THE POSITION OF SLOVAKIA IN COMPETITIVENESS RANKING –
THE CAUSES, IMPACTS AND PROSPECTS

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Abstract. A country’s competitiveness could be translated as its ability to successfully compete within international comparison also as a prosperity which is expressed by productivity growth of economy and living standards. Is Slovakia competitive? What are its strengths and weaknesses? What are the leading countries of the European Union in competitiveness ranking? In what aspects is Slovakia falling behind countries of V4? Strengthening of which competitive advantages is perspective for the Slovak Republic? We will try to find answers to these questions in an analysis of competitiveness based on the Global Competitiveness Reports. This thesis focuses on definition of the competitiveness in general, apprises of measuring methodology based on multicriterial evaluation and summarises pros and cons of this benchmark. The main focus is on the Slovak Republic and its position in the international ranking. In detail we will focus on comparison of the Slovak Republic with countries of V4 region. It is the authors’ ambition to bring critical view on position of the Slovak Republic in the international comparison and to formulate recommendations for the future that could contribute to strengthening of competitiveness and success of our country.

Keywords: benchmark, competitiveness, competitive advantage, efficiency, globalisation, multicriterial evaluation of competitiveness, sustainable growth.

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1. Introduction

Several years ago, the relatively young economy of the independent Slovak Republic exhibited the fastest economic growth in Europe. In international comparisons, this trend, however, gradually waned and the economic growth was slowed down. The objective of this article is to get acquainted with the methodology of international assessment, analysis of relevant criteria and discussion of the reasons for Slovak economic growth and slowdown. The reasons will be discussed in their historical and political context. This study will, therefore, analyse Slovak competitiveness on the national level in the macroeconomic context.
The analysis itself is based on study of available literature, specialised texts and results of previous research. The author’s main goal was to provide a comprehensive picture of Slovak economic competitiveness and potential for sustainable growth as well as to highlight the steps taken by the government to boost the country’s competitiveness and evaluate their impact and adequacy. The impact of the world economic crisis and its influence on the slowdown of Slovak economy and its fall in the competitiveness ranking is discussed as well. The last part concentrates on the measures necessary to jump start the economy and improve its competitiveness.

Competitiveness is crucial for country’s prestige, as it provides a picture of its situation and information for potential investors, migrants and partners. It is important also for the citizens because it determines the growth of employment, standard of living and prosperity.

2. Competitiveness – definition, methodology and ranking

Competitiveness of individual countries or economies has, together with globalisation theories, become one of the key criteria. It is often related to country’s economic prosperity, well-being and standard of living. Nevertheless, the ability to compete and create a competitive advantage is not easily measured. Competitiveness can thus be considered a comparative look on an object of study (Steinmetzová 2008). For the purposes of this study, the investigated object is going to be a country or economy and its position in the international ranking. For this reason, it is necessary to define competitiveness in a broader sense so that the definition includes multicriterial methods of competitiveness assessment in various areas.

Competitiveness is generally defined as the ability of companies, regions, nations and supranational regions to generate a high profit and employment (Skokan 2004). An international competitiveness assessment is largely determined by a growing productivity and improvement of the standard of living in the context of employment. GDP is the fundamental indicator of these determinants. The relationship between labour productivity and employment is complementary and intertwined. It is, however, simultaneously influenced by other factors such as technological advancement, more qualified labour force and etc. GDP, nevertheless, is not and cannot be the sole factor for measuring and comparing a country’s competitiveness.

A broader notion of measuring competitiveness utilises multicriterial methods, which measure competitiveness from several different perspectives. These methods assess the given subject on the basis of criteria set beforehand. There are two sources of data used for the assessment – the so called hard and soft data. Hard measurable data come from national and international statistics. Soft data cannot be precisely measured but are gained through questionnaires and then evaluated. The respondents are chosen from top managers of companies conducting business in the country that is being assessed. One of the advantages of soft data is that they provide ground for an assessment of economic characteristics, which would not be possible using hard data. The greatest disadvantage
lies in the subjectivity of the respondents whose opinions, optimistic or pessimistic expectations and personal wishes can influence the results. The results can also be distorted by respondent’s potential inability to assess the economy from an international perspective. On the other hand, it is the international comparison of the top managers that can positively impact the economy by pointing out its strengths and weaknesses.

The multicriterial methods are used for assessment of competitiveness also by the OECD through the Institute of Management Development (IMD). The IMD defines competitiveness at two levels (IMD 2010):

- Academic: Competitiveness of nations is a field of economic theory, which analyses 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.
- Business: Competitiveness is a means by which a country creates, develops and sustains a competitive business environment.

