



Only 3 out of 36 advanced economies will grow more in 2015 than they did in 2007.

It is important to distinguish between key performance indicators (KPIs) and value drivers. An example of a value driver is growth and an example of a key performance indicator is market share.

competitive need to manage the value drivers in their economy (resources and competencies) rather than key performance indicators.

For example, Mexico is focusing on value drivers to increase its competitiveness by improving its healthcare and educational systems and privatizing its public sector; Chile's massive educational reform aimed at ensuring everyone has access to education means the country has less resources to develop its infrastructure, but education is an important driver of competitiveness.

The WCC's typical competitiveness model starts with government. Good government entails good regulation, transparency (no corruption) and a focus on people (vision). Although jobs are created by the private sector, governments need to develop a favorable environment for companies to be able to generate jobs. Singapore and the United Arab Emirates are good examples of government models that have fostered such an environment.

Countries that fail to provide this are less likely to attract business investments. Many developing countries, including most of the BRICS, have poor infrastructure (among other things), which prevents many organizations from running their business there. Good regulation and infrastructure are essential elements for business creation.

A good government does not imply a "big" government. Indeed, public sector size has been found to be negatively related to competitiveness. Furthermore, although taxes are important to increase competitiveness, what is needed is a taxation mechanism characterized by high revenues yet low tax rates.

Competitiveness does not equate to competition. On the contrary, countries become more competitive by working together, for example by achieving synergies through trade, which in turn helps their competitiveness and allows regions to develop, as in South East Asia for example.

Care must be taken, however, when talking about regions. For example, if a company wants to grow its business in Asia, it needs to specify which countries because there are winners and losers in every region. Many Asian countries have planned economies, and some of them have had ineffective dictatorships and weaker policies. Indonesia, for example, has a good corporate class but it has problems with other parts of its economy. Another point worth remembering is that a country cannot change its competitiveness overnight. It often takes a generation to do so.

Below we present two case studies of competitiveness. One is from a country perspective using the example of Greece, and the other is from a business viewpoint using the example of Switzerland.

### Country Competitiveness: The Example of Greece

A particularity of the Greek economy is that it is made up of numerous small companies (SMEs), most of them family oriented, and 75% of the country's economic activity is in non-tradable goods. The Greek business sector is thus inward looking, which leads to lower productivity levels and attracts little foreign direct investment. It is also conducive to opportunistic behavior like tax evasion. This micro behavior of small family-owned companies has a huge effect on the macro behavior of the country.

Since 2010 the Greek economy has shrunk by over 27%, which has led to the country's substantial 28% unemployment rate, with a disproportionate rate of 60% of younger



Figure 1: The necessary ingredients of country competitiveness

people being impacted. The economy is effectively creating a generation of workers that will not have the knowledge or capabilities to successfully reenter the job market when the crisis ends. This situation has led many young people to leave the big cities and return to small villages and the agricultural sector. In the long term, Greece could prosper if the young generation were to bring its entrepreneurial spirit to the agricultural sector. If not, unemployment is likely to persist. Without a new development model, Greece's economy will not recover. As its competitive landscape shows (see **Figure 2**), Greece ranks low in all four of the major WCC competitiveness categories: Economic Performance, Government Efficiency, Business Efficiency and Infrastructure. While Greece obtained a new economic package in the summer of 2015, if it fails to increase its competitiveness, it will undoubtedly need another bailout package three years down the line.

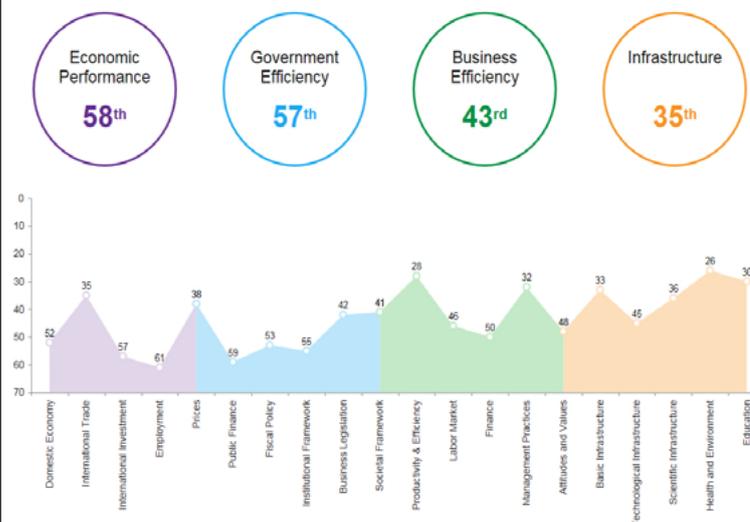
### Business Competitiveness in Switzerland

Competitiveness at the country level is about managing resources and competencies to create an environment where companies can maintain sustainable value creation, which is about minimizing the negative externalities and maximizing the positive externalities. At the business level, a positive externality would be employee welfare and development and a negative externality would be harming the environment. In the WCC model, sustainable value creation refers to long-term profitability with quality job creation.

We can visualize this with the model in **Figure 3**. The two levels of analysis are the country and the company. The hypothesis is that if companies are able to minimize the negatives and maximize the positives then they will achieve sustainable value creation. The output will be long-term financial performance and the creation of quality jobs.

