

# Site Selection Magazine's *Business Climate Ranking*

Site Selection publishes an annual ranking of the 25 states with the best business climate. Half of a state's score is based on the results of a survey of site selectors — both corporate facility investors and site location consultants — who are asked to grade states on their business friendliness. The other half of the score is an index number combining seven measures.

As with some of the other rankings reviewed here (such as CNBC and Beacon Hill), Site Selection combines two kinds of indicators: those thought to measure the factors and policies that enhance a state's growth prospects, and those that measure actual performance. Here the underlying factors are only two. The first, which counts for half of the total score, is subjective — the opinions of site selectors as to business friendliness. The other factors are found in the second half of the overall state score: effective state tax rates on mature firms and new firms from the Tax Foundation's Location Matters, which we discuss here.

While perceived business friendliness gets top billing, Site Selection gives no consideration to any of the more fundamental economic factors underlying growth — the structure of the state's economy, the quality of the education system and workforce training programs, access to markets and materials, quality of infrastructure, availability of skilled workers, energy costs and the like.

The other five components of the second half of the state's overall score are performance measures, but they are conceived quite narrowly as the number of business facility locations and expansions, measured in four ways, plus Site Selection's annual "Prosperity Cup" ranking. They do not measure overall firm or GDP or employment growth, which would subtract out-migrations, closings, and facility contractions from in-migrations, new firms, and expansions. They do not include any measures of prosperity such as earnings, incomes, or poverty rates.

Site Selection explains very little about their methodology — rankings on each of the eight measures are provided, but there is no information on the data underlying those rankings and how it was combined and weighted to produce the overall ranking. They also do not show on their website any information for the bottom 25 states.

**The end result is a very narrowly conceived and rather muddled index, consisting primarily of an opinion survey on business friendliness and counts of new business projects.**

An examination of the ranks on the eight components reveals several anomalies. While Texas was viewed as the most business friendly by the site consultants, they ranked 42nd in taxes on a new firm, and 34th on new projects per capita in 2016. Kentucky was only

28th in business friendliness, but still managed to rank first in new projects per capita in 2015 and sixth in 2016. Nebraska is a very business unfriendly state (36th) according to the opinion survey but ranked number 1 in new projects per capita in 2016, and number 2 in 2015.

**Overall, the value of the Site Selection ranking is questionable — the judgements of site selectors do not match state performance.** The ranks of the top 25 in terms of perceived business friendliness have a negative correlation with the ranks of those states in terms of new projects per capita in 2015, and only a very weak and statistically insignificant correlation with new projects per capita in 2016. Either site consultants are poor judges of business friendliness, or business friendliness doesn't matter much when it comes to actual business location decisions.