Exit to Community: A New Option for Startups?

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Currently, the goal of tech startups is an "exit"—either an acquisition by a larger company or a public offering on stock markets. This talk will outline an emerging new model, "exit to community," in which entrepreneurs, investors, activists, and others are creating a pathway toward turning successful startups into stakeholder assets.

Startup impresario Paul Graham, co-founder of the accelerator Y Combinator, wrote in a much-discussed 2016 essay, "Eliminating great variations in wealth would mean eliminating startups."[1] To him, that is, producing wealth inequality goes hand in hand with producing ambitious new ventures—and in the end the social value those companies create is worth the effect on the Gini coefficient. The same year, the World Bank issued a report on the tech-startup economy that warned, among other things, that "the better educated, well connected, and more capable have received most of the benefits—circumscribing the gains from the digital revolution."[2]

The data that I see most directly, day to day, comes from documenting and collaborating with tech startups that are trying to do things differently, that are trying to create wealth in their communities rather than extract it. In particular, I have worked with platform cooperatives and others that fall under the broader umbrella of "Zebras"—startups, founded often by women and people of color, that refuse to accept that the Silicon Valley model of innovation paid for with inequality makes sense. By rejecting the

[1] Paul Graham, "Economic Inequality" (January 2016), paulgraham.com/ineq.html.

[2] World Bank Group, *Digital Dividends*, World Development Report (2016), worldbank.org/en/publication/wdr2016.

Silicon Valley rulebook, also, they face profound difficulties getting their own innovations off the ground. The accelerators, investors, lawyers, and mentors don't know what to do with a Zebra.

Founders create startups for all sorts of reasons. Often, the motivation is a mix between the founders' desires to do well for themselves and to do something worthwhile for others. Dreams of greatness might figure in there too. Rarely, however, is the overriding reason to build something people want to get rid of. But that is what the startup pipeline is designed to produce.

When a startup company takes early investment, typically the expectation is that everyone is working toward one of two "exit" events: selling the company to a bigger company or selling to retail investors in an initial public offering. In either case, the startup is a hot potato. One group of investors buys in order to sell to another group of investors who buy in to sell to the fools down the road. There's something sort of pyramid-scheme-ish about all this. The exit event, too, is often the beginning of the end of any positive social vision that the company might have held. It is what ensures that the startup's overriding purpose is to enrich those who control stockpiles of already existing wealth.

What if startups had the option to mature in a way that gets them out of the investors' hamster wheel?

For the past year, I have begun exploring strategies and stories that could help create a new option for startups: "exit to community."[3] In E2C, the company would transition from investor ownership to ownership by the people who rely on it most. Those people might be users, workers, customers, participant organizations, or a combination of such stakeholder groups. The mechanism for co-ownership might be a cooperative, a trust, or even crypto-tokens. The community might own the whole company when the process is over, or just a substantial-enough part of it to make a difference.

When a startup exits to community, founders should see enough of a reward that they feel their risk and hard work was worth it. Investors should see a fair return for their risk. Most importantly, the key stakeholders should know the company is worthy of their trust and ongoing investment because they co-own it. For a social-media company, this might mean that users have a meaningful say in how their private data is or isn't used. For a gig platform, it might mean that the gig workers co-determine their working

[3]My collaborators and I are beginning to share our progress at ioo.coop/exit-to-community.

conditions and what is done with the profits they produce. These kinds of outcomes could help prevent the massive accountability crises that now beset today's most successful venture-backed startups.

Regardless of the form it takes, the goal here is to reverse the fundamental logic of what startups are for, whom they are for, and whom they enrich. When a startup exists in order to exit to investor ownership, the imperatives of investors come first; if its goal—or even a live option—is community ownership, the founders have every reason to prioritize long-term community benefits from the outset.

One way to begin exploring E2C could be by identifying a subset of startups in venture capital portfolios that lie in "zombie" territory—somewhere between failure and exit-ready. Investor owners would benefit from having a new way of liquidating investments that would otherwise lie dormant. In some cases, the community might be in a position to buy the company with cash on hand—especially if it came back to them in later savings or profits. In other cases, E2C might be financed externally on the expectation of future growth, as is generally done for employee-ownership conversions using an Employee Stock Ownership Plan. Startups might also plan ahead for E2C by identifying particular guardrails that keep this option open as they negotiate their early rounds of financing. As with the ESOP—and the origins of the venture capital model itself—a targeted policy intervention may be necessary to make this kind of financing attractive enough to be feasible. These possibilities and more are the kinds of things I've been thinking about and would like to think about with others.

Why not, you might ask, just begin these startups under community ownership? This is certainly an option, and it's one that I have enthusiastically supported, for instance, through co-founding Start.coop, an equity accelerator designed to support co-op startups aiming for scale. But getting going under community ownership doesn't seem like the right approach in many cases.

Ambitious startups are a risky endeavor, and it may not be fair to distribute that risk with early-stage participants. Also, startups usually need to make a few dramatic pivots early in their life, and having a large community of co-owners would make those hard decisions more difficult than if a small, high-trust group of founders is in charge. Centralizing the risk and responsibility early on is a reasonable strategy for startups. Later, once the company has found its market and its footing, the transition to accountable community ownership will better suit the nature of the business. With E2C, we get the

best of both worlds—the dynamic startup, then the accountable, sustainable public asset.

For me, this vision came together in conversations with social enterprise lawyer Jason Wiener (who has participated in some exits to community), along with sources of inspiration that include Zebras Unite,[4] ESOP inventor Louis Kelso,[5] platform cooperativism,[6] and the Purpose network.[7] I have developed a technical legal article on E2C strategies with Morshed Mannan of Leiden Law School.[8] My team at the Media Enterprise Design Lab at the University of Colorado Boulder[9] is developing gatherings and publications aimed at building conversation around E2C, and the Open Society Foundations is supporting our efforts with a fellowship.

I am currently looking for conversation partners and pioneers—particularly among founders, investors, labor organizers, consumer advocates, philanthropists, and fellow researchers. The more I find these people, the more I realize my own role is catalytic more than anything else; many people are already out there working on E2C, even if they don't know it could have a name and don't see that others are doing it too. If we succeed, it will no longer be such a foregone conclusion that innovation must come at the price of ever greater inequality.

This memo is adapted from an essay by the same name published last September in Hacker Noon.

[4] See zebrasunite.com.

[5] E.g., Nathan Schneider, "Fighting Capitalism With Capitalism," *The Nation* (August 8, 2019).

[6] See Platform.coop and ioo.coop/directory for more information, along with Trebor Scholz and Nathan Schneider, *Ours to Hack and to Own: The Rise of Platform Cooperativism, a New Vision for the Future of Work and a Fairer Internet* (OR Books, 2016).

[7] See purpose-economy.org/en.

[8] Our current draft is online at ntnsndr.in/conversion-strategies.

[9] See cmci.colorado.edu/medlab.