EXIT TO COMMUNITY

A COMMUNITY PRIMER

A project of the
Media Enterprise Design Lab and Zebras Unite

MEDLab
Media Enterprise Design Lab
UNIVERSITY OF COLORADO BOULDER

ZEBRAS UNITE

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Mara Zepeda is the Managing Director of Zebras Unite, a growing international movement, co-operative, and fund creating a more ethical and inclusive startup culture. We provide the capital, culture, and community that Zebra founders, and our future economy, wants and needs. She is a Strategic Consultant and cofounder of Hearken, that engages audiences and communities. She is also cofounder of XXcelerate, which supports for Oregon womxn entrepreneurs, and Business for a Better Portland, a community oriented business organization.

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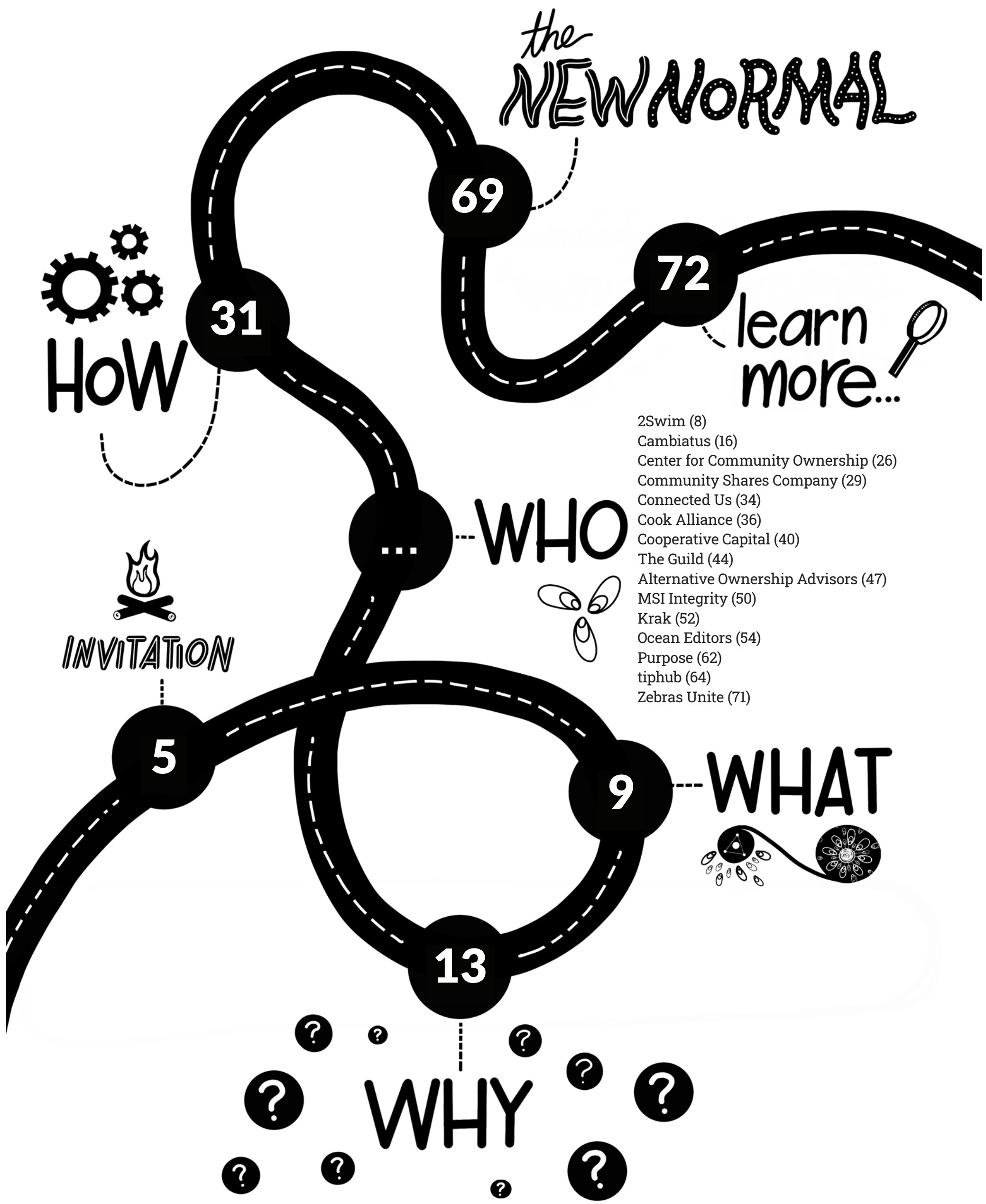

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Learn more

Explore more E2C resources, including recorded webinars and other publications, at the Media Enterprise Design Lab website: colorado.edu/lab/medlab/exit-to-community.

Also check out these readings that have been helpful to us (some of them by us!):

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Invitation

What is a startup? Who are startups for?

A startup is kind of like a child, some say. Founders pour themselves and their resources and energy into the thing—but then, unlike a child, they sell it off to the highest bidders. A lot of founders would love to change the world for the better, right? But the usual endgame—the "exit"—involves being bought by bigger companies or going public on the grand-old establishmentarian casino, the stock market. It's the same old story: investors get paid, users get a new product, and the world stays the same. Why do we even bother?

> **STARTUPS NEED *a* NEW STORY ABOUT WHAT *and* WHO THEY ARE FOR.**

Startups need a new story about what and who they are for.

As we were writing this, the COVID-19 pandemic arrived. It has been a visceral reminder of how fragile and vulnerable our just-so stories can be—and of how powerful our communities are. For those of us working to build an economy for the future, the pandemic has reminded us where our loyalties lie. It reminds us what is truly worth relying on and whom we should set out to serve.

Exit to community (E2C) is a strategy in the making. It's a different kind of story, one that connects the founders, workers, users, investors, activists, and friends who have been trying to feel their way toward a better kind of startup. Its endgame is to be a long-term asset for its community, co-owned and co-governed by those who give it life.

We are overdue for a better way. The usual startup story's feedback loops are spinning out of control. Gig platforms offer a dystopian "future of work," wiping away long-fought-for protections that anyone selling their labor should have.

Social networks vacuum up

personal data and face investor pressure to monetize it with ever creepier schemes, leaving behind frayed societies and neglected civil liberties as collateral damage.

The usual startup story widens divides. "I am a manufacturer of economic inequality," the celebrated investor Paul Graham has written. "Ending economic inequality means ending startups." Maybe his kind of startups—ones designed to disrupt whole industries and deliver the spoils to a homogenous few. The Grahams of the world shrug.

We think it would be far more excellent to make startups that spread wealth across communities. We think startups would be more usefully disruptive if they delivered their rewards to the people who make them valuable rather than to the already wealthy. Our technology could have more capacity for good if it were accountable to the people who use and build it. Startups that create active, loyal communities of workers and users should have the chance to exit to community—ensuring those communities meaningfully co-own the company and help to determine its fate. Real democracy should be at least as available as more oligarchy.

What's at stake

A big part of what we hope for from E2C is to empower not just the founders we have now but the people who haven't been able to become founders—because their identity puts them at a disadvantage with largely White and male investors, or because startup-land doesn't know how to see the potential in the communities they want to serve.

Our economic system has failed our diverse communities—and startup ecosystems in particular. According to DiversityVC, less than 3 percent of founders getting venture capital are Black or Latinx;

Profile

Zebras Unite

zebrasunite.com

Zebras Unite advances more ethical and inclusive startup practices. Born out of the lived experience of four women entrepreneurs, Zebras Unite has now grown into an international movement of over 5,000 members in our online community with 45 chapters on six continents. We create capital, culture, and community for the next economy. We achieve this through Zebras Unite Capital, an investment company created in partnership with SecondMuse Capital; through our essays, thought leadership, toolkits, educational programming (like this zine!), and founder surveys; and through the chapter and virtual community gathers that bring together Zebra founders from around the world. We also work with lawmakers and business organizations to promote economic policy that invests in Zebas at the city, state, and federal level.

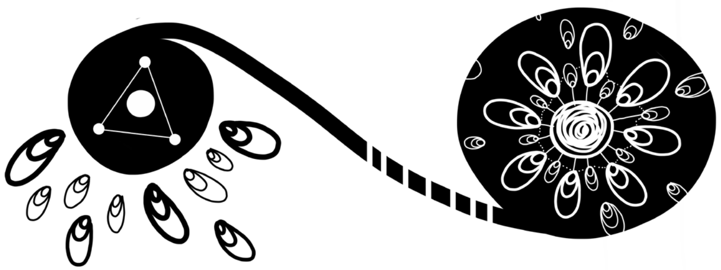
In the early days of our formation, Zebras Unite embarked on the task of identifying an appropriate corporate structure that aligned with our mission, values, and thriving community. We decided to incorporate as a co-op, alongside a nonprofit and the investment company. This tripod allowed us to bring the broad group of stakeholders we serve along in the journey. Through our own process of discovery, we saw how this kind of E2C would benefit many other companies, especially ones that serve a social purpose. We now firmly believe that shared ownership and governance is a critical component of the next economy.

—Mara Zepeda (Cofounder)

Community should not be alternative or strange. It should be normal for amazing new technology to become accountable to the people who love it and adopt it. It should be normal for entrepreneurs who are part of long-marginalized communities to create wealth with and for their people, rather than needing the permission of powerful outsiders at every step. It should be normal that when you and your friends invest your personal data in a platform, you should have a say in how it is used. It should be normal that workers who invest their time and creativity into building a platform can expect to benefit when that platform succeeds—because it has become truly theirs.

Is that asking too much?

The answer depends on what we expect of each other, what we scheme about together, and what we help each other build.



less than 10 percent are female. Nearly half are based in Silicon Valley alone. The startup storyline depends too much on who already has financial wealth and not nearly enough on the social capital all around us. The community ownership interventions discussed here are urgently needed to achieve more equitable prosperity. For decades, we've made incremental progress to close the racial wealth gap through increases in the creation of Black-owned businesses. Now, many of these businesses face an existential threat.

According to US government and census data, during the 2020 pandemic, more than 40 percent of Black business owners reported they weren't working in April, compared to 17 percent of White small business owners. Only a quarter of Black and Hispanic business owners received the funding they requested from the Payroll Protection Program compared to half of all small businesses overall. Experts predict that 40 percent of Black-owned businesses will permanently close their doors. The scale of this loss is staggering and sobering.

For those working on the front lines of economic justice, E2C offers a preliminary map for how to transition these enterprises to shared ownership models—inspired by a long legacy of shared ownership among marginalized people. We hope it will catalyze conversations in neighborhoods, cities, and states as we embark on the necessary work of reimagining our economy.

We wrote this because we want to make E2C easier, and we hope you'll join us, because we need your help. Here, we've tried to put together some ideas and examples of what E2C could mean, based on what is out there and what is in our hearts. But little of this will really work unless a whole lot of us team up to fill in the blanks.

Profile

2SWIM

2swim.plus

2SWIM is a community-focused social messaging app. Ephemeral messaging, semi-public conversations, and private networks refocus the digital-social experience from consumption to connection in order to provide people with what they truly want and need: inclusive spaces where they can find their communities and be their true selves. 2SWIM will be for everybody but is currently invite-only for groups and creators that identify as Black, Indigenous and POC-, LGBTQIA+-, or womxn-centric (as well as their allies). We're currently live and supporting partners across the United States. We are building a new hub for communities to form and meet, and for individuals to find their people. Success for us is when the communities we are serving feel empowered and heard.

