

What Are Businesses Looking For?



Survey of Location Decisions in the South

Over the last few decades, the Southeast experienced rapid growth in employment relative to the rest of the nation. In terms of the often-mentioned Sunbelt-Frostbelt competition for industry, the Southeast has been winning most of the battles. Some ascribe this success to the ability of state industrial development agencies to attract new investments, while others emphasize low unionization and wages as the primary drawing cards. Instead of leaving this important issue to speculation, we surveyed manufacturing firms which decided to build or expand plants in the Southeast during the last five years. This article examines these companies' preferences and relates the growth trends to the region's changing industrial structure.

In the past, the Southeast attracted mainly labor-intensive light manufacturing industries such as textiles and apparel, or resource-tied industries such as lumber, furniture, paper and some kinds of chemicals. "Heavy" industries—mainly primary metals, fabricated metals, transportation equipment and machinery—were heavily concentrated in the Midwest. But as Table 1 shows, this pattern has been changing in recent years. In 1968, textiles employed 20 percent of manufacturing workers in the Southeast; apparel's share was 12 percent; and the next largest industry—chemicals—was only half the size of apparel.

From 1968 to 1978, the traditional industries of the Southeast grew slower than the average of all industries, while the rest—the "northern"

Manufacturing firms that decided to build or expand in three southern states were most concerned with business climate, labor productivity and transportation.

Table 1. Employment Gains (Losses) By Industry in the Southeast 1968-1978 (In Thousands)

Industry	AL		FL		GA		LA		MS		NC		SC		TN		VA		Total	
	Gain	%	Gain	%	Gain	%	Gain	%	Gain	%	Gain	%	Gain	%	Gain	%	Gain	%	Gain	%
Textile Mill Products	(7)	(1.8)	2.1	84.0	3.1	2.7	2.7	*	0.0	0.0	(265)	(9.8)	(6.3)	(4.5)	(5.1)	(15.3)	3.3	8.1	(27.4)	(4.2)
Apparel	11.8	28.6	16.2	91.5	8.9	13.1	3.6	47.4	1.7	4.8	10.8	16.1	2.1	4.5	5.1	7.7	5.4	17.4	65.6	17.2
Lumber, Wood Products	2.0	10.0	6.3	49.2	9.0	51.7	(1.4)	(9.2)	1.1	5.3	8.4	32.2	1.6	12.2	3.1	21.7	2.9	15.3	33.0	21.1
Furniture, Fixtures	3.0	68.2	2.6	37.7	0.7	7.4	(13.4)	(92.4)	3.0	25.2	22.4	37.1	(0.9)	(17.6)	1.2	5.5	2.3	9.3	20.9	31.1
Paper	2.2	13.9	(0.4)	(2.4)	3.8	16.4	8.7	145.0	0.5	8.1	3.4	21.8	1.3	11.8	2.8	20.4	(0.2)	(1.5)	22.1	18.2
Chemicals	0.6	4.8	1.1	5.3	3.1	25.0	10.0	47.6	1.7	34.7	13.2	68.0	12.3	56.9	(1.2)	(2.2)	(10.8)	(24.9)	30.0	14.3
Rubber, Plastic Products	6.7	80.7	7.4	148.0	8.1	168.8	(0.4)	(100.00)	(2.4)	(54.5)	15.6	177.3	10.4	315.2	13.6	136.0	5.0	71.4	64.0	123.1
Fabricated Metal Products	9.8	61.3	8.7	45.8	6.1	44.5	4.6	47.4	2.2	25.9	14.6	101.4	8.2	124.2	10.7	42.6	4.1	33.3	69.0	55.1
Machinery Except Electrical	6.1	65.6	10.2	68.0	7.1	62.8	5.4	110.2	5.0	58.8	11.5	49.4	16.5	123.1	14.2	79.8	8.9	95.7	84.9	75.3
Electronic Equipment	9.8	118.1	24.7	93.6	8.5	87.6	7.1	191.9	9.5	86.4	10.3	30.8	6.5	49.2	9.9	32.8	3.7	15.0	90.0	56.1
Transportation Equipment	(1.6)	(7.9)	9.3	32.2	(10.0)	(22.9)	8.3	51.9	13.8	97.9	7.0	14.8	(0.8)	(23.5)	8.7	48.3	6.8	22.8	41.5	23.0
Instruments	2.5	625.0	7.2	240.0	2.9	145.0	(0.5)	(100.00)	0.1	4.3	3.1	54.3	3.1	119.2	2.5	113.6	3.1	140.9	24.0	114.8
Total Manufacturing	48.8	16.4	101.7	34.5	82.6	19.3	31.1	18.3	52.5	31.0	120.0	17.9	67.4	21.1	21.1	75.8	51.0	14.4	630.9	20.1

*infinite percent gain

industries—grew much faster than average. This process is resulting in a convergence of the economic structure of the Southeast as compared to the nation as a whole. Industry is becoming more balanced between durables and non-durables, and there is less reliance in most states on a small number of industries. This pattern is fairly general throughout the region, although there are differences from state to state, as the following discussion shows.

