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Insiders say working at Snapchat is 'like swimming in a shark tank' – by Katia Moskvitch

The numbers suggest otherwise, but Snap is struggling. What's happening to CEO Evan Spiegel fits a pattern – ranging from Tesla to Google. Is it a bad case of founder's syndrome?

Snapchat has it all: stickiness, street cred with teenagers, and none of the privacy and security issues of Facebook or Google.

In some ways, the social network is still winning. In the UK, Snapchat is set to become the most popular social media platform among 18 to 24-year-olds, reaching just under five million users by the end of this year, pushing it ahead of Facebook. Among US teenagers, Snapchat has a clear lead over Instagram, with 16.4 million teenagers snapping away, compared to just 12.8 million Instagramers. Experts predict that Snapchat will dominate this demographic at least until 2022. Thumbs up, then, for parent company Snap? Quite the opposite.

Don't let the numbers fool you. Snap has stopped growing. The social network's latest user report shows that it lost close to two per cent of its active daily users just between April and June this year, with numbers plummeting from 191 to 188 million. Snap's stock price is falling. And it seems that what's happening at the company is all but healthy.

Some insiders describe the atmosphere at Snap as toxic and cut-throat. It's like "swimming in a shark tank", says one person familiar with the company's corporate culture. Overworked staff are being told to do jobs that they're not skilled for, and then fired left, right and centre because they're "incompetent", even though in reality they lack training and are constantly stressed about whether this day could be their last.

For all its scale and notoriety, Snap is still a company that revolves around chief executive and co-founder, 28-year-old Stanford dropout Evan Spiegel, and his system of grace and favours. Are you one of the in-crowd who are invited to Spiegel's parties? Insiders claim only a few will qualify. They say it's an incredibly selective environment, which teaches staff to get close to their young boss and earn his appreciation. A spokesperson disputes this, saying that every employee is invited to all the major company parties.

Insiders talk of people who tried to caution Spiegel about the failed app redesign, warning it was unlikely to be popular with consumers. But still, it got rolled out. Of course, sometimes Spiegel's intuition was right – like the idea for Snapchat's famous vanishing messages. Lots of people cautioned him against it, but it worked. Maybe it's this experience that has made Spiegel tend towards an instinctive mistrust of advice, whether good or bad.

The rot seems to go deep. Over the past few months, Snap has been plagued by a long list of executive defections. In January, vice president of product Tom Conrad cleaned up his desk. The company's chief of engineering, Stuart Bowers, left in May to join Tesla. Chief financial officer Drew Vollero bolted the same month and was replaced by former Amazon executive Tim Stone. Chief strategy officer Imran Khan is the latest to go, announcing he will soon leave after three years at the company. Similar claims about Snap's corporate culture have also been published by *The Information* and *Bloomberg*.

While many senior execs are leaving Snap, plenty of others stay – thanks in part to the company's compensation system, which is similar to Amazon's. Some new hires are given stock options, but to keep them tied to the company, these options vest only in dribs and drabs: each year, over a four-year period, employees get 25 per cent of the total options package. As a result of this stock options structure, many put up with the culture and suffer in silence.

It's probably no accident that Snap's pay structure resembles that of Amazon. Spiegel, WIRED understands, is an admirer of Amazon – as well as Apple. The problem: Spiegel is accused of failing to also pick the good bits from these companies – like long-range decision making and a strong investment in the operational basics. A spokesperson for Snap denies this, saying "many of these anonymous claims are simply not accurate", and adding that the company is building a culture that "fosters creativity, and rewards kindness".

So what's going on? Why hasn't Snap pursued a killer business model, like Amazon, Facebook and Google?

One reason may be size: Snap is big, but maybe not big enough for true network effects to kick in. There's another possibility, too. Snap is clearly suffering from founder's syndrome, says Eric Van Steenburg, assistant professor of marketing at Montana State University. This affliction, which is quite common amongst startups experiencing growing pains, is when a company simply outgrows the ability of the founder and entrepreneur to scale, and he or she fails to let go and get outside help to run the business. Snap employees who complain "about Spiegel's dictatorial style and his reliance on secrecy are indications of how the founder's personality could be managing the firm rather than good management practices doing so," Van Steenburg says.

