



Community Economics

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Business Climate Ranking¹

by

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What is in a business-climate ranking? At best a few teaspoonfuls of facts and a couple cups of opinions mixed well for the desired effect. Still the press makes much ado about various groups' recipes for rating potential locations according to a wide spectrum of business-climate factors. What may be viewed as crystal-ball forecasts or popularity contests by some may be revered as the gospel truth by others, depending on the ranking to which they subscribe and how their community 'performs' in those rankings.

Typically based on secondary published data business-climate rankings are decidedly a subjective blend of factors, such rankings hold little quantitative data. Basically, business-climate rankings promote the perspective of the organization publishing them – where specific interests think the best places for business will be. However, those same numbers more often fail to divulge where businesses are actually locating their new facilities or expanding their existing facilities.

Consider the position of Ray DuPont, vice president of corporate real estate for Ford Motor Land Services. Mr. DuPont says that although he might occasionally consult various rankings when his firm is locating a new facility, such rankings never prompted him to look at or select as a location an area he would not have otherwise visited. “Site selection for manufacturing generally is guided by specific manufacturing requirements such as relationship to particular supplier base, raw materials, marketing areas, parts, etc.” he says.

The factors that are introduced into business-climate rankings are in the end the product of subjective opinions and hence lower their value to corporate real estate professionals. These professionals seldom are interested in the opinions of media pundits and are most concerned with hard-costs site-selection factors in locating new facilities. Moreover, many of the factors that enter into modern definitions of business-climate (See the July 2004 issue of *Community Economics*) defy quantification. For example, the informal rules that determine much of a community's business-climate cannot be directly measured in any meaningful way that allows for comparisons across communities.

Nevertheless, even those attempts to rely on objective measures are often forced to rely on data that are defined on politically determined policies. For example, how can the Institute for Southern Studies' Green Index objectively measure cities' environmental health when its index is based in part on politics and environmental policies? In addition, while the science has made significant advances, what finite list of measurable factors makes for the healthiest environment?

¹ This essay draws on the paper entitled “Site Selection Rates the QOL and Business Climate Ratings,” *Site Selection* August 1991.

Perhaps the most confusing element of business-climate rankings is the constantly changing criteria. Granted, while our conceptual thinking of business-climate is continuously evolving many groups that provide popular rankings fail to use the same criteria for every year. This makes it impossible to obtain a long-term picture of the overall business-climate they purport to be measuring. In addition, most 12-month studies are suspect because they do not allow for inconsistencies in reporting and methodology or slight variation in trends.

This inconsistency makes business-climate rankings almost useless to community economic development professionals because they do not provide a means of benchmarking their performance. For example, if a community wants to improve its business-climate based on one or more of these rankings, how can they determine if they have been successful if the indices change from year-to-year? Likewise, some rankings use so many factors it is hard to decipher exactly what the ranking is ranking.

Although business-climate rankings make interesting and often entertaining reading, they appear to be rarely used as serious site-selection tools by corporate real estate professionals. Nor are they useful for local economic development professionals because they serve little value in their own strategic planning efforts. In the end business-climate rankings make for fun reading, but they serve little other purpose.

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