Alabama

Alabama's manufacturing has failed to grow as rapidly as in the region as a whole. The apparel industry, one of the largest in the state, still is growing rapidly. But fabricated metals and elec-

tronics were close runners-up for creating jobs, along with rubber, plastics and machinery. Alabama is moving in the same direction as the rest of the Southeast, but it is starting from further behind in industries such as electronics and instruments.

Florida

Everything seems to grow well in Florida except the paper and chemicals industries, which find few suitable sites in the state. Florida is the clear high technology leader in the Southeast, with the region's largest concentration of employment in electronics, transportation equipment (mainly aircraft and aerospace) and instruments. The state's overall increase in manufacturing employment is also the largest for the 10-year period.

Georgia

Georgia, along with North and South Carolina, depends on a heavy concentration of textile employment. Even though it is growing slowly, this industry still makes up 22 percent of manufacturing. Apparel runs second with 15 percent of employment, followed by transportation equipment with only 6.6 percent. Despite the fact that these three top industries grew slowly or declined, Georgia grew at a good pace in the 1970s, led by forest products, electronics and the heavy industries.

Louisiana

This state has the smallest industrial sector in the Southeast; it is also the most atypical, with almost no textiles or apparel but a great deal of chemicals and transportation equipment. It is also unique in that these two largest industries are among the fastest growing in the state. What's more, it can claim the largest increase in paper mill employment in the region.

Mississippi

Mississippi lacked a heavy concentration of "old" industries in the past except for apparel, which is widely dispersed throughout the Southeast. As a result, the state has grown at a higher-than-average rate for the region, due to its attraction for electronics and transportation equipment. Other states exceeded Mississippi's growth in the "new" industries but had lower overall growth because of the drag of slow-growing older industries. Mississippi's growth is not broad-based, however, containing less than the regional average increase in fabricated metal, machinery and instruments.

North Carolina

North Carolina has the second-highest concentration of textile employment in the country (after South Carolina), and the 10 percent decrease in this industry was significantly greater than the national decline of about 6 percent over this 10-year period. Textile employment is decreasing in the traditional South Atlantic center of the industry relative to the peripheral states (Virginia, Georgia and Florida), probably because North and South Carolina have the oldest plants, which are the first to close.

The heavy concentration of textiles and apparel

acted to pull down the overall growth rate of North Carolina, though one traditional industry, furniture, grew over 37 percent. This reflects a general centralization of furniture production in North Carolina, as every other state in the Southeast except Mississippi had below-average or negative growth in this industry.

Despite its below-average growth in the region, North Carolina had the largest absolute growth of employment and appears to be diversifying out of its traditional base of textiles, apparel and furniture. Growth in transportation equipment and fabricated metals testifies to the base of heavier industry which seems to be taking shape.

South Carolina

This state offers probably the best example of the Southeast's changing industrial structure. Textiles and furniture declined, and apparel, lumber and paper grew slower than elsewhere in the region. All the newer industries increased faster than the regional average. Chemicals and machinery experienced the largest absolute gains. As the survey results illustrate, South Carolina has a strong attraction for industrial concerns interested in locating in the Southeast.

Tennessee

Tennessee most closely resembles the industrial North both geographically and in its economic structure. Its chemical industry is the largest in the Southeast, and in electronics it ranks second behind Florida. Having a more mature structure meant that Tennessee grew at a slower rate than most states in the Southeast, especially since its dominant apparel sector grew at a sluggish pace and textiles declined sharply. But the state did not suffer the same fate as the North over this decade; its declining industries shrank less than the national average, while fabricated metals, machinery, electronics and transportation equipment far outpaced the nation.

Virginia

Virginia recorded the lowest manufacturing growth rate in the Southeast. This slower growth was fairly widespread, with textiles, apparel, lumber and furniture performing about average for the region, paper and chemicals declining, and rubber, plastics, fabricated metal, electronics and transportation equipment below average.

