WAMPO Region Business Dynamism Index Report
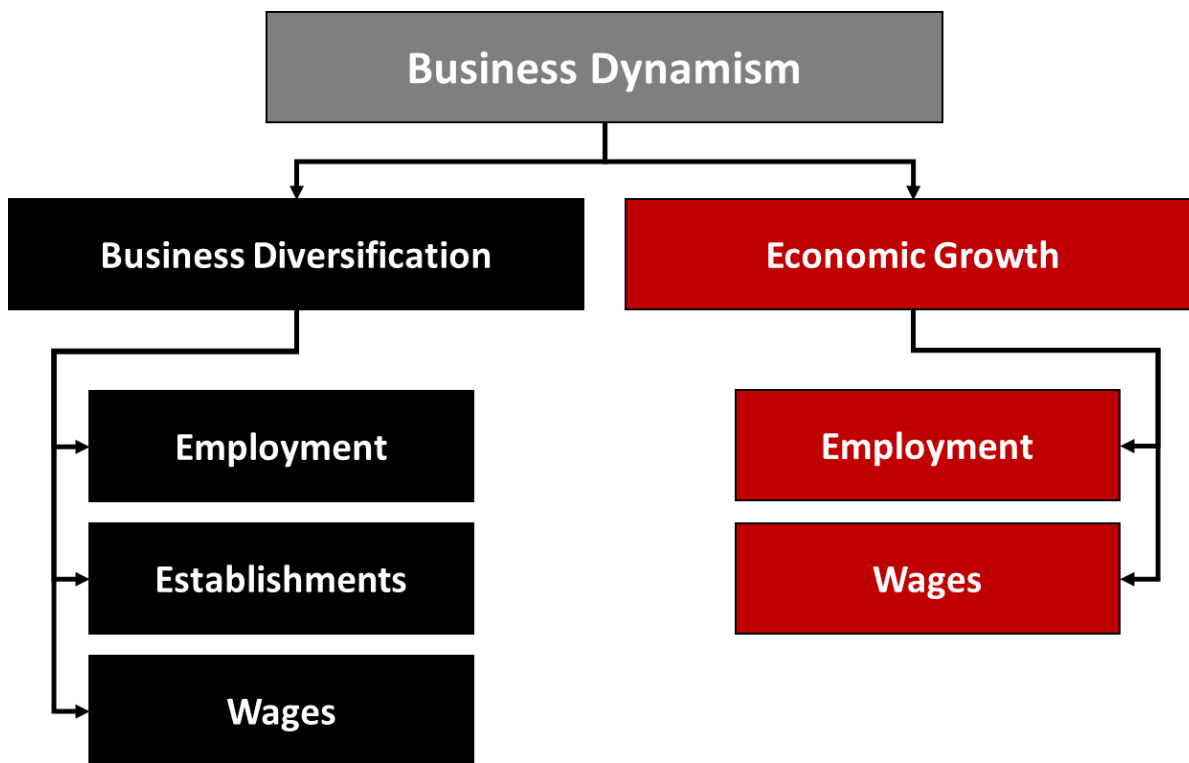
March 2023

The notion of having a dynamic business environment might sound intuitive; however, understanding and measuring the dynamism of a local economy is a bit more complex. Typically, business dynamism describes the process by which firms continually churn within a market and create new jobs. The churn within an economy is considered a healthy process, as firms adapt to changing environments and, subsequently, grow. Unfortunately, data are not available at the county or city level to measure the births and deaths of businesses. Alternatively, this study uses two concepts to provide an indication of local business dynamism: diversification and expansion. Each will be explained in more detail later.

The business dynamism index weights the rankings of diversification and expansion equally. It is important to note that a local economic interest groups might have a strategy of promoting one dimension over another to meet certain local objectives. Therefore, this index should not be considered an all-encompassing measurement of a local business environment. Additionally, it is essential to note that the ranking system forces one community to be at the top and another to be at the bottom. This method helps identify clear distinctions between economies, but it fails to acknowledge that the community at the bottom could still have a rather dynamic business environment.

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                    │    Business Dynamism     │
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        │ Business Diversification│  │    Economic Growth     │
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        ┌──────────────┐              ┌──────────────┐
        │  Employment  │              │  Employment  │
        └──────────────┘              └──────────────┘
        ┌──────────────┐              ┌──────────────┐
        │Establishments│              │    Wages     │
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        │    Wages     │
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Business Diversification

Economists often consider economic diversification as a key variable to promote stability within local markets. If a regional economy, for example, is highly concentrated in one industrial sector, then disruptions to that sector could cause the community to be more vulnerable to larger economic swings. A more diversified economy would be, therefore, less susceptible to industry-specific events and likely to maintain more consistent growth over the long run.

