

RELATIONSHIP BETWEEN MISSION STATEMENT AND COMPANY PERFORMANCE

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Abstract:

Mission statement is a managerial tool which has the power of directing the behaviour in a company. The important question we can ask is whether the existence of a mission statement is associated with company performance or not. Findings of different studies exploring this relationship are not very conclusive. In our research based on a sample of 394 Slovenian companies we explore the relationship between the existence of a mission statement on one side, and different measures of company performance on the other. We recognised value added per employee (VAE) as the only performance measure associated with existence or non-existence of a mission statement.

Keywords: company mission, mission statement, company performance.

1. INTRODUCTION

Managers consider mission statement as one of the most important managerial tools (Bart et al., 2001; Bartkus et al., 2000). They are of the opinion that it gives focus and encourages strategy implementation, improves organisational climate, internal or external communication, and improves management and leadership in a company (Musek Lešnik, 2008; Stallworth Williams, 2008). In spite of managers' and researchers' great expectations regarding the possible mission statements' effects, there are quite some confusion and even contradictions in research focused on exploring the relationship between company performance and the existence of mission statement in a company.

In the paper we will first define mission statement and its expected role in a company, and then we will describe key measures of company financial performance. In the empirical part of the paper we will present findings of our quantitative research focused on mission statements of Slovenian companies. Since Slovenia is a typical Central European country, a member of the European Union (EU) and European Monetary Union with an average level of success it can be considered as a good choice for our study. In our study we explore the relationship between company performance and mission statement existence. We are going to focus only on relevant measures of financial performance and ignore other (non-financial) measures of company performance.

2. MISSION STATEMENT

2.1. Definition of a mission statement

Mission statement answers two basic questions stakeholders might ask about a company: who the company is and what the company does (Falsey, 1989). It defines the scope of company's operations and distinguishes the company from similar ones (David, 1993). But as Stallworth Williams (2008) notes, there are more issues which might be addressed in a mission statement. In literature, for example, mission statement is referred to also as a »credo«, «philosophy» or even company's »core values«. Sufi and Lyons (2003) state that mission statement may convey a company's reason for being, outlining where it is headed and planning, how it will get there.

Drucker (1971) links mission statement to business objectives and defines it as a precursor to »clear and realistic business objectives«. Sufi and Lyons (2003) note that historically a company is regarded as an economic entity with profit maximisation as the key business objective. This objective is tightly related to interests of company's owners. On the other hand, the stakeholder theory (Freeman, 1994) claims that business objectives should be configured to account interests of other stakeholders as well. As some researchers argue, company mission statement should also address interests of «management, employees, customers or clients, shareholders, and other residents of the communities, countries, and world where it does business» (Stallworth Williams, 2008, p. 96). Nevertheless, some authors think that the best mission statements simply define company's business and suggest future products and market objectives. (Bartkus et al., 2000).

Even though strategic management distinguishes between vision and mission statements, many companies confuse them and put them together in the same statement (Sufi & Lyons, 2003). As company's vision statement may describe desirable and possible future state or long term aims of a company and is also a backdrop of a purpose and company's strategy, it

affects key priorities and behavioural standards in a company. So it seems that besides key priorities, a mission statement may address values and beliefs as well (Falsey, 1989; Collins & Porras, 1991; Ireland & Hitt, 1992). Organisational values, which are often included in a vision or mission statement (Hussey, 1998), are “small sets of general and guiding principles that are not to be confused with the specific cultural or operating practices” (Sufi & Lyons, 2003). Stallworth Williams (2008) adds that values often stem from company's founders. Sufi and Lyons (2003), relating to their literature analysis, conclude that mission statements include broader elements like purpose, strategy, value and behavioural standards. Purpose together with organisational values define philosophy or core ideology of a company, which can be defined as a rich system of values and beliefs about a company, shared by its members, that distinguishes it from other companies (Mintzberg & Quinn, 1996).

Campbell and Tawadey (1992, in Sufi & Lyons, 2003) note that “mission statement is made real only when it affects the behaviour and guides the peoples’ actions”. In accordance with this, Bartkus et al. (2000) narrow the focus of a mission statement and see it only as a communication tool. They are of an opinion that the companies should narrow the purpose of a mission statement to that of »realistically communicating product and market objectives to stakeholders«. This results in development of behavioural standards, which are company’s rule of a thumb – “the way we do things around here” (Sufi & Lyons, 2003).