Only instruments and machinery grew rapidly, but they are a minor factor in the economy of the state so far.

The Industrial Site Selection Survey

As the above review of industrial expansion reveals, business investment in the Southeast over the last decade has been more broad-based than in the past, both among industries and among states. Manufacturing attracted to the Southeast in the past had two main characteristics: it used a significant amount of low-skill labor, and it produced goods with a high value-to-weight ratio, so that transportation to final markets was not a large cost factor. The principal examples of this kind of industry were textiles and apparel. In addition, the Southeast had industry which was tied to natural resources, such as lumber, paper and some types of chemicals.

But these easy generalizations don't fit the industry which is growing most rapidly in the region at present. Fabricated metals, machinery and transportation equipment fail to fit the old mold; they require skilled labor and may have high transportation costs. And what about electronics and instruments?

To shed some light on the reasons for manufacturing location in the Southeast today, we conducted an industrial survey in three states in March 1982¹. Our results are in harmony with many national plant location studies, but they also serve to isolate some of the Southeast's unique factors that draw industry to this region.

In order to place our survey in perspective, we must compare it with similar national studies. In 1977, *Fortune* magazine polled the top 1,000 industrial concerns and asked them what factors had been most important in siting a plant within the previous five years. Transportation, proximity to customers, unskilled labor, energy supply and productivity were the top five concerns expressed.

There may be a difference between a company's reach and its grasp, however. The top two factors—transportation and customer proximity—are best met in the Northeast, yet only 11 percent of the plants in the survey were actually placed in the Northeast. Clearly, firms may have to trade off

some factors for others. The Southeast is strong mainly in the unskilled labor area of the top five factors, with a good showing also in energy and productivity.

Roger Schmenner conducted a more detailed industrial survey, using the *Fortune* top 500.² He grouped firms according to location factors such as market-sensitive, labor-cost sensitive and high technology. For example, 77.5 percent of the firms in industries considered market-sensitive reported that being near the market was indeed a constraint for them, and 62.1 percent of high technology firms said an attractive place for engineers and managers to live was important for them. However, the advantage of this kind of breakdown is in looking at, for example, what *other* factors were mentioned by market-sensitive firms besides proximity to market. Specialty chemicals and metals pointed to environmental permits 57.1 percent of the time, and cited a favorable labor climate 100 percent of the time. Industrial machinery and transportation equipment firms, usually thought to be midwestern oriented, mentioned a favorable labor climate in 85.7 percent of the cases.

Site and State Preferences in the South

Our survey, using both telephone and mail, questioned managers who had been involved in the decision to site a new plant or expand an existing one over the last five years. Of 317 facilities located in Virginia, North Carolina and South Carolina, 204 responses were recorded. The decision-makers were asked to rate, on a scale of one to five, the importance of 19 business factors in their choice of a site. Since the study sought to discriminate between what they looked for and what they actually found, they also were asked to judge whether the attributes of the site they selected were "better than," "the same as" or "worse than" their next best alternative. Unlike other studies of the kind, this one asked firms to identify their other possible sites for the facility. This permits a comparison of states in direct competition for industry.

In a separate set of questions, we asked firms whether quality-of-life factors such as education, housing and climate were important in their

¹John Hekman, Mike Miles, Roger Pratt, Ray Burby and Anthony Marimpietri, "Impact of Environmental Regulations on Industrial Development in North Carolina," Center for Urban and Regional Studies, University of North Carolina, 1982.

²Roger Schmenner, *Making Business Location Decisions*, Prentice-Hall, 1982.

Table 2. North Carolina Facilities By Type Of Growth And Headquarters Location

Location of Firm Headquarters	Number of Industrial Facilities by Type of Growth				
	Independent ^a	New Branch	Expansion	Relocation	Total
Located Within North Carolina	16	15	7	4	42
Not Located within North Carolina	2	53	13	6	74
Total	18	68	20	10	116

^aSingle establishment firm.

choices. Overall importance of business factors compared with quality-of-life factors were also evaluated. Finally, we included a series of questions on the environmental permitting process, with such factors as the ease of permit processing and the occurrence of construction delays and changes in facility design to meet requirements.

Firms included in the study represent almost every industry group and illustrate the diversity of the recent industrial development process in the Southeast, as well as the reasons given by management for the choice of a particular state.

The Key Factors in the Location Decision

Industrial site selection is complicated not only by the myriad economic and social factors that can vary widely within and between regions, but also by the numerous layers of management responsibility in many companies. Most facilities in this survey were owned by corporations which operated plants in more than one state. As a result, they have as many as three levels of management involved in the site selection process: national headquarters, regional or divisional headquarters, and plant management.

