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RELATIONSHIP BETWEEN MISSION STATEMENT AND SCOPE OF BUSINESS: EVIDENCE FROM FINLAND

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ABSTRACT

The purpose of this study is to investigate the connection of a business' mission statement to its corporate strategy. The literature review presents the concepts of the core competence, the mission statement, focus strategy and competitive advantage. The findings of the literature review indicate that these concepts have consistent contextual linkages and can be placed in the perspectives of the balanced scorecard. The case study reveals the complexities and details that illustrate the role of the mission statement, focus strategy and competitive advantage. Empirical evidence is presented from Neste Oy which aimed for growth with new products and customers, but failed to diversify. The results of this study are useful for those who are involved in the strategy process, want to define a mission statement and succeed with diversification.

JEL: L1, N7

KEYWORDS: Strategic Management, Core Competence, Mission Statement, Diversification, Competitive Advantage

INTRODUCTION

Researchers have studied the effect of the mission statement on company performance (Sidhu, 2003). Recent analyses of mission statements provide contradictory evidence that mission statements enhance company performance; the contribution of the mission statement remains elusive (Desmidt, Prinzie and Decramer, 2011, and Williams, Morrell and Mullane, 2014). The empirical estimation of the relationship between the mission statement and company performance is not always relevant to make conclusions, because the mission statement is only a single element of management and the empirical estimation cannot reveal all factors in company performance.

The mission statement describes and communicates the purpose of an organization (Baetz and Bart, 1996, and Keeling, 2013). Strategic thinking and strategic planning are driven by the organizational mission and members of the organizational culture are guided by the organization's values to achieve the outcome described by the vision (Minzberg, 1994, and Senge, 1990). The mission has been studied in the literature of strategic management (Atrill, Omran and Pointon, 2005, and Green and Medlin, 2003), but strategic management is among many other management tools such as quality assurance, process management and knowledge management, which improve company performance.

The purpose of this study is to investigate the role of the mission statement in the strategy process in order to capture its corresponding richness and complexity. Core competence is a driver of the mission statement which determines the scope of the company strategy. When a company considers growing by diversification it should take advantage of core competencies, focus strategy and opportunities described by the mission statement to achieve competitive advantage. The empirical evidence of diversification failures is sought from the case study.

The study presents empirical evidence about Neste Oy, an oil refinery and petrochemical company. The company was successful in its core business, but unsuccessful in diversified activities that did not create synergies with the core competencies. The empirical evidence supports the argument that the definition of the mission is important in the strategy process and the company focus should meet the scope described by the mission. The mission provides the context within which the strategies should be defined.

Neste Oy was established as a petrol company to ensure the availability of refined fuels after the World War II in 1948. The refineries were built and the requisite technologies were put into operation. Neste Oy held a strong position in the market, because it was state-owned, supported by the government and had a legal import monopoly until market deregulation in the 1990s. The monopoly, political decisions and bilateral trade with the Soviet Union protected the company against market forces. Finally the deregulation of energy markets brought the company to a competitive situation.

The remainder of this paper is set up as follows. The next section includes the literature review which shows that mission statements are theoretically related to the focus strategy and diversification. The third section describes the data and methodology. It presents the case of the Finnish company Neste Oy, which was successful in oil products for decades. The results and discussion in the fourth section present examples of the company departing from oil products and failing to diversify in energy business. The final section offers concluding comments.

LITERATURE REVIEW

Minzberg (1994) claims that strategic planning should follow strategic thinking. In his view, strategic planning consists of articulation, elaboration, the formalization of existing strategies and strategic thinking that is characterized by intuition and creativity. Strategic thinking is driven by a strong sense of the organizational mission and a vision of the desired future for the organization. For Senge (1990) visions are “pictures or images people carry in their heads and hearts” and represent what people truly want. The mission is widely studied in the literature of strategic management (Atrill, Omran and Pointon, 2005, and Green and Medlin, 2003). This literature review sheds new light on the connections among core competence, the mission statement, competitive strategies and business diversification.