It is, however, true, that every country has a different availability of natural resources, factors of production or socio-geographic environment, which determine the rate of development and growth of a given country. Policies, created by the society itself, play an important role as well. Through them, it can influence the economy according to the emphasis placed on social, cultural or environmental aspects. The fundamental aim of competitiveness is thus, according to IMD, a growing prosperity of people, reflected in their income, standard of living and the quality of life. That is why competitiveness cannot be measured only by economic indicators but also the indicators of the quality of infrastructure, education, health care, and political and social stability.

The multicriterial IMD method is comprised of over three hundred criteria, grouped into twenty sub-factors, which are further divided into four main groups:

2. Government efficiency.
4. Infrastructure.

The first area – Economic efficiency – assesses macroeconomic indicators such as GDP and employment as well as international trade, investments and price development.

Government efficiency considers management of public finance, fiscal policy, the institutional framework, i.e. the efficiency of the public sector and business and social legislation.

Business efficiency is measured using indicators of labour productivity, labour market characteristics, financial sector, quality of management, and new values and attitudes in the business environment.

The assessment of infrastructure is complex as it considers the basic infrastructure, technological readiness, scientific base, quality of health care and environmental sphere as well as the educational system.
The World Economic Forum (WEF), which annually ranks countries according to their competitiveness, also employs multicriterial methods. Criteria used for the assessment evolved from tradition but incorporate current competitiveness-influencing trends as well. WEF has been publishing the Global Competitiveness Report (GCR) since 1979 and has since become the most important institution publishing a highly complex comparative assessment of competitive strengths and weaknesses of individual world economies.

The methodology of assessment has been continuously adjusted in order to reflect current trends in the world economy. The quick rate of changes in the world of Information Technologies, technological advancement, free movement of the labour force as well as integration and globalisation trends, pre-conditioned the creation of the Global Competitiveness Index (GCI) that has been used since 2005 as the basis for the competitiveness rating. GCI is a complex tool used to measure macro-and-microeconomic aspects of economic competitiveness, i.e. it integrates growth development and business competitiveness indexes, used to evaluate the competitiveness of countries before 2005.

WEF defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the level of prosperity that can be earned by an economy. The productivity level also determines the rates of return obtained from investments in the economy, which in turn are the fundamental drivers of its growth rates. In other words, a more competitive economy is one that is likely to grow faster over time (GCR 2011).

The WEF methodology resembles IMD in that both hard and soft data, gained through a questionnaire survey, are utilised in rating. The criteria are set by various components, each of which measures a different aspect of competitiveness. These components are assembled in the 12 pillars of competitiveness.

1. Institutions.
2. Infrastructure.
3. Macroeconomic.
4. Health and primary education.
5. Higher education and training.
7. Labour market efficiency.
10. Market size.
12. Innovation.

The above-mentioned and other systems of multicriterial competitiveness assessment offer a certain benchmarking overview of individual countries on several relevant aspects of their relative position with regard to others, while simultaneously posing some fundamental questions (Menbere 2006).
Even though the determinants of success in the assessment of competitiveness are defined, there is no single recipe for all the countries. Individual strategies for improving competitiveness can be successful only if economic aspects are in congruence with specific social needs formed historically or determined by tradition and citizens’ value system (Steinmetzová 2008).

3. Slovak position in the international ranking

The World Economic Forum annually issues a global competitiveness report, comparing 142 countries, which are ranked on the basis of the Global competitiveness index. In 2011, Slovakia ranked 69th – historically the worst result since it has started to be considered in the index. The country thus recorded a drop by nine places, seriously lagging behind other V4 countries.

Slovakia’s greatest disadvantage in the first pillar (institutions) is a low efficiency of the legal framework in settling disputes; the country ranked 139th out of 142. Other problematic areas include favouritism in decisions of government officials (135), low public trust of politicians (132) and judicial independence (116). Slovakia continues to score low in the area of infrastructure due to its bad air transport infrastructure (128). High government budget deficit (130) is the greatest competitive disadvantage in the third pillar, macroeconomic framework. Slovakia is falling behind also in the quality of the educational system (117) and school management (106). Agricultural policy costs (120) and buyer sophistication (122) were identified as hindrances in the goods and market efficiency pillar. The most significant weaknesses of the labour market lie in inefficient hiring and firing practices (116) and a significant brain drain (111). In terms of financial market development, Slovakia ranks 118th in financing through local equity markets while the business sector scores low in the control of international distribution (120.) and nature of competitive advantages (113). The last pillar, innovations, points to insufficient university-industry collaboration in R&D (104) and low government procurement of advanced technology products (129).

Corruption, bureaucracy, restrictive labour regulations and insufficient infrastructure were identified as the most problematic business factors and the long-standing greatest hurdles in the Slovak business environment.

