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ECON 011

12 May 2022

### WeWork and Theranos: The Fraud Enabled by The Team

A unicorn describes a mystical creature and is a word that has gone onto mean something that is rare and highly valued. The term is used in the venture capital industry to describe “a startup up company with a value of over \$1 billion.”<sup>1</sup> Securing unicorn status often coincides with visionaries who have profound missions to revolutionize the demands of consumers. Elizabeth Holmes, founder of Theranos, and Adam Neumann, founder of WeWork, had the vision and mission to achieve greatness. Their respective start-ups were met with high valuations and paved the way for highly valued investors. However, overzealous behavior did not equate to the capability of being successful because Holmes and Neumann both revealed that ambition can be met with difficulties and abstaining from commitments.

Entrepreneurs Holmes and Neumann had visions to reform consumer demands within their respective markets. Holmes desired to revolutionize the \$75 billion blood testing business by effectively “determining the onset of disease” through one finger prick and expedite the timeline for effective therapy.<sup>2</sup> It was a vision many engineers and scientists believed was impossible. On the other hand, Neumann became a visionary within the commercial real estate industry. He envisioned to revolutionize the office space market by offering beautifully designed shared offices in which businesses could waive long term leases and rent by minutes, days, or months.<sup>3</sup>

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<sup>1</sup>Chen, James. “What Is a Unicorn in Business?” *Investopedia*, [www.investopedia.com/terms/u/unicorn.asp#:~:text=Unicorn%20is%20the%20term%20used](https://www.investopedia.com/terms/u/unicorn.asp#:~:text=Unicorn%20is%20the%20term%20used).

<sup>2</sup>Bo, Ernesto Dal, and Guo Xu. *Theranos: How Did a \$9 Billion Health Tech Startup End up DOA?* 2021, 10.4135/9781529789652. Accessed 12 May 2022.

<sup>3</sup> Cheng, Yo-Jud, and Stephen Maiden. *WeWork: But Does the Corporate Governance Work?* 8 Dec. 2021, pp. 1–13.

Both Theranos and WeWork were disrupting their respective markets, through their visionary founders, and became multi billion dollar unicorns in which investors became enamored with.

Theranos and WeWork were both media darlings and were considered to be starts up with a value of over \$1 billion dollars. Theranos had a \$9 billion dollar valuation and WeWork, before their IPO, had a \$47 billion dollar valuation.<sup>4 5</sup> These two companies were able to achieve unicorn status, through not only vision, but by quickly assembling a powerful board and a list of high profile investors.<sup>6 7</sup> Some of Theranos's board of directors consisted of former secretaries of state, former secretaries of defense, and former U.S. Senators while investors such as media mogul Rupert Murdoch, Walmart's owner the Walton family, and Betsy DeVos invested upwards of \$100 million dollars.<sup>8</sup> WeWork had a formidable board of directors as well. It consisted of a former Goldman Sachs partner, two top SoftBank lieutenants, and other high ranking business professionals. Following the board of directors, business leaders such as Fidelity, JPMorgan Chase & Co., Harvard, Masayoshi Son, and other venture capitalists invested into WeWork on monetary levels greater than Theranos. Investors were enamored with Theranos and WeWork.<sup>9</sup> The inflated valuations, of both companies, to their investors and their visions to disrupt huge markets insisted they were both unicorns.

Theranos and WeWork were led by their visionary and influential leaders. Holmes and Neumann both had admirable qualities. They broke out of the status quo with charisma, took the entrepreneurial risk, and dared to dream of a favorable future. In return, both leaders were able to influence and control the decisions of high ranking business executives by understanding human

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<sup>5</sup> Cheng, Yo-Jud, and Stephen Maiden. *WeWork: But Does the Corporate Governance Work?* 8 Dec. 2021, pp. 1–13.

<sup>6</sup> Cheng, Yo-Jud, and Stephen Maiden. *WeWork: But Does the Corporate Governance Work?* 8 Dec. 2021, pp. 1–13.

<sup>7</sup> Bo, Ernesto Dal, and Guo Xu. *Theranos: How Did a \$9 Billion Health Tech Startup End up DOA?* 2021, 10.4135/9781529789652. Accessed 12 May 2022.

