

The link between the quality of mission statements and corporate financial performance: an empirical investigation

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In this article the potential relationship between the quality of mission statements and the corporate financial performance of companies listed in the industrial section of the Johannesburg Stock Exchange (JSE) is investigated. The mission statements submitted were evaluated by the method of content analysis whereby an ordinal value, MSQI, was assigned to each mission statement. Thereafter companies were ranked in terms of the MSQI values. Financial performance was measured in terms of three variables: average return on equity; average return on assets; and share return. These were calculated over different time intervals depending on how long the company had been operating with the mission statement. Two statistical techniques were employed to test for relationships between the performance variables and the quality of the mission statements (MSQI), namely Spearman's rank order correlations and two-sample analysis of means. The majority of correlation coefficients were negative, although only one was statistically significant. It may therefore be concluded (except for the one exception) that the quality of mission statements is not related to corporate financial performance. Possible explanations for this finding are offered.

Die potensiele verwantskappe tussen die kwaliteit van missiestellings en die finansiële prestasie van maatskappye in die industriële sektor van die Johannesburgse Effektebeurs word in dié artikel ondersoek. Die missiestellings is deur middel van inhoudsanalise geëvalueer waardeur 'n ordinale waarde, MSQI, aan elke missiestelling toegeken is. Hierna is die maatskappye op grond van die MSQI-waardes in rangorde geplaas. Die finansiële prestasie van die maatskappye is gemeet in terme van drie maatstawwe: gemiddelde opbrengs op eie kapitaal; gemiddelde opbrengs op bates; en aandeel-opbrengs. Die opbrengste is oor verskillende periodes bereken, afhangende van hoe lank die missiestelling reeds in gebruik was. Twee statistiese tegnieke is aangewend om te toets vir verwantskappe tussen finansiële prestasie en die kwaliteit van missiestellings, naamlik Spearman se rangorde-korrelasiekoëffisiënt en die twee-steekproefanalise van gemiddeldes. Die meerderheid van die korrelasiekoëffisiënte was negatief, alhoewel slegs een statisties betekenisvol was. Hierdie enkele uitsondering uitgesluit, is daar tot die gevolgtrekking gekom dat finansiële prestasie en die kwaliteit van missiestellings nie verband hou nie. Moontlike redes vir hierdie bevinding word gebied.

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Introduction

The past decade has seen many publications attesting the importance of mission statements. In South Africa a 'great deal of enthusiasm and excitement was going on about mission statements — it was the thing to do in the late eighties...' (Newman, 1991). Debate in this field, amongst practitioners and research scholars, centred on two main issues namely, the components and essence of mission statements, and the possible link between mission statements and corporate performance.

As regards the components of mission statements, the literature has for several years been limited to conceptual articles only. Pearce & David (1987) conducted the first empirical research in this area to conclude that some encouraging evidence of the accuracy of previous conceptual writings and case studies on the components of mission statements was evident. Broadly speaking, few areas of mission statement components were in dispute.

However, only two documented empirical studies could be found on the possible link or relationship between mission statements and corporate performance (Pearce & David, 1987; David, 1989). Critical shortcomings and oversimplifications were identified in the respective studies (Vosloo, 1992) which partly prompted this research.

The purpose of this article is twofold: first, to evaluate the mission statements of companies listed in the industrial section of the Johannesburg Stock Exchange (JSE) by the method of content analysis in terms of the components exhibited, and secondly, to empirically research the notion that

a link exists between the quality of these mission statements and the financial performance of the respective firms.

Definition of terms and problem formulation

Mission statements

Although mission statements go by many different names it usually refers to a written, codified set of principles by which the company is run. However, since the mission statements submitted will be analyzed and evaluated in terms of their content, two simple criteria were formulated for the purpose of screening the documents submitted. The mission statement will first, need to be a formal organizational document, and secondly it will have to explain who the company is and what it does.

