

**A Critical Analysis of Business Failures:**

**The Rise and Fall of Theranos**

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Business failures, particularly among high-profile companies, offer valuable insights into the risks and challenges that entrepreneurs encounter. One of the most notable business failures of the last decade is Theranos, a health technology startup that promised to revolutionize blood testing. Founded by Elizabeth Holmes in 2003, the company experienced rapid growth in valuation and ultimately collapsed under the weight of scandal, regulatory investigations, and criminal charges. This paper will explore the background of Theranos, examine the factors that led to its rapid rise and dramatic downfall, extract important lessons from its failure, and offer a personal assessment of the company's trajectory, particularly in light of ethical leadership and technological innovation.

Theranos was founded in Palo Alto, California, by Elizabeth Holmes, who was a Stanford University dropout with an ambitious vision. Holmes believed that she could create a small, portable device that would perform hundreds of medical tests accurately using just a few drops of blood from a finger prick, rather than traditional venous blood draws. This technology, if successful, promised to make blood testing faster, less painful, more affordable, and more accessible to the general public. The company attracted significant attention and investment from venture capitalists, reaching a valuation of almost nine billion dollars at its peak. The board of directors included influential former government officials and respected business leaders, further enhancing the company's credibility. Holmes was celebrated as a visionary entrepreneur and became the youngest self-made female billionaire, receiving extensive media praise.

The rise of Theranos can be attributed to several key factors. First, the company tapped into the growing healthcare and biotech market with a disruptive vision, promising to improve patient outcomes through innovative technology. This promise aligned well with Silicon Valley's culture of innovation and the excitement around startups challenging established industries.

Theranos secured partnerships with major retail chains such as Walgreens and Safeway to implement its blood-testing machines in their stores, which suggested potential for widespread impact and commercial success. Holmes's charismatic leadership style and ability to generate hype contributed to investor confidence and media attention. The company's culture of secrecy also created an aura of mystery and exclusivity around its technology, making Theranos a highly coveted opportunity among investors. This led to significant financial backing without traditional peer review or scientific validation of the product.

Despite this initial success, several critical factors precipitated the collapse of Theranos. Central to its failure was the fact that the company's proprietary blood-testing device, the Edison machine, never functioned reliably or produced accurate test results. Internal reports and whistleblower accounts revealed that Theranos routinely used conventional laboratory machines to run most of its blood tests, contradicting the company's public claims. The lack of transparency was another key issue; Theranos refused to share data or allow independent validation of its technology, even when pressured by partners and regulators. This secrecy created suspicion and undermined trust once details began to emerge. Furthermore, the leadership's unethical behavior exacerbated the situation. Elizabeth Holmes and her Chief Operating Officer, Sunny Balwani, allegedly engaged in deliberate deception by providing false information to investors, regulators, and patients about the effectiveness and safety of their technology. Investigations by *The Wall Street Journal* exposed these falsehoods and triggered scrutiny from federal regulators such as the Food and Drug Administration (FDA) and the Centers for Medicare & Medicaid Services (CMS). These regulatory agencies identified numerous violations of laboratory standards, which further eroded confidence in the company. Ultimately, Holmes and Balwani were charged with criminal fraud, marking a dramatic fall from

grace. The failure was also rooted in poor corporate governance; the board of directors lacked sufficient expertise in medical technology, which contributed to inadequate oversight. Additionally, whistleblowers who attempted to raise concerns internally were ignored or silenced, allowing problems to persist unchecked.

The collapse of Theranos offers several important lessons for entrepreneurs, investors, and business leaders. First and foremost, the importance of transparency and honesty cannot be overstated. Companies must communicate openly about the capabilities and limitations of their products, especially when dealing with sensitive fields like healthcare. Concealing flaws or exaggerating claims can lead to devastating consequences, not only for the business but also for patients and consumers who rely on the technology. Additionally, rigorous testing and validation of technology are essential before commercial deployment. Theranos's failure to conduct thorough scientific validation led to inaccurate test results, which posed risks to patient health. This case underscores the necessity of adhering to industry standards and regulatory compliance. Ethical leadership and strong corporate governance are also critical components in preventing fraud and protecting stakeholders. The involvement of experienced and knowledgeable board members can provide crucial checks and balances. For investors and partners, the Theranos scandal highlights the need for thorough due diligence and skepticism, especially in startups that operate in secretive environments or promise revolutionary technologies without peer-reviewed evidence. Finally, risk management practices, including regulatory compliance and internal reporting mechanisms, must be robust to ensure early detection and correction of issues.

From a personal perspective, Theranos serves as a powerful cautionary tale about the dangers of unchecked ambition and secrecy. While the vision of revolutionizing blood testing was compelling, the company's unethical practices and inability to deliver on its promises

ultimately doomed the venture. Elizabeth Holmes's leadership failed to foster a culture of transparency and accountability, which is vital in both the healthcare and technology sectors. For students and professionals interested in cybersecurity and digital forensics, the Theranos case highlights the broader principles of integrity, verification, and oversight that are crucial for managing trust and risk in any field. It reinforces the understanding that technological innovation must be balanced with ethical considerations and rigorous validation to build sustainable and trustworthy enterprises.

In conclusion, the rise and fall of Theranos provide valuable insights into the factors that can contribute to business failure. This case underscores the importance of transparency, ethical leadership, strategic planning, and risk management in sustaining businesses in today's dynamic and competitive environment. By learning from Theranos's mistakes, current and future entrepreneurs can better navigate the challenges of innovation, maintain stakeholder trust, and build companies that endure.

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