

Chapter 3

The Digital Economy Readiness Study: The Czech Republic in the European Context

Radek Liska

 <https://orcid.org/0000-0003-4639-7026>

Faculty of Business Administration, Prague University of Economics and Business, Czech Republic

ABSTRACT

The Czech Republic has experienced tremendous growth over the last three decades. However, as the previously exploited competitive advantages (e.g., low labour cost) lose growth potential, the country has to address the digital economy sector. The digital economy readiness study analyses and merges findings from the European and OECD databases, outlining the current situation in the country. Also, the study compares the skill set supplied by the Czech workforce with the global market situation. Research areas cover analysis of diverse factors such as age, education, gender, and nationality. Study results show that the Czech Republic has a substantial competitive advantage both within the EU and across OECD thanks to its highly skilled workforce. Hence, ongoing digital transformation gives a positive outlook for further development of the Czech digital economy.

INTRODUCTION AND BACKGROUND

The digital economy sector is starting to dominate innovation across the industry, below presented ICT statistics can help better understand how digital technologies transform the current world economy (Eurostat, 2019). The statistics track and monitor:

- The production of and access to digital technologies
- The uptake and usage of digital technologies
- The impact of digital technologies, notably in the economy and on the labour market.

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RESEARCH PROBLEM DEFINITION

The Czech Republic has a low share of the digital economy while compared to the market structure of its western partners in the EU (EUSH, 2019). The low share of digital on total economy grants a vital growth opportunity, especially considering that the country has all the means to shift part of its resources towards digitalisation. The fact that the country has high growth potential and resources to deliver makes Czechia a point of interest for numerous stakeholders. Some consulting companies even label these traits as “Digital Challenger” country (McKinsey & Company, 2018).

In order to utilise the full digital potential of the Czech economy, it is paramount for strategic stakeholders such as universities, government, and leading business companies to take action and execute vital steps towards the emergence of the digital sector (Brunet-Thornton & Martinez, 2018). The most vital part of a successful digital transformation is taking advantage of an available skillset and developing a capable workforce, as recognised by many (Kaplan, 2017; Gates, 2017; Bughin, 2017).

During structural change towards the high value-added digital sector, it is paramount to have a highly qualified workforce to sustain such growth (Frey & Osborne, 2017). Key transferable skill sets that enable rapid growth are mainly problem-solving ones and ICT knowledge in general (OECD, 2017; Henke & Bughin, 2016).

At the moment, multiple trends are contributing to the growth of the digital economy sector. In 2016 the Czech Republic surpassed Germany as a country with the lowest unemployment rate in the EU. The country remained in that position throughout 2017 and 2018 (Eurostat, 2018). With an average of 3,2% in 2018 (Czech Statistical Office, 2019), the low unemployment rate had two dominant impacts on the country's economy.

First of them is a rapid growth of average salary across all the country's industry segments and geographical regions. Figure no. 1 below clearly shows the relation between average gross wages growth and decreasing unemployment rate. While wages growth enables closure of the salary gap between the Czech Republic and its western neighbours, it has other impacts as well. The companies are being forced to transform their operations model – human labour is no longer such a strong competitive advantage on the European market. The shift from labour-intensive jobs to high value-added ones is a long-term process and requires extensive investments (Brynjolfsson, 2014).

This wage growth in Czechia does not correlate to an overall growth pace of wages across the EU. While the upward and downward trends due to economic and seasonal cycles are reflected in both lines. The Czech wage growth is up to 750% higher than the EU average (e.g. Q4 2016).

A synergy of both the low unemployment rate and salary growth makes the country attractive to a foreign workforce - as evident from statistics of non-Czech nationals registered by the Czech statistical office in graph no. 2 (CSU, 2019).

While the wage growth helps close the salary gap between the Czech Republic and Eurozone, there is no correlation between wages and productivity growth. This productivity factor also contributes to digital transformation in a long-term range (Ford, 2015).

THE CZECH DIGITAL ECONOMY READINESS IN THE EU CONTEXT

The Czech Republic scores above average in most ICT-related metrics measured by the Eurostat. The position of the country as a digital challenger is evident in an overall comparison of the following metrics:

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