Financial performance

The indicators of financial performance to be used as performance variables in the statistical analysis are as follows:

$$AROE_{i,t} = (PAT_{i,t} - M_{i,t} - P_{i,t}) \times 1/2 (E_{i,t-1} + E_{i,t}) \quad (1)$$

where:

$AROE_{i,t}$ = average return on equity for company i for financial year t ;

$PAT_{i,t}$ = income after tax for company i for financial year t ;

- $M_{i,t}$ = minority interest in company i as at end of financial year t ;
- $P_{i,t}$ = preference dividends for company i for financial year t ;
- $E_{i,t-1}$ = equity of company i at the beginning of financial year t (end of financial period $t-1$), equity meaning share capital and reserves, less goodwill; and
- $E_{i,t}$ = equity of company i at the end of financial year t , equity meaning share capital and reserves.

A year average figure is calculated for equity to realistically represent the return on equity in the event of a change in equity during a financial year.

$$AROA_{i,t} = PAT_{i,t} \times 1/2 (CA_{i,t-1} + CA_{i,t} + TFO_{i,t-1} + TF_{i,t}) \quad (2)$$

where:

- $AROA_{i,t}$ = average return on assets for company i for financial year t ;
- $PAT_{i,t}$ = income after tax for company i for financial year t ;
- $CA_{i,t-1}$ = current assets of company i at the beginning of financial year t (end of financial year $t-1$);
- $CA_{i,t}$ = current assets of company i at the end of financial year t ;
- $TFO_{i,t-1}$ = total fixed and other assets of company i at the beginning of financial year t (end of financial year $t-1$); and
- $TF_{i,t}$ = total fixed and other assets of company i at the end of financial year t .

A year average figure is calculated for assets to realistically represent the return on assets in the event of a change in assets during a financial year. Goodwill is excluded from assets.

$$SR_{i,t} = \frac{SP_{i,t} - SP_{i,t-1} + D_{i,t} + ED_{i,t}}{SP_{i,t-1}} \quad (3)$$

where:

- $SR_{i,t}$ = *ex post* (i.e. realized) return on ordinary share i in financial year t ;
- $SP_{i,t-1}$ = price of ordinary share i at the beginning of financial year t (end of financial year $t-1$);
- $D_{i,t}$ = sum of all the dividends of ordinary share i in financial year t (i.e. ex-dividend date within period t); and
- $ED_{i,t}$ = equivalent dividend of ordinary share i at the end of financial year t (i.e. ex-rights and ex-capitalization dates within period t ; also subdivided and consolidated shares listed in period t).

Share prices and movements per ordinary share as quoted on the JSE were used to determine share returns.

Mission statement quality indicator (MSQI)

The MSQI reflects the quality of a mission statement. It was

calculated by assigning a value of one to a mission statement for each particular component exhibited by such a mission statement. The sum of these values, for a particular mission statement, is referred to as the MSQI of that mission statement. As the mission statements were analyzed against ten components, the MSQI can assume any value from 0 to 10; consequently, the higher the figure, the better the quality of the mission statement.

If a link exists between the quality of mission statements and corporate performance, then by implication, the mission statement should have some effect on the financial performance of a firm. Therefore, the problem researched is whether companies with mission statements superior in content outperform companies with inferior mission statements in terms of the performance indicators formulated.

Research methodology

The population of companies considered in this study consists of all companies listed in the industrial section of the JSE in October 1991. A personalized, single page questionnaire was sent to the companies. Respondents were requested to furnish a copy of their mission statement. The response rate of 35.7% can be regarded as very satisfactory. Similar studies by Pearce & David (1987) and David (1989) realized response rates of 28% and 18% respectively.

The distribution of firms with mission statements (73.8%) and those without mission statements (26.2%), as calculated from the responses (see Table 1) was compared with the corresponding distribution of non-respondents to expose any possible bias in the response sample. Given the subject under investigation, a bias towards the firms that did have mission statements was a real possibility. A random sample of 30 non-respondents were contacted telephonically, firstly to ascertain whether the firm has a mission statement, and secondly to determine their reason for not responding. Only one of the non-respondents cited the lack of a mission statement as the reason. The distribution of 70.8% (firms with a mission statement) and 29.1% (firms without a mission statement) compares favourably with that of the respondents. It was therefore concluded that there was no indication of bias in the response sample.