<sup>8</sup> Bo, Ernesto Dal, and Guo Xu. *Theranos: How Did a \$9 Billion Health Tech Startup End up DOA?* 2021, 10.4135/9781529789652. Accessed 12 May 2022.

<sup>9</sup> Cheng, Yo-Jud, and Stephen Maiden. *WeWork: But Does the Corporate Governance Work?* 8 Dec. 2021, pp. 1–13.

psychology. It is admirable that both founders were able to use their technical skills, social skills, and intelligence to build a multi billion dollar start-up. However, their greed, pressure to succeed, and intelligence may have been their biggest flaw.

Theranos and WeWork were exposed to be fraudulent investments that misled investors with false reports and inflated valuations. The extent to which they defrauded the public correlated with Holme's and Neumann's admirable qualities, but those qualities were exposed to ego and pressures to commit fraud. Holmes promised investors that Theranos will be able to succeed in their mission to bring innovative change to the blood testing market. As investors piled in and deadlines were closing in, Holmes decided to falsify blood test results, ignore policies for public health, mislead investors, exert confidentiality and control over employees, and intimidated her own board.<sup>10</sup> Similarly, Neumann spent company money luxuriously, inflated balance sheets in regards to revenue, vicariously ignored company meetings, continued to control voting rights, and ignored the meager competitive state of his business model.<sup>11</sup> The flaw of both executives is that they amplified their toxic control over their companies; their ego led them to justify fraudulent activity because the fraud would go unexposed and unpunished on the basis of finding success.

A belief in oneself, one of the most important aspects of an entrepreneur turned out to be both entrepreneur's greatest weakness. Having confidence could have been indoctrinated through parents, genetics, or even people around them. Therefore, it brings to question if people around Holmes and Neumann championed them into failure. WeWork's investors, such as JPMorgan and Goldman Sachs, reveal their conflict of interest as they were both fighting for the coveted WeWork IPO assignment. They were both investors and close allies of Neumann. However, as

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<sup>11</sup> Cheng, Yo-Jud, and Stephen Maiden. *WeWork: But Does the Corporate Governance Work?* 8 Dec. 2021, pp. 1–13.

they desired the prestige and millions of dollars in fees, for the IPO assignment, they told Neumann the WeWork business model was worth a trillion-dollar market capitalization.<sup>12</sup> Notably, this is an erroneous statement, as the barrier to entry to WeWork's business model was very low. There was no proprietary information and Porter's Five Forces would argue that WeWork is pursuing a perfectly competitive market as other companies were copy and pasting the same business model.<sup>13</sup>

WeWork had a weak business model and it was apparent that competitors were flooding the market. However, Neumann continued to be enabled because he felt a strong pressure to succeed. It is stated Neumann felt pressure from his new investor, Son, so "Neumann doubled his growth plans and strained the bounds of the organization."<sup>14</sup> Neumann did not slow down his frenzy to grow in the face of mistakes, failures, and suggestions from his board. Neumann became obsessed to please his new mentor and investor. Son encouraged him to keep growing and told Neumann to aim for 10,000 sales people when the company did not even have 10,000 employees.<sup>15</sup> Son continued to reinforce Neumann's poor behavior of lashing out against his board, succeeding at all costs, and unprofessional mannerisms.

Entrepreneurs should remain wary and steadfast as investors can have a conflict of interest and lack the means to be an advisor. Neumann is not the only CEO that felt an inflated ego by positive reinforcement as Holmes experienced the same thing. In Holmes's case, a few key investors let her get away with fraud due to a conflict of interest. Red flags about Theranos were waved to "Walgreen's executive Renaat Van Den Hoof" by a lab consultant, but Walgreens did not question Theranos and proceeded on their investment and relationship with Theranos.

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<sup>12</sup> Cheng, Yo-Jud, and Stephen Maiden. *WeWork: But Does the Corporate Governance Work?* 8 Dec. 2021, pp. 1–13.

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<sup>14</sup> Cheng, Yo-Jud, and Stephen Maiden. *WeWork: But Does the Corporate Governance Work?* 8 Dec. 2021, pp. 1–13.