As a community-centric app, exit to community aligns closely with the ethos of our founding team and the partners we're bringing onto the platform. We are focused on sustainability in the long run—sustainability that takes into account all stakeholders and continually considers their personal and collective needs as we grow. We are engaging with materials exploring the concept, and speaking with scholars and entrepreneurs focused on the space. As we continue to grow, we expect to discuss this further with our partners to explore how to make it a reality.

—Mica Le John (CEO and Cofounder)

The new normal

As we write during the early months of the COVID-19 pandemic, as uprisings confront systemic racism and police brutality, nothing feels quite normal anymore. Perhaps by the time you're reading this, a new normalcy has set in, or perhaps normalcy itself feels like a distant memory. Times like these are precious, even if that makes them no less hard; they motivate us to work toward easing each other's burdens, and they remind us that rules that once felt inviolable and fixed are as made-up as our names. Yet in times like these, many of us want nothing more than normalcy again, whatever it is.

We write here with the hope of a new normal—a set of decent expectations, so widespread and available that most of the time there's no need to question them. The normal we want is one in which people can build toward, and with, community ownership. This shouldn't have to be a special thing, a radical demand, an "alternative economy." It should be simply the normal way that people build the organizations they want to see in the world.

Getting to that normal requires some not-normal work. Many of the experiments we have showcased here came about only because of superstar dedication and courage from the people who have built them. These are often the kinds of people who aren't in love with normal, who crave a challenge and are willing to be looked at with suspicion. These experiments are funded by courageous, curious funders and supporters, willing to climb without ropes so that those who follow don't have to. Normal is not enough for them. When experiments like that keep happening, though, the normal changes. Things that once took unusual gusto, once they are out there and working, can suddenly seem like they were there all along. Soon, the kinds of people who crave predictability and the status quo above all are doing what was once the purview of the strange. Time is running out, and there is no choice but to accelerate the pace of progress.

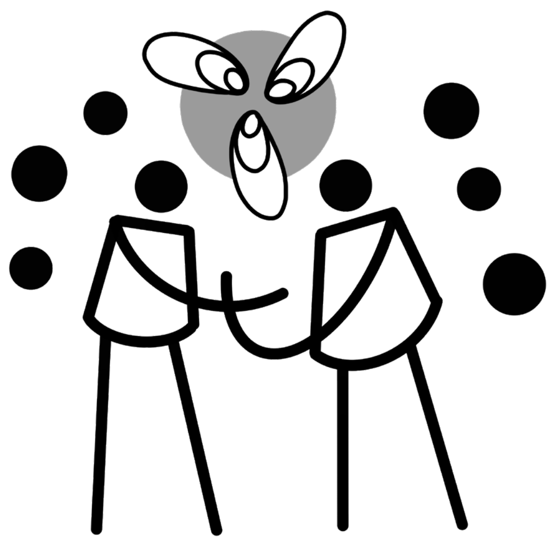
How?

Let's guide each other

You can probably tell by now that we're figuring out this E2C thing as we go along. We hope you'll join us.

Talk about this idea with your friends, with people you know who are building startups or helping others do so. Tag #ExitToCommunity so we can pitch in. Form a small group of co-conspirators and co-practitioners to walk the road together.

What we've been talking about is new and innovative in a way, but it's also not. It's also old, old stuff. Communities are old. They have been around as long as there have been people, and they have been powerful the whole time. Turn to your ancestors of blood and spirit for guidance: How did they exit to community?



What?

Exit to community is not a model or a template or a formula. It's not a one-size-fits-all silver bullet. Sorry! But then what is it? The words we're using are open-ended. "Exit" and "community" each evoke a lot of possibilities, and we like it that way. Are we talking about escapism, or solidarity? Do the words contradict each other? As fun as such questions are, here's what we have in mind:

EXIT

The outcome that a startup seeks. In order to meet the financial returns that venture capitalists expect, this usually means an acquisition (selling the company off to some competitor or investment fund) or an initial public offering (or IPO, when its stock gets tossed to the whims of a stock market). We think the outcome can be a lot better than that.

COMMUNITY

The group of people who especially depend on a startup—who built it, who are brought together by it, and who are the ones most impacted by it. There may be several such groups, such as workers, users, workers-who-aren't-being-recognized-as-workers, client businesses, artists and artisans, suppliers, and—yes—even investors, as long as they keep some perspective.

Now, you might think that multi-stakeholder ownership is fundamentally at odds with winner-takes-all capitalism. But in August of 2019, we observed a startling mindset shift: the Business Roundtable (made up of 200 CEOs from the biggest companies) decided, “Shareholder value is no longer everything.” The heads of companies like Walmart, Amazon, Apple, and Pepsi seemed to revise the purpose of a corporation, which had long been thought of as simply enriching its shareholders. They declared a wish to deliver value to stakeholders—customers, employees, and the communities that make businesses work. Great, let’s do it!

Since making that proclamation, however, corporate leaders have provided little in the way of practical steps or meaningful change. Exit to community offers a path for businesses to move from platitudes in a press release to concrete, specific action—by including their stakeholders as rights-holders.

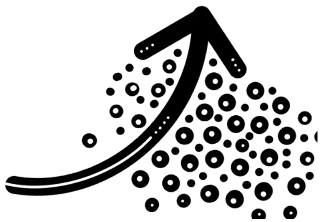
Being specific is important. Tech workers, users, and affected communities need more than talk: they need clear and powerful protections against exploitation, as well as access to the benefits of the value their participation creates. Those protections are the classic rights associated with ownership, by the way:

Control

Which can look like hands-on, messy, day-to-day co-governance or (more likely) oversight by a trusted party, leaving the operations team lots of leeway to be their best selves.

Residuals

Which is a fancy word for profits, or surplus value, or whatever you like to call that good overflow.



or customers or other stakeholders. Even Uber and Airbnb, for goodness’ sake, have asked the government for the ability to do this. It should become a matter of course that loyal users have the chance to be co-owners.

- **Democratic financing.** The whole money game is designed for people who already have money—if you have it, you can get more of it. That’s backwards. We need a sweeping public-finance strategy for ensuring that groups of people can raise capital for reasonable things like buying the successful businesses that they all participate in together. Similarly, we need creative experiments like local bond measures to ensure more money goes to and stays with local companies that have adopted multi-stakeholder ownership.

- **Corporate-structure reforms.** Big, publicly traded companies have all sorts of obligations to their shareholders. It’s time to make sure companies, whether they like it or not, have obligations to more kinds of stakeholders. For instance, Elizabeth Warren proposed mandating that large companies have worker representation on their boards; let’s do that, and then require large online platforms to have user representation as well. E2C could be simply the cost of doing business at a large scale.

- **Reparations.** The failures of the current system aren’t distributed equally. Those mis-distributions are the result of long, historical, deliberate processes of exclusion along racist, classist, and cultural lines. E2C should prioritize bringing the benefits of ownership to those who have been excluded from it in the past. It should also include protections to ensure that promises of ownership can’t be used to trick or exploit vulnerable communities.

the enabling laws for landmark forms of community ownership in the United States—credit unions (1934), rural electric co-ops (1936), and employee stock-ownership plans (1974), for instance—occurred only after people had demonstrated those things could work the hard way, without their dream legislation. Once the law changed, these models went from scattered experiments to major chunks of the economy.

A wish-list if we had lobbyists

Grassroots activism alone won't cut it. We need investors, foundations, and individuals who are courageous enough not only to take a chance on particular companies, but to invest in structural change at the policy level. That means building out a coordinated advocacy effort. It takes a lot of coordination to educate policymakers and community members, prepare testimony, influence public opinion, and convince lawmakers that entrepreneurs are hungry for this new model.

We don't have lobbyists. But if we did (and maybe we can borrow some from time to time from those who do), here are some of the things we might clamor for to ease the way to E2C:

- **Enabling structures.** We should ensure the tools we need are clearly defined in law—things like enforceable purpose trusts, multi-stakeholder cooperatives, and more of the ingredients outlined above. It's haphazard right now; some US states won't even let you incorporate a neighborhood grocery co-op. That needs to change. And the new structures need to be capable of serving stakeholders as international and diverse as our communities now are.

- **Equity compensation.** It's common for startups to pay early employees with stock. But it's currently not so easy to do that with early users

What does an E2C create?
It depends. Maybe it's a:

For-profit company, with distributed ownership and provisions for democratic governance

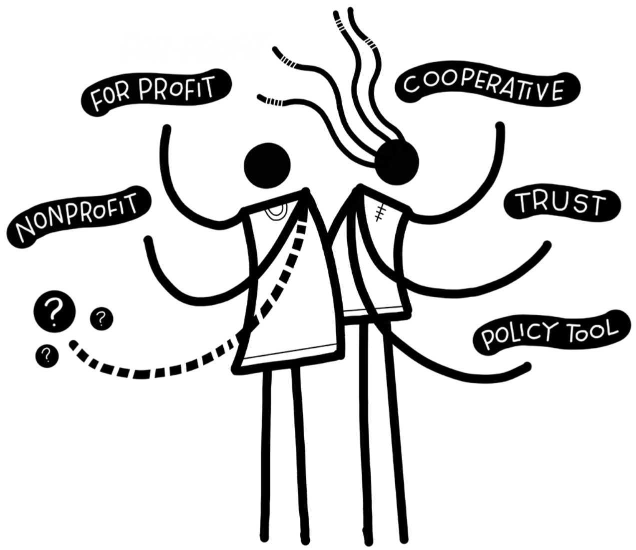
Trust, which can hold part or all of a company according to specific instructions

Cooperative, which is a business owned by some set of members who participate in it

Nonprofit, which is a mission-centered public asset

Policy tool, enabling both a defensive strategy to transform dangerous firms into accountable ones, as well as an offensive strategy that pursues more equitable investment at all levels

Entity or method **waiting for you to invent it**



But why would company leaders want to embrace this idea? Why not keep all the ownership for themselves? We will discuss a bunch of reasons and a bunch of tactical tricks, too. And maybe they wouldn't want to embrace it at first. This E2C coin has two sides:

A carrot, in the form of good reasons why well-meaning founders and investors might want to embrace community ownership for their own good, such as employee retention, brand reputation, and customer satisfaction

A stick, in the form of a popular demand or policy measure that compels misbehaving companies into reform through real community accountability, such as employee retaliation, brand boycotts, and customer churn

So, even though "exit to community" sounds pretty broad (and it is), it needs to mean something super specific—the ability to transfer great startups to ownership by their great communities. To that end, here's what we hope to invite you into in what follows:

A story about how startups can mature into community assets

A strategy to put ownership and governance where they belong

A demand for collective power and accountability over our technology

Let's go.

Oh, and policy will matter

Our mythologies of the tech elite tend to focus on epics of ingenuity and gusto, a triumph of private enterprise over and above the short-sightedness of old governments and bureaucracies. But across the high-voltage power lines from the Googleplex lies the crumbling Ames Research Center, which testifies to the intensive government investment that seeded Silicon Valley. The Internet itself, of course, grew out of a Pentagon research project; if it had been a private product rather than a public outlay, it probably wouldn't have become the open, permissionless wonder that it at least has the possibility of being.