A Kolmogorov-Smirnov one-sample test was applied to determine whether the response distribution was representative of the sectors in the population (JSE). At the 5% significance level, it was concluded that the final sample did not differ significantly from the population (the calculated d -value is equal to 0.081, whilst the critical value equals 0.164).

The 141 usable responses were eventually reduced to a final research sample of 69, by excluding several respondents. The reasons for the exclusions are summarized in Table 2.

Measuring performance over a single year was considered unrealistic and an over-simplification. The AROE, AROA and share returns were calculated for a number of years and finally averaged into a single figure for the purpose of the statistical analysis. For companies operating with a mission statement for between two and five years, the means were calculated over the period 1988–1990; for companies operating with a mission statement for between six and ten years,

Table 1 Companies with/without mission statements by sector classification (usable replies)

Sector		Mission statement		Without mission statement	
Number	Name	Companies	Percentage	Companies	Percentage
26	Fishing	1	100.0	0	0.0
27	Furniture & household goods	2	100.0	0	0.0
23	Chemicals and oil	5	100.0	0	0.0
38	Development capital	2	100.0	0	0.0
29	Electronics, electrical & battery	11	91.7	1	8.3
22	Building & construction	8	88.9	1	11.1
36	Retailers & wholesalers	18	90.0	2	10.0
33	Printing & publishing	3	75.0	1	25.0
25	Food	3	75.0	1	25.0
24	Clothing, footwear & textiles	11	73.3	4	26.7
32	Pharmaceutical & medical	5	71.4	2	28.6
28	Engineering	7	70.0	3	30.0
21	Beverages, hotels & leisure	7	63.6	4	36.4
31	Paper & packaging	4	57.1	3	42.9
30	Motor	5	55.5	4	44.5
15	Industrial holding	7	53.8	6	46.2
34	Steel & allied	1	50.0	1	50.0
35	Transportation	2	50.0	2	50.0
37	Sugar	1	50.0	1	50.0
39	Tobacco & match	1	50.0	1	50.0
Total		104	73.8	37	26.2

Table 2 Exclusions from the usable sample

Reason	Responses
No mission statement	37.0
Period ^a	14.0
Development capital ^b	2.0
Financial year-end ^c	11.0
Data ^d	8.0
Total effect	72.0
Final sample	69.0
As percentage of usable sample	48.9

- a. Should mission statements have an effect on financial performance, then this effect is not instantaneous and at best, would only be marginal in the first twelve months after inception. Consequently these companies were excluded.
- b. The study was only aimed at companies on the main board of the industrial sector at the JSE, and therefore the development capital sector was excluded.
- c. Samples pertaining to financial year-ends in months January (1), August (4), September (8) and November (1) were considered too small for producing statistically meaningful findings.
- d. Incomplete financial data.

the means were calculated over the period 1983–1990; and for companies operating with a mission statement for more than ten years, the means were calculated over the period 1980–1990.

Content analysis is a research technique aimed at making inferences by systematically and objectively identifying specified characteristics within a text. It was applied to the mission statements submitted in order to assign a MSQI to each of these. For the purpose of this study 'specified characteristics' implied components, whilst 'text' was represented by the mission statements.

The components, or specific characteristics, to be identified in the mission statements and which allowed for a MSQI to be assigned to each mission statement, were those suggested in the literature, namely:

- philosophy and values;
- concern for employees;
- concern for survival, growth and profitability;
- product and/or service offered;
- public image;
- satisfaction of customer needs;
- self concept;
- concern for the community;
- customer or markets served; and
- geographic area or location.

Two final-year MBA students were entrusted with the application of content analysis to the mission statements. Prior to conducting their evaluations, the two raters studied the relevant literature on mission statements and their components. Thereafter, they independently evaluated each mission statement and recorded whether a mission statement exhibited a specific component. When a rater determined that a mission statement exhibited or contained a specific element, a value of one was assigned to the statement. When a

particular mission statement did not clearly exhibit the component, a zero was assigned. The results of the two raters were then tested for correlational validity. The correlation coefficient (ϕ) calculated, was 0.8975. It was concluded that a statistically meaningful correlation did exist between the ratings of the two raters.