In 2014 the WCC partnered with Accenture to study the firm-specific practices and processes that successful Swiss companies employed to strengthen their

## COMPETITIVENESS LANDSCAPE for 2015



**Figure 2: The competitive landscape of Greece**

competitiveness. Using the *Handelszeitung* Top 500 Swiss companies, the WCC and Accenture surveyed 660 senior executives from 104 companies headquartered in Switzerland. Sixty-nine of the respondents came from 14 growth champions/competitive firms. Competitive firms were identified based on their profitability from 2009 to 2013. Using the compound annual growth rate (CAGR) of revenues and profit margin indicators, 36 growth champions/competitive firms were identified.

Based on the analysis, the study found that competitive firms:

1. Experienced an abnormal stock market performance of 7.6% per year (2010-2013)
2. Generated 18% more jobs (2010-2013)
3. Adopted more dynamic governance practices with clear accountability
4. Focused on human capital and employee engagement
5. Developed an innovation-centric culture
6. Had a transparent management culture
7. Developed market-focused strategies
8. Transformed through flexible and lean processes.

### Mastering the Competitiveness Challenge

Although the path to competitiveness involves a long and complicated process,

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Copying another country's competitiveness model is not a good idea because no two countries have the same context. As Stéphane Garelli, former director of the WCC said, "It doesn't matter which country you go to, the salad is going to be different. It doesn't mean it is going to be better it is just going to be different."

countries and leaders can look to several areas to help them move forward. An important characteristic of competitive countries is leadership, a promising example of which is Mongolia, which recently discovered the largest copper reserves in the world. This was an amazing discovery for such a poor country and when the news was revealed, Tsakhiagiin Elbegdorj, the country's president, said that it was extremely important to ensure that the wealth generated helped the population of this historically poor country to improve their lives. This is a leader with a vision.

A clear strategy is also an important aspect of competitive countries. Think about the recent economic crisis in Europe and ask yourself, what strategies countries have been implementing to emerge from the crisis? Spain is currently working its way out of the crisis, but what exactly is its economic strategy? In reality, it is difficult to explain a country's economic policy, but an example of a country that has a clear strategy is Mexico. Its president, Enrique Peña Nieto, stated: "Mexico urgently needs a series of structural reforms that will generate more public welfare."

Strategy should not only provide answers to short-term problems but also focus on long-term issues since one of the main drivers of competitiveness is a long-term orientation. However, the difficulty here is that most political systems hamper long-term vision because country leaders tend to focus on quick wins in an effort to win the next election. This is one of the reasons why the USA does not have a well-developed national railroad system

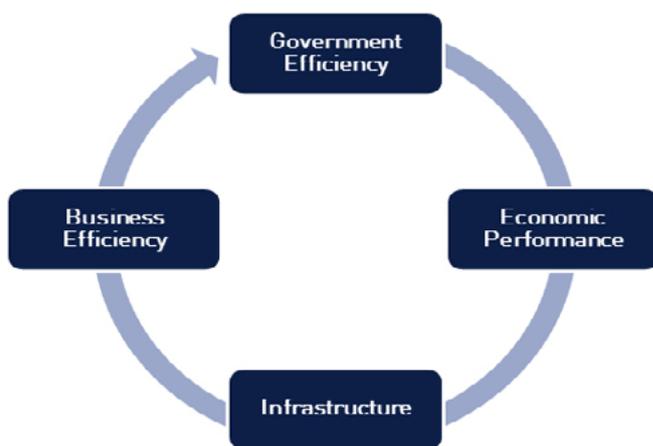
for example – that would require a long-term investment and US politicians have avoided getting involved in an initiative that would likely only come to fruition long after their term as president.

Country competitiveness also requires focusing on developing the private sector to boost business and job creation. Good regulation, like in Switzerland, is essential to promote entrepreneurship and allow companies to attract capital. However, copying another country's competitiveness model is not a good idea because no two countries have the same context. As Stéphane Garelli, former director of the WCC said, "It doesn't matter which country you go to, the salad is going to be different. It doesn't mean it is going to be better it is just going to be different." So each country must develop its own framework and strategy.

Finally, countries should also focus on institutional reform (like Mexico) rather than economic growth, since institutions – i.e. any organization of people with a clear goal – are a key driver of competitiveness. In their book *Why Nations Fail*, Daron Acemoğlu and James Robinson show that the three traditional theories used to explain country economic growth (natural resources, trade and access to finance) fail to predict economic differences in the world today. They propose that only countries that develop good institutions can promote economic growth.

In summary, a country's competitiveness roadmap is made up of leadership, a long-term view, a clear, focused and unique strategy, private enterprise and institutional development.

### A. The Competitiveness Factors



### B. Measuring Competitiveness

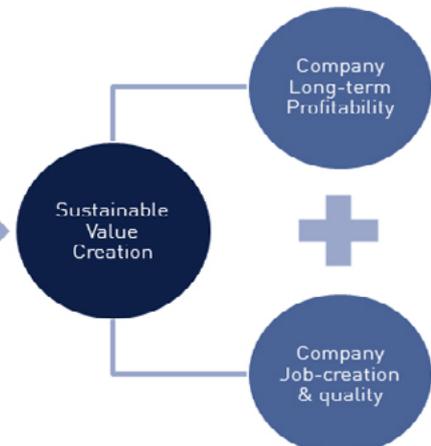


Figure 3: The IMD WCC competitiveness model