2.2. The role of a mission statement in a company

In Bain & Company 1996 research (Bart et al., 2001) managers perceive mission statements as one of the most important managerial tools, while in Bain & Company 2003 worldwide Management Tools Survey (Rigby, 2003) values and mission statements rank among top managerial tools. In one more recent study (Iseri-Say et al., 2008) no less than 84 % of managers cite mission statements among the most important management tools they have adopted. Different studies have found that up to 85 % of Western profit oriented companies have their missions written in a form of a statement (Desmidt & Heene, 2006) while in Slovenia a recent study finds mission statements reported in 44 % of top performing firms’ annual reports (Biloslavo & Lynn, 2007).

It seems that managers, practitioners and also researchers consider that clearly stated company missions are important management tools since many companies explicitly write them in a form of statements. They expect a variety of possible implications of the creation and introduction of a mission statement. Different authors (for detailed list see Musek Lešnik, 2008) list numerous roles of such statement in a company which might be related to improvement of company’s present and future situation. Some key mission statement roles related to e.g. strategy implementation, internal and external communication, management and leadership, and organisational climate influences are presented in table 1. Accordingly, we can expect that mission statement relates to company performance as well.

Table 1: Key roles of mission statements in companies

Strategy implementation
<ul style="list-style-type: none"> – putting processes in a company in perspective – assuring tradition and stability during changes – providing a rationale for allocating resources
Internal and external communication
<ul style="list-style-type: none"> – stimulating internal and external organizational communication – serving as an effective public relations tool – informing employees about the company’s goals and unifying their efforts toward accomplishing them
Management and leadership
<ul style="list-style-type: none"> – directing behaviour – improving individual and collective performance – enabling valuation of different actions and behaviour – guiding current, critical, strategic decision making – helping to save the time – asserting leadership
Organisational climate
<ul style="list-style-type: none"> – positively influencing organizational culture and climate – tightening interpersonal links in a company – strengthening the sense of unity and belonging – influencing employee satisfaction and commitment – reducing uncertainties for employees – reducing doubts, frictions and ambiguities – inspiring enthusiasm about the company – clarifying priorities and vague, undefined and even conflicting issues in a company – helping to prevent unconstructive and damaging processes

Source: Musek Lešnik, 2008; Stallworth Williams, 2008.

3. COMPANY PERFORMANCE

There are some important objective indicators one can use to measure financial performance of a company. Return on Equity (ROE) measures a company’s profitability by revealing how much profit a company generates with the money shareholders have invested. Return on Assets (ROA) is an indicator of how profitable a company is relative to its total assets and it also gives an idea of how efficient management is at using company’s assets to generate earnings. On the basis of DuPont model, we can assume that there is a positive influence of company’s productivity on its performance as well because productivity, *ceteris paribus*, influences ROE (Igličar & Hočevár, 1997). Gorenak and Pagon (2006) note that VAE is also an important objective measure of company performance, because nowadays, the difference between successful and unsuccessful companies is not only a matter of their products, services or technology, but also of some other factors lying behind them. In contrast to profit, which is defined as positive difference between revenues and expenses, value added is defined as an increase in market value and is a consequence of higher products’ or services’ quality.

Škerlavaj et al. (2007), on the other hand, note that the indicators measuring company performance should be much more than just the profit, value added or some other financial

measure. They are of the opinion that the aspects of all the shareholders (employees, buyers, suppliers) should be taken into consideration as well. Besides, company performance can be evaluated either on the basis of objectively measured data or on the basis of subjective perceptions of managers or some external experts (Venkatraman & Ramanujam, 1987), and also by the means of making comparison with similar companies, or comparisons within specific time intervals.

We base our study only on financial performance. Variables we use as measures of company performance are average values of ROE, ROA, and VAE for the years from 2004 to 2009, and average value of yearly increases in revenues in percentages for the same years (δR).

4. RELATIONSHIP BETWEEN COMPANY PERFORMANCE AND MISSION STATEMENT

Research investigating relationship between mission statement and company performance is rare and its findings in most cases not very conclusive (Bart & Baetz, 1998; Bart et al., 2001; Peyrefitte & David, 2006). For example, three studies (Bart & Baetz, 1998; David, 1989; Klemm et al., 1991) find no difference in financial performance between companies with and without mission statements. Two studies (Rarick & Vitton, 1995; Stone, 1996) show that companies with mission statements perform better, but these studies offer only anecdotal evidence. Smith et al. (2003) highlight some studies reporting that after the creation and introduction of mission statement, company performance increases for about 50 %. Musek Lešnik (2008) summarizes that (1) better performing companies have better, clearer and stronger mission and vision statements, and (2) process of identification of organisational values is positively related with performance of a company.

