
THE STRATEGIC PLANNING PROCESS: THE LINK BETWEEN MISSION STATEMENT AND ORGANIZATIONAL PERFORMANCE

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ABSTRACT

The strategic planning process requires development of a mission statement for the organization. The mission statement incorporates the organization's purpose and vision for the future. A 9-item mission statement evaluation scale was developed to measure the completeness and quality of an organization's mission statement. Further, the link between the completeness and quality of an organization's mission statement and the organization's financial performance was investigated. Results indicate a significant, positive relationship between the completeness and quality of the mission statement and the organization's financial performance. Strategic managers can expect that the result of improving their organization's mission statement will be improved financial performance.

INTRODUCTION

Senior capstone courses in Business Policy or Strategic Management are required in virtually every undergraduate (and graduate) business program. Strategic management texts used in these courses tout mission statements that articulate a firm's mission as critical elements of a company's overall strategic management process. They are championed as important mechanisms to provide crucial information to internal and external stakeholders about the purpose and direction of the organization. Instructions are provided in ways to properly develop, craft, and write mission statements. Distinctions are regularly made between "quality" mission statements versus those that lack "quality." However, despite this focus, little if anything is discussed concerning the impact mission statements have on performance outcomes. This study is designed to investigate whether the quality and completeness of a firm's mission statement has a positive influence on various organizational performance outcomes.

REVIEW OF THE LITERATURE

Strategic management texts include a process of strategic management that incorporates mission as one of the vital tasks in the strategic planning process (Thompson & Strickland, 2001;

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Hill & Jones, 2000; Wheelen & Hunger, 2000). In addition, mission statements are presented as important tools for communicating the mission to internal and external stakeholders.

A number of definitions of mission statements exist. Bart and Tabone (1998), Rigby (1998), and Drohan (1999) all provide definitions that essentially say that mission statements should reflect an organization's purpose and the means by which that purpose will be accomplished. Pearce (1982) states that the mission statement should include the ultimate aims of the firm thus providing unity of direction for managers, shared expectations by employees, and a projection to customers of what the firm provides and represents. Calfee (1993) says that mission statements answer the questions of what business the firm is in, what its objectives are, and how the company will win. This will ensure that all managers understand their role in executing the mission.

Research studies attempting to link mission statements to organizational performance have been conducted. Pearce and David (1987) compared mission statements of higher financial performing Fortune 500 firms to those of lower financial performing companies. Higher performing organizations "prepared written statements for public distribution giving special attention to their corporate philosophy on the firm's 1. basic beliefs, values, aspirations, and priorities, 2. desired public image, and 3. self-concept, including competitive strengths." Mission statements are often customer-focused. Germain and Cooper (1990) found that firms that have customer service missions are more likely to seek input from customers and are also more likely to develop and maintain customer service measures. Also, customer service activities by the company are more likely to be monitored by firms with customer service mission statements. Forehand (2000) studied firms within the healthcare industry and concluded that, within this particular industry, "solid mission statements can improve the performance of managers, employees, and the healthcare organization."

A number of studies, however, concluded that there was no evidence to support the idea that mission statements are positively related to company performance. Bart and Baetz (1998) found no empirical evidence to support the concept that outstanding organizational performance is related to a firm's mission statement—even though they concluded that some specific characteristics of a mission statement may be selectively related to higher levels of performance. The impact of planning sophistication and implementation on firm performance was investigated by Hahn and Powers (1999). Development of a mission statement was one determinant of planning sophistication. It was determined that high levels of sophistication (of which mission statements were a part) did not have an impact on organizational performance. O'Gorman and Doran (1999) replicated Pearce and David's 1987 study using small and medium-sized Irish firms. Results do not support the findings of the earlier study. It was concluded that organizational performance was not positively correlated with mission statements.

Because the results of these previous studies are conflicting, it is necessary to further investigate the link between mission and performance. This study was designed for that purpose. Generally, it is proposed that the completeness and quality of an organization's mission statement has a significant, positive relationship on an organization's financial performance.