It does seem that Spiegel has been trying to make improvements. A few months ago he hired a management coach and conducted an anonymous survey, asking workers how he could do his job better.

"All founder-led firms struggle with how to professionalise and exist independent of the founder's personality," says Ryan Krause, an associate professor of strategy at the Texas Christian University's Neeley School of Business. Snap is bang in the middle of that struggle, he says.

Silicon Valley firms are prone to this problem because the charismatic authority and infectious enthusiasm needed to marshal support for a truly innovative idea can become liabilities when trying to manage the resulting business. "The hard truth is that strategic leadership – the ability to articulate a clear vision for the business while also inspiring others to share in that vision and to bring in others to help you lead – is really, really hard," says Brian Anderson, an associate professor in the department of global entrepreneurship and innovation at the University of Missouri.

It requires a lot mindfulness and commitment on the part of the founder. Becoming a strategic leader doesn't mean that you give up being a visionary or stop having charisma though, says Anderson, but it does require you to develop new skills and build a team around you that helps you develop as a leader. And it requires a lot of humility to recognise that you do not have all of the answers, nor do you have the ability to solve all of the problems that might cross your desk.

While it can happen to the best of companies, for Snap, it's rather early – the company has only been around for seven years and had an IPO last year. But Spiegel seems to be already lacking "adult supervision", as Google's former chief executive Eric Schmidt once put it. Yes, entrepreneurs usually know their business best, but to thrive, they need counsel, and strong checks and balances. Instead, Snap seems to be struggling.

The founder's syndrome puzzle

Google might be considered a model for success. Back in 2001, when the company's founders Larry Page and Sergey Brin were struggling to manage their startup's growth, they listened to the advice of their investors and brought in Schmidt as CEO. He became their coach and tutor, and helped scale what was already a booming firm. Schmidt stayed as CEO until 2011, when Larry Page took back control.

Facebook's Mark Zuckerberg, for his part, managed to avoid founders syndrome for many years. As he grew his company, he ruthlessly changed and evolved his management team, hiring the people that were right for the scale of the social network. Now, though, he seems to have gone beyond his limits. He's seen as being out of touch and losing control – and as a person who has simply failed to understand the deeper societal impact of the social network he created.

Still, though, the heads of both Google and Facebook managed to successfully transform their ideas into functional businesses – by finding partners to complement their vision with business expertise, says Krause. Zuckerberg, Page and Brin still maintain high levels of control, but they clearly understood the importance of having a business strategy, and of listening to people who had expertise in that area. Unlike Snap – and unlike Tesla, another company with arguably the most spectacular recent case study for founder's syndrome.

It's not just Elon Musk apparently smoking weed during a live webcast, or his erratic Twitter escapades. His management style leaves much to be desired. WIRED understands that there have been plenty of instances where he has walked Tesla's factory floor, telling engineers to drop everything and change what they were doing – on the spur of the moment. This was not crisis management, but standard practice long before the production problems Tesla's Model 3.

Musk, WIRED understands, is also a poor micromanager, moving like a destructive but highly localised tornado through the company's operation. Just like Snap, there are plenty of people talking about the toxic company culture at Tesla, with firings often occurring for no apparent reason. The latest details mirror claims published by *Business Insider* earlier this month that looked into working conditions at Tesla.

A spokesperson for Tesla said it worked hard "to be a fair, just and fun company" and that there should be "no question" that the well-being of employees was something it cared "deeply" about. "We try our absolute hardest to do the right thing and to fail less often," the spokesperson added.

"Musk and Spiegel are now having to confront their firms' lack of strategy once the enthusiasm starts to wane," says Krause. "Founder control can be effective, but it has to be used to adjust for the founder's weaknesses, not to magnify them." In founder-dominated firms, founders should seek out independent boards and outside managers to address their own weaknesses if they want their businesses to succeed.