The financial engine of innovation for the tech economy—venture capital—is no natural, inevitable creature, either. Before the US Congress made a small adjustment to the laws concerning retirement funds—the result of a concerted effort with the backing of the Ford Foundation—VC was a small game, because pension funds couldn't invest. It was too risky. But after 1979, the most conservative, bureaucratic pools of public money had permission to supercharge VC into the means of world domination it has become today (at least in the rare cases when it works).

Today's rules of the startup system were designed and crafted with policy. With policy (and culture and creativity and the rest), the rules can change. Just as rules changed to allow riskier products like venture capital and private equity, so too can advocacy change policy to encourage more equitable structures like the ones we've discussed here.

These kinds of changes are pretty chicken-and-egg-ish. You need the policy to change how things are done, but to get the policy you might need to show that things can actually be done that way. Before VC got its pension-fund firehose, there were lots of experiments in smaller-scale investments that showed this stuff can work. Similarly,

Profile

tiphub

tiphub.vc

Tiphub's main mission is to support African and African diasporan startups at the intersection of technology and impact. Over the last six years, companies who have gone through tiphub programs have gone on to raise upwards of $20 million and generate millions of dollars of revenue. Most importantly, they have demonstrated that purpose and profit do not need to be at odds.

One of the biggest challenges for founders we've spoken with is finding capital and the exit opportunities for solutions that aren't necessarily driving venture-type returns. There's a gap of funding for solutions that serve the public good but are not scalable enough to incentivize large players with risk capital to invest. We believe E2C could be a solution for this particular segment of investments.

We've been exploring legal structures that would enable us to achieve this model but ran into some implementation challenges in the markets we explored. Also, there's a significant investment in education so stakeholders are comfortable with this process. We need to help founders better understand how to leverage E2C and build a business that can best leverage the model. We work in markets where there's risk aversion to new models and ideas, so it has been challenging.

—Chika Umeadi (Partner - Business)
and Modupe Odele (Partner - Legal)

Why?

Communities deserve better

In a lot of startups, user communities are like hostages. The captors might be really nice! But still. The users a startup collects are a means toward its ultimate value proposition—value not for the users so much as for the investors and the future acquirers. This system makes some startup founders start to see their users in this way: as means to an end. At the same time, more and more founders are building with and for the communities they serve, addressing needs they may have personally experienced. And yet the moment they take investment from a typical venture capitalist, their mission has no choice but to shift to hypergrowth and monetization.

WHY CAN'T COMMUNITIES BE ENDS IN THEMSELVES?

What is a community worth? Ask the market for mergers and initial public offerings.

Communities can be worth billions. They represent trust, they represent work, they represent the hard-to-reproduce power of authenticity and connection. All the money in the world can't necessarily buy a community. Big companies try and fail where small, scrappy startups can succeed. This is often because of the genuine passion and dedication among the founders and employees, and also because people can smell the whiff of corporate stiffs trying to take advantage of them. The tragic irony is that, if the scrappy startup succeeds, the stuffs will get their hands on it at exit-time.

Why can't communities be ends in themselves? Why can't their authenticity be real and lasting? Why do they have to be premised on inevitable (even if well-meaning) betrayal? Community-owned business is a real thing, it turns out. It has worked before—and worked at scale. We just need to make community ownership more available for startups today.

Why?

Founders deserve better

Why do founders make startups? Working backward from the logic of exit, the purpose might seem to be the story we began with: To pour your heart into something that you have to sell to the highest bidder. This is the subtext in all the advice, investment, encouragement, and reinforcement that founders get. When startup founders raise capital, this is the outcome the capital demands of them. But founders are a varied bunch, and they have all sorts of motivations. A quick payout is only one of them.

In some cases—sure—the usual exit options work out fine for founders. They might want to move on to something newer and more fun. They might get to retain some control. Or they might get to pass on control to someone else and work in the part of the ex-startup that interests them most. They might climb the acquirer's corporate ladder. Or they could get kicked out and watch the community they put years into creating get gradually sold out.

However, a lot of them became founders because they believe in what they're doing and want to put something excellent into the world and solve a real problem. Often it is a problem they themselves or people close to them have experienced. Founders like these are often stuck between a rock and a hard place: take investment and sacrifice the mission, or forego investment and run their business by bootstrapping—growing on earned income alone. This trap can be both exhausting and frustrating, especially when there's an urgent opportunity to solve a community's real problems. People with motivations like these might end up deciding that founding something new is not for them, not because they don't want to build but because they don't like the terms they would have to accept to do it. It's hard enough to get a familiar kind of business going—much harder if you have to educate investors and customers to do things differently in the process.

How?

Exceeding expectations

One of the really powerful features of speculative investor ownership is this: The mission of any investor-owned firm, embedded deep in the logic of its structure, is to exceed the market's expectations. The reason investors buy into it is that they hope it will become worth more than what other investors had thought. This puts a sometimes-dangerous, sometimes-inspiring pressure on companies: do more, more, more! Eat the planet and run your workers into the ground if you have to, but exceed!

Cooperatives and other community-owned firms have the opposite problem. Their structural purpose is to meet member needs. This is, in many respects, a healthier outlook than perpetual excess, but after a generation or two, it can lead to stagnation, to a loss of desire to delight people and a fixation on simply getting by. Community-owned firms should consider making extra efforts to inscribe in their culture and their processes a still-healthy appetite for self-transformation. For instance:

- Create incentives across the organization to encourage both owners and employees to challenge themselves and look beyond existing, perceived needs
- Use slogans, storytelling, public opinion, and other culture-building strategies to instill habits of creativity, innovation, and self-reflection
- Cross-pollinate with grassroots social movements, artists, and other visionaries to ensure you're getting ahead of member needs that haven't yet risen to the mainstream

It shouldn't take a stock market to motivate us to do amazing work.

Profile

Purpose

purpose-economy.org

We work on supporting businesses in their transition to steward-ownership, a legal framework that enables businesses to stay independent, mission-driven, and stakeholder governed for the long-term. So far, we've supported more than 50 companies globally, raised $50m+ in Purpose investment capital, and are pushing forward policy in Germany for a new corporate form.

E2C is analogous in many ways to the work we do—both in terms of the need for businesses to have alternative exits to conventional IPOs or sales, and as it relates to the question of who should govern and steward institutions and networks into the future. Many entrepreneurs are interested in this path but do not have awareness of its existence or the language to describe it to succeed in converting their ownership or raising capital on alternative terms. We are building the field for steward-ownership and alternative financing in the US through education, research, and networking. We also consult with startups and mid-to-large sized businesses to help design and execute ownership conversions and recapitalization strategies. Our goal with consulting is to reduce the average cost of a transition to steward-ownership, by building an ecosystem of experienced lawyers and investors and developing an open-source library of template term sheets and legal forms.

—Camille Canon (Partner)

Investors deserve better, too

The current regime ties investors' hands. It means they have to demand and pursue only a narrow range of outcomes, which constrains what they can invest in and the types of returns they can hope for.

Some of the people we've encountered who are most excited about E2C are actually investors. They would love to have other options—liquidity for startups not well suited for conventional exits, and strong alignment between investor interests and the interests of their startups' users and workers. Investors already embrace employee stock options to create this kind of alignment. Community co-ownership only deepens the connection between the needs of investors and the communities they invest in creating.

Here are a few reasons why investors can be excited about community ownership:

- **Investment opportunities** in a new class of companies whose value lies in the strength of their communities
- **A payoff** with a built-in social impact
- **Alignment** among employees, users, workers and other stakeholders
- **A loyal, accountable stakeholder ecosystem** that spreads out risk
- Making things that are actually **useful to someone**

Profile

Cambiatus

cambiatus.com

Cambiatus is an open platform that enables communities to create economic systems to achieve their collective objectives on their own terms, with the purpose of contributing with natural and socioeconomic regeneration. Cambiatus promotes the learning required to change the mindset and facilitate the co-creation of tailor-made governance systems, together with an easy-to-use webapp. So far we have active communities in Costa Rica, Brazil and Spain, with more than a thousand users of what we call biocurrencies—complementary currencies on blockchain to achieve regenerative objectives.

We envision Cambiatus allies (communities, investors, developers, promoters) will become members of a blockchain-based decentralized autonomous organization, or DAO, with shared benefits and decision-making power. For us, a DAO is an evolution of the cooperative business model and our way to "exit to community." This is a purpose-focused initiative, and doesn't make any sense to sell it for a profit. Cambiatus should keep existing until is needed, and the people that value it should be the one deciding its destiny.

We are in the process of co-designing the governance for what we call Cambiatus regenDAO, a DAO focused on natural and socioeconomic regeneration. We already have two legal entities in the process of incorporation (a foundation and a company) that will be the basic structures to start. One of the main challenges is that there is no legal entity that fully serves the purposes of a regenDAO, so we are trying to figure it out from what is available, and looking to influence the emergence of new legal structures. But in order for all of this to happen, we also need more people with an open mindset focused on collaboration, decentralization, and collective decision making—including investors, lawyers, and policy makers.

— Karla Córdoba Brenes (Founder)

Reinventing wheels

"Community" can have a utopian ring to it, but we're most excited about the communities that actually work. In most cases, we probably want to avoid getting utopian and instead draw on best practices for community building that we've seen in other contexts. Try to avoid reinventing wheels whenever possible. Instead, repurpose them!

A community-owned organization might look a lot like a vibrant, well-run investor-owned firm with an active community. Most of the time, it could be hard to tell the difference. The real difference should be most visible at the critical junctures, the times when hard decisions about priorities and directions need to be made. That's when it really matters to whom the organization and its leaders are ultimately accountable: the community that uses and loves it, not some outside profiteers.

- **Referendums:** When decisions need to be made that require the agreement of a large membership, such as bylaw changes or board elections, there are actually a number of existing tools out there. Check out Election Runner, or even a simple survey platform like SurveyMonkey.

- **Solution-oriented discussion:** The Issues feature on software development platforms like GitHub and GitLab looks like a forum, yet the threads seem suspiciously distraction free. That's because Issues threads are focused on getting something done; they specify the topic, provide templates for user input, and clearly define what counts as a solution. Check out Stack Exchange and Quora for other examples of this pattern.

- **Sortition:** While random juries are used in modern governments mainly just for court trials, the ancient Greeks used them for running much of the government. This can be a powerful way to capture the perspectives of average community members, while keeping the jury small enough to invest in equipping members with some expertise. Check out some recent online examples of sortition like Kleros (a cooperative dispute-resolution platform) and the Tribunal feature in the online game League of Legends.

It's important to note that many popular discussion platforms, such as Facebook Groups, Reddit, and various group-chat tools, are not included here. Because of their business models, they tend to encourage and elevate divisive and triggering content rather than helping people do great things together.

Society deserves better

Let's be honest: Entrepreneurs are often caught in a quandary that makes considering alternative ownership and capital models difficult, if not impossible—especially those starting businesses for the first time, or who lack financial support from friends and family. The current financing ecosystem has failed both entrepreneurs and our future economy. It holds back our societies as a whole.