On the other hand, the most significant competitive advantages of Slovakia are prevalence of foreign ownership (4), trade tariffs (4), FDI and technology transfer (6), interest rate spread (12), pay and productivity (14), internet users (16), business costs of terrorism (20) and soundness of banks (31). The biggest positives in the area of infrastructure are the quality of railways (23) and energy infrastructure (28).

3.1. Selected countries of the EU and their competitiveness factors

Switzerland has retained its position as the world’s most competitive economy for the third year in a row. It dominates in the institutional framework, quality of infra-
structure, education system, capacity for innovation and very sophisticated business sector, while maintaining its dominant position on the markets. There is still a room for improvement in the areas of investor protection, agricultural policy and budget deficit. Other European countries that ranked in the top ten were Sweden (3), Finland (4), Germany (5), Netherlands (7), Denmark (8) and Great Britain (10). Out of these only Sweden and Germany ranked one place lower than last year, the other countries, most notably Finland (+3), improved their positions. Finland’s improved ranking is attributable to its capacity for innovation, excellent educational system and efficiency of public finance. All the countries in the top ten achieved higher scores than the last year, marked by the world economic crisis. This year’s results display a certain revitalisation (see Table 1).

The positions of V4 countries are marked by a moderate decline this year, with the exception of Hungary, which improves its position (Table 2). Czech Republic and Poland fall two places. Slovakia sinks most substantially, by 9 positions.

The Czech Republic has been the most competitive of the V4 countries since 2005. It positively leads in the areas of innovations, education and science, which, together

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<tr>
<td>Sweden</td>
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<td>Finland</td>
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<td>USA</td>
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<td>Japan</td>
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Table 2. Overview of the V4 countries in the competitiveness index (Source: The Business Alliance of Slovakia 2011)

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<td>The Czech Republic</td>
<td>38</td>
<td>4.5</td>
<td>36</td>
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</tr>
<tr>
<td>Poland</td>
<td>41</td>
<td>4.5</td>
<td>39</td>
<td>–2</td>
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<tr>
<td>Hungary</td>
<td>48</td>
<td>4.4</td>
<td>52</td>
<td>+4</td>
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<tr>
<td>The Slovak Republic</td>
<td>69</td>
<td>4.2</td>
<td>60</td>
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with quality infrastructure, determine its strong market position. Despite of sinking by two places, the country gained a higher score than the last year. This paradox can be explained by this year’s better overall scores.

Poland remained the second most successful country of the V4 for the last three years. It is, however, necessary to mention that for a long time Poland had been consistently the least competitive of the four countries. Its rise can be attributed to increased efficiency of the institutional framework as well as launched innovations, improved education system and research in science and technology. Yet, the country still exhibits major shortcomings in infrastructure and business environment while struggling from a high brain drain.

Hungary had been a long-standing leader in the growth competitiveness until 2005 when other V4 countries started catching up. Hungary’s macroeconomy is hindered by low public administration efficiency, insufficient market sophistication and problems on the financial market. Its competitive advantage against Slovakia lies in a higher capacity for innovations and better health care.

Comparison of the V4 countries shows similar problems that can be traced back to their common history (Fig. 1). The most obvious of these are the rigidness of public institutions, complicated bureaucracy, insufficient business environment and high corruption.

### 3.2. What influenced the development of Slovak competitiveness

Slovakia was included in the competitiveness index for the first time in 1997 and achieved its best rankings in 2006 and 2008, thanks to reforms implemented in the
preceding years (see Fig. 2). The tax reform introduced a straight tax, which served as a stimulus for both Slovak entrepreneurs and foreign investors. The pension reform led to increased personal responsibility and greater social justice. The medical reform was aimed at increasing the quality of medical care, greater efficiency in the use of medical tax levy, better financing of medical institutions and gradual elimination of growing debts. Lower unemployment rate and stronger motivation were the primary goals of a social benefits reform. Reform of education introduced a new way of financing regional school districts and helped stabilising public universities. Decentralisation of the public administration resulted in better problem solving strategies, higher transparency and public participation in the public sphere. Fiscal decentralisation and shift of financial responsibility to land magistrates constituted a further important step towards consolidation. Other crucial changes took place in the business sector, focusing on the tax levy decrease and facilitating business entries. Change in the management of public finance as well as implementation of budget restraints and program budgeting structure also constituted important reforms. All these reforms led to a macroeconomic stabilisation and contributed to a high economic growth (Mikloš 2005).