Most surveys find that small firms, especially those with only one establishment, have a much narrower focus for their site selection than large companies with plants in several states. Most of the small firms consider sites in only one state, and a large percentage look at just one site, usually close to the owner's place of residence. Large firms, on the other hand, are becoming increasingly sophisticated at compiling data on many sites and making the selection on the basis of many characteristics. In general, the greater the distance of a firm's headquarters from a particular state, the greater the competition that state faces in attracting industry.

An important characteristic of the facilities surveyed for this report (selected in random fashion) is that the great majority were headquartered out-of-state. For example, in North Carolina,



Table 3. Where The Site Decision Was Made For North Carolina Facilities

Location of Decision Maker	North Carolina Industrial Facility Location Decisions	
	Frequency	Percent
Plant Personnel	28	24
Regional Headquarters	14	12
National Headquarters	72	62
Other	2	2
Total	116	100

most of the plants were new branches rather than headquarters (59 percent); headquarters for these branches are owned out-of-state in 78 percent of the cases, and 64 percent of all plants are out-of-state owned (Table 2).

The survey also asked explicitly where the site location decision had been made, at the plant level or at regional or national headquarters. Table 3 shows the number of decisions made at the different levels for the 116 North Carolina facilities which responded to this question. In some cases respondents indicated that several management levels were involved in the decision, but the basic decision was most often made by national headquarters. Our survey indicates that the decision to locate a facility in North Carolina was most often made in another state. Other studies, such as that by David Birch,³ have also found that a large fraction of new manufacturing in the Sunbelt is composed of branch plants of northern firms.

The distribution of headquarters states for these facilities is quite revealing. As Table 4 shows, 80 percent of the new branch plants in North Carolina are operated by firms from the Northeast and North Central. New York, Michigan, and Ohio together account for 42 percent of the branches. In some cases, especially New York and Illinois, this pattern may mean only that corporate headquarters is located in New York City or Chicago, with manufacturing capacity entirely in the Southeast. But more often the

headquarters-branch pattern in this survey represents a decision to locate new capacity in the Southeast, breaking with the old tradition of expanding within the Manufacturing Belt. The growth of industries in the Southeast which were previously concentrated in the North is a significant trend in the past 15 years, one seen clearly in the survey results.

Which Industries are Coming

Table 5 presents the industry distribution for the new and expanded facilities in the survey. Since the individual plants were selected randomly from published lists of announced spendings and expansions, this distribution can be considered fairly representative of the pattern of industrial growth in these three states. New employment was created in all 20 industry groups except leather goods. Even textiles, where employment has been falling in recent years, are well represented; however, their percent representation in the sample of new plants is far less than their share of the region's economy, reflecting their shrinking importance. All of the traditional industries of the South Atlantic—tobacco, textiles, apparel, lumber and furniture—have a smaller share in the sample than their share of the economy.

Industries new to the region are well represented. Fabricated metals, nonelectrical machinery, electrical equipment and transportation equipment together make up over 40 percent of the facilities studied.

Business Location Factors

Table 6 summarizes the ranking of 19 business location factors for facilities in the study. The rankings are based on the mean of the rating (on a 1-to-5 scale) given to each factor by the managers involved in choosing the plant locations.

The top five factors for all firms were: (1) state and local industrial climate; (2) labor productivity; (3) transportation; (4) land availability and room for expansion; and (5) cost of land and construction. These results differ markedly from those of the **Fortune** survey. While business climate ranked only ninth in the **Fortune** study, it was a strong first in the Southeast. Nationally, firms said they

³David Birch, **The Job Generation Process**, MIT Program on Neighborhood and Regional Change, 1979.

Table 4. Headquarters State For New Branch Plants, Plant Expansions, And Plant Relations Locating In North Carolina: 1977-1981^a

Headquarters State	Frequency	Percent
<u>Mountain</u>	4	6
Arizona	1	1
Idaho	1	1
Wyoming	2	3
<u>North Central</u>	29	43
Iowa	1	1
Illinois	4	6
Indiana	2	3
Kansas	2	3
Michigan	9	13
Missouri	2	3
Ohio	9	13
<u>Northeast</u>	25	37
<u>New England</u>	8	12
Connecticut	4	6
Massachusetts	5	6
<u>Middle Atlantic</u>	17	25
New Jersey	3	4
New York	11	16
Pennsylvania	3	4
<u>South Atlantic</u>	5	7
Georgia	2	3
Maryland	2	3
Virginia	1	1
<u>South Central</u>	3	4
Mississippi	1	1
Tennessee	1	1
Texas	1	1
<u>Foreign</u>	1	1

^a Excluding firms headquartered in North Carolina

were most concerned with transportation and proximity to customers, while in this region transportation is third and proximity to markets only 11th. Land availability and the cost of land and construction were much more important in the Southeast.