This report uses the Hachmann Index, a model developed to identify economic diversity, to assess business diversification by area. Although this was originally developed to examine the diversification of employment by

industry, this study uses the model to also explore the same concept based on three dimensions: employment, establishments, and wages.
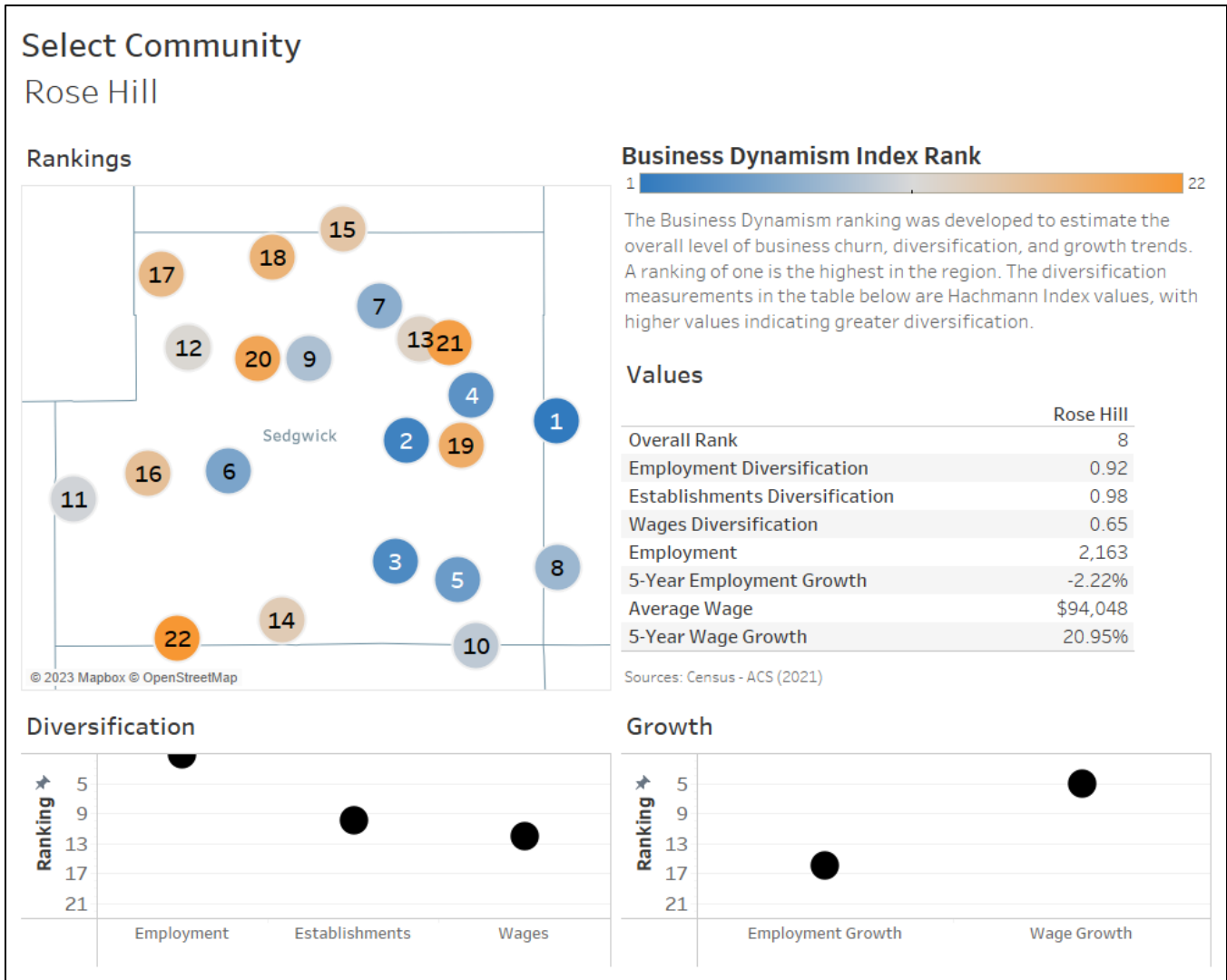
The Hachmann Index is calculated as the inverse of the weighted sum of the location quotients, by industry for each area, across all sectors. A location quotient is the share of one particular industry relative to the share of employment, establishments, or wages of the same sector at the national level. Communities with a relatively larger share of employment in one sector, for example, will have a larger location quotient; however, they would have a lower Hachmann Index.

Diversification, as measured in this report, includes employment, establishments, and wages. All three were added as a way to further broaden the concept across more than one singular dimension, like employment. For example, a community might have both highly concentrated retail and professional services sectors. Retail tends to create a lot of low-wage jobs, while professional services tend to create a few higher-paid jobs. Including all three dimensions acknowledges that industries impact a local economy in multiple ways.

The diversification index weights the ranking of all three components equally. This index should only be used as a general measure of diversification of a local economy. Furthermore, one should also be careful in the interpretation of the results. For example, rural communities tend to rank lower than urban ones; however, when aggregating up to regional areas, the index value increases, indicating that rural economies are not isolated economic units.

Business Expansion

As businesses meet demand, either locally or globally, they can expand by adding more labor or capital. This report captures that growth based on two types of investments: employment and annual wages. Although growth is not always the only desired outcome, especially when it is out-pacing regional capacity, this study does not distinguish different types of growth. Rather, this report assumes that more is better than less or declining growth. The business expansion index weights the ranking of both components equally. Each component includes a five-year annual average, with 2021 as the most recent year. It should be noted that in the current version of the WAMPO region's expansion component, establishment expansion is omitted; however, the finalized version of the index will include it.