The core competence is what a company can do particularly well. Core competencies have been described as the building blocks or roots for a corporate strategic plan (Collis and Montgomery, 1995, Frery, 2006, and Prahalad and Hamel, 1990). When a company decides to diversify, it must consider businesses that take advantage of core competencies such as managerial expertise, innovation capabilities and professional knowledge and skills because leveraging such abilities can result in cost efficiencies and operational effectiveness (Markides, 1997, and Porter, 1987). The review of literature highlights two essential attributes of core competence. Core competence is a skill or capacity of a company that enables a company to remain faithful to its mission, define its strategy within the scope of business and achieve competitive advantage.

Baetz and Bart (1996) analyzed mission statements by using grounded theory. The categories were not based on what the researchers hypothesized but on what Canadian Chief Executive Officers (CEOs) understood by the mission statement. The five rationales achieving the highest average scores in terms of frequency were to 1) guide the strategic planning system, 2) define the organization's scope of business operations/activities, 3) provide a common purpose/direction transcending individual and department needs, 4) promote a sense of shared expectations among all employees at all levels, thereby building a strong corporate culture (i.e. shared values), and 5) guide leadership styles. These results describe the common understanding about the mission statement.

The lack of empirical evidence about the role of the mission statement on company performance has made some managers skeptical, cynical and half-hearted when they develop and implement the mission statement and the strategic plan (Baetz and Bart, 1996, and Sidhu, 2003). Practitioners lose confidence in mission statements if they lack the evidence and knowledge to use it as an effective management tool. There is also evidence that the commitment of top management on the mission statement might influence the effect of mission statements on company performance (Mullane, 2002).

There is empirical evidence of a positive relationship between a mission statement and company performance. Green and Medlin (2003) found a positive relationship between the quality of mission statements and a company's financial performance. Sidhu (2003) found that complete mission statements correlated with exceptional performance in the Dutch multi-media industry. Several other studies have found a positive relationship between mission statements and desired organizational behavior (Bart and Baetz, 2001, Desmidt, Prinzie and Decramer, 2011, and Hirota, Kubo, Miyajima, Hong and Park, 2010).

Results from multiple empirical results, however, have found no positive relationship between mission statements and financial performance (Atrill, Omran and Pointon, 2005, Bart and Baetz, 1998, Bartkus and Glassman, 2008, Dharmadasa, Maduraapeurma and Herath, 2012, and Green and Medlin, 2003). Similar research results can be found in non-profit health care, where no significant relationship between mission statements and desired employee behavior was found (Vandijk, Desmidt and Buelens, 2007). Desmidt, Prinzie and Decramer (2011) concluded that, after two decades of empirical investigation, research has not found convincing evidence about the effect of the mission statements on company performance between companies with mission statements and those without.

The literature review indicates that not enough is known about the role of mission statements and how they should be deployed. There may be inconsistencies and interpretations of a different kind in the definition of the mission statement (Khalifa, 2011). It makes no sense to study only the effect of the mission statement on the company performance, because the mission statement is just a single element of strategic management. Another point is that the mission is typically stationary in the short run and in many cases regulated by law. The strategy towards the vision is a dynamic element that affects company performance and creates a better future.

The company mission is related to the focus strategy described in the literature of strategic management. There are three generic competitive strategies - focus, differentiation and cost leadership (Kettunen, 2002, Ortega, 2010, and Porter, 1990). The organization should use the focus strategy to select the products and markets it wants to serve. It may also differentiate its products to achieve uniqueness or achieve cost efficiency. A company's mission is related to its focus strategy. Each organization must have a reason for existence, something to offer and a type of client.

A focused company may be competitive and produce high-quality products, because it serves a narrow target market better than companies which have diversified their products to serve a broadermarket. The narrow focus implies limitations on market share, because the company leaves markets for other companies. The focused company inevitably differentiates its products to meet the needs of target markets or reduce its costs even though differentiation and low costs are not the primary aims of the focus strategy (Porter, 1990).