The best generalization of these results for the Southeast as compared to the whole country is

that firms come to this region for its lower overall production cost—from labor productivity, land and construction—and for its “business climate.”

Nationally, on the other hand, most firms are more market-oriented, seeking good transportation and proximity to markets.

The similarities between the two studies are also revealing. In both surveys, state financial inducements and environmental regulations ranked relatively low. Since these are the factors most under the control of state economic development agencies, these results have led some to suggest that plants are not lured to particular states by industrial recruiters so much as they are drawn by overall economic factors such as labor rates. In the telephone interviews, less than a half-dozen firms said they had been influenced substantially by the states’ financial programs.

The composite business factors in Table 5 conceal some important differences among industries. Apparel firms, for instance, are far more interested in the availability of unskilled labor, while chemical firms view environmental constraints as a major concern.

Textiles

Cost of land and construction is at the top of the needs list for textiles, compared with an overall rank of fifth; environmental regulations move up from 13th to ninth; and transportation is only ninth, compared with third overall. Textile firms, extremely sensitive to production cost and foreign competition, appear to be looking for low-cost, non-urban locations as well as environmentally acceptable sites, given the pollution problems of some of their processes.

Apparel

Apparel firms are fairly close to the overall average, except for the high number two ranking they give to skilled labor supply. This is surprising, since apparel is mainly interested in low-cost labor, and the firms in this sample rated unskilled labor supply lower than average. Also, apparel firms do not appear interested in technical training programs (they came in last); perhaps these programs do not fill the industry’s particular needs.

Furniture

Furniture manufacturers also are concerned with the availability of skilled labor, as it ranks

Table 5. Distribution of Plant Location Decisions Studied
By State and Industry

Industry	Number and Percent of Facilities Studied							
	All Facilities		North Carolina		South Carolina		Virginia	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Food	11	5.5	5	4.7	1	1.8	5	17.2
Tobacco	4	2.0	3	2.8	0	0.0	1	3.5
Textiles	16	8.0	10	9.4	4	7.1	2	6.9
Apparel	13	7.0	7	6.5	5	8.9	1	3.5
Lumber	6	3.0	5	4.7	1	1.8	0	0.0
Furniture	10	5.0	8	7.5	2	3.6	0	0.0
Paper	3	1.0	3	2.8	0	0.0	0	0.0
Printing	4	2.0	1	0.9	1	1.8	2	6.9
Chemicals	26	8.0	9	8.4	5	8.9	2	6.9
Petroleum	1	0.5	1	0.9	0	0.0	0	0.0
Rubber/Plastic	9	4.5	3	2.8	6	10.7	0	00.0
Leather	0	0.0	0	0.0	0	0.0	0	0.0
Stone, Clay	4	2.0	1	0.9	1	1.8	2	6.9
Primary Metals	4	2.0	0	0.0	4	7.1	0	0.0
Fabricated Metals	16	8.0	9	8.4	6	10.7	1	3.5
Non-electrical Machinery	33	17.0	18	16.8	12	21.4	3	10.3
Electrical Equipment	24	12.0	12	11.2	4	7.1	5	17.2
Transportation Equipment	12	6.0	8	7.5	0	0.0	3	10.3
Instruments	4	2.0	1	0.9	2	3.6	1	3.5
Miscellaneous	4	2.0	2	1.9	1	1.8	1	3.5
Total	194	100.0	107	100.0	56	100.0	29	100.0

fourth for them versus ninth overall. Although the industry is highly concentrated in North Carolina, proximity to suppliers ranks relatively low, while fuel availability and cost rank surprisingly high.

Chemicals

Environmental regulations are far more important to the chemical industry than to any other in the study, ranking fourth. Water supply is also crucial, and solid and hazardous waste disposal gets its highest rating here. Together these mean that chemical firms are quite concerned with finding suitable sites for their plants. To compound their problems, transportation and proximity to markets are big considerations. The Southeast provides a good balance of all these factors, which helps account for the fact that they have received the most new employment in chemicals over the last decade (Table 1).

