Startups Need a New Option: Exit to Community

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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 a company 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, also, is often the beginning of the end of any positive social vision that the company might have held.
What if startups had the option to mature in a way that gets them out of the investors’ hamster wheel?

In the coming months, I will be exploring strategies and stories that could help create a new option for startups: Exit to community. 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 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.

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 with the venture capital industry 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
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 through the #PlatformCoop community and through co-founding the Start.coop accelerator. 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, ESOP inventor Louis Kelso, platform cooperativism, and the steward-ownership network. Now it is time to bring more people into the conversation.

Our team at the Media Enterprise Design Lab at the University of Colorado Boulder is looking for collaborators on this work. This includes entrepreneurs, activists, investors, policy advocates, researchers, and more. Do you want to join us? Let us know what you’d want your E2C to look like.

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