Say you have a great idea for a business, and that business involves software or technology. A quick online search will yield countless articles about accelerators, incubators, and pathways toward securing venture investment (92 percent of which goes to companies founded by men). The hypergrowth, venture-capital backed business model dominates startup culture, even though very few succeed at returning the exponential dividends that VCs expect. In search of inspiration, founders will find themselves wading through hot takes by big name investors and other founders on throttling the growth of their startup, through gimmicks like search engine optimization, growth hacking, and paid user acquisition. All of this may result in the (unlikely) win of securing venture capital financing at the (likely) expense of sacrificing control over the company and the best interests of your users.. Getting the kinds of wins VCs require often means sacrificing whole categories of small businesses and good union jobs on the altar of cheaper technology.

Many people may be surprised to learn that venture capital is a vestige of the whaling industry of the 1800s. Whale oil fueled the majority of street lamps. Whaling expeditions were perilous and often unsuccessful. To entice skilled crews, wealthy families began pooling capital to fund the ventures up front. If a voyage was successful, the crew received 20 percent of the bounty, 2 percent was retained to cover the cost of food and supplies, and the remaining 78 percent went to the investors, enriching them and covering the cost of failed voyages.. This "two and twenty" management fee model still holds true for venture capital today. The pressure to make a return means investors, by and large, look for the same types of crews that have returned on their investment in the past, thus perpetuating a startling lack of racial, geographic, or cultural diversity—or true innovation. The wealth gap widens with every expedition, while most of the sea remains unexplored.

"Yuck," a founder may think. "I don't want any part of this."

And so some founders remove themselves from the startup sweepstakes and attempt to contort themselves into starting a small business. Small business lending has equally challenging constraints. Most small business lenders won't lend to firms that are younger than three years old. Only entrepreneurs with high credit scores and collateral are perceived as "de-risked" enough to receive loans, which again leaves out the majority of companies owned by women and people of color. Collateral is already enough of a challenge for tech companies. Unlike a manufacturer or car dealership, there is nothing to collateralize other than your laptop (or other personal assets, if you have them). And small business lenders, for the most part, do not understand the staffing needs, uneven sales cycles, and mechanics of the tech industry.

Other options include crowdfunding (which is only possible if you have a well-established "crowd" to fund from) or bootstrapping with customer sales alone (which can come at the cost of founder burnout or the high likelihood of being outspent by a competitor who may have raised venture capital). Other alternative funding options are popping up, but these experiments are still just that: niche, early concepts.

Stuck in a double bind, founders are often forced to sacrifice their vision and values in order to secure the resources they need to get started. The world is stuck with

Deliberation patterns

How can we learn from our communities most constructively? E2C is part of a growing movement seeking to find new ways for "listening at scale," as Taiwan's Digital Minister Audrey Tang puts it. This is an emerging field of experimentation, not a settled science. Here are some of the patterns out there that we've noticed:

- **Consensus-seeking:** Emphasize commonality and seek to elevate shared agreements above disagreements, which might otherwise gain more attention than they deserve. Check out Pol.is, an online tool that uses artificial intelligence to identify points of agreement that might otherwise go unnoticed.

- **Decision-oriented discussion:** Rather than holding meetings that go on endlessly, orient discussions around polling the group in ways that move ever closer to making decisions together. Check out Loomio, a platform (created by a worker cooperative) that provides threaded discussion forums, encouraging users to make proposals that can lead to rapid decisions.

- **Delegation:** Delegation systems lie between all-out referendums and elected representatives. Participants can delegate their votes to others whose opinions they trust. Check out systems that implement "liquid democracy," such as Democracy Earth.

- **Open-ended discussion:** When you're looking to garner community opinion, a simple public or private online forum might do the trick. (The Stocksy United co-op has a private forum for its members, for instance.) Forums can be very flexible, but they can also elevate conflict over consensus. Check out Discourse or Hearken for an example of modern discussion software.

community. That's where accountability ultimately lies. Recent innovations in cooperative governance, such as the Limited Cooperative Association statute available in some US states, make it possible to define different classes of shareholders. For example, there might be shares for founders, workers, organizations with aligned missions, and users all within the same co-op. This allows a company to achieve a level of specificity and granularity around the ownership and governance that further ensures the mission is protected.

It might be helpful to lean on a distinction from the idea of "Policy Governance," developed by John and Miriam Carver: Governance is separate from operations. The owners and the board can do high-level governance, such as setting the mission, setting a few limitations on how it can be achieved, and periodically overseeing progress toward those ends. Operations, meanwhile, is the purview of the day-to-day staffers, and they should be trusted to use their best judgment to achieve the governance goals as they see fit. Some organizations find vitality in blending the two, such as a grocery co-op that requires member-owners to work at the store as well as shop. Now that you know the rules, you can break them with both eyes open.

Most of us have never had roles as founders, investors, or major shareholders. It's natural that we need to learn and practice the art of good governance. Helping to facilitate that learning is an important part of any community-based organization. Stakeholders must learn their power—as well as its limits.

In most startups, especially in early stages, it's important for leaders to have the leeway to make decisions without too much consultation. This is true whether the company's owners are users or outside investors. The community holds accountability, but this should not mean getting in the way of the people entrusted to do the work.

the narrow slice of innovations VCs know how to fund. If a founder is "lucky," they will sign their first term sheet, and the cycle of compromises begins.

Standard investment term sheet, annotated by an investor

Term sheets are often the first major step in papering the material agreements of an investment. They are pretty standardized across the startup ecosystem. The very idea of a "standard" term sheet, however, merits inspection for potential biases. Why is it standard, and what does it optimize for? Who benefits from this default posture? Below is the term sheet downloadable from the website of Y Combinator, a famous startup accelerator program. It's important to note that this version of a term sheet optimizes for "speed to close," which means getting the deal done as soon as possible. Hence the short bullet point format, focusing on key issues an investor is likely to care about (financial terms and governance). Founders should consider slowing down at the term sheet phase, before entering a long-term relationship with an investor. You want to be sure the investor is ready to be there for the good days and the many more bad days. But this kind of agreement is the sort of thing you are most likely to bump into in Silicon Valley, along with some notes that can help you push back and create an agreement that works for you.

A bit later, we'll look at what term sheets might look like through an E2C lens. There is a huge opportunity to create a new standard, which would involve structural changes in the ways funds are managed. For now, this annotated version can help you understand a VC's point of view and arm yourself with that awareness to introduce better terms for your stakeholders.

Term Sheet[1]

Company:	[ ], a Delaware corporation.
Securities:[2]	Series A Preferred Stock of the Company (**“Series A”**).
Investment Amounts:	$[ ] million from [ ] (**“Lead Investor”**) $[ ] million from other investors Convertible notes and safes (**“Convertibles”**) convert on their terms into shadow series of preferred stock (together with the Series A, the **“Preferred Stock”**).
Valuation:[3]	$[_] million post-money valuation, including an available option pool equal to [__]% of the post-Closing fully-diluted capitalization.
Liquidation Preference:[4]	1x non-participating preference. A sale of all or substantially all of the Company’s assets, or a merger (collectively, a **“Company Sale”**), will be treated as a liquidation.

1 The purpose of this kind of document is to put 1) economics and 2) governance on paper as investors and the existing owners (typically the entrepreneur) of a company enter a relationship where money is exchanged for an ownership stake. A term sheet can include anything, particularly points that are important to key stakeholders should be included upfront. It’s an opportunity to make key terms explicit at the very onset of entering into a relationship with an investor.

2 This can be common stock, but in the venture world we’re averse to it because it is subordinate to preferred stock in the capital stack—an investor doesn’t want to play second fiddle, financially. Having various classes of stock with different rights can lead to extreme misalignment. This could lead to inequitable outcomes in a liquidity event.

3 This line typically causes a long conversation that will have future implications—it’s important to get valuation right. Misalignment here can create adverse incentives. For example, a high valuation means that for VC investors to earn a market-rate return within their hold period, they will want the company to grow rapidly—perhaps too rapidly for the good of its community—to achieve their metrics within a short time frame. There is an option to leave the round unpriced, meaning the valuation is left out of the term sheet. Convertible notes, for instance, function as debt when first issued and convert to equity upon a qualifying event. Such techniques create opportunities for financing that is flexible and aligned with community. We’ll talk about some further options later.

4 “Liq prefs” are an opportunity to introduce provisions that protect the investor if things go downhill. A traditional VC investor is asking, how comfortable am I that I will get at least my money invested back? If I believe the risk is so high that I might lose my money, but I still want to do the deal, I can introduce a structure here by ratcheting up the multiple and

The instrument is self-liquidating, so it does not undermine the independence of the business or its ongoing relationship with its community.

But, wait, now the community is in charge?

This is a scary thing for lots of people who hear about E2C. Can the community be trusted to have real power? Sure they’re nice most of the time, but what do they know, really? Have you seen some of the inane support tickets we’ve gotten?!

Think about the alternatives, though. If a startup exits to an acquisition, the acquirer is another company that is often either indifferent or outright hostile to the goals of the startup. Even a well-meaning acquirer that wants to preserve the startup’s mission and community will almost certainly change course after some years have passed, as circumstances change. Otherwise, if a startup goes public, its new owners are random investors who, knowingly or not, put down money for shares in the hopes of later selling them for more. These investors may or may not care about what the startup does. Those people have votes. They can take over. In comparison, even the most finicky community seems downright sensible.

Let’s be clear about something: Community ownership doesn’t mean every user and their cousin is going to be micromanaging the leadership. Just as stockholders in a public company have very specific and focused means of participation—usually, particular ballot questions at an annual meeting—community ownership should be designed for the right kinds of participation and be wary of the wrong kinds. Right and wrong here depend on the context a lot. Some companies with highly involved users may want those users actively shaping operational decisions and even contributing to making the core product; in other cases, users may be only remotely aware of their status as owners. That can be okay, as long as one core feature is there: The buck stops with the

Early stage: convertible note

A startup might adapt the widely used convertible note toward an E2C. Normally, a convert acts as debt that turns into equity on a future financing round, aimed toward a conventional exit. But in this case, the deal could invite another option: the note might specify terms for the startup's community to buy out the investor, either at once or over time.

A mission-focused investor might also require that, if the startup opts for a conventional financing round oriented against community ownership, the note would need to be paid off as debt at a certain interest rate. This would give the startup an additional incentive to work toward a community exit.

Later stage: preferred shares

Preferred equity investors are entitled to a base preferred dividend (4-10 percent). This dividend is cumulative—that is, if the dividend is not paid one year, it is still due the following year. Investor dividends are to be paid before any other stakeholder groups (depending on the business, these may include: employees, users, vendors, etc.) participate in profit distributions.

The logic behind this structure is that workers and commercial partners have already received their base pay as part of the ordinary course of business, so investors should get their preferred/base returns before others receive their benefits. Any excess profits are distributed to stakeholder groups based on a predefined split: Investors share in the company's profits when it does well, as is customary for an equity investment. For instance, if the company does well, dividends to investors could increase by a factor of two or more. Investors do not extract an outsized share of profits, however. Should the company produce surplus profits, community groups receive 60 percent of additional distributions until investors receive a predefined percent of dividends, and 80 percent of profits thereafter.