METHOD

Measurement scales were developed for the purpose of scoring the quality and completeness of an organization's mission statement and its degree of organizational performance. The mission scale includes nine criteria derived from Wheelen and Hunger's (2000) discussion of mission statements. The nine criteria include: 1) purpose, 2) services and/or products, 3) competitive advantage, 4) scope of operations, 5) philosophy, 6) vision, 7) sense of shared expectations, 8) public image and 9) emphasis on technology, creativity and innovation. The organizational performance scale includes eleven performance criteria derived from the CNNfn.COM Evaluator Summary. The eleven performance criteria include: 1) revenue, 2) net income, 3) cash flow, 4) return on equity, 5) return on assets 6) return on invested capital, 7) total debt to equity, 8) long-term debt to equity, 9) price/earnings ratio, 10) price/sales ratio and 11) price/earnings/growth ratio. Each of the mission related items required response to a 1 to 7 Likert scale anchored with "strongly disagree (1)" and "strongly agree (7)." Each of the performance related items required response to a 1 to 5 Likert scale anchored with "weaker (1)" and "stronger (5) than the industry average". The Mission/Performance Survey Form that incorporates the two scales is presented in Appendix A.

Business students enrolled in senior level strategic management courses were trained to review organization mission statements and organizational performance using the survey form. The students were instructed to review mission related information on the Internet sites of individual companies and to assess organizational performance using information provided at a CNNfn site. A total of 340 observations were taken. Information was analyzed for a total of 162 different companies. Fifty-three of the companies were observed multiple (two or more) times. All companies were listed on one of the major U.S. stock exchanges.

The resulting data set was factor analyzed to identify the primary components of the mission and performance scales, to determine the most efficient set of items for each component and to assess the reliability of each component scale. Correlation and regression analysis were performed to identify the type and strength of the relationships among the mission and performance components. For purposes of the correlation and regression analysis scale and subscale values were computed as means of the respectively included items.

RESULTS

Results of the factor, correlation and regression analyses are included in this section. The MISSION scale factored into two primary components each with a relatively high internal reliability. The PERFORMANCE scale factored into four primary components with high reliability exhibited by three of the four. Correlation and regression analyses indicated that the relationship between mission and performance is significant and positive. The relationship is, however, relatively weak. Factor analysis of the mission related variables identified two primary components

- PURPOSE and VISION. The PURPOSE component is comprised of four items: 1) organizational purpose, 2) organizational products, services and markets, 3) organizational competitive advantage and 4) the organization's scope of operations. The VISION component is comprised of five items: 1) organizational philosophy, 2) organizational vision, 3) sense of shared expectations, 4) positive public image, and 5) emphasis on technology, creativity and innovation.

Table 1 includes results of the factor analysis on the MISSION scale. Principle component analysis with a varimax rotation was specifically used to perform the factor analysis. Internal reliability for the MISSION scale (all nine items) was assessed at .87 using Cronbach's Alpha. Alphas of .82 and .81 were computed for the PURPOSE and VISION components, respectively.

TABLE 1: Rotated Component Matrix for MISSION Scale: Factor Loadings		
Component/Items	Factor 1	Factor 2
PURPOSE (Cronbach's Alpha = .82)		
Purpose (PUR)	.397	.673
Service and Products (PRO)	.106	.882
Competitive Advantage (CA)	.496	.582
Scope of Operations (SCO)	.165	.848
VISION (Cronbach's Alpha = .81)		
Philosophy (PHI)	.711	.231
Vision (VIS)	.759	.109
Shared Expectations (EXP)	.825	.153
Public Image (IMA)	.720	.348
Technology Emphasis (TEC)	.508	.425

Table 2 includes results of the factor analysis done on the PERFORMANCE scale. Principle component analysis with varimax rotation was specifically used to perform the factor analysis. It was necessary to exclude the items related to revenue and price/earnings/growth from the PERFORMANCE scale since neither item loaded strongly on any factor and inclusion of either item resulted in significant reduction in alpha values. Internal reliability for the reduced overall PERFORMANCE scale was assessed at .69 using Cronbach's Alpha. Alphas of .94, .93, .82 and .33 were computed for the RETURN, DEBT, CASH and PRICE components, respectively.

