

# Extending The Competitive Profile Matrix Using Internal Factor Evaluation And External Factor Evaluation Matrix Concepts

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## ABSTRACT

*Internal Factor Evaluation and External Factor Evaluation matrices allow an organization to visualize their strengths, weaknesses, opportunities, and threats while a Competitive Profile Matrix utilizes critical success factors to allow an organization to compare itself to other competitors. The authors wondered if substituting basic internal strengths and weaknesses categories, and external opportunities and threats classifications for the conventional CSFs in a forced ranking method could extend the Competitive Profile Matrix to allow additional strategic understanding. The goal of extending the Competitive Profile Matrix using the forced ranking of important organizational factors when evaluating an organization's relative competitive position against major competitors was successfully realized. An External Competitive Profile Matrix (ECPM) and an Internal Competitive Profile Matrix (ICPM) better draw awareness to internal and external categories that need an organization's attention.*

**Keywords:** Competitive Profile Matrix; Internal Factor Evaluation Matrix; External Factor Evaluation Matrix

## INTRODUCTION

There is always need to develop or expand any tool used in strategic decision-making. For that reason, our goal is to advance the traditional multi-matrix approach in strategic analysis. The benefit of using matrices in strategic management to help formulate effective strategies for managing organizations is generally unchallenged. The conventional matrices used in strategic analysis and planning provide valuable insight beyond financial analysis to help plan an organization's future competitive position.

The Internal Factor Evaluation (IFE) and External Factor Evaluation (EFE) matrices, the initial input matrices, are constructed as a result of an organization's internal and external audits. The IFE matrix summarizes an organization's major internal strengths and weaknesses, and the EFE matrix essentially is a synopsis of the external environment's major opportunities and threats and how they impact the organization. A Competitive Profile Matrix (CPM) uses critical success factors (CSFs), which include both internal and external factors, that most impact an organization and compares the organization to its major competitors on these CSFs. A CPM creates a powerful visual, as it conveys information regarding an organization's potential competitive advantage. The CPM displays the basis of an organization's strategy and is a useful instrument to communicate those strategic attributes to all in the organization (Bygrave & Zacharakis, 2010). While the CPM is a worthwhile tool for managers to use, it does have some potential limitations; CSF ratings are subjectively assigned a rating between 1 and 4, and non-uniformity may occur due to weights being assigned subjectively by the evaluators (Chang & Huang, 2006). Thus, the goal of the authors is to enhance the matrix approach in strategic analysis by extending a key matrix, the CPM, to provide more objective insight by using a forced ranking of organizations, and an evaluation against major competitors based on the internal and external factor categories, instead of the CSFs, thus mitigating the limitations inherent in the CPM. Let's review the IFE and EFE input matrices before extending the CPM to produce further strategic understanding.

An IFE matrix is the summary step of the internal audit of an organization. Major internal strengths and weaknesses are listed, weighted, and rated to derive a total weighted score based on a 1 to 4 metric rating scale where 2.50 represents how the average company in the industry is coping with its internal environment. Likewise, constructing an EFE matrix is the last step of an organization’s external audit. Major external opportunities and threats are listed, weighted, and rated to derive a total weighted score that is also based on a 1 to 4 metric rating scale where 2.50 represents how the average company in the industry is handling its external environment. The total weighted scores from the IFE and EFE matrices are often plotted on a nine-celled Internal-External (I-E) Matrix for more strategic advice, such as Grow and Build, Hold and Maintain, or Harvest and Divest.

The Competitive Profile Matrix allows a company to evaluate its relative competitive position against major competitors by using a weighting of an industry’s critical success factors and then rating major competitors on the listed critical success factors (David, 2012). The CPM features each CSF and displays the organizations’ strengths and deficiencies in these significantly important areas. Analyzing organizations in this manner is an effective way to evaluate many competitors in one framework to support an effective strategic plan (Fleisher & Bensoussan, 2003, 2007). Although the CPM is frequently utilized in business settings as part of the previously mentioned managerial toolkit, there is a dearth of academic research on the CPM. In their 2003 book, Fleisher and Bensoussan argue that analyses are not conducted systematically enough and much “conjecture” is left to the manager, potentially creating blind spots and an overall inadequate analysis, an argument mentioned previously by the authors. As a result, the authors wondered if substituting basic internal strengths and weaknesses categories, and external opportunities and threats classifications for the conventional CSFs could extend the CPM? And, would this two-step method, using the internal and external factor categories separately instead of using critical success factors, provide additional insight to facilitate strategic decision-making? The three hypothetical CPM matrices that follow illustrate the findings using this two-step approach.