Twelve of the 104 respondents who had provided a copy of their mission statement, indicated that it was a confidential document. Five firms did not even provide a copy, due to it being too confidential a document. As these were not for public knowledge, they were definitely not meant for communicating externally. Therefore, for at least 10% of companies, it was not 'the most visible and public part' of their strategic plan (Boshoff & Du Plessis, 1989: 521), possibly an indication that the mission statement was less of a communication tool or a 'nice placard' to the outside world, and more of a strategy tool.

As can be seen from Table 1, companies operating with mission statements out-numbered those operating without, by 2.8 to 1 (about 74% to 26%), which reflects a high incidence of mission statements compared to the studies of Pearce & David (1987) and David (1989).

Respondents were asked to respond to the following statement (see Table 3): 'A formal mission statement is important to a company's strategic planning'. The motive for the inclusion of the question was to deduce to what extent the mission statements were used in the strategic planning of the respondent companies. The questionnaires were sent to the managing directors or chief executive officers. Obviously if he/she was of the opinion that a mission statement was important to a company's strategic planning, the inference could be made that the company's mission statement played an important role in their strategic planning.

From Table 3 it is clear that all respondents with mission statements relate these statements to strategic planning. It is interesting, however, that almost half of the companies without mission statements (40.6%), also considered the mission statement as important to the process of strategic planning. This leaves the question of whether these companies then did not engage in strategic planning or, despite the importance that they attached to the mission statement,

Table 3 Importance of the mission statement to a company's strategic planning, by classification of companies with/without a mission statement

Statement in questionnaire	Companies with mission statements		Companies without mission statements	
	Companies	%	Companies	%
A formal mission statement is important to a company's strategic planning				
Strongly agree	68	65.4	—	—
Agree	36	34.6	15	40.6
No opinion	—	—	9	24.3
Disagree	—	—	11	29.7
Strongly disagree	—	—	2	5.4
Total	104	100	37	100

whether they simply neglected it and planned without it.

In Table 4 the period for which companies had been operating with a mission statement are summarized. Altogether 64% of all companies had been operating with a mission statement for less than five years thereby providing empirical support to Newman's (1991) notion that it was the thing to do in the late eighties.

In Table 5 the frequency of appearance of the elements of mission statements as revealed by content analysis, are presented.

For most of the elements the percentages are generally lower than those of previous studies (Boshoff & Du Plessis, 1989; Pearce & David, 1987). This can mainly be attributed to the fact that the evaluations were done very strictly in terms of the elements and their implications. Regard 'self concept' as an example. Pearce (1982: 20-21) sees this as a realistic evaluation of the firm's own strengths and weaknesses as a competitor; in other words, not just any suggestion of strengths, but a *realistic* evaluation of these strengths. Even more important is that it also requires a realistic appraisal of their weaknesses as a competitor. It is probably too much to ask that 40.5% (Boshoff & Du Plessis, 1989) or 77% (Pearce & David, 1987) of companies' mission statements will give a 'realistic evaluation of a firm's own strengths and weaknesses as a competitor'. In the present evaluation only six mission statements were found to exhibit this element. Similar arguments can be raised for all of the other elements.

Table 4 Period for which companies had been operating with a mission statement

Period	Companies	%
Less than two years	14	13.5
Between two and five years	53	51.0
Between six and ten years	20	19.2
More than ten years	17	16.3
Total	104	100

Table 5 Frequency of appearance of elements in mission statements, as revealed by content analysis (usable sample)

Element	All respondents	
	Frequency	Percentage
Survival, growth and profitability	85	81.7
Concern for employees	84	80.8
Customer needs	80	76.9
Product/service offered	77	74.0
Philosophy and values	46	44.2
Community	39	37.5
Geographic area/location	28	27.0
Public image	22	21.2
Customers and markets	12	11.5
Self concept	6	5.8

As this stricter approach was applied in an even way to all elements and mission statements, it should not have any bearing on the distribution of the MSQI values compared to previous studies. MSQI ratings will generally be lower, but the firms' rankings and composition of the quartiles should not change.

