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THE COMPETITIVENESS RANKINGS 27 Mar 2010

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The Methodology

The rankings — overall and on parameters. And the methodology followed.

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The core structure of the report is based on Porter's Diamond and also on the World Economic Forum's framework on national competitiveness. Hard data (such as state gross domestic product or GDP, literacy rate, cost of electricity) rather than soft data (such as executive opinion surveys) have been used to avoid sampling errors and bias. This allows a more current assessment of competitiveness with mapping of incremental or quantum changes in values of input indicators. From the perspective of execution and policy formulation, this approach provides clarity to the choice of important indicators; a virtual pole star for those keen to enhance competitiveness.

Competitiveness is basically a measure of productivity, that is, returns per rupee invested. GDP is a measure of productivity as it reflects prosperity of the state. Factors that determine or affect the same have been taken into consideration to capture the idea of competitiveness.

The result is an integrated index backed by rigorous academic research and objective findings. More than 300 indicators were taken into account to arrive at the results. The series were subjected to statistical normalisation to allow comprehensive clubbing under weights to evolve composite indices; this annulled their disparate genres and units. Efforts have been made to eliminate multicollinearity. Thus, scores emanate from — factor conditions (reflecting endowments), demand conditions (reflecting income and consumption), strategic context (including diversity of businesses), and supporting conditions (including institutional support and supplier sophistication) — with each

parameter factored at sub-index levels.

Grouping indicators: The model is such that it categorises the influences on competency to gauge the different processes behind the impacts. Groups have been positioned as per importance to highlight the summation of these individual factors in forming the whole. The grouping of the indicators is mostly self-evident, apart from a few that are based on discretion and judgement. Basic education comes under demography as it helps shape a person to participate effectively in society and its foundation. Institutional support includes advanced institutions. It was imperative that the indicators used must be understood in terms of their impact on the productivity of a state, both in terms of its magnitude as well as direction. Some indicators have a negative influence on the competitiveness measure, while others enhance it. It is therefore important to understand these measures, and build upon them for the purpose of the study. In the summation process, the individual weighting allotted to the indicators plays a pivotal role in every index model. The elements of the framework are grossed to arrive at an overall competitiveness score.

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Tags: india's most competitive states | gdp | world economic forum | literacy rate | cost of electricity

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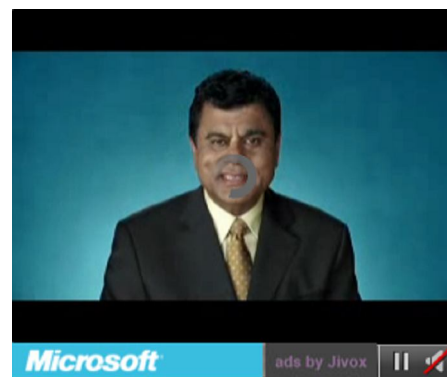
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