Dividends:[5]	6% noncumulative, payable if and when declared by the Board of Directors.
Conversion to Common Stock:	At holder's option and automatically on (i) IPO or (ii) approval of a majority of Preferred Stock (on an as-converted basis) (the **"Preferred Majority"**). Conversion ratio initially 1-to-1, subject to standard adjustments.
Voting Rights:	Approval of the Preferred Majority required to (i) change rights, preferences or privileges of the Preferred Stock; (ii) change the authorized number of shares; (iii) create securities senior or pari passu to the existing Preferred Stock; (iv) redeem or repurchase any shares (except for purchases at cost upon termination of services or exercises of contractual rights of first refusal); (v) declare or pay any dividend; (vi) change the authorized number of directors; or (vii) liquidate or dissolve, including a Company Sale. Otherwise votes with Common Stock on an as-converted basis.
Drag-Along:[6]	Founders, investors and 2% stockholders required to vote for a Company Sale approved by (i) the Board, (ii) the Preferred Majority and (iii) a majority of Common Stock [(excluding shares of Common Stock issuable or issued upon conversion of the Preferred Stock)] (the **"Common Majority"**), subject to standard exceptions.
Other Rights & Matters:[7]	The Preferred Stock will have standard broad-based weighted average anti-dilution rights, first refusal and co-sale rights over founder stock transfers, registration rights, pro rata rights and information rights. Company counsel drafts documents. Company pays Lead Investor's legal fees, capped at $30,000.

including "participating preferred." That ensures I get my money back before anyone else (including employees and other shareholders) in a liquidity event. I might even get more than my money invested before others get anything. This is almost always in misalignment with other stakeholders.

5 Can be a protective device to provide a minimum annual rate of return on an investor's investment. Think of this as a way to sweeten the deal for a potential investor and also provide downside protection—potentially at the expense of everyone else.

6 VCs are sensitive to the % here, so watch out—we may not want every class of owners to have a vote.

7 Beware of special rights here. You may need to get investor approvals for change-of-control events. There is also a commitment here to pay legal fees, which should be proportional to the amount of investment. $30,000 would be unreasonable for a $50,000 investment.

Board[8]:	[Lead Investor designates 1 director. Common Majority designates 2 directors.]
Founder and Employee Vesting:[9]	Founders: [________________]. Employees: 4-year monthly vesting with 1-year cliff.
No Shop:[10]	For 30 days, the Company will not solicit, encourage or accept any offers for the acquisition of Company capital stock (other than equity compensation for service providers), or of all or any substantial portion of Company assets.

The "No Shop" is legally binding between the parties. Everything else in this term sheet is non-binding and only intended to be a summary of the proposed terms of this financing.

8 Governance is key. Lead investors typically add one board member and one board observer (though it can be more depending on size of equity check). The assumption is that more control = less risk. Not always the case! We will share more ideas about good governance later on.

9 How, and on what timeline, do employee options transfer into shares of the company? Communities should have clear and honest conversations about how to and on what timeline to have folks become owners/shareholders. Perhaps there is some form of an ownership trial period. Industry standard for employees in the technology sector is that if you leave before the first anniversary of your employment, you do not vest any of your stock (meaning no legal ownership).

10 Once a term-sheet is signed and parties enter into a relationship, this provision essentially is a commitment by the company to no longer actively solicit other investors. You're theirs (as long as they don't back out).

E2C financing on the back of a napkin

Now that we've reviewed a menu of what's out there, let's try putting some of the ingredients together.

Early stage: redeemable shares

Like traditional equity, non-voting equity represents financial ownership of the company. Redeemable shares can—and sometimes must—be repurchased by the company at a predetermined valuation, either gradually or at a fixed maturity date. The redemption value and date are clearly defined in the shareholder agreement. Variation can be built into the shares' valuation.

Redemptions can be paid from different liquidity sources, including cash, successive equity rounds, or debt. For steward-owned companies, these shares are created without voting rights. In lieu of voting rights, investors normally require protective provisions to ensure they have some recourse in emergency situations—e.g., a CEO defrauding a company.

Unlike revenue-based financing models, non-voting redeemable preferred equity keeps money inside of companies during their crucial early years of growth. Redeemable preferred equity also has the advantage of capping redemption valuation at a certain multiple of the original purchase price, preventing shares from becoming too expensive to buy back once a company has achieved profitability. For an investor, a redeemable share has the advantage that repayment is relatively secure and predictable assuming the company remains solvent. For the company, this structure has the advantage that the business will one day own itself and will have the agency to reinvest in the company or share value with stakeholders. This kind of equity can also be issued for founders or employees.

Profile

Ocean Editors

oceaneditors.com

OceanEditors (OE) provides professional, affordable English language editing services and scientific consulting. Our clients are predominantly nonnative English speakers writing academic manuscripts in English. OE has obtained a modest client base in China and the United States. OE aims to exit as a worker cooperative. Beyond the workers, there are other stakeholders that may benefit from our success. Therefore, as we refine our E2C plan we will evaluate roles for these other stakeholders. OE produces value primarily for our editor-workers and our clients. The savings obtained from this greater operational efficiency can be deployed in two places: as higher wages for our editor-workers and as lower prices for our clients.

“Exit to worker cooperative” has been the goal for OE from its foundation and we adopted E2C upon learning about the concept and community. We’d like to be part of an E2C community mutual aid and support group. E2C startups could provide each other with mutual brainstorming and consulting. We could hire each other when needed, or barter. E2C “serial” founders could reinvest the capital gained from exit into new E2Cs. It would also be helpful to have laws that are supportive of E2C pathways—particularly through appropriate financing options—plus governments that know we exist. Those of us creating this path should explore how we can organize together politically.

—Marc Bogonovich (Founder, Editor)

Standard corporate bylaws, annotated by a lawyer

Shareholder primacy—the prevailing theory of corporate governance, although not actually a legal mandate—holds that a company is designed primarily to serve the interests of shareholders by maximizing their profits. By contrast, a community-centered business is democratically owned and controlled by its community, defined broadly to include people and groups impacted by the business’ activities, such as workers, users of a product or service, or members of the geographical community in which the business operates. To understand how to get there, we should take a hard look at the status quo.

The bylaws are the core governing documents of a corporation. Of course, a variety of other interventions would also be needed to change the company’s culture of governance and ownership, but the bylaws are a good place to start. They would need to establish how community owners will share in the surplus of the business and steer its direction. For example, in the case of worker cooperatives, worker-owners share in the surplus based on “patronage,” which can be measured based on the number of hours each member works. A community-centered model does not preclude some investor ownership. However, the bylaws should ensure that investor contributions do not create power imbalances that disempower community owners.

Importantly, the bylaws might articulate a social purpose, committing the business to work for the sustainable development of its communities. The bylaws can also preserve this mission—and the vision of community ownership—by placing limits on the sale of the business or its assets to a person or company who intends to generate profits for private individuals or for-profit entities.

Here’s an example of some typical “(and rather dull)” corporate bylaws language, with an E2C gloss:

ARTICLE I
SHAREHOLDERS

Qualification of Voters

Every shareholder shall be entitled to one vote for every share in its name on the record of the shareholders.[1]

Quorum of Shareholders

The holders of a majority of the shares of the Corporation issued and outstanding and entitled to vote at any meeting of the shareholders shall constitute a quorum at such meeting for the transaction of any business, provided that when a specified item of business is required to be voted on by a class or series, voting as a class, the holders of a majority of the shares of such class or series shall constitute a quorum for the transaction of such specified item of business.

Vote or Consent of Shareholders

Directors, except as otherwise required by law, shall be elected by a plurality of the votes cast at a meeting of shareholders by the holders of shares entitled to vote in the election.[2]

Whenever any corporate action, other than the election of directors, is to be taken by vote of the shareholders, it shall, except as otherwise required by law, be authorized by a majority of the votes cast at a meeting of shareholders by the holders of shares[3] entitled to vote thereon.

1 A community-centered approach should be grounded in principles of democratic governance based on equal participation. This could take various forms! In a cooperative, for instance, each member gets one vote—no matter how many shares they own. There could also be ways for stakeholders who don't own shares directly to participate in governance, such as through a stockholding trust designed to represent their interests.

2 Wait a second. Who are these directors? How are they nominated? What kinds of experience are valued for these roles? The election process should include a practice to actively recruit, encourage, support, and nominate diverse candidates.

3 Is voting always the best way to decide things, with the majority squashing the minority? Probably not. The bylaws could provide for consensus-based decision-making, or a modified consensus decision-making process that allows for voting as a last resort. Decisions could also be made through random juries of community members, or through delegation, where members can appoint experts to represent their interests.

Perpetual purpose trust (PPT): A non-charitable PPT can own part or all of a C Corp for the benefit of a purpose rather than shareholders. The trust can include employees, investors, and other stakeholder groups in both voting and economic rights through a "trust protector committee." A separate "trust enforcer" is ultimately responsible for ensuring the purpose of the trust is fulfilled. The PPT structure grants a great deal of flexibility around the purpose of the trust and how different operating bodies relate to each other according to a "trust agreement."

- **Taste:** Highly flexible form of co-ownership, balancing member benefit with public mission
- **Aftertaste:** Complicated tax implications for conversion of existing businesses
- **Check out:** Berrett Koehler Publishers, Firebrand, Organically Grown Company

Public benefit corporation (PBC): Not to be confused with the B Corp certification, a PBC is a corporate charter available in many US states that allows a for-profit company to include a social purpose as part of its core, legal mission. This is a way of making clear to current and potential investors that the social purpose will stand alongside profit-seeking in company decision-making. Structurally, this is a modest modification to conventional corporate charters, but culturally it can have important effects.

- **Taste:** An increasingly mainstream way to signal strong commitment to stakeholder benefit
- **Aftertaste:** Legal enforceability and strength against shareholder interests is not fully clear
- **Check out:** B Lab, King Arthur Flour, Patagonia

Profile

Krak

skatekrak.com

Krak is building digital tools for the skateboarding community, including a mobile app, spot map, and news discovery. We want Krak to be the world's biggest collection of skate spots and skateboarding knowledge, and our mission ultimately is to make the world a huge playground.

Even though we started the company by following the typical startup playbook, we couldn't be more proud and excited today to turn Krak into the first skateboarding tech co-op. That E2C moment looks now like an obvious choice. In retrospect, we feel that E2C has been on our radar for a while. We got lucky enough to have a Faction Skis founder among our early backers, a company that created a vehicle to allow their community to invest. Such stories always resonate. We have started to talk to our existing investors and most active community members to share our plan. The biggest obstacle so far is financial. Executing the conversion requires some capital, and since we're adapting the whole business model at the same time, we're not generating enough revenue, so we need to recapitalize the company.

We feel that the narrative is by far the most missing piece right now. We're already spending way too much time explaining, convincing the entrepreneurial ecosystem around us to understand and support such a move. The Amazon and Facebook stories are so heavy in people's minds that they don't really understand the rationale behind anything different.

—Kevin Straszburger (Founder and Chief Skateboarder)

ARTICLE II[4]
<u>BOARD OF DIRECTORS</u>

<u>Power of Board and Qualification of Directors</u>

The business of the Corporation shall be managed by the Board of Directors. Each director shall be at least eighteen years of age.

<u>Number of Directors</u>

The number of directors constituting the entire Board of Directors shall be the number, not less than one nor more than ten, fixed from time to time by a majority of the total number of directors which the Corporation would have, prior to any increase or decrease, if there were no vacancies, provided, however, that no decrease shall shorten the term of an incumbent director. Until otherwise fixed by the directors, the number of directors constituting the entire Board shall be four.