Table 6 MSQI distribution for all companies in the usable sample

MSQI	Companies	Percentage	Cumulative percentage
10	—	—	—
9	1	1.0	1.0
8	5	4.8	5.8
7	7	6.7	12.5
6	13	12.5	25.0
5	28	26.9	51.9
4	21	20.2	72.1
3	18	17.3	89.4
2	8	7.7	97.1
1	3	2.9	100.0
Total	104	100	—

The results obtained from the content analysis are summarized in Table 6. The general quality of the mission statements as indicated by the MSQI, can be described as poor. Only 25% of the mission statements in the sample exhibited more than five of the elements suggested in the literature. The weighted mean for MSQI value was a mere 4.55. This implies that on the average, mission statements exhibited not even half of the required elements. In the study of Pearce & David (1987: 113) an average frequency of 6.6 was obtained. Not a single mission statement was judged to be 'complete', whilst only one exhibited none of the elements. Four elements dominated the mission statements in terms of their frequency of appearance. These were survival, growth and profitability (81.7%), concern for employees (80.8%), customer needs (76.9%), and product/service offered (74%).

Table 7 summarizes the Spearman rank order correlation coefficients between MSQI and AROE, AROA and share returns of the final sample. Similar information is presented in Tables 8 and 9. In Table 8, Spearman rank order correlation coefficients are presented per sector for those sectors containing more than five observations and in Table 9 the results are stratified according to the month of the financial year-end.

Fifteen of the rank order correlation coefficients were negative, of which only one, the correlation between MSQI and AROE in the Clothing, Footwear and Textiles sector was statistically significant at the 5% level, whilst the remaining nine coefficients were positive, none of which is statistically significant. It can therefore be concluded (with one exception) that the quality of mission statements was not correlated with either AROE, AROA or share returns.

In a subsequent analysis the sample was split into top and bottom quartile firms based on the MSQI rankings and a

Table 7 Spearman rank correlation coefficients between MSQI and AROE, AROA and share return (all companies in final sample)*

AROE	AROA	Share return
-0.2325 (64)	-0.1567 (64)	0.1753 (64)
0.0650	0.2135	0.1642

*Figures are sample size and p-values respectively

Table 8 Spearman rank correlation coefficients between MSQI and AROE, AROA and share return, by sector classification*

Sector		AROE	AROA	Share return
15	Industrial holding	-0.5777 (7)	-0.4980 (7)	0.6773 (7)
		0.1571	0.2225	0.0971
24	Clothing, footwear & textiles	-0.7407 (8)	-0.5108 (8)	-0.4342 (8)
		0.0500	0.1765	0.2507
36	Retailers and wholesalers	0.1210 (11)	0.0093 (11)	-0.0651 (11)
		0.7021	0.9765	0.8368

*Figures are r_s , sample size and p-values respectively

Table 9 Spearman rank correlation coefficients between MSQI and AROE, AROA and share return, by financial year-end classification*

Financial year-end	AROE	AROA	Share return
February	-0.2412 (15)	0.0932 (15)	-0.2814 (15)
	0.3669	0.7274	0.2925
March	-0.2798 (18)	-0.4329 (18)	0.3117 (18)
	0.2487	0.0742	0.1988
June	-0.3062 (18)	-0.2009 (18)	-0.0553 (18)
	0.2068	0.4074	0.8197
December	0.2829 (13)	0.5250 (13)	0.3675 (13)
	0.3271	0.0690	0.2030

*Figures are r_s , sample size and p-values respectively

two-sample test was used in an effort to detect significant differences between the means of AROE, AROA and share returns of the two groups. A pooled-variance t-test was applied after confirming the equality of population variances. The results are summarized in Table 10.

Table 10 Two-sample analysis of means (top and bottom quartile firms)

Variable	p-value	Decision
AROE	0.875	Do not reject
AROA	0.836	Do not reject
Share return	0.227	Do not reject

From Table 10 it is clear that the mean values of AROE, AROA and share returns do not differ in a significant way between the top and bottom quartile firms.