The focus strategy means market concentration and allows a company to direct all its resources to ensure the growth in a single business or product, making use of dominant technology to increase returns on assets (Pearce and Robinson, 2007). The company concentrates on doing what it is known for, drawing on its strengths and opportunities to do those things in a more productive way and to use new methods to eliminate the risk of losing focus. Kotler and Armstrong (2008) posit that corporate diversification strategy involves a company acquiring and setting up business inside or outside its core business or geographic location.

Competitive advantage is a strong competitive position (Ansoff, 1965). A competitive advantage consists of organizational factors that enable a company to outperform its competitors; sustaining competitive advantage should be the main purpose of the competitive strategy and creating value to customers is the means of attaining it (Porter, 1985). Competitive advantage is a position of superiority recognized and valued by the client, which makes a company more competitive than a competitor or itself at a previous moment (Contador, 2008, and Ferreira, Simões and Souza, 2012). Competitive advantage can be placed in the financial perspective of the balanced scorecard approach (Divandri and Yousefi, 2011).

Table 1 depicts the core competence, mission statement, focus strategy and competitive advantage using the balanced scorecard developed by Kaplan and Norton (2001, 2004). The balanced scorecard has been used to implement and communicate the strategic plans (Kettunen, 2008, 2011). The perspectives of the balanced scorecard in this study are the learning and growth, processes and structures, customers and financial perspective. The literature review shows that the core competence is required to fulfil the mission statement. The focus strategy should define the products and customers within the scope of business described by the mission statement to prevent diversification failures. Competitive advantage is an outcome based on the recognition and valuation by satisfied customers.

Table 1: Core Competence, Mission Statement, Focus Strategy and Competitive Advantage in the Perspectives of the Balanced Scorecard

	Learning and Growth	**Processes and Structures**	**Customers**	**Financial**
Core competence	✓			
Mission statement		✓		
Focus strategy			✓	
Competitive advantage				✓

The literature review indicates that the core competence, the mission statement, the focus strategy and competitive advantage have conceptual linkages between each other and they can be placed in the perspectives of the balanced scorecard. The linkages can be described in the strategy map for an organization.

Sueyoshi and Sekitani (2009) examined a synergy between electricity and gas services in the US electric utility industry. Synergy is typically measured by the cost reduction of joint production. Sueyoshi and Gato (2011) used data envelopment analysis and found that there had been no synergy in the operational performance of diversified utility company before or after the deregulation on the US electricity markets. Thus, core business concentration is more effective for electric utility companies than corporate diversification to enhance their operational performance under US deregulation policy. The next sections describe the importance of the mission statement in the oil and energy business to take advantage of the synergies.

DATA AND METHODOLOGY

This study uses historical data of state-owned Neste Oy to identify and describe important research and practical issues. Finland imported all of its oil and petroleum products before World War II. Petrol rationing started and fuel and lubricant oils were placed under government control during the war. Companies had no interest in investing in the business. State ownership was a viable way to introducing a new industry. Fuel oil and lubricant supplies were stored in caves in the granite rocks in Naantali on Finland's southwestern coast. The company Neste Oy was established in 1948 to execute the plan to introduce a new industry. Neste Oy was in a protected market position, because it held a legal import monopoly until the market deregulation of the 1990s (Larsio, 1974). It also benefited from bilateral trade with the Soviet Union.

The mission of Neste Oy was to own and rent storage for liquid fuels and lubricants, and to import, transport, trade and manufacture these products. The company invested in oil tankers and in a refinery in Naantali during the 1950s and 1960s. The strategy of the company was to deliver all the motor petrol Finland needed and adjust the production of other derivatives of crude oil accordingly. Consequently, the company constructed a second refinery in Porvoo.

Neste Oy started to invest in petrochemicals after the building of the oil refinery in Porvoo at the end of the 1960s, because it was closely associated with the refinery business. The production of ethylene, polyethylene, polyvinylchloride (PVC) and polystyrene for the plastics industry became integrated activities of the Porvoo refinery. Neste Oy became Finland's dominant petrochemicals producer.

