Pergamon

European Management Journal Vol. 24, No. 1, pp. 86–94, 2006

Printed in Great Britain
doi:10.1016/j.emj.2005.12.010
0263-2373 $32.00

Mission Statement Quality and Financial Performance

BARBARA BARTKUS, *Old Dominion University*
MYRON GLASSMAN, *Old Dominion University*
BRUCE McAFEE, *Old Dominion University*

Mission statements are widely considered to be important to business success. This paper reports on the relationship of mission statement quality (based on the inclusion of stakeholders, components, and the meeting of objectives) to financial performance. Our findings indicate that most elements in mission statements are not associated with firm performance. Mission statements that include phrases that refer to what many may view as the fundamental rules of business have a significant positive relationship with financial performance: be concerned with your employees, be responsible to the society in which you do business, and emphasize and communicate your value system.

Keywords: Missions, Mission Statements, Financial Performance, Mission Statement Content

Introduction

For years, academic and practitioner publications have stressed the importance and value of clearly defined public mission statements (eg., see Bailey 1996; Ireland & Hitt 1992). Still puzzling, however, is why a *public mission statement* is valuable or useful and what content makes a mission statement ''effective.'' Admittedly, firms need to develop a strategy and establish clear goals and objectives, but the benefits of condensing and/or publicizing the firm's strategy in a mission statement is not fully understood.

In fact, there is some evidence that having a mission statement has little or no impact on a firm's financial performance. No significant differences were found in David's (1989) study comparing financial variables for firms with and without mission statements. Inconsistent relationships between financial performance measures and the existence of a formal mission statement were found by Bart and Baetz (1998). Other studies show limited and conflicting evidence linking mission statements to any important financial variable (see Bart 1997a; Bart & Baetz 1998; Bart & Hupfer 2004; Bart & Tabone 1999; Coats *et al.*, 1991; O'Gorman & Doran 1999; Pearce & David 1987).

Although there is a lack of evidence that having a mission statement is associated with financial performance, some elements of mission statements have been touted as important. The literature on this issue takes one of three perspectives. The first focuses on the *stakeholders* mentioned in mission statements (e.g., Bart 1997b; Leuthesser & Kohli 1997). The second examines the specific *components* included in these statements (Bart 1997a; Botterill 1990; David 1989; Ireland & Hitt 1992; Pearce & David 1987; Sufi & Lyons 2003). The third view emphasizes the *purpose* or objectives of a mission statement (e.g., Bartkus, Glassman & McAfee 2004; Ireland & Hitt 1992).

Each of these three perspectives is a measure of the quality of a mission statement. In this study, we examined the relationship between each quality measure (perspective) and firms' financial performance. Whereas most prior studies examined mission statements of only one country's firms, we examined those of U.S., European, and Japanese firms.

Our paper is organized into three main sections. In the first section, we introduce our theoretical framework, discuss the existing literature, and present our hypotheses. Next, our methodology and results are presented. Finally, we discuss the implications of our findings.

Theoretical Development

Stakeholders Mentioned in Mission Statements: Quality Measure #1

Over 30 years ago, Drucker (1974) recommended that firms develop missions. Over time, the mission evolved from an internally focused summary of the firm's strategy to a more lengthy proclamation. Firms also began to include their relationship with stakeholder groups in their mission statements as executives recognized the importance of stakeholder management (See Donaldson & Preston 1995). Eventually, the practice of developing a mission statement and defining the stakeholder-organization relationship evolved into a public disclosure of the mission to all stakeholders.

Research indicates that, indeed, firms do refer to stakeholders in their public mission statements. Customers are the most commonly mentioned stakeholder groups (over three-fourths of the time), followed by employees (half to two-thirds of the time), and investors (approximately half the time). Mentioned least frequently are society and suppliers (see Bart 1997b; Leuthesser & Kohli 1997). In a study of 78 hospitals, Bart and Hupfer (2004) found a positive significant relationship between the stakeholders cited in mission statements and executive perceptions of financial success. However, they grouped several stakeholders into a ''benefactors'' variable, so the impact of the mention of any one particular stakeholder in the mission statement is unclear.

Results from studies searching for a significant relationship between the stakeholders mentioned in mission statements and objective measures of firm performance are inconclusive. Bart (1997a) looked at several stakeholder groups (customers, employees, suppliers, society, shareholders) and found a significant *negative* relationship between including any one stakeholder group in the mission (as compared to not clearly identifying any stakeholders) and financial performance. Of the missions including stakeholders, only the employee stakeholder group had a positive significant relationship to performance.

It is likely that including the most critical stakeholders in the mission statement may help executives focus their efforts. That is, by publicly proclaiming the importance of a stakeholder, managers may feel obligated to make that stakeholder group a priority. This suggests that the inclusion of different stakeholder groups implies different courses of action which may have differing impacts on performance. For example, stressing the importance of employees rather than investors may result in different decisions. Thus, we believe that it is necessary to look at the relationship between each stakeholder group mentioned in the mission statement and financial performance separately. Based on the studies mentioned above, we examined the five most frequently mentioned stakeholder groups.

H 1a. *There is a positive relationship between the quality of a mission statement as measured by the presence of each individual stakeholder group (customers, employees, investors, society, suppliers) and financial performance.*

Although including a specific stakeholder group in the mission may be related to financial performance, it does not necessarily follow that including many or all stakeholders in the mission will result in even greater financial success. As a firm includes more stakeholder groups in the mission statement, conflicts may arise as to which stakeholder should receive priority, thereby decreasing performance. For example, a firm that stresses serving society may be perceived as not being able to deliver the highest returns to investors. Similarly, conflicts may exist between satisfying employees and suppliers (eg., increased outsourcing may benefit suppliers at the expense of current employees). This suggests that the more stakeholders a firm includes in its mission statement, the greater the likelihood of potential conflict. Thus, identifying multiple stakeholders in the mission statement may decrease financial performance even if the inclusion of a specific stakeholder group may enhance it.

H 1b. *Firms that include a greater number of stakeholder groups in their mission statement will have significantly lower financial performance than firms that include fewer stakeholders.*

Components of Mission Statements: Quality Measure #2

Several researchers recommend that certain components be included in a high quality mission statement such as: products, location, core technology, commitment to financial objectives, company philosophy, and desired public image (See David 1989; Pearce & David 1987). According to Bart and Tabone (1999), mission statements that include specific components, namely distinctive competency, target market, products/services, unique identity, desired public image, concern for satisfying customers, and concern for employees are associated with managerial satisfaction with firm financial performance.

Several studies have investigated the relationship between mission statement components and objective financial performance. Pearce and David (1987) found that the mission statements of high performing firms specified the firm's philosophy and identified the firm's self-concept (defined as the company's competitive strengths) and desired public image. In Bart's (1997a) investigation of 25 mission statement components, firms with mission statements that cited