Some studies focusing on a process of mission statements' or their components' creation and communication, confirm the importance and impact of a companywide debate about company's fundamental issues on its performance, and a link between company's identity and reflection about the future performance (Bart, 1997; Bart & Baetz, 1998; Bart et al., 2001; Kantabutra & Avery, 2002). Study by Deloitte & Touche (Marzec, 2007) finds that companies, which communicate their business strategies, achieve on average 43 % higher market to book ratio comparing to the ones which don't communicate their strategies at all. Gallup's study (Marzec, 2007) notes, that companies which provide employees with insight into key organizational issues improve their market value on average for almost 5 %. Besides, study done by Voss et al. (2006) points out that the uncertainty or disagreement about the central issues of a company reflects in lower personal income and poorer sales results.

5. RESEARCH AND ANALYSIS OF DATA

5.1. Research methodology

In 2011 we conducted a research with which we analysed mission statements and their contents of randomly selected 394 Slovenian companies listed in PIRS which is one of the major sources of business data in Slovenia. Companies were initially classified according to the number of the employees into four clusters. Thresholds were set to 50, 120 and 250 employees. Inside each cluster a simple random sampling was used to select 100 companies and therefore keep the size of the analyzed entities within bearable limits. All of these companies have their own worldwide web pages which we can consider as an important

communication tool. For each company in the sample mission statement was searched on its web pages. The vast majority of mission statements were written in Slovenian language.

The research sample was comprised of 22 companies with less than 10 employees, 116 companies with 10 to 49 employees, 158 companies with 50 to 249 employees and 66 companies with 250 employees or more. 149 companies (38 %) had explicitly and 74 companies (19 %) implicitly written mission statements; on the other hand, for 171 companies (43 %) we could not find any mission statement contents on their world web pages. The frequency of the mission statements existence is somehow consistent with the findings of Biloslavo and Linn (2007).

Besides, we added information about company financial performance – average values of ROE, ROA, and average value of VAE for the years from 2004 to 2009, and average δR in percentages for the same years. The financial data was gathered from commercial portal iBon which is one of major sources of the data about companies' financial performance in Slovenia.

Statistical calculations were performed with the SPSS statistical software package. We based our study on χ^2 tests. With the latter we have explored the links between company performance measures on one side and mission statement existence on the other.

5.2. Links between company performance and mission statement

New variables have been introduced for each of the variable measuring company performance (VAE, ROA, ROE, δR). We introduced scale variables with 4 possible values (1 for the worst performing companies and 4 for the best performing companies). The values have been calculated on the bases of quartiles as a set of values that divide the data set into four equal groups, each representing a fourth of the population being sampled.

In the next step of the analysis we explored whether there are significant performance differences between companies with explicitly or implicitly stated missions and companies without them. We conducted χ^2 test since we used discrete variables (Fields, 2005). Our analysis has revealed only one statistically significant association between the variables – the association between the existence of explicit or implicit mission statement and VAE ($\chi^2(3) = 12.29$, $p < 0.01$, Cramer's $V = 0.18$). The value of Cramer's statistics representing the association effect size was 0.18 which shows relatively weak to medium association between the variables. As it can be seen on table 2 companies with mission statements are more likely to have higher average VAE than the ones without them. For example, high performing companies (grade 4) are 2.73 times more likely to have implicit or explicit mission statement than the low performing companies (grade 1).

Table 2: Crosstabulation - existence of a mission statement and average VAE

Company performance measure		Existence of a mission statement in a company		Total
		No	Yes	
Average VAE**	1	52	44	96
	2	47	50	97
	3	41	55	96

	4	29	67	96
Total		169	216	385

** 1-very low, 2-low, 3-high 4-very high.

6. DISCUSSION AND CONCLUSIONS

In our study we recognise statistically significant difference between the companies with implicitly or explicitly stated missions and companies without them with the regard to only one measure of a company performance – VAE. All other relationships between the existence of mission statement and other measures of company performance (ROA, ROE, δR) are weak and statistically non-significant. This is quite an important recognition since many opposing findings may be found in the literature on this topic. VAE is a key performance measure related to interests of many company's stakeholders. Namely, a company not only plays an important role in generating profits, which are in interest of the owners, but also has an important social role (Buležan, 2008). Growth in VAE is an evidence of a company concerned for the welfare of a society. Only a successful company is able to provide jobs to people, the country to pay benefits, and equity investors and lenders will allow the award of the risks associated with their investments in the company. On the bases of our research, we can conclude that the development and the existence of a mission statement and its communication across and beyond companies' borders might lead to increase of VAE in a company and through this also to important social benefits. Therefore additional effort should be put into developing mission statements and into incentives and knowledge resources to do this. Needed support should be offered also by educational institutions and other state institutions.

Further research should be done in the area of mission statement components and their relationships with company performance as well. Besides, quantitative data might be supplemented by qualitative data gathered with the help of interviews in high performing companies with mission statements. These interviews might give more in depth information about the development and communication of mission statements in Slovenian companies. Namely, communication and not only the existence seem to be important vehicle leading to company performance.

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