing all about that, but at the exact same time, I said, "Wait a second, I get it now..

"This has been presented as a constraint.. "When it's presented like that, no wonder it got to be "way down the priority list." I mean, it was much more important to just figure out, "Does the technology work? "Is there product-market fit? "How do we raise money to, to fuel this "until we're profitable someday?" I mean it was all about that first on, you know, on the, highest on the priority list, and then, "Oh yeah, oh maybe we should think about the way we behave "and the way we make decisions," and that was, by then everybody that, there's just no, there's no time.. - Yeah.. I mean, and it, maybe it was something that people unfortunately needed to learn the hard way, right? Because now we're seeing, just case after case of, of sort of, these companies that didn't put this at the forefront and now are facing a lot of repercussions.. Whether that, you know, was Uber or WeWork or Theranos or Ubuy.. So unfortunately, you know, no one had the context or didn't have the awareness that, that this could happen, that people could turn in direction of sort of, committing bad behaviors as they were

scaling out these businesses and that this, that idea of, you know, ethics, really should have been at the table along with everything else and had that consistent check in, just like you would with any other, kind of, KPI within your organization.. So we've been looking at different KPIs in which people can kind of, monitor employee voice.. So there are different ways that people do this.. So one is, is just the KPI of employee voice.. You know, how well do our employees feel like they're being heard? Another thing is with whistleblowing hotlines, right? This is nothing new, they've been instituted in many major corporations, but figuring out creative ways in which you can provide a sort of, anonymous tip box that when people do see something that they don't feel good about, that they have a place to sort of, leave that information in an objective way..

There are also a lot of companies that have decided to outsource that, where they actually have a whistleblowing hotline outside of the organization and someone can kind of, decode the information in the complaint that's being made so it doesn't identify the person who's kind of, coming forward.. It's tough with a small company because you know, you're pretty much gonna know who's gonna have that complaint, so I think the impetus is really creating this sort of, speak up culture.. Having the founder say, "If you see a problem, "we want you to voice your concern "and we want to make sure we create "a safe and inclusive environment "for people to be able to have a discussion "about what's going on," and always inviting, kind of, the hard conversations.. - Yeah and what makes me optimistic, like I said earlier is that we've found some companies that are using that.. They're using it as a strategic advantage.. We've been talking to as many people as possible including the person that's recognized as the a, the founder or the, the guru of corporate social responsibility, his name is Professor Ed Freeman from the University of Virginia and we've chatted with him and in a way, this is a, finding the dawning of something like CSR, but for startups.. Even he admits saying, and he developed that back in the 80s and it's now, you know, the standard practice at large, large enterprises, but it never really made its way to tech, so he's thrilled about the work that's goin' on in this area.. So as we wrap up, I said, "There's thousands of people "teaching Innovation and Entrepreneurship." I hope they listen to these podcasts that we're, we're gonna do and get the word out.. Is there something that you would like to tell them, these college professors that are teaching this subject? - I, I think it's been really interesting sort of going around and going into classrooms and talking to students about the experience at Theranos and really putting students in the, you know, shoes of people who have had to make very challenging decisions, had to be placed in really big ethical dilemmas.. It's hard to sort of, get a personal understanding of, sometimes when you're reading material in a book, but running people through those exercises are definitely very useful..

I think it's hard as an educator because really even in my case with Theranos and sort of facing this ethical dilemma there was nothing really that could have prepared me (laughs) for what was going to, to follow, so it's always hard to say, to give advice on that, but starting that at a teacher level is really valuable.. (quirky electronic music) - I am so impressed by Erika Cheung, not just because she had the courage to face up to Theranos, but also because she's leveraging that unfortunate experience into something much bigger.. If we're going to tackle the dark side of tech entrepreneurship on a more systemic level, organizations like hers will be invaluable.. You can learn more about her organization at [ethicsandentrepreneurship.org](http://ethicsandentrepreneurship.org).. (quirky electronic music) 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 Sykora and Rachel Julkowski for Stanford eCorner and was edited by Katie Fernelius.. Danielle Steussy our designer and digital products manager.. Our growth marketing specialist is Nora Cata and I'm Tom Byers.. Thanks for listening.. (quirky electronic music)..