A potential problem associated with use of the new mission scale is that of rater reliability. Fifty-three of the companies in the sample were rated multiple times. Each of the multiple ratings

was assessed for reliability using Kendall's Coefficient of Concordance. Kendall's W scores ranged from .101 to .905 with a weighted average of .369. These low inter-rater reliability scores indicate potential problems with interpretation of the results of this study.

Correlation analysis was performed to identify the type and strength of the relationships among the overall scales (MISSION and PERFORMANCE) and the scale components (PURPOSE, VISION, RETURN, DEBT, CASH and PRICE). The relation between the MISSION and PERFORMANCE is positive ($R=.199$) and is significant at the .001 level. PURPOSE and VISION, components of the MISSION scale, were found to be positively and strongly correlated ($R=.621$). The PURPOSE component was found to be significantly related (positively) to RETURN and DEBT. The VISION component was significantly related (positively) to RETURN and CASH. Table 3 presents the correlation matrix for the scales and components.

TABLE 2: Rotated Component Matrix for PERFORMANCE Scale: Factor Loadings				
Component/Items	Factor 1	Factor 2	Factor 3	Factor 4
RETURN (Cronbach's Alpha = .94)				
Return on Equity (ROE)	.948	-.048	.080	-.069
Return on Assets (ROA)	.913	.225	.117	.015
Return on Invested Capital (ROIC)	.937	.146	.102	-.027
DEBT (Cronbach's Alpha = .93)				
Total Debt to Equity (TDE)	.114	.963	.027	-.079
Long-Term Debt to Equity (LTDE)	.123	.962	-.054	-.064
CASH (Cronbach's Alpha = .82)				
Net Income (NI)	.120	-.017	.902	.002
Cash Flow (CF)	.104	-.007	.907	.036
PRICE (Cronbach's Alpha = .33)				
Price/Earnings Ratio (PE)	.122	-.080	-.049	.801
Price/Sales Ratio (PS)	-.187	-.041	.134	.744

To further assess the relationships among the MISSION and PERFORMANCE scales and scale components, regression analyses were performed. In all cases, the MISSION scale or scale components (PURPOSE and VISION) served as independent variables and the PERFORMANCE scale and components (RETURN, DEBT, CASH and PRICE) as dependent variables. Initially, the

impact of MISSION on PERFORMANCE was analyzed. A statistically significant relationship was found ($R=.199$, $R^2=.040$, ANOVA significance level = .000). PURPOSE and VISION were then regressed against each of the PERFORMANCE components. Each time one of the independent variables was found not to be significant to the model. Statistically significant equations were ultimately identified for RETURN and PURPOSE, DEBT and PURPOSE, and CASH and VISION. Regressions with the PRICE variable did not produce statistically significant results. Table 4 displays results of the regression analyses.

TABLE 3: Correlation Matrix for Scales and Components

	MISS	PERF	PURP	VISI	RET	DEBT	CASH	PRICE
MISS	1.000							
PERF	.199**	1.000						
PURP	.865**	.185**	1.000					
VISI	.931**	.176**	.621**	1.000				
RET	.152**	.748**	.158**	.122*	1.000			
DEBT	.100	.503**	.118*	.070	.206**	1.000		
CASH	.095	.576**	.054	.110*	.197**	.007	1.000	
PRICE	-.059	.108	-.073	-.039	-.092	-.145**	.021	1.000

*, ** indicate statistical significance at the .05 and .01 levels, respectively

TABLE 4: Regression Results

Dependent/ Independent	ANOVA			
	R	R ²	F-signif	Equation
PERF/MISSION	.199	.040	.000	PERF=4.031+.342*MISSION
RET/PURPOSE	.158	.025	.004	RET=3.020+.184*PURPOSE
DEBT/PURPOSE	.118	.014	.033	DEBT=2.904+.135*PURPOSE
CASH/VISION	.110	.012	.046	CASH=2.347+.126*VISION

Regressions including the variables MISSION, PERFORMANCE, PURPOSE, VISION, RETURN, DEBT and CASH indicate the expected positive relationship and the relationships were found to be statistically significant. Equations including the variable PRICE were not found to be

statistically significant. It should be noted that the PRICE component exhibited relatively low internal reliability (Cronbach's Alpha = .33). While the coefficients for the independent variables in all but the PRICE equation were significantly different from zero, it should also be noted that the relationships between the independent and dependent variables were not particularly strong.