Select Community
Rose Hill

Rankings

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Business Dynamism Index Rank

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The Business Dynamism ranking was developed to estimate the overall level of business churn, diversification, and growth trends. A ranking of one is the highest in the region. The diversification measurements in the table below are Hachmann Index values, with higher values indicating greater diversification.

Values

	Rose Hill
Overall Rank	8
Employment Diversification	0.92
Establishments Diversification	0.98
Wages Diversification	0.65
Employment	2,163
5-Year Employment Growth	-2.22%
Average Wage	$94,048
5-Year Wage Growth	20.95%

Sources: Census - ACS (2021)

Diversification

Growth

Above is an example of the draft data dashboard using figures for Rose Hill, which will be hosted on the website. The map shows the overall Business Dynamism ranking, with variable-specific rankings presented in the charts along the bottom, separated by dimension. Raw values for each of these variables are contained in the center-right table. All of these graphics update automatically based on the dropdown selection at the top.

Below is a table containing data values for cities in the WAMPO region.

Community	Business Diversification*			5-Year Growth	
	Employment	Establishments	Wages	Employment	Wages
Andale	0.67	0.82	0.69	32.59%	1.77%
Andover	0.86	1.23	0.92	2.81%	3.86%
Bel Aire	0.78	1.26	0.72	15.89%	-5.24%
Bentley	0.65	0.60	0.24	-15.65%	11.57%
Cheney	0.68	0.96	0.63	3.19%	-16.03%
Clearwater	0.75	0.94	0.36	-0.67%	28.80%
Colwich	0.27	0.82	0.16	0.42%	16.71%
Derby	0.87	1.03	0.76	-3.51%	9.36%
Eastborough	0.31	0.83	0.19	-4.79%	9.02%
Garden Plain	0.59	0.73	0.58	21.39%	12.12%
Goddard	0.86	0.99	0.76	17.09%	39.15%
Haysville	0.91	1.06	0.94	-9.48%	18.58%
Kechi	0.22	0.68	0.31	29.36%	7.39%
Maize	0.77	1.10	0.66	5.68%	-12.52%
Mount Hope	0.44	0.47	0.64	15.28%	-8.38%
Mulvane	0.70	0.98	0.80	-2.94%	-2.07%
Park City	0.53	0.88	0.69	27.82%	45.10%
Rose Hill	0.92	0.98	0.65	-2.22%	20.95%
Sedgwick	0.57	0.75	0.59	-4.33%	20.64%
Valley Center	0.82	1.00	0.75	0.46%	-9.35%
Viola	0.38	0.14	0.22	52.24%	87.36%
Wichita	0.77	1.25	0.90	3.96%	18.85%
*Hachmann Indexes - larger values indicate greater diversification.					
Source: CEDBR, Census - ACS					

The highest-ranked cities in the region for the overall Business Dynamism index are, in order: Andover, Goddard, Rose Hill, Bel Aire, and Andale. There is significant variation in the driving causes for these highest-ranked cities, with Goddard having relatively high values across all variables; however, Wichita City's high rank leans more on a greater diversity of establishments, though it has experienced lower growth over the last five years. Park City demonstrates the opposite, having lower overall diversity but more rapid growth. Finally, Andover has had the slowest growth over the last five years but has the highest diversification among these top 5 cities.

Community	Business Dynamism Rank	Business Diversification				5-Year Growth		
		Diversification Rank	Employment	Establishments	Retail Sales	Growth Rank	Employment	Wage
Andale	5	12	13	16	9	7	2	16
Andover	1	1	5	3	2	13	12	15
Bel Aire	4	4	7	1	8	11	7	18
Bentley	22	18	14	20	19	18	22	11
Cheney	20	11	12	11	14	18	11	22
Clearwater	16	14	10	12	17	8	15	4
Colwich	14	20	21	15	22	10	14	9
Derby	10	5	3	6	6	16	18	12
Eastborough	17	19	20	14	21	18	20	13
Garden Plain	11	16	15	18	16	4	5	10
Goddard	2	6	4	8	5	3	6	3
Haysville	11	3	2	5	1	15	21	8
Kechi	9	21	22	19	18	5	3	14
Maize	14	9	9	4	11	16	9	21
Mount Hope	18	17	18	21	13	13	8	19
Mulvane	20	10	11	9	4	22	17	17
Park City	7	13	17	13	10	2	4	2
Rose Hill	3	8	1	10	12	9	16	5
Sedgwick	19	15	16	17	15	11	19	6
Valley Center	11	7	6	7	7	18	13	20
Viola	7	22	19	22	20	1	1	1
Wichita	5	2	8	2	3	5	10	7
Source: CEDBR, Census - ACS								

Acknowledgement

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About the Center

This report was produced by The Center for Economic Development and Business Research (CEDBR), part of the W. Frank Barton School of Business at Wichita State University. We are a reliable resource for local, state and national demographic and economic data. We strive to enhance economic growth and development through our applied and objective research, which makes us an active and well-respected partner with economic development leaders.