



IMD WORLD
COMPETITIVENESS
YEARBOOK

RECONSIDERING THE FUNDAMENTALS OF COMPETITIVENESS

UNTIL NOW COMPETITIVENESS HAS BEEN DEFINED BY PROSPERITY
CREATION. THE IMD WORLD COMPETITIVENESS CENTER INTENDS TO
CHANGE THAT.

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Knowledge is dynamic and concepts and ideas evolve. This also applies to notions of country and enterprise competitiveness. For this reason, the IMD World Competitiveness Center is acknowledging a new understanding of competitiveness and is updating its definition of the concept for its seminal annual report, the IMD Competitiveness Yearbook. The upcoming 2015 edition will initiate the process of developing a more “measurable” conception of competitiveness, along with more accurate instruments to assess it. The long-term objective is to strengthen the effectiveness of the IMD world competitiveness ranking and its components as well as to deepen our understanding of competitiveness and what makes a country successful in the world economy.

The annual ranking uses more than 300 criteria to assess competitiveness, two-thirds of which are based on statistical indicators and one-third on an exclusive IMD survey of more than 4,000 international executives.

Definitions of competitiveness vary. The Yearbook, which has been published since 1989, has defined it in terms of “how nations and enterprises manage the totality of their competencies to achieve prosperity or profit”. The definition of competitiveness has also included “the facts and policies that shape the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people”.

Prosperity is however a subjective concept, henceforth it is difficult to fit “prosperity” into a more general conceptual framework. Research points out that it is difficult to link national prosperity directly to enterprise performance. Other scholars note the absence of clear causality among the existing structural components of the competitiveness ranking.

Proposed updated definition

Countries shape the environment in which enterprises create value. Governments influence competitiveness through legislation and institutional frameworks. At the same time, contextual elements such as technological infrastructure can limit competitiveness. Business efficiency greatly contributes to competitiveness, and economic performance also plays a determinant role. While there may be no linear causality among these elements, they can create a “virtuous cycle” in which one factor feeds into – and strengthens – others. The task then is to identify an effective outcome of these interactions in order to offer a more concrete way to measure competitiveness.

We thus propose an updated definition of competitiveness – “the ability of a country to facilitate an environment in which enterprises can generate sustainable value” – which meets that need. In applying the definition, we propose to measure sustainable, or long-term, value creation in terms of two elements: the long-term profitability of enterprises and their job-creation levels during the same period.

Economic activity and environmental performance are interconnected. Long-term profitability requires that the environment suffer as little as possible from economic activities, otherwise achieving profitability could be detrimental to competitiveness. Job-creation levels could lead to the job satisfaction of the workforce if employment conditions are favorable, by providing, for example, access to continuous training. Those levels then feed into long-term profitability by increasing performance and ultimately the quality of life of employees.

This definition approaches the sustainability of competitiveness through its outcome: sustainable value creation. Sustainable value creation is “the capacity of enterprises to remain profitable over time while minimizing the environmental impact of their activities and providing an organizational context in which their workforce thrives”.

Country and enterprise levels

Sustainable value creation can be analyzed at the country and enterprise levels. Country indicators show the extent to which countries are facilitators of competitiveness. Enterprise indicators are those behaviors and practices that companies adopt to advance their levels of competitiveness. Country indicators assess efforts at minimizing the negative environmental impact of economic activities. For employment, country indicators should evaluate fundamental issues for the welfare of the labor force, for example, the quality of education and individual security and safety. At the enterprise level, it is necessary to evaluate practices and behaviors that affect sustainability and job satisfaction.

Aggregated measures of the four aspects above – country environment/employment and enterprise sustainability/talent dynamics – of sustainable value creation can be constructed and tested against indicators of company profitability and employment levels. Profitability would require accounting and financial data, but performance indicators such as stock market prices and net income, operating revenue, profit margin, return on assets and return on equity can be used. Data on the number of employees can be used to calculate the job-creation rate. This approach to competitiveness provides a more concrete and “measurable” outcome.

In another innovation, the new Yearbook will contain a sustainable value creation “compass” that will yield a picture of the competitiveness of a particular economy. The compass will measure and gather in a graphic “image” the four core components of sustainable value mentioned above. The upcoming Yearbook, to be released in May, will present a compass for a hypothetical case to illustrate how the initiative can be used to identify strategic options to strengthen competitiveness. The compass will be applied to countries once the necessary data has been compiled. A compass could also be built for enterprises, but at the moment there is insufficient company-level data available. This is a gap the IMD World Competitiveness Center intends to plug.

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The 2015 IMD World Competitiveness Yearbook will be released on May 27.

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