<u>Quorum of Directors and Action by the Board</u>

A majority of the entire Board of Directors shall constitute a quorum for the transaction of business, and, except where otherwise provided herein, the vote of a majority of the directors present at a meeting at the time of such vote, if a quorum is then present, shall be the act of the Board.

<u>Committees</u>

The Board may designate one or more committees[5], each committee to consist of one or more of the Directors of the Corporation ... The Committee or committees … will have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation.

ARTICLE III
<u>AMENDMENT TO BYLAWS[6]</u>

The bylaws may be amended, altered, or repealed by the Board of Directors or the shareholders by a majority of a quorum vote at any regular or special meeting; provided however, that the shareholders may from time to time specify particular provisions of the bylaws which shall not be amended or repealed by the Board of Directors.

4 Normally, the board's main job is to deliver profits to shareholders, full-stop. But participant-communities have a more textured set of interests. The bylaws should establish that directors hold the business' work in trust for the benefit of community owners. This means that it would not be considered a violation of the directors' fiduciary duties to make decisions based on social purpose, rather than profit

5 The board's job should be to listen, not just rule! The bylaws might establish a polycentric governance structure and a collaborative design approach, enabling community owners to form groups and initiate projects as a means of building community power and leadership capacity. The board might also have seats that must be filled by stakeholder representatives or members of marginalized communities.

6 Here we need to protect the company as a community asset. Altering the social vision or selling the company should be hard or impossible. It should be able to evolve but not sell out.

Profile

Center for Community Ownership

centerforcommunityownership.org

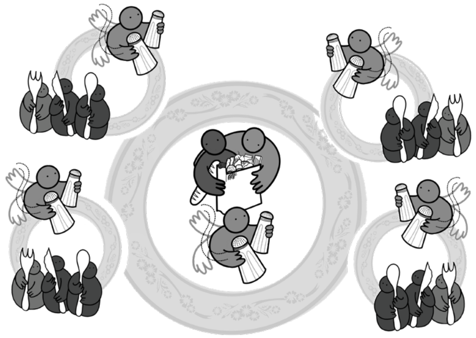
The Center for Community Ownership (CCO) provides legal, financial, and strategic expertise to communities that want to start and save essential businesses. By offering the technical support necessary to create community-owned, for-profit businesses, the CCO helps communities meet their economic development goals while building real financial wealth.

The CCO also works with retiring owners to sell established businesses to their communities. We are currently mid-stream with several communities, working to either establish new businesses or transition existing businesses into community ownership.

Whereas the CCO has been working with communities defined in a geographic sense up to this point, we would love to start working with other types of communities as well. We are actively looking for tech businesses that would be interested in exploring selling their businesses to their respective communities, whatever “community” means to them.

—Andrew Connor (Director)

Federation: The company is owned by other companies that share its services. Rather than centralizing profits, this kind of model feeds its benefits out to the edges of the network. Large-scale examples include Associated Press, a cooperative owned by its member news organizations, and early Visa, which spun off from Bank of America to become a cooperative owned by various regional banks. Networked federations can also operate across open protocols, even without a central company, like the Internet itself—which began as the property of the US government before being released as an ownerless (or owner-full) public good.



- **Taste:** Enables strong local control and benefit, blended with global economies of scale
- **Aftertaste:** Widespread accountability can make strong central leadership difficult
- **Check out:** Community Purchasing Alliance, Mastodon, OCLC

Nonprofit: There are a variety of interesting nonprofit structures in the US tax code, ranging from the familiar 501(c)(3) to less-familiar arrangements for entities like fraternal societies, mutual insurance pools, credit unions, and cooperatives among hospitals (yes, they get that specific). While nonprofits are technically public assets, they often become controlled by the wealthiest, most powerful stakeholders, so be sure to build in governance mechanisms that ensure true community control.

- **Taste:** Tax advantages and public mission
- **Aftertaste:** Vulnerable to co-optation and lack financing options that private businesses have
- **Check out:** Nonprofit Democracy Network, Nonprofit Quarterly

Profile

MSI Integrity

msi-integrity.org

The Institute for Multi-Stakeholder Initiative Integrity (MSI Integrity) is a nonprofit human rights organization, created in 2013 to investigate whether, when, and how multi-stakeholder initiatives (MSIs) protect and promote human rights and the environment. MSIs are collaborations among businesses, civil society and other stakeholders that seek to address issues of mutual concern, including human rights and sustainability. After nearly a decade researching MSIs, we have concluded that MSIs are not working for rights holders. This failure is inextricably linked to the contemporary corporate structure itself. As long as corporations remain primarily beholden to investors, they will resist human rights initiatives that threaten their bottom line. Boards and executives do not directly experience the on-the-ground consequences of the company's decisions—the mine sites, farmland, or factories where the repercussions reverberate. Meanwhile, boards are legally prohibited from making decisions that prioritize community or societal interests above those of the shareholders.

In this context, we are embarking on a significant new focus: Reimagining the Corporation. Our goal is to promote and explore alternatives to disrupt the dominant corporate form, because we see it as extractive, broken, and a driver of human rights and environmental abuse. We hope to study and examine different E2C examples to provide rich case studies that prove that democratic ownership and control is not a pipe dream, but a reality for a range of business models. Critically, we also hope to shape and influence the DNA of E2C legal models and values to provide positive human rights outcomes for workers and communities.

—Amelia Evans (Executive Director), Malene Alleyne (Strategic Communications and Research Associate)

The community payday

In conventional exits, founders and investors hope to see a big pile of cash to reward all their risk and initiative. Sometimes the sums can look quite absurd, and some of them probably are—since they're based on an imaginary, speculative idea of what the whole thing is worth. Since E2C isn't based on magical thinking, it can't compete with stupid riches. But communities should take seriously the need to reward the early risk assumed by founders. If they don't, communities may produce resentful founders and investors who won't be interested in helping to seed more communities.

Through the process of a community taking ownership, founders should see rewards both for their time and risk. Both matter; market-rate back pay isn't enough, because founders typically invest more than a salary accounts for. This might include amassing personal debt from savings or credit cards to start the business, working long nights and weekends, encountering mental health challenges, and endangering relationships with friends and family to see their idea through. (To be avoided! We want our founders to be balanced and healthy.) Beware of self-sacrificing founders who want to forgo reasonable returns. You don't want to make that an expectation for everyone else. If they want to be generous, they can get into philanthropy. On the other hand, you also don't want E2C to be so lucrative that money becomes the whole point.

Money isn't the only kind of reward founders should be after. Social capital is something that communities can give, too—the glory, essentially, of having helped build a vibrant social life-of-its-own. After choosing to establish Wikipedia as a nonprofit, for instance, Jimmy Wales has said, "I don't regret it at all. My life is very interesting, I get to meet all kinds of people, I can do whatever I like." He recognizes, also, that if he had set up Wikipedia as a profiteering company, it wouldn't have inspired the kind of loyal community of authors and editors that makes it work.

Rewarding founders with social capital doesn't mean a carte-blanche or perpetuating founder worship. After E2C, if founders stop being good leaders, communities should be able to send them on their way. That's how accountability begins.

Why not just "startup from community"? Why wait until the exit?

Startups that are community-owned from the beginning would make a lot of sense in some cases. When there's a clear member community with a clear shared need and a means of collective financing, go for it.

E2C is for other kinds of efforts, particularly those that we usually call startups—enterprises with an ambitious idea or technology but not yet a confirmed product-market fit. Often startups are very risky—do we really want to bring a community along for the riskiest part of the ride? Early on, startups need to be very creative and flexible, making fast decisions on the fly, which could be harder if a large community of co-owners is already part of the mix. Startups generally need to make several radical "pivots" in their business model before they land on the right one. The power of the E2C idea is that it can capture the best of both worlds—the risk and dynamism when founders need it, and the loyalty and accountability when the community needs it. Think of the process this way:

- **The startup phase,** when founders and early investors are in charge and bearing the risk in search of a healthy community
- **The exit to community,** when the community has established itself and is in a position to take stewardship
- **The community phase,** when community governance oversees management to meet and exceed community needs

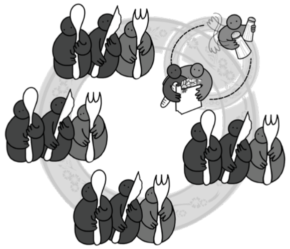
Startups are always temporary organizations that exist for the purpose of discovering what they will eventually become. With E2C, that purpose can be their communities.

Golden share: A special kind of company equity, "golden shares" and "steward shares" can entrust mission oversight to certain entities. These shares can hold powerful voting rights but generally not economic rights. Steward shares should be held by stakeholders closely related to the company's operations or mission. An independent foundation might have veto power through a golden share, in order to protect the rights of stewards and the integrity of the company's mission. Alongside these, economic distributions to employees and investors might occur through non-voting preferred shares.

- **Taste:** It's like a benefit corporation with teeth in company governance
- **Aftertaste:** The onus is on the share-holding foundation to be a trustworthy partner
- **Check out:** Ecosia Purpose Ventures, Sharetribe, Ziel

Employee ownership trust (EOT): A type of perpetual purpose trust, an EOT defines benefiting employees or other members as the “purpose” of the business. It is similar to the more widespread employee stock-ownership plan (ESOP), but flexible enough to bypass some of the reasons ESOPs have not appealed to startups. The EOT structure ensures that the ownership of a company remains in the hands of its employees or members. Employee-owners elect members of the “trust protector committee” and all privileges and rights are terminated when an individual leaves the company.

- **Taste:** Highly flexible, enabling a balance between mission-centricity and employee (or other stakeholder) benefits
- **Aftertaste:** Doesn’t currently have the US tax benefits of ESOPs
- **Check out:** California Harvesters, Equity Atlas, John Lewis Partnership, Métis Construction



Employee stock ownership plan (ESOP): This is a classic E2C in the United States. It’s actually an employee retirement plan, which holds company shares in a trust, and it is designed to allow for a financed conversion, so employees become ownership without putting up any cash themselves. An ESOP can hold anywhere from a tiny fraction to all of a company’s stock. Particularly with their favorable tax treatment, ESOPs can be attractive for businesses in fairly predictable markets, but their repayment obligations to employees can be onerous in volatile industries, and ESOPs have not been very compatible with risky, ambitious startups in the model’s present form.

- **Taste:** Significant tax incentives in the United States
- **Aftertaste:** Repayment obligations can be crippling for growth-oriented startups
- **Check out:** Certified EO, Fifty by Fifty, National Center for Employee Ownership

Profile
Community Shares Company

communityshares.co.uk

Community shares are a project in the UK to mainstream investment into cooperative or shared ownership businesses for ordinary people. We link up enterprises, from village pubs to sports clubs and media companies, to ordinary people willing to invest—both for the returns they can get for their savings and the “social return” they’ll get from the business they’ve invested in meeting their community’s needs. It’s about getting $500 from a thousand people, instead of $50,000 from ten people. Nearly all of the projects we work on are exiting to community, though some are entering to community too.

The big unfair advantage we have in the UK is that certain cooperative legal vehicles are exempt from the regulations governing issuing public securities. The marketing campaigns for investment have been really innovative and relatable to ordinary people. We write investment offer documents in plain English, telling stories first and foremost, rather than presenting dense business cases and detailed financial projections.