Summary and conclusions

It was found that mission statements are used by a large percentage of companies. Almost three-quarters (73.8%) of all respondents had a mission statement. However, the use of mission statements is a relatively new phenomenon. Altogether 64% of the companies had been operating with a mission statement for less than five years.

Mission statements are regarded as important in the strategic planning of a firm. Altogether 84% of all respondents shared this view, whilst even 41% of the companies without mission statements agreed. Slightly more than 10% of mission statements are confidential documents, and not for external use.

In the absence of any contradictory results from the statistical analysis, this study failed to expose a positive link between the quality of mission statements and corporate financial performance. Thus, it could not be concluded from this, nor from previous studies, that a more comprehensive mission statement is related to higher performance (Pearce & David, 1987; David, 1989). The absence of a significant link between performance and the quality of mission statements may be ascribed to a number of causes. The questionnaire used was developed for the specific purpose to research the hypothetical relationship between mission statements and corporate financial performance. It consisted of a mere six questions, and was not intended to gather information on any of the many other aspects surrounding mission statements, such as its compilation and operational uses. Mission statements are only a single step in the process of strategic planning; a step that is mostly confined to phrases and intentions and not necessarily actions.

Analyzing the content of the mission statements aroused some concerns; not the validity of the technique of content analysis per se, but aspects surrounding the elements used in the analysis. With no uniform definitions of the elements, content analysis cannot be expected to yield 'replicable inferences' (Krippendorff, 1980: 21). Different researchers are using different 'definitions' of the respective elements. This

should, however, not distort the findings on the relationship between mission statements and financial performance. However, it will distract from the comparison of the values, frequencies of appearance and average frequencies.

Secondly, to assign equal values to each of the components — both within and across industries — appears to be a shortcoming. In different sectors different emphasis could be placed, for example on the concern for employees or on the community or environment. This may pose a serious threat to the suitability of content analysis as a technique for measuring the quality of mission statements across firms.

Thirdly, although statistically significant in only one instance, the correlation coefficient exhibited a tendency to be negative. This implies a tendency for mission statement quality to be negatively correlated with financial performance. A study by Boshoff & Du Plessis (1989: 537) provides a possible explanation for this tendency. They concluded that 'those firms who do have mission statements appear to utilize them for considerable periods of time before considering revision to be necessary'. These firms possibly find it difficult to adapt to an ever-changing environment, whilst guided or rather restricted by an outdated mission statement. Their mission statements thus become a straight-jacket that prevents them from moving forward and puts them at risk of losing their competitive edge.

A recent publication by Campbell, et al., states

'a company that has many employees and managers with a sense of mission (an emotional attachment to the mission) will outperform a company that has only a few employees with a similar form of attachment' (1990: 62).

Whilst a mission is an intellectual concept, manifested in the mission statement, sense of mission is much rather an emotional and deeply personal feeling. When employees are emotionally committed to the values and culture of the organization, and these values and culture are in tune with the business definition and strategy and they also display common purpose, a sense of mission exists (Campbell, et al., 1990: 41). Therefore, values and a culture with which employees can identify themselves, are essential elements of a mission statement. 'As a combination of strategy and values, mission must be developed creatively, even inspirationally' (Campbell, et al., 1990: 15). The mission statement can thus not be arrived at by following rules and regulations, or by following a process of management meetings and workshops only. It comes from insight and understanding, which in turn should ensure that employees share the mission and take ownership thereof. Formulation by outsiders (consultants) and presentation (i.e. 'language' and layout) pose serious threats to employees taking ownership of the mission statement. Consequently, a sense of mission lacks and the mere existence of the mission statement will be unrelated to company performance.

It should also be borne in mind that the formulation of a mission statement can be in reaction to poor company performance and difficulties experienced, rather than a proactive step. It is tentatively advanced that this may contribute to the negative relationship observed.

Thus, various explanations can be offered for the non-significance of the results, but the tendency towards negative correlations require further in-depth analysis.

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