Same goes for Uber, where it took many months of upheaval until founder and CEO Travis Kalanick could be forced to hand over control.

The reason why Silicon Valley firms are suffering bad cases of founder's syndrome might be because shareholders have been disempowered. Seeing how corporate types ruined many early dot.com businesses, the new tech elites were determined to keep tight control over their creations, using strongly skewed share structures. Snap is a classic example. Spiegel and his co-founder Bobby Murphy have 96 per cent voting rights, leaving shareholders with little say.

For potential investors in companies with a case of founder's syndrome, Anderson has a piece of advice. "Don't invest in a business you don't understand solely because there is a really charismatic founder who is great on TV," he says. "Ask yourself if the stock would still look good if the founder was hit by a bus tomorrow – if not, don't buy it."

NEWS

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Tesla shares continue to tank as Wall Street considers Elon Musk departure – by Martha C. White

A ban by the SEC that would make Musk, in effect, the Pete Rose of Silicon Valley seems overly punitive, according to some market observers.

Tesla shares veered off the road Friday as legal fallout from Elon Musk's August tweetstorm intensified.

The stock price fell by about 12 percent following a Thursday afternoon announcement by the Securities and Exchange Commission that it had filed suit against Tesla's mercurial chairman and CEO over tweets last month in which Musk — who also is the electric car maker's largest shareholder — said he might take the company private and had the funding to do so, a claim the agency charged was untrue.

“Taking care to provide truthful and accurate information is among a CEO’s most critical obligations,” SEC official Stephanie Avakian said in a statement, adding, “That standard applies with equal force when the communications are made via social media or another non-traditional form.”

“If you believe in the integrity of the securities markets, the alleged conduct was terrible,” said Charles Elson, a corporate governance professor at the University of Delaware.

The SEC announced it is seeking to bar Musk for life from being an officer or director of a public company, but a ban that would make Musk, in effect, the Pete Rose of Silicon Valley seems overly punitive, according to some market observers.

“Twitter should not be a form of formal communication,” said Mary Uhl-Bien, professor of management at Neeley School of Business at Texas Christian University, pointing out that President Donald Trump’s tweets — which have threatened everything from a nuclear showdown with North Korea to withdrawal from NATO — are not treated as policy directives.

“It’s not a formal platform and I think we’ve shown that with what the president has done. To me, the SEC was too harsh,” she said.

Regulators could be trying to increase the pressure on Tesla’s board to take action:

Musk reportedly had what was characterized as a “last-minute” change of heart and turned down a settlement offer on Thursday.

Corporate governance experts faulted Tesla’s board of directors for not publicly addressing the issue of Musk’s tweets and letting the situation come to a head. “The board has to take action at this point. They’ve done nothing about it,” Elson said. “If the board doesn’t act at this point, then the board begins to absorb some kind of responsibility for what happens,” he said.

“To me, this is an issue his board and shareholders should be addressing. I think his board should’ve stepped in,” said Uhl-Bien. “That’s where I think the mistake is.”

Elson suggested that the lifetime ban still could be a negotiating tactic on the part of regulators.

“They make an offer, he refuses, and that’s the way the enforcement game works,” he said. “They don’t want to go through a proceeding, but if he turned them down, he upped the stakes.”

According to CNBC on Friday, the settlement offer Musk refused would not have required him to admit wrongdoing but would have barred him from serving as Tesla’s chairman for two years. In addition, the board would be required to add two new, independent directors, and Tesla and Musk would be fined.

If the SEC's return volley does succeed in forcing Musk to step away from Tesla permanently, a worry that seemed evident on Wall Street Friday, it could throw the company's future in doubt. Analysts said that losing Musk could shave as much as $130 per share off Tesla's stock price and could make it harder for the company to raise money.

"If the SEC were to take him out, that's incredibly damaging," for Tesla, Uhl-Bien said.