The main obstacles we’ve faced are around awareness. The caste of lawyers and financial professionals just don’t get taught this stuff. So it’s like a set of super tasty dishes that exist on a secret menu at a restaurant. It’s kind of thrilling up to a point, but it’s also a real inhibitor preventing this kind of thing becoming truly mass-market. We’ve built a training course to try and address this at communitybusiness.school, which explains how this all works, how to go about raising capital from lots of people, and what things you need to start thinking about sooner rather than later.

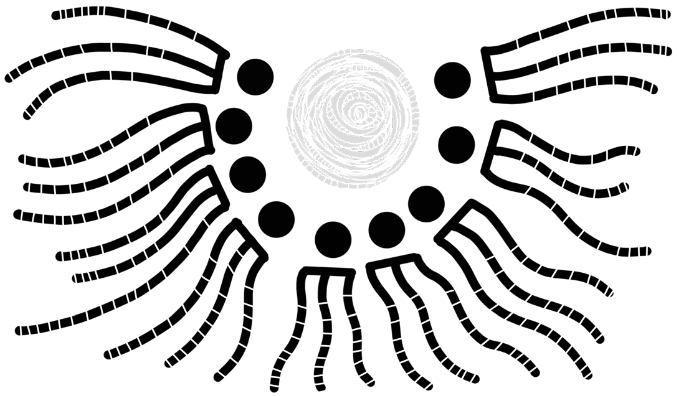
—Dave Boyle (Director)

How about "exit with community"?

Maybe an easier way for startups to start involving their communities in ownership is through a bit of an inversion on E2C: Exit with community. To some extent, this is something startups often do already, through stock options and other equity compensation to employees, ensuring that employees stand to benefit when the company gets sold or goes public. Some platforms (like Uber and Airbnb) have explored how they might cut non-employee users into this kind of deal.

Outside of tech, the private-equity giant KKR uses temporary employee ownership as part of its turnaround strategy in the manufacturing sector—employees get a stake, essentially, in KKR's efforts to make their companies more valuable, and they get a payout along with KKR if they succeed. Similarly, many co-ops and employee-owned businesses have opted to sell to private buyers in exchange for a large payout to members.

This kind of exit surely spreads the wealth more widely than might otherwise be the case. But it doesn't necessarily help the company's future workers or stakeholders, nor does it change the basic profit-maximizing logic. It's a step toward E2C, perhaps, but E2C aspires to something more radical.



Profile

Alternative Ownership Advisors

alternativeownershipadvisors.com

Alternative Ownership Advisors is a subsidiary of Organically Grown Company, one of the largest independent produce distributors in the United States, and one of the first US companies to transition to steward ownership via a Perpetual Purpose Trust. We have launched a consultancy, to support leaders of private companies designing and implementing ownership and investment solutions that align with mission, accelerate impact, and protect independence.

The alternative ownership and finance models we promote are anchored around the principles of steward-ownership:

- The view that companies are not commodities to be sold, but rather systems of people working toward a shared purpose
- Profits should be primarily reinvested in the purpose and shared with stakeholders contributing to the purpose (founders, workers, investors, supply chain, customers, community)
- Companies should maintain self-governance where control is held not by distant investors, but by merit-based "stewards" who are actively engaged in the business and the mission, and are assigned the responsibility for protecting it for long-term health and viability

These models can provide alternative exits for founders who need liquidity or to attract investment, but want to ensure ongoing protection of the purpose for which they have established the company.

—Sarah Joannides (Managing Director)

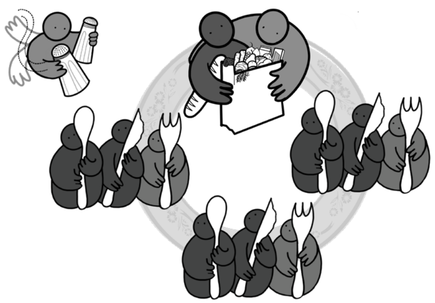
Entrees

Community investment trust (CIT): An emerging model for financial inclusion developed by Mercy Corps, the CIT is designed to enable neighbors to invest in commercial real estate at affordable rates.

- **Taste:** Low-bar access to capital ownership
- **Aftertaste:** Still early-stage and narrow in its focus on commercial real estate
- **Check out:** Community Investment Trust (the organization), The Guild

Cooperative: A cooperative legal form is designed for the benefit of participant member-owners, rather than outside investors, through governance based on one member, one vote. As part of a longstanding global social movement, the model is well-tested and flexible. Members might be workers, customers, businesses, and other core stakeholders. Investors can support them, but without getting an outsized voice. Co-ops can include public-benefit provisions and other mechanisms that help ensure a long-term focus on the common good alongside members' interests.

- **Taste:** Raising capital from members and practicing strong democracy
- **Aftertaste:** Outside investors may expect voting rights that co-ops can't offer
- **Check out:** Cooperatives for a Better World, International Co-operative Alliance, Platform Cooperativism Consortium



How?

Exit to *which* community?

Before a company can exit to community, it must define that community in concrete terms. But what does community actually mean? Who are the specific people and groups in a company's community? Are we referring to a geographical community? Or are we speaking about the people who interact directly with a company, such as the employees or the users of a platform? There is no easy answer. This will vary depending on the industry, product, service, and company. However, here's a two-step approach that could help founders think about which groups a company may wish to "exit to."

Step 1

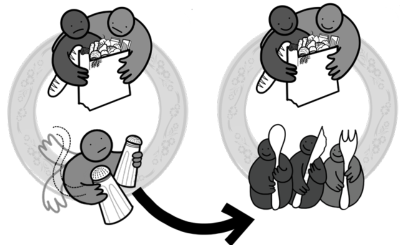
Think broadly about one essential question: Whose lives or rights are affected—or are likely to be impacted—by the company's operations? These might be positive or negative impacts. The impact need not be direct, nor does it even need to materialize. Potential impacts are just as important.

The main stakeholder groups that leaders in a company usually consider include shareholders, customers, employees, suppliers, and the neighbors around which they operate. However, there may be other potentially affected groups, some of whom may not be on a company's radar or who may live very far away, such as end users of products contract workers in a supply chain or who might be affected by the social or environmental impacts of the company's activities. The impacts they experience may not be obvious or immediately visible. Therefore, this first step requires founders to engage a meaningful process to map the range of potentially affected groups—groups that could unlock opportunities which might otherwise be hard to see. This process can help founders to think about who should have governing rights.

Step 2

Recognize who within those groups is more vulnerable, whose human rights and livelihoods depend on what the company does. A company's community may include people with different vulnerabilities, privileges, power, and needs. While a company may be accustomed to taking into account stakeholders who are more vocal or who have more power and voice—such as investors, large customers, and employees represented by a union—there are other stakeholders who may be less visible, such as migrant workers, disabled people, or children. Founders therefore need to be proactive and thoughtful in finding ways to identify vulnerable groups whose needs are not typically taken into account. Even if society does not often value these groups, inevitably their involvement and investment is critical to the company's success. They might know a company's inner workings better than its official leaders do. This second step facilitates deeper thinking about which groups founders might want to ensure have voice and rights (i.e., who needs this most?), and how important decisions happen.

After doing this two-step analysis, founders might be able to identify more clearly who the communities are that they want to exit to. Who better to provide input and help to steer the direction of a company than those who have firsthand experience of the company's impact? Once this mapping process has been done, founders can move to the next big task, which is to determine how a company's community can be involved and represented, how to finance the transition, and what rights the new owners might hold.



Stock buyback: This is a trick that big companies increasingly use to boost their share price without doing anything valuable—they just buy their own shares back (and write off the cost), making the shares still on the market more scarce. Practices like that should probably be banned, as they once were in the United States. But some mission-oriented startups have also used company cash to buy out investors so that the company can be freer to prioritize other stakeholders. The cash could come from revenue, or it could come from users or employees who want to replace the investors as their company's owners.

- **Taste:** Resolves differences of vision between company leadership and investors
- **Aftertaste:** Requires significant cash on hand
- **Check out:** Buffer

Private equity: Usually, this kind of investment fund is part of the problem—eating up small businesses, mothballing them and laying off workers, then upselling the result to other investors who repeat the cycle until the lemon is dry. But private equity can also be used to facilitate community ownership—buying businesses in need of a new evolution, training key stakeholders to be owners, and then sharing the renewed prosperity between the fund and the community of new owners. Already, there are some funds out there that use this strategy to facilitate conversions to employee ownership. In principle, private equity could be a tool for all sorts of community-ownership conversions.

- **Taste:** Provides capital to facilitate transition processes
- **Aftertaste:** The dominant private equity habits might eat up the better kind
- **Check out:** Apis & Heritage Capital Partners, Goodworks Evergreen, Mosaic Capital Partners, Obran Cooperative, Purpose Evergreen Capital

Profile

The Guild

theguild.community

The Guild builds community wealth through real estate, entrepreneurship programs, and access to capital. On the real estate side, we work with developers, investors, and tenants to create deals that center equity, provide a path to community ownership, and ensure that wealth isn't extracted out of communities. Our entrepreneurship programs work synergistically with our real estate strategy by building and providing a pipeline of viable small businesses—with a focus on Black-owned and other persons of color-owned businesses, that are otherwise under the threat of being displaced due to gentrification—to our real estate projects. We believe that there is an alternative economic development model where more people, especially those marginalized and excluded from our current systems, can own and govern more of the assets (businesses and real estate) that make our communities vibrant. We aim to convert our company to a worker cooperative.

"Exit to community" as a framework fits across all our products and programs overall. Through our annual Community Wealth Building Accelerator, we train entrepreneurs of color on cooperatives/worker-ownership models. On the real estate side, we are working to develop the first Community Investment Trust (CIT) that includes both commercial real estate and housing. Legacy residents from a neighborhood where gentrification is imminent invest and receive dividends annually, along with long-term share price appreciation. Investors can also exit at any time. The CIT model creates an immediate pathway to E2C for the asset. This way, legacy residents can build wealth (and govern) through ownership of assets, rather than be displaced by it.

We need impact investors with flexible capital to allow us to build E2C into the framework of the businesses we work with or our real estate. Patient equity injections along with philanthropic catalytic capital are crucial.

—Nikishka Iyengar (Founder)

WORKSHEET

When you have a hard decision to make, whose opinion about you do you lie awake worrying about?

Whose opinion about you do you **wish** *you were lying awake worrying about?*

Whose commitment does the project most require?

Who are you not even thinking about but who depends most on the project for livelihood, security, or other basic needs?

Who are the people in your support network that you trust to keep you accountable?

Who do you want to be your boss?

Who was instrumental but overlooked in the creation of the company?

Profile

Connected Us

Connected.us

Connected Us is a project of RowdyOrb.it, a Baltimore-based social enterprise that seeks to use the deployment of high-speed Internet to challenged neighborhoods as a means to spur economic development and community revitalization. The model calls for the placement of strategic wireless antennas on key buildings that will feed a series of repeating stations, forming a wireless mesh network that will allow residents to access wireless broadband in their homes. As a social enterprise, Connected Us will allow for a tiered fee subscription base model to ensure long-term sustainability and community based growth. However, the service is free for one year, followed by a monthly subscription fee, currently pegged at roughly 70 percent of the current rate for wired service from Comcast, which is the only alternative in these communities. Once implementation costs are recovered, Connected Us plans to convert these mesh networks to community owned and managed assets.