Rubber and Plastics

Proximity to markets is this industry's top priority; firms in the study produce products for industry rather than for final markets, so presumably the markets they are referring to are in the Southeast. Technical training programs also are judged more important than average.

Fabricated Metals

The fact that these firms' output is not a final product is reflected in the low value given transportation and the high value of proximity to markets. The industry is growing in the Southeast basically as a result of the growth of machinery and other industries which use their products. They award the highest rating to business taxation, while cost of land and construction comes in second. This would indicate they are very sensitive to production cost differences. But they rank wage rate lower than average because they use relatively more skilled labor, and technical training programs are above average in importance.

Nonelectrical Machinery

This was the largest industry in the sample, and the firms' responses are about the same for the top five factors. Technical training ranks relatively

high because of their need for skilled labor. Many of these firms are producing machinery for the southeastern market, for instance textile machinery. Yet many are also producing for the national market, so proximity to market is above average.

Electrical Equipment

Since most electrical equipment firms lack extensive, automated production lines, these firms rate land availability and cost of land and construction relatively low. Electronics firms are footloose, not tied to any particular locations, so they tend to rate business taxation and state financial incentives somewhat higher than the average. Technical training, which in many states today is geared toward electronic skills, receives its highest rating here.

Transportation Equipment

This group is made up of some very large and some fairly small facilities. Most produce parts or subassemblies for customers or other plants in their own company. They have come to the Southeast, according to their responses, for business climate, labor productivity and transportation. Surprisingly, for an industry thought to be large scale and capital-intensive, they rank cost of land and construction fairly low—10th as opposed to fifth overall. Availability of skilled labor and technical training are rated above average.

Overall, industry mentioned most frequently the cost, business climate and productivity aspects of the region. This is in accord with the reasons for traditional industry's attraction. But it is significant to note that this newer wave of "heavy" industry (fabricated metals and machinery) and "high technology" industry (electronics and instruments) is expressing the need for a more diverse set of resources, such as skilled labor and transportation facilities. The question is whether the demand for these resources will elicit its own supply as the region develops, or whether more government and business action is required to plan for them.

Quality of Life Factors

The questionnaire also contained, as a separate group, 12 quality of life characteristics. Respon-

dents ranked them for importance in choosing a facility location on a scale of 1 to 5. The top factors cited by industry were educational system, cost of living, housing, quality of air and water, and personal taxes. Of lesser significance were such things as climate, recreation, cultural resources and entertainment.

The mean scores on the quality of life factors were about one full point lower than their corresponding business factors by rank. Many managers who were interviewed clearly believed that quality of life as a whole was a consideration in locating their facility, but they could not break this down precisely into specific characteristics. When asked how important business characteristics had been overall, they rated them about 4, versus a little under 3 for the composite quality



of life factors. There was little variation among states or industries in the overall importance ratings. However, the ratings did differ by the size of the facility responding. Large plants said both business factors and quality of life factors were more important than medium-sized plants, and medium-sized ones rated them higher than small plants. The large facilities, more likely to be branches of out-of-state corporations, as a result were more systematic and wide-ranging in their analysis of possible sites.

Competition Between States

A novel feature of this survey was that we asked what alternative sites were considered by firms in locating facilities. Table 7 presents the distribution of states containing the next

best site and other sites screened by firms locating a facility in Virginia, North Carolina and South Carolina. About 25 percent of the firms considered no other site, and the largest number of alternative sites were in the same state where the facility located. In fact, adding together the percentage of firms that looked at no other sites and the percentage whose next best site was in the same state accounts for the majority of the next best sites: 71 percent for North Carolina, 62 percent for South Carolina and 74 percent for Virginia.

States considered by firms for their plants are mostly within the Southeast. North Carolina and South Carolina are in close competition with each other; for example, 19 percent of the plants in South Carolina considered their next best site in North Carolina. Pennsylvania was the only state outside the region mentioned with any frequency, mainly by firms based in that state. Other northeastern and midwestern states were considered. But most firms decided on a region first and, having selected the Southeast, they concentrated on sites within that region. This is in accord with the responses to the locational factors reported above. Industrial climate, labor productivity and land availability are considered to be shared characteristics within the region.

Large plants cast a wider net in their location search than small ones. Only 15 percent of the facilities with over 250 employees in North Carolina said they did not consider another site, versus 23 percent of medium facilities and 38 percent of the small ones. The large plants also considered more sites, on average: 65 percent report "other" sites, as compared with 50 percent of the medium plants and 38 percent of the small ones.

