FOR TWITTER, A HIT TO INNOVATION COULD JUST BE PART OF GROWING UP

According to a recent study, when Twitter goes public, the quality of its innovation is likely to decrease. But, argues the study’s author, that’s not necessarily a bad thing.

By: Sarah Kessler

Tech companies preparing to go public have always had a sense that the move could hurt their cultures of innovation and creativity.

In 2004, Google included this warning with its IPO filings:

_We believe that a critical contributor to our success has been our corporate culture, which we believe fosters innovation, creativity, and teamwork. As our organization grows, and we are required to implement more complex organizational management structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture._

Zynga put a similar clause in its 2011 filing:

_As we continue to grow rapidly, and we develop the infrastructure of a public company, we may find it difficult to maintain our entrepreneurial, execution-focused culture._

In 2010, two years before Facebook went public, Mark Zuckerberg responded to questions about filing for an IPO like this:

_I tend to think that being private is better for us right now because of some of the big risks we want to take in developing new products. For example, products like News Feed, Platform,
Connect, and so on were all fairly controversial early on but have proven to be valuable services. The experience of managing the company through launching controversial services is tricky, but I can only imagine it would be even more difficult if we had a public stock price bouncing around.

Twitter is the most recent company to acknowledge the risk of losing its innovation culture in its IPO filing, which it made public last week:

*If we do not continue to develop our corporate culture or maintain our core values as we grow and evolve, we may be unable to foster the innovation, creativity, and teamwork we believe we need to support our growth. . . . Our transition from a private company to a public company may result in a change to our corporate culture, which could harm our business.*

The difference with Twitter is that now there’s systematic data to back up the idea that going public frequently impacts innovation. A [2012 paper](#) by Stanford researcher Shai Bernstein analyzed patents filed by firms before and after they went public. Using as a control group firms that filed to go public and then later withdrew their applications, he found that going public causes a decline of influential innovation (as measured by patent citations), that the best inventors are likely to leave, and that the remaining inventors become less productive.

He suggests the change is caused by a shift in incentives. Instead of focusing on long-term innovations that may never pan out, managers are more likely to focus on short-term products that help meet quarterly targets. Meanwhile, an IPO can be a huge payday for the best and earliest employees, diminishing the power of their weekly paychecks to make them stick around. As Scott Weiss, a partner at Andreessen Horowitz, recently put it in an interview with *Fast Company* (the subject was not Twitter), once a company is public, suddenly a lot of people "call in rich" rather than sick.

There are always outliers. But if Twitter follows the general pattern, the number of its influential new ideas is likely to decrease as its shares hit the market--as are its number of employees responsible for past core innovation.
Less innovation is a bad thing for business, right?

Not necessarily, argues the study’s author. At the same time that in-house innovation decreases in public companies, Bernstein found, acquisitions increase. “It might be quite efficient to outsource the risk of developing technology in-house to buying existing and well-proven technologies from the outside,” he says. “They are also buying companies that are innovative.” Twitter is already well on its way to this track; It bought 10 startups in 2012.

For Bernstein, whether going public harms or helps a business is a question of timing. “The firm needs to go public at a time when they are ready to make the shift towards commercialization, toward revenue generation, and when the key technology is already in place,” he says.

In other words, going public isn’t necessarily a bad thing. It’s like growing old--maybe you try fewer new things, but if you already know what you’re about, there’s capital to refine whatever that is, in a way you may not have been possible to in previously. Whether Twitter is at that point is debatable.

But then again, wouldn’t most of us rather be young forever?

“If you have a strong enough culture, you can make it through,” says Weiss of outlier companies that maintain their inventive “hacker culture” post-IPO. “[But] it’s hard to change a culture. You have to have it from the beginning,” he says.

[Ed note: We added an aside to this story to make it clear Scott Weiss was speaking generally about post-IPO culture.]

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