This project is currently in the concept stage. Initial planning models and financial projections are being built, and community engagement strategies are being developed. I was introduced to the E2C community by a colleague, but the idea of building this enterprise in a way that it could be turned over to the community has been central to our work since its inception. The concept of turning the assets and operations over to the community has been well received. On the other hand, potential funders have been somewhat skeptical as the model creates confusion regarding how invested capital is repaid.

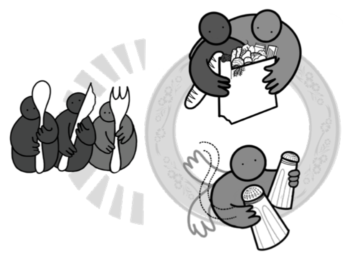
—Jonathan Moore (Founder)

Revenue-based financing (RBF): Pay back investors as the company gets paid. This approach connects the repayment schedule for investors to revenue (or profit) coming into the business—thus preventing immediate interest payments from strangling it at an early stage, for instance. Since both investors and founders want the same thing under RBF—more revenue—this kind of approach can enable outside investment without need for investor control, making it compatible with cooperatives and social enterprises wary to retain participant autonomy. Investor returns may also be capped to prevent excessive extraction.

- **Taste:** Enables investor participation without investor control, aligns investors with business revenue, alternative to bank loans
- **Aftertaste:** Not well suited for high-risk startups, can suffocate startups that need to prioritize reinvestment, often requires the equivalent to a higher interest rate than bank loans
- **Check out:** Candide Group, Equal Exchange, Indie.vc, Izdihar

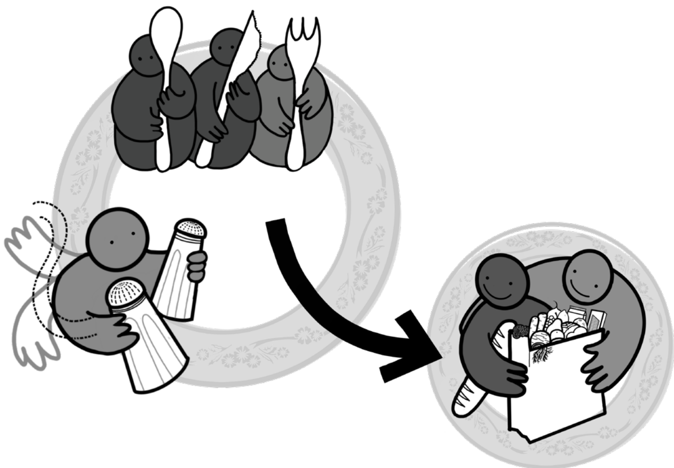
Shared earnings agreement: Pay back investors as the founders get paid. Like RBF, this model pays back investors according to the success of the business—but in this case, only when founders benefit. This is an equity instrument that works as a kind of profit-sharing. As with RBF, also, returns are capped.

- **Taste:** Enables investor participation without investor control, aligns investors with founder returns
- **Aftertaste:** Can result in the equivalent of a very high interest rate
- **Check out:** Earnest Capital



Investment club: Normally, early-stage business investing is reserved by law for "accredited investors"—wealthy folks, essentially. But US law allows for investment clubs of fewer than 100 people, usually in the same state, whose members can jointly invest in community businesses. Members need to actively participate in decision-making. These are small-scale entities, by design, but networks of them working together could become the basis of considerable community ownership. And the legal requirement for member participation helps ensure a cooperative culture in these clubs.

- **Taste:** Allows non-accredited investors to invest in early-stage businesses
- **Aftertaste:** Restricted in scale and ability to professionalize
- **Check out:** Cooperative Capital, Co-op Investment Network



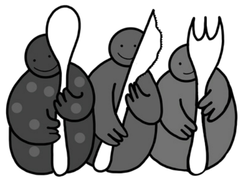
A community kitchen

Exit to Community is not a plug-and-play model or formula. We are not selling any snake-oil system, guaranteed to work in 30 days or your money back. So we'll be honest: We don't fully know how to make this story work, which is why we want to learn with you. What better way to start than to cook ourselves a family-style meal?

We like to talk about E2C as a menu made up of legal, governance, and financing ingredients that can be mixed and matched to align with a startup's vision, culture, and purpose. These processes are never linear. What kind of dishes would bring your community together? Let's work back from there to determine what ingredients we'll need to have on hand.

First, meet our cooks:

Founders: The people holding the vision, carrying the early risk, and working to build a great community



Stakeholders: The people joining, co-creating, or personally affected by the Founders' community

Investors: The individuals and institutions that steward capital but may not be directly involved in the community

Okay, let's eat!

Profile

COOK Alliance

cookalliance.org

The COOK Alliance is a coalition of immigrants, stay at home parents, community builders, educators, activists, policy makers, technologists, and home cooks. Our team has been working to advocate for the recognition of home cooking as dignified and socially invaluable work since 2014. In 2018/2019, we legalized the sale of home-cooked food by passing two successive California laws. Previously, we helped thousands of cooks make money serving their neighbors with Josephine, the largest online platform for home cooks. We are currently incubating and working with partners to design the COOK Collective—a hybrid org that includes a new co-op (focused on cook credentialing, portable benefits, and reputation) and a "labor broker" relationship with a partner marketplace platform. The long-term goal of our hybrid organization is an evolution of ownership where the co-op buys a controlling stake in the partner tech platform over time.

To accomplish this, we hope to structure the tech platform as a benefit corporation with capped returns for investors. In the fall of 2019, the COOK Alliance team met with investors, philanthropists, and entrepreneurs, and explored the possibility of building a fully nonprofit or cooperative home restaurant platform. We were told that a startup marketplace platform in a new industry is too risky for most philanthropists or capped-return impact investors. Conversely, a startup without high-multiple exit potential wasn't seen as interesting to most venture investors. We have, however, received great enthusiasm (from both investors and philanthropists) about the idea of a hybrid organization that includes both a cook cooperative and a competitively positioned technology platform. Better funding models for capped return investments would allow us to build the platform we know is possible—we've done it before—without playing with the fire of VC funding.

—Matt Jorgensen (Founder)

Distributed ledgers: Bitcoin and its ilk may seem confusing for many users and regulators alike, but the underlying distributed-ledger technology, such as blockchains, could be the basis for supercharging community ownership. It's already possible to use blockchain tokens to share ownership far and wide, co-govern in creative ways, and raise capital from people who believe in a project. These kinds of tokens could eventually replace shares of stock as the basic form of capital ownership—enabling more flexible ways of determining what ownership means.

- **Taste:** Can integrate the use of a product with the ownership and governance of it
- **Aftertaste:** Uncertain regulatory environments in many jurisdictions
- **Check out:** Cambiatus, CoMakery, Outlier Ventures, Pynk, Variant Fund

Profile

Cooperative Capital

cooperativecap.com

Cooperative Capital is a community-driven private equity fund that empowers residents to pool their money and collectively invest in their community. Our goal is to create accessible opportunities for residents to invest in and benefit from economic development in their city. Given the economic devastation that's still negatively impacting our most vulnerable communities and small businesses, Cooperative Capital has created a new distributed strategy to effectively open-source our initiative. By providing a combination of timely education, information, and tools on our technology platform, we're effectively deploying an online "GPS System" to support community residents, leaders, and organizations to consolidate their efforts and work collectively to invest in and revitalize their communities for everyone's benefit. I envision a scenario in which we are helping to organize resident-based investors and prepare them for E2Cs.

We've imagined Cooperative Capital being a vehicle to provide financing for ESOP transitions or conversions of long-time SMEs owned by soon to retire baby-boomers into community-owned assets.

The biggest obstacle, other than regulatory concerns, is education. We started an initiative to solve for true financial/investor education called Get Financially Lit. Through it, financial ignorance should be eliminated so any and all willing to join in are welcome.

—Kwaku Osei (CEO)

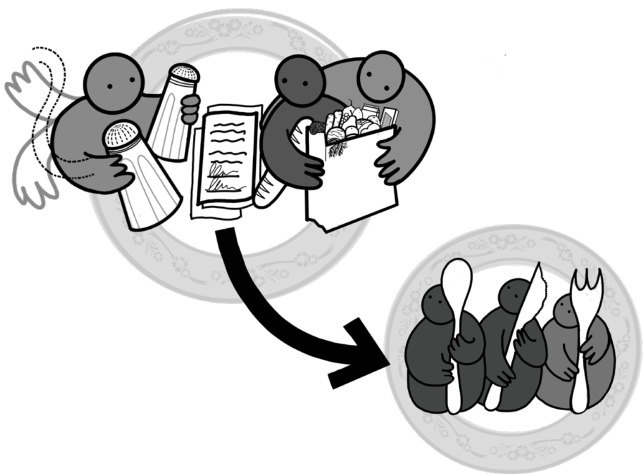
Appetizers

Cap-table tools: Ownership can be confusing. It comes in different sorts, and what it means or is worth can wobble over time according to invisible forces. Stockholders used to rely on paper certificates to know what they did and didn't own; these days, ownership can come and go in milliseconds. There are some emerging software tools that help make the whole thing more intuitive—tools generally designed for employees of companies that use stock-based compensation. They present a visual, intuitive picture of a company's capitalization table and the size of one's particular seat at it, including various share classes and their respective rights. Tools like this may be essential for ensuring that communities can take ownership with both eyes open.

- **Taste:** Make complex things like stock rights more accessible and user-friendly for community members
- **Aftertaste:** The tools out there aren't really (yet!) designed for E2C models in particular
- **Check out:** Capshare, Carta, Encode, Upstock

Convertible note: A convertible note, or "convert," is short-term debt that converts into future equity in a company at a qualifying event down the line, such as a future funding round or an exit event. This is a commonly used mechanism for early-stage or "seed" financing. Think of it as investors loaning money to a new business, but, instead of getting the principal plus interest back, the investor receives shares of stock in the business based on the terms of the note. Converts often contain special mechanisms that incentivize investor participation, such as discounts or valuation caps. While typically these deals are centered around a future "priced" round, a convertible note could be written to convert in the event of an E2C instead.

- **Taste:** Enables early investment without a set price or valuation
- **Aftertaste:** Potential misalignment in incentives between investors and company management depending on the terms
- **Check out:** The Fair Food Fund, RSF Food & Agriculture Collaborative



Crowdfunding: Crowdfunding for new enterprises usually takes the form of either a donation (you love the cause!) or an advance purchase (send me that gizmo once it's done!). But, in a sense, cooperatives are the original crowdfunding—except when community members invest, they also become owners of the business. Today, this can happen in a number of forms, including with people who otherwise are not wealthy enough to be allowed to invest in startups. In the United States, startups (whether cooperatives or not) can do a Direct Public Offering within a given state or, thanks to the 2012 JOBS Act, through national platforms. In the UK, similar ends can be accomplished with the Community Shares model. Some crowdfunding projects are designed on the models of pre-digital community legacies like Islamic economics and lending circles.

- **Taste:** Enables ordinary folks to invest capital in projects they believe in
- **Aftertaste:** Depends on having an existing, enthusiastic community with savings available for investing
- **Check out:** Center for Community Ownership, Crowdfunder, Cutting Edge Capital, Kwanda, Localstake, Milk Money, UpEffect, WeFunder