

## The Rural Succession Dilemma and the Cooperative Solution

A 2006 study by economist Robert Avery revealed that 70% of the 12 million American businesses held by members of the baby boom generation are expected to change hands as this group retires in the coming years. Lack of succession planning in this key demographic could lead to employment losses, job relocations and instability in local economies throughout the US.

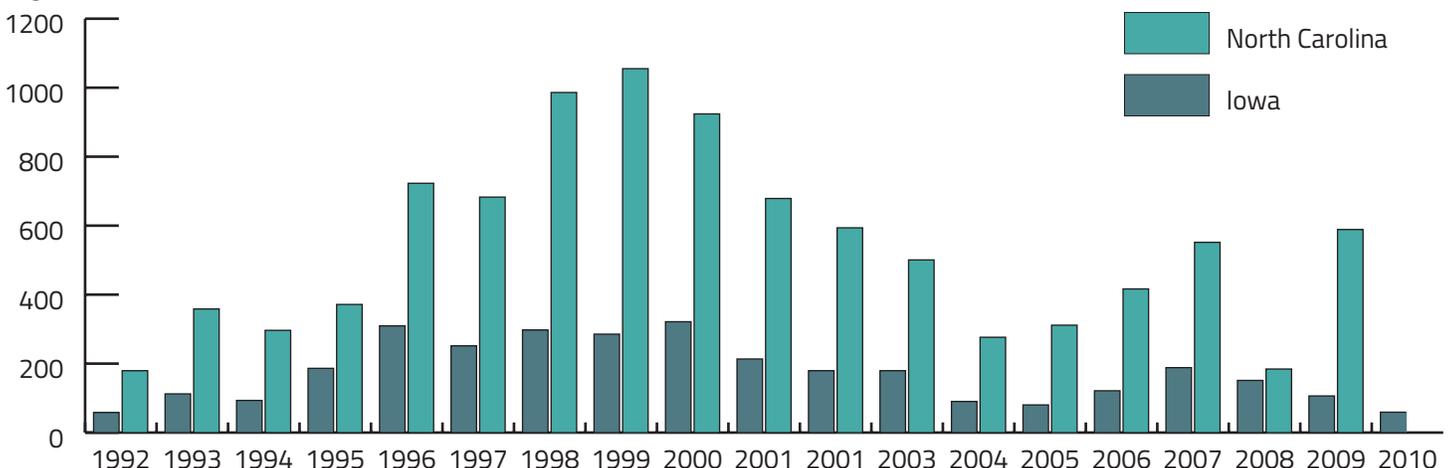
This is particularly problematic in rural communities. While starting a rural business has unique difficulties (e.g., low population density, remoteness), it is even more concerning that many successful rural firms are unable to remain in place beyond their first generation of ownership. Whether due to inability to pass family businesses down to children or lack of interest among potential buyers in keeping a business intact locally, many otherwise viable rural enterprises in a succession crisis experience liquidation or relocation despite founders' wishes.

A possible solution to this dilemma can be found in employee ownership, particularly in the form of worker cooperatives. Selling to employees provides a tax benefit to the outgoing owner(s) (the IRS Section 1042 rollover). It also increases the chances that the business will remain rooted in the local community. While worker cooperatives are relatively uncommon in the US, worldwide there are more than 65,000 such enterprises employing over 3 million people. Moreover, worker cooperatives historically have found success in the small business realm, a crucial component of economic development strategy and regional growth.

## Worker Cooperative Conversion Potential in North Carolina and Iowa

An examination of the National Establishment Time Series (NETS) dataset shows the potential for conversion of existing firms to worker cooperatives is quite large. Looking at a select group of businesses that exited the market in Iowa and North Carolina between 1990 and 2010, we found 3,243 total healthy businesses in Iowa and 9,981 firms in North Carolina that could have been converted to worker cooperatives instead of being closed or sold to competitors. In total, these firms accounted for about 240,000 jobs and \$25 billion of sales in North Carolina and 100,000 jobs and \$10 billion of sales in Iowa. Considering the magnitude of economic activity represented by this pool, even if only a fraction of these successfully converted to worker ownership and continued to operate at their last year levels, we would see meaningful economic impacts. Many of these firms exited in prosperous periods (e.g., the 1990s), providing further evidence of their economic viability.

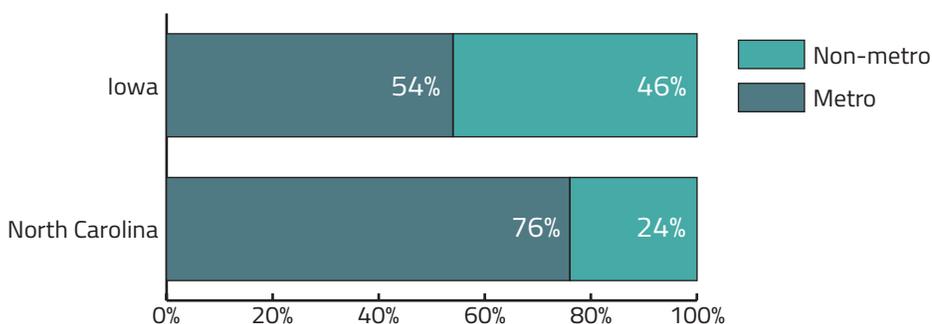
**Figure 1. Potential Conversions over Time**



## Potential for Rural Job Retention

While the majority of potential conversions identified were located in metropolitan areas, a significant portion of the firms was more rurally located. Figure 2 shows the proportion of the pool of potential conversions by metropolitan and non-metropolitan county. In North Carolina about a quarter of the firms were non-metropolitan; in Iowa, it was closer to half. Together the rural portion of the potential conversion pool accounted for \$4.35 billion in total sales in the two states and covered 85,000 jobs.

**Figure 2. Proportion of Potential Conversions by Location**



## Key Industries with the Greatest Conversion Potential

Limiting this universe further to just those businesses in certain favorable industries reveals a subset of these enterprises that may have been more amenable to selling to their workers. US worker cooperatives have been concentrated in the service and retail sectors and have been growing in housecleaning, home care, restaurants and food services specifically in recent years. Within these industry groups, there were 1,958 businesses in North Carolina and 830 in Iowa that had the financial indicators desirable for successful conversion. The tables below detail this economic impact:

**Table 1. Employees in Key Industries.**

Sector	North Carolina	Iowa
Personal Services	5,155	1,549
Health Services	10,915	3,459
Food Stores	4,082	1,320
Eating and Drinking Places	20,716	9,307
Total # of Employees	40,867	15,635

**Table 2. Annual Sales in Key Industries.**

Sector	North Carolina	Iowa
Personal Services	\$107	\$48
Health Services	\$677	\$201
Food Stores	\$320	\$95
Eating and Drinking Places	\$649	\$279
Total Annual Sales (millions)	\$1,751	\$622

## Summary

As a proportion of all firm closures, the set of potential conversions identified is only 1.5 percent of all businesses closing in Iowa and North Carolina between 1992 and 2010. However, in absolute numbers and narrowed down to the most worker cooperative-friendly industries, there were about 2,800 potentially convertible firms employing over 56,500 workers and generating \$2.4 billion in sales. Any significant movement to employee ownership amongst these firms may have led to the retention of a sizable amount of local jobs for communities across both states.