Today we can say that not all the introduced reforms were sufficiently thorough and complex. The school reform is still uncompleted and the quality of education is low, falling behind in both primary and higher education. This situation is most visibly manifested in Slovakia’s insufficient scientific development, practical implementation of theory, capacity for innovations and technological adoption. High unemployment, low motivation and scarcity of work opportunities do not stem only from regional differences but also from underdeveloped road infrastructure, unattractive environment for foreign investors, insufficient use of the country’s geographic potential and poor presentation abroad.

Besides implementation of reforms, in 2004 Slovakia joined the European Union. The joining brought Slovakia a higher political prestige but especially the free movement

![Fig. 2. Slovakia since its inclusion in the international ranking](Source: authors’ own, based on WEF)
of capital, goods and labour force, new business opportunities, increased cooperation with foreign manufacturers in entering the “third markets,” higher volume of irretrievable EU financial resources and increased competitiveness in all economic spheres, which positively impacted the search for competitive advantage.

Accession into the monetary union and the introduction of the Euro in 2009 were another milestone. The greatest advantages of a unified currency lie in a greater potential for growth of foreign trade, freedom from transaction and administrative payments, elimination of currency risk, higher transparency of prices and lower cost of raising capital (NBS 2006).

The last factor that significantly influenced the Slovak position in the competitiveness index was the world economic crisis, which fully stroke Slovakia in 2009. It led to a slower growth of productivity, increased public budget deficit, lower exports and insufficient influx of foreign investments, which in turn led to economic recession and high unemployment. The Slovak government launched activities aimed at reducing the economic impact of the crisis in the third quarter of 2008. The measures covered a very wide spectrum of activities from better drawing of EU structural funds, through support of economic activities and stable unemployment rate to crafting a new legislature (Kárász 2009).

3.3. Current situation – outcomes

According to most experts on competitiveness related areas, the main responsibility for the current situation lies on the shoulders of the last government, which underestimated the situation and did not take necessary precautions. Other experts argue that the Slovak economy did not deteriorate, but other countries improved. The situation was also aggravated by late accession of the current cabinet. All these arguments are more or less true. After the 2010 elections, the new government coalition pledged to take measures to overcome the economic crisis, strengthen the Slovak economy and boost the country’s competitiveness. Through pension reform, budget responsibility act, tax levy system reform, labour law reform, reduction of administrative load, and anti-corruption and pro-financial transparency measures, the government focused on fiscal consolidation in an effort to improve macroeconomic stability and ensure faster economic growth, higher employment rates and the standard of living (MF SR 2011). Intelligent growth is based on innovations and represents also one of the priorities of the EU in its Europe 2020 strategy. Slovakia identifies with all the Europe 2020 strategies and with regard to country’s specifics the government stresses those priorities, which will contribute the most to Slovakia’s economic growth: basic infrastructure, human resources, employment and social inclusion, science, research and innovations with an emphasis on the green growth. All the above-mentioned reforms and measures are in the state of preparation and realisation. Only the future will prove or disprove their adequacy and sufficiency.
4. Conclusion

The current situation in the field of macroeconomic stability shows that Slovakia is standing on the verge of a recession. It is, therefore, necessary to speed up all the planned reforms and measures, strengthen fiscal consolidation and ensure the sustainability of public finance. Moreover, it is important to search for competitive advantage, focus on building knowledge economy and implementation of innovations. Improving the business environment and optimizing public management should be other high priority tasks.

Besides the steps undertaken by the cabinet in the sphere of public finance, it is necessary to complete the judicial reform, improve the efficiency in settling disputes, and regain the trust of the people and the business sector as well as ensure political transparency and increase efficiency in handling public finance through public procurement. In the area of the school system, science and education, the government has to increase financing and establish a new system of school management, provide a link between education and practice, motivate educated young people and thus reduce the brain drain. Other areas that need to be addressed are: increasing the attractiveness of the Slovak business environment for both home and foreign investors, motivating especially small and medium enterprises to make innovations, implementing an active employer policy to bolster employment levels, and strengthening the agricultural policy in order to return Slovakia the face of an agricultural country. Last but not least, the country has to complete the basic infrastructure crucial for business and get connected to international transport corridors.

Slovakia falls behind also in drawing money from the EU funds, even though they represent the cheapest source, important in the search for competitive advantage. It is imperative to reduce bureaucracy involved in the mechanism, ruthlessly sanction favouritism and create such conditions that would enable drawing out the full volume planned for an individual period.

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**SLOVAKIJOS POZICIJA KONKURENCINGUMO REITINGE – PRIEŽASTYS, ĮTAKOS IR PERSPEKTVOS**

L. Stredna, M. Zubkova

Santrauka


Reikšminiai žodžiai: lyginamoji analizė, konkurencingumas, konkurencinis pranašumas, efektingumas, globalizacija, multikriterinis konkurencingumo vertinimas, nuoseklus augimas.

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