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Founders v. Investors: Snap Inc.'s IPO is the Latest Battle in a Longtime War

By Travis Mitchell, J.D. Candidate 2019 | February 28, 2017

Snapchat's parent company, Snap Inc., will soon have its initial public offering (IPO). Although Snap Inc.'s IPO may seem like a typical startup success story, it differs in important ways that could have a massive market impact.

After an IPO, those not involved in the company's creation can invest in the company by buying stock. An IPO is a huge step in any company's history, and many times launches the founders into the stratosphere of the super wealthy, particularly in cases of well-known companies that have generated a lot of investor interest. Facebook's IPO, for example, made Mark Zuckerberg one of the richest men on Earth.

The downside of an IPO is that the company, built perhaps by a founder together with a few friends, is now subject to shareholder influence. Each person that owns a share in the company has a proportional amount of influence in the corporation's direction going forward. Many times, this includes investors who buy outsized proportions of stock for the express purpose of having this influence on what could be the next Facebook. Typically, to maintain control of a corporation, founders do one of two things: keep a controlling portion of the stock in the company or appoint themselves to board positions that control the operations. Although these methods are tried and tested, they come with downsides. Any investor, including a founder, can always be subject to a buyout. Additionally, any board member can be removed. So it would seem that once going public, a founder's control necessarily dissipates.

Snap Inc. has found a way around that. Perhaps due to being burned by previous investors, in an unprecedented move, the shares that Snap Inc. will offer in its IPO will not come with voting power. The announcement is already sending shockwaves through Silicon Valley and beyond. This means that while those who invest in Snap Inc. will be able to make money as the company grows, they will not be able to influence decisions about how that growth is made and maintained. Because there is no tax or monetary benefits to arranging the shares in this way, the move has been interpreted by most to be completely about maintaining the founder's influence on the company's direction. Indeed, after the IPO, Snap Inc.'s founders, Evan Spiegel and Bobby Murphy, will retain up to 90 percent of the corporation's voting power. Because none of the public shares have voting power, the founders' influence will be felt even if they decide to leave the corporation and without owning a large proportion of the company itself. In essence, the founders guarantee that they will retain near exclusive control over the direction of Snap Inc. in perpetuity should they so choose.

Although founders being able to retain influence over the company they created may seem like a positive development, not all are pleased. There are some concerns that taking away the ability for investors to vote when they buy shares will cool investors from taking interest in buying the shares. However, in the case of Snap Inc. this claim seems to ring hollow, as it gears up to be one of the largest IPOs in recent memory. There still may be decreased interest from "activist

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investors," however, whose influence can be seen in the direction of many new corporations. Some argue that the non-voting structure is created for the purpose of dis-incentivizing such investments. Without the guidance of outside sources, however, the corporation could be privy to echo chamber concerns. Ultimately, for better or for worse, the Snap Inc. IPO could represent a fundamental change in the founder-investor relationship. The shift in power towards founders has been slow and steady up to this point, but if Snap Inc. is successful in maintaining almost full control over its future while not driving away investors and be profitable, it could represent a model that is replicated for years to come.