Not surprisingly, there were also differences by industry in the states considered. Ninety-nine percent of textile firms said they considered sites only in the Carolinas and Virginia. At the other end, 61 percent of the electronics firms locating in the three states considered no states outside of the three. Machinery firms were the most surprising. They are normally considered to be attracted mainly to the large industrial concentrations of the Midwest, California and similar areas, yet they rarely mentioned the major industrial states in this survey, and 82 percent had their next best site in the three states studied plus Georgia and Tennessee.

Table 6. Ranking Of Business Location Factors
By Major Industry Groups

Business Location	Rank by All Firms	Textiles (22)	Apparel (23)	Furniture (24)	Chemicals (28)	Rubber & Plastic (30)	Fabricated Metals (34)	Nonelectrical Machinery (35)	Electrical Equipment (36)	Transportation Equipment (37)
State/Local Industrial Climate	1*	2*	5*	3*	2*	4*	1*	1*	2*	1*
Labor Productivity	2*	3*	1*	2*	9	2*	7	2*	1*	2*
Transportation	3*	9	3*	7	1*	3*	9	4*	8	3*
Land Availability/Room for Expansion	4*	4*	8	1*	6	4*	4*	3*	4*	5*
Cost of Land & Construction	5*	1*	7	4*	3*	11	2*	5*	10	10
Wage Rate	6	6	3*	6	12	4*	9	7	3*	9
Business Taxation	7	13	6	7	6	9	2*	5*	11	5*
Electricity Availability/Cost	8	12	9	12	10	4*	6	8	9	8
Skilled Labor Supply	9	7	2*	4*	15	9	11	11	6	4*
Proximity to Suppliers/Services	10	14	10	16	13	13	11	10	13	10
Proximity to Markets	11	18	13	10	5*	1*	5*	12	15	10
Unskilled Labor Supply	12	8	15	11	14	8	15	16	7	13
State/Local Environmental Regulations and Permit Processing	13	9	12	13	4*	17	17	12	12	16
Water Supply	14	11	14	17	6	14	16	15	15	16
Availability of Technical Training Programs	15	17	19	18	18	10	8	8	5*	7
Fuel Availability/Cost	16	16	11	9	11	14	11	17	14	13
State Financial Incentives	17	15	17	14	14	16	14	14	17	13
Public Wastewater Treatment Capacity	18	5*	15	14	19	18	18	19	18	16
Solid/Hazardous Waste Disposal Facilities	19	19	17	19	16	19	19	18	19	19
	194	14	13	10	15	9	17	34	22	11

*Top five factors

Firms reported as many as five sites that they had considered for their facility. While most firms considered more than one state, Table 7 shows that the majority had their top two or three sites in only one state. Some states have "captive" industries which do not look elsewhere, while some states are in competition with quite a few others. It is noteworthy,

however, that most of the state competition in all industries in this survey was contained in the Southeast.

How Alternative Sites Compared

Given that firms are considering several states for a plant location and are concerned with a

Table 7. Alternative Sites Considered For Facilities, By State

Location of Alternative Sites	Percent of Firms Reporting Next Best and Other Sites Considered							
	All Firms		North Carolina		South Carolina		Virginia	
	Next Best	Other	Next Best	Other	Next Best	Other	Next Best	Other
No Others Considered	25	0	26	0	26	0	24	0
North Carolina	32	28	45	45	19	9	0	0
South Carolina	16	22	9	20	36	39	0	0
Virginia	9	13	3	8	0	0	50	43
Georgia	0	7	0	0	4	9	0	14
Alabama	0	6	0	6	0	0	0	0
Tennessee	3	0	5	0	0	0	0	0
Florida	0	0	0	0	0	9	0	0
Maryland	0	5	0	0	0	9	0	14
Pennsylvania	0	0	0	0	0	0	8	0
Other States	15	19	12	21	15	25	18	29
Number of Facilities	172	88	101	51	47	23	24	14

number of business and quality of life factors, the question remains: Do firms find the chosen site to be any better than the next best one and, if so, on what dimensions?

We asked respondents how each location factor compared between the chosen site and their second choice. For the most part, the factors which industry considered most important in choosing a site are the ones they find better in the site actually chosen. Land availability, cost of land, and labor productivity rank about the same in both comparisons. The first two may be site-specific factors, not reflecting overall differences between the states. Wages and unskilled labor, on the other hand, seem to be found more favorable in North Carolina, whereas South Carolina respondents preferred the industrial climate in their state. North

Carolina, being farther north, offers better proximity to markets (Table 8).