A hypothetical example of a traditional CPM using customary CSFs and two similar hypothetical examples of an Internal Competitive Profile Matrix (ICPM) and External Competitive Profile Matrix (ECPM), based on using the internal and external categories approach, are contrasted in Tables 1 and 2. The new proposed approach to making a CPM using the internal and external factor categories separately, instead of using the critical success factors, adds strategic insight. Many times these adjustments to the CPM highlight an organization’s relative competitive position in its industry better by comparing major competitors on the basic internal and external factor categories. Let’s compare Companies 2 and 3 against Company 1 below using a CPM, ECPM, and ICPM:

**Table 1: Traditional Approach to Competitive Profile Matrix (CPM) for Four Companies**

| <u>Critical Success Factors</u> | <u>Weight</u> | <u>Company 1</u> |              | <u>Company 2</u> |              | <u>Company 3</u> |              | <u>Company 4</u> |              |
|---------------------------------|---------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
|                                 |               | <u>Rating</u>    | <u>Score</u> | <u>Rating</u>    | <u>Score</u> | <u>Rating</u>    | <u>Score</u> | <u>Rating</u>    | <u>Score</u> |
| Advertising                     | 0.20          | 1                | 0.20         | 4                | 0.80         | 3                | 0.60         | 3                | 0.60         |
| Product Quality                 | 0.10          | 4                | 0.40         | 3                | 0.30         | 2                | 0.20         | 2                | 0.20         |
| Price Competitiveness           | 0.10          | 3                | 0.30         | 2                | 0.20         | 4                | 0.40         | 1                | 0.10         |
| Management                      | 0.10          | 4                | 0.40         | 2                | 0.20         | 3                | 0.30         | 2                | 0.20         |
| Financial Position              | 0.15          | 4                | 0.60         | 2                | 0.30         | 3                | 0.45         | 3                | 0.45         |
| Customer Loyalty                | 0.10          | 4                | 0.40         | 3                | 0.30         | 2                | 0.20         | 3                | 0.30         |
| Global Expansion                | 0.20          | 4                | 0.80         | 1                | 0.20         | 2                | 0.40         | 1                | 0.20         |
| Market Share                    | 0.05          | 1                | 0.05         | 4                | 0.20         | 3                | 0.15         | 3                | 0.15         |
| <b>Total</b>                    | <b>1.00</b>   |                  | <b>3.15</b>  |                  | <b>2.50</b>  |                  | <b>2.70</b>  |                  | <b>2.20</b>  |

**Table 2: Externally Focused Competitive Profile Matrix (ECPM) for the Four Companies**

| <u>External Factors</u> | <u>Weight</u> | <u>Company 1</u> |              | <u>Company 2</u> |              | <u>Company 3</u> |              | <u>Company 4</u> |              |
|-------------------------|---------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
|                         |               | <u>Rating</u>    | <u>Score</u> | <u>Rating</u>    | <u>Score</u> | <u>Rating</u>    | <u>Score</u> | <u>Rating</u>    | <u>Score</u> |
| For Success             |               |                  |              |                  |              |                  |              |                  |              |
| The Competition         | 0.125         | 1                | 0.125        | 4                | 0.50         | 3                | 0.375        | 2                | 0.25         |
| Economic Impact         | 0.125         | 4                | 0.50         | 3                | 0.375        | 2                | 0.25         | 1                | 0.125        |
| Social-Cultural-Demo    | 0.125         | 3                | 0.375        | 2                | 0.25         | 4                | 0.50         | 1                | 0.125        |
| Political-Legal-Govt    | 0.125         | 4                | 0.50         | 1                | 0.125        | 3                | 0.375        | 2                | 0.25         |
| Natural Environment     | 0.125         | 4                | 0.50         | 2                | 0.50         | 1                | 0.125        | 3                | 0.375        |
| Technological Change    | 0.125         | 4                | 0.50         | 1                | 0.50         | 2                | 0.25         | 3                | 0.375        |
| Trends                  | 0.125         | 4                | 0.50         | 1                | 0.125        | 2                | 0.25         | 3                | 0.375        |
| Market Share            | 0.125         | 1                | 0.125        | 4                | 0.50         | 3                | 0.125        | 2                | 0.25         |
| <b>Total</b>            | <b>1.00</b>   |                  | <b>3.125</b> |                  | <b>2.75</b>  |                  | <b>2.25</b>  |                  | <b>2.125</b> |

Please note the differences between the CPM and ECPM before considering the Internally focused Competitive Profile Matrix (ICPM), which is similar to the ECPM. Recall, the ECPM uses only external factor categories and not critical success factors. An ECPM keeps the focus on the external factor categories. Also, the weights are equal to begin, but they may be changed to reflect the uniqueness of an industry. Likewise, an ICPM focuses on the internal factor categories of the organization. Each matrix, the ECPM and ICPM, allows analysts to focus on the industry’s internal and external factor categories separately for more in-depth comparison. The ECPM and ICPM forced ranking for competitive comparison uses a rating only once on each factor (such as 1, 2, 3 or 4), instead of more than once on a factor as is customary in a CPM.