The correlation and regression analyses reveal the expected positive relationships among the mission and performance related variables. Only the performance related variable PRICE was not found to be significantly related to the mission variables. It should be noted that while the internal reliability of the mission statement scales was assessed as relatively low the inter-rater reliability was assessed at a relatively low level.

CONCLUSIONS

The strategic planning process calls for careful development of an organizational mission statement, the setting of related objectives, thorough planning, capable implementation and follow-up to determine whether or not the objectives were accomplished according to plan and whether or not the mission was realized. Construction of the mission statement is described as critical to the overall success of the organization since all other activities flow from it.

This study aimed to investigate this hypothesized positive link between the mission statement and organizational performance. The MISSION scale was factored into two internally reliable and theoretically founded components PURPOSE and VISION. The PERFORMANCE scale was factored into four components RETURN, DEBT, CASH and PRICE. Only the RETURN, DEBT and CASH components exhibited internal reliability. The mission related variables were found to be positively related to the performance related variables. While the relationships were discovered to be statistically significant, they were not relatively strong. Generally, it is concluded that the completeness of an organization's mission statement does positively impact the organization's performance.

The relative weakness of the relationship, however, indicates that other independent variables should be considered. A planned extension of this study will include measures of the other major components of the strategic planning process: 1) objective setting, 2) planning, 3) implementation and 4) follow-up capabilities. An additional weakness is indicated by the relatively low inter-rater reliability score for the mission statement scale. Further assessment of the scale's reliability is required.

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APPENDIX A	
Organization:	
MISSION STATEMENT EVALUATION SCALE	
Characteristics of Mission Statements	
Based on a thorough review of the organization's mission statement, circle the number that best represents your agreement with each of the following statements.	
The purpose or reason for the organization's existence is clearly identified.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
The services and/or products provided society is clearly identified.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
The fundamental, unique competitive advantage that sets the company apart from other firms of its type is clearly identified.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
The scope of the company's operations in terms of products and services offered and markets served is clearly identified.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
There is a clear description of the firm's philosophy about how it does business and treats its customers.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
There is a clear description of what the organization wants to become.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
The statement promotes a sense of shared expectations in employees.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
The statement communicates a positive public image to important stakeholder groups.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
The importance of factors such as technology, creativity and innovation is emphasized.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
Total the scores on each question and divide by 9 to compute an overall score for the organization's mission statement. Then, divide the overall score by 7 and multiply it by 100 to compute the overall percentage score.	
Overall Score = _____	Overall percentage = _____

ORGANIZATIONAL PERFORMANCE EVALUATION SCALE		
Characteristics of organizational performance (CNNfn Evaluator Summary)		
Please access the summary page of the CNNfn Evaluator (provided by Intuit with data from Media General Financial Services).		
Growth Rates and Return		Company vs Industry Ranking (1-year)
1.	Revenue	Weaker 1 2 3 4 5 Stronger
2.	Net Income	Weaker 1 2 3 4 5 Stronger
3.	Cash Flow	Weaker 1 2 3 4 5 Stronger
4.	ROE	Weaker 1 2 3 4 5 Stronger
5.	ROA	Weaker 1 2 3 4 5 Stronger
6.	ROIC	Weaker 1 2 3 4 5 Stronger
Trailing 12-months Comparison		
7.	Total Debt to Equity	Weaker 1 2 3 4 5 Stronger
8.	Long-term Debt to Equity	Weaker 1 2 3 4 5 Stronger
9.	P/E ratio	Weaker 1 2 3 4 5 Stronger
10.	P/S ratio	Weaker 1 2 3 4 5 Stronger
11.	PEG	Weaker 1 2 3 4 5 Stronger
Total the scores on each question and divide by 11 to compute an overall score for the organization's mission statement. Then, divide the overall score by 5 and multiply it by 100 to compute the overall percentage score.		
Overall Score = _____		Overall percentage = _____