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Walgreens could not risk Theranos signing a deal with a competitor.<sup>16</sup> On top of Holmes realizing she could get away with misleading investors, she had investors that lined her pockets with upwards of \$100 million dollars who were all members of the ultra elite. Donald R. Cressey, a well-known criminologist and developer of the fraud triangle, suggests Holmes committed fraud because of opportunity, pressure/motivation, and rationalization.<sup>17</sup> Holmes's actions were not enforced or monitored and the pressure, enabled by her investors, led her to rationalize she will succeed and led her to defraud investors.

An important element of Cressey's fraud triangle theory relates to opportunity. Opportunity to commit fraud relates to a lack of internal controls. A lack of internal controls are present when none are in place, they are not enforced, not monitored, or are ineffective.<sup>18</sup> As mentioned, Holmes and Neumann had complete control over their board and dissenters through complete voting rights or intimidation tactics. There was no segregation of duties and a poor tone at the top. Therefore, the board fell in line as they saw Holmes and Neumann mislead investors and defraud the public.

Holmes and Neumann continued to falsely champion themselves as business leaders, but did their respective board members bear any culpability as they saw investors be misled? It is stated, "if WeWork's board members had concerns, they never once officially said them" because no one wanted to walk away or complain in the face of a looming payday on the horizon.<sup>19</sup> The board votes were always unanimous. This is important to note as board member Bruce Dunlevie, Benchmark's representative on WeWork's board, admitted to the unprofitable business model of

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<sup>17</sup> "AGA - Fraud Triangle." *Www.agacgfm.org*, [www.agacgfm.org/Intergov/Fraud-Prevention/Fraud-Awareness-Mitigation/Fraud-Triangle.aspx#:~:text=Several%20decades%20ago%2C%20after%20considerable](http://www.agacgfm.org/Intergov/Fraud-Prevention/Fraud-Awareness-Mitigation/Fraud-Triangle.aspx#:~:text=Several%20decades%20ago%2C%20after%20considerable).

<sup>18</sup> "AGA - Fraud Triangle." *Www.agacgfm.org*, [www.agacgfm.org/Intergov/Fraud-Prevention/Fraud-Awareness-Mitigation/Fraud-Triangle.aspx#:~:text=Several%20decades%20ago%2C%20after%20considerable](http://www.agacgfm.org/Intergov/Fraud-Prevention/Fraud-Awareness-Mitigation/Fraud-Triangle.aspx#:~:text=Several%20decades%20ago%2C%20after%20considerable).

<sup>19</sup> Cheng, Yo-Jud, and Stephen Maiden. *WeWork: But Does the Corporate Governance Work?* 8 Dec. 2021, pp. 1–13.

WeWork to his partner.<sup>20</sup> However, the board let Neumann maintain controlling shares while laying down their ethical obligations to report fraud.

Similarly, Theranos's board members have held the same need to lay down ethical obligations in the face of prestige and a paycheck. Channing Robertson, a Stanford engineering professor, remained a loyal Theranos board member for 12 years and was paid \$500,000 as a Theranos consultant.<sup>21</sup> Robertson understood Theranos's device was unreliable, as a Stanford engineering professor and consultant, but did not protect investors and public health within the 12 years he was on the board. Therefore, it is important to note that Theranos's and WeWork's board members should bear the culpability of their actions because they renounced their ethical obligations.

Business executives, around the world, are responsible for the present circumstances, direction, and future outcomes of companies. There is enormous pressure to succeed. Therefore, complicating earnings, renouncing ethical obligations, or etc. can seemingly be the easy way out of being stuck between a rock and a hard place. The two equally unpleasant outcomes can be choosing between losing a hard earned career or committing fraud. It is understandable that business leaders commit fraud to save their careers, but people should aspire to be the whistleblower. It may save lives and in Theranos's case it certainly did. Ultimately, there is no respect to be gained from fraud while there is everything to gain when speaking with the respect for others.

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<sup>20</sup> Cheng, Yo-Jud, and Stephen Maiden. *WeWork: But Does the Corporate Governance Work?* 8 Dec. 2021, pp. 1–13.

<sup>21</sup> Bo, Ernesto Dal, and Guo Xu. *Theranos: How Did a \$9 Billion Health Tech Startup End up DOA?* 2021, 10.4135/9781529789652. Accessed 12 May 2022.

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