The Internal Competitive Profile Matrix is created like the ECPM, except internal factor categories replace the external ones. Consequently, the weightings, the metric ratings ranking, and calculations are the same. Note the example of Company 3. Company 3 ranks second in a traditional CPM, Company 3 ties Company 1 for first on an ICPM, but Company 3 ranks a distant third on the ECPM. Hence, further strategic analysis should probably focus on improving Company 3’s specific external environmental factor categories, which is useful to know. In Table 3, note Company 2’s positions using an ECPM and ICPM in addition to a CPM. See how the new method better focuses attention on important internal categories needing attention in Company 2?

**Table 3: Internally Focused Competitive Profile Matrix (ICPM) for Four Companies**

| <u>Internal Factors</u> | <u>Weight</u> | <u>Company 1</u> |              | <u>Company 2</u> |              | <u>Company 3</u> |              | <u>Company 4</u> |              |
|-------------------------|---------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
|                         |               | <u>Rating</u>    | <u>Score</u> | <u>Rating</u>    | <u>Score</u> | <u>Rating</u>    | <u>Score</u> | <u>Rating</u>    | <u>Score</u> |
| For Success             |               |                  |              |                  |              |                  |              |                  |              |
| Management Team 0.10    | 1             | 0.10             | 4            | 0.80             | 3            | 0.60             | 2            | 0.20             |              |
| Org Structure/Culture   | 0.10          | 4                | 0.40         | 3                | 0.30         | 2                | 0.20         | 1                | 0.10         |
| Distinctive Competency  | 0.10          | 3                | 0.30         | 2                | 0.20         | 4                | 0.40         | 1                | 0.10         |
| Competitive Advantage   | 0.10          | 4                | 0.40         | 1                | 0.10         | 3                | 0.30         | 2                | 0.20         |
| Operations              | 0.10          | 4                | 0.40         | 2                | 0.30         | 1                | 0.10         | 3                | 0.30         |
| Marketing               | 0.10          | 4                | 0.40         | 1                | 0.10         | 2                | 0.20         | 3                | 0.30         |
| Human Resources         | 0.10          | 4                | 0.40         | 1                | 0.20         | 2                | 0.30         | 3                | 0.30         |
| Finance & Accounting    | 0.10          | 1                | 0.10         | 4                | 0.20         | 3                | 0.30         | 2                | 0.20         |
| Information Tech/Sys    | 0.10          | 3                | 0.30         | 1                | 0.10         | 2                | 0.20         | 4                | 0.40         |
| R&D                     | 0.10          | 2                | 0.20         | 3                | 0.30         | 4                | 0.40         | 1                | 0.10         |
| <b>Total</b>            | <b>1.00</b>   |                  | <b>3.00</b>  |                  | <b>2.60</b>  |                  | <b>3.00</b>  |                  | <b>2.20</b>  |

The strategic picture becomes a little sharper using ECPM and ICPM techniques in addition to a CPM as it helps focus on basic areas that need improvement. This small change to the CPM better highlights specific factor categories that probably need current attention. Furthermore, the total weighted scores from the ECPM and ICPM can also be plotted on an Internal-External (I-E) Matrix to graphically provide greater depth of awareness. When plotting ECPM and ICPM total weighted scores, instead of each company’s individual IFE and EFE total weighted

scores, on the I-E matrix a competitive forced ranking overlays the process and produces more understanding that can be advantageous. The ECPM and ICPM add two more useful tools to strategic analysis.

## **CONCLUSION**

Our conclusion is simple and straightforward. The goal of extending the Competitive Profile Matrix to provide further strategic understanding through the use of a forced ranking of important organizational factors when evaluating an organization's relative competitive position against major competitors was successfully realized. An External Competitive Profile Matrix (ECPM) and an Internal Competitive Profile Matrix (ICPM) better draw awareness to internal and external categories that need attention. Thus, the use of the matrix approach for strategic analysis is improved by this extension to the Competitive Profile Matrix (CPM). Even if just one more issue is correctly identified for improvement, then it is well worth the extra effort; consequently, an ICPM and ECPM should be included in strategic analysis. The recommendation is that strategists incorporate an ECPM and ICPM into their strategic analysis and planning to help improve their organization's future competitive position.

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