States Considered Best for New Industrial Facilities

After evaluating their chosen site, managers were asked in an open-ended way to vote for the top three states in which to locate a new facility in their industry. We also asked them to list the location factors which would be most important in the decision. The results of this "beauty contest" are reported in Table 9. Because this was a popularity contest rather than an actual site selection, a wide variety of states received mention. California, Texas and Florida were named more often in this question than in

Table 8. Site Comparisons By Firms*

Factors Considered to be *Better* at Chosen Site in South Carolina When Compared to Next Best Site in North Carolina

Business Factors (in order of most frequently mentioned)

- State and Local Industrial Climate
- Land Availability, Room for Expansion
- Cost of Land and Construction
- Availability of Technical Training Programs
- Wage Rate
- Labor Productivity
- Unskilled Labor Supply

Factors Considered to be *Better* at Chosen Site in North Carolina When Compared to Next Best Site in South Carolina

Business Factors (in order)

- Wage Rate
- Unskilled Labor Supply
- Cost of Land and Construction
- Land Availability, Room for Expansion
- Labor Productivity
- Proximity to Markets

*There were nine firms in both comparisons.

Table 9. Most Preferred States For Locating A New Facility and Most Important Factors in the Decision, By State

Most Preferred States	Percent of Firms Listing State as:		
	First Choice	Second Choice	Third Choice
All Firms Interviewed			
North Carolina	45	20	5
South Carolina	19	22	16
Virginia	7	0	0
Georgia	0	9	14
Tennessee	0	0	7
Texas	8	7	6
Florida	0	7	0
Other States	21	35	52
Number of Firms	169	148	127

Top Location Factors (in order)

- Proximity to Markets
- Industrial Climate
- Labor Productivity
- Unskilled Labor Supply
- Skilled Labor Supply

the question regarding the states considered in the site selection. This may reflect the influence of national publicity regarding the most popular states.

The top location factors mentioned correspond fairly closely to those the respondents rated as important for their own site selection. Industrial climate and labor productivity were again the most often mentioned. Individual industries followed the same general pattern as in their site preferences. Textiles did not consider any states other than the three being studied. Chemicals, metals and machinery voted mainly for the Carolinas, with the rest of their votes scattered widely among other states. Electronics firms cast the largest concentration of votes outside the region, with many voting for Texas and California, centers for that industry.

On the other hand, some differences appear

in the state popularity contest as a result of the nature of the question. Since firms were not looking at actual sites in voting for the best states, land availability and cost of land do not appear here, while they ranked fourth and fifth as actual site selection factors. Conversely, proximity to markets is a top factor in the popularity contest but ranks 11th overall in site selection.

A comparison of the two lists of preferences, from two different types of questions, provides more insight into what companies are looking for in a region and what they are looking for in a particular site. Industrial climate and labor are issues at the regional level which distinguish the Southeast, while market proximity is a regional need which the Southeast does less to fulfill. Land availability and cost of land are characteristics of particular sites which may determine the site chosen within the region.

Conclusion

Business investment in the Southeast in recent years has been characterized by an increasing industrial diversity in most areas. Nationally, manufacturing has been moving out of large central cities—especially in the North—and moving into the suburbs, smaller cities and non-metropolitan areas. The Southeast, Southwest and Pacific regions have seen large increases in manufacturing employment, while the Northeast and North Central have experienced sharp reductions in their industrial bases.

The trend in the near-to-intermediate future would appear to be for a continuation of high investment in the Sunbelt. Industry surveys such as the one reviewed here usually indicate that business climate, wages and market proximity are the most important factors in choosing a site. The Southeast is highly competitive in at least the first two of these. And since industry is becoming somewhat less market sensitive today as transportation is becoming a smaller

component of total cost, there is little reason to believe that industry will reverse its trend and move back to the big cities.

Some have voiced concern that the movement of industry to the Southeast will of itself eliminate the very advantages that brought it there, for example by driving up wages and producing congested urban areas. There is little or no evidence for this so far. Reports that Atlanta or Dallas are becoming high-living-cost cities are not sufficient to support these claims. Smaller cities and non-urban areas are attracting industry at a faster rate than the largest cities, and there is still a substantial production cost advantage in these areas of the Southeast as compared with the North.

An important concern voiced by firms in the survey who invested in the Southeast was for available land and suitable sites. Many of the respondents testified to the difficulty of finding large industrial sites in the North; by contrast, none was concerned that the Southeast is running out of room for development.

—John S. Hekman

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