The company found synergies with transport and imported crude oil by ships owned by the company. At the same time, it entered the service station market in the 1980s through the acquisition of three Finnish petroleum marketing companies and increased the number of service stations in Finland. It also established service stations in the Baltic countries, Poland, Germany and Russia.

Neste Oy made considerable investment in research and development. At first the efforts were in the improvement of quality of its products, but the research interest moved to the development of products in petrochemicals. Bonn (2001) states that organizations that integrate strategic thinking and the core competence create an enduring source of competitive advantage. The core competence of the company in the oil refinery and petrochemicals was aligned with the mission of the company. The importance of the core competence in successful companies has also been emphasized by Mooney (2007) and Ljungquist (2013).

A case study described by Yin (2003) involves an interpretive approach, which is used here to capture the contextual linkages of the mission statement. The interpretative approach is designed to understand the phenomenon through the meanings that can be assigned to them (Deetz, 1996). An interpretative study seeks a subjective understanding about the conditions, practices and consequences of social action. It is also expected that an interpretative study reveals complexities and details that are commonly omitted in quantitative studies (Mason, 2002). The limitations of the case study are unlikely to have a significant effect on the validity and reliability of the outcomes, because the objective of the study is not to generalize, but to support and illustrate the role of the mission statement in relation to other relevant concepts.

RESULTS AND DISCUSSION

Table 2 depicts the diversification failures of Neste Oy. The company had many strengths in the in oil business. Neste Oy was a state-owned company supported by the Finnish government. It also had a legal import monopoly on oil, which was its main business area. Finland had a bilateral trade (clearing trade) with the Soviet Union from the end of World War II until the end of the Soviet Union and Neste Oy was deeply involved in this bilateral trade. The powerful market situation attracted the company to experiment with ways to test the business growth in energy business which eventually led to diversification failures.

Finland signed an agreement with the Soviet Union for the delivery of natural gas to Finland. Neste Oy got the project of building a network for the distribution of natural gas in 1974 and delivery contracts were drawn up with industrial customers. Finnish industry was looking for new imports from the Soviet Union in order to promote its own exports in the context of the bilateral trade. The company did not keep its business within the scope defined by the mission statement in oil products, but started to diversify its activities to gas business. Neste Oy and Gazprom of Russia established a joint venture called Gasum Oy, which took the responsibility for the pipeline that delivered natural gas from Russia to Finnish industry in 1994.

Neste Oy did not limit its business to the scope defined by the original mission during the 1980s. It aimed for growth and extended the oil refinery and petrochemical industries to energy business, which is a much broader business area than the oil industry. The company set up a coal trading division of energy production in 1981. Soon the company experienced a diversification failure. The coal trading business had insufficient synergies with the core business and the coal trade was sold to a Finnish coal merchant in 1985.

Table 2: Diversification Failures of Neste Oy

Product	Period
Natural gas	1974-1994
Coal	1981-1985
Batteries	1981-1990
Solar and wind energies	1981-1998
Electricity	1998-2005

The company used state ownership, bilateral trade with the Soviet Union and the monopolistic situation until the deregulation of European power industry at the end of the 1990s.The company aimed for growth but had five diversification failures during its history.

A similar diversification failure occurred with the lead accumulator batteries produced by Pakkasakku Oy. Neste Oy bought the company in 1981. Even though Pakkasakku Oy had operated since 1922 and achieved a notable position in the battery market, Neste Oy found that battery market did not fare well and it had to sell Pakkasakku Oy to Spanish Grupo Tudor in 1990. The core competence of the battery business is entirely different from that of the oil industry.

Neste Oy applied its mission in the energy business to the development, manufacture and marketing of solar electricity, solar heat and wind energy in its unit Neste Advanced Power Systems (NAPS) (Sullivan, 1998). The company entered the renewable solar and wind energy business in 1981 with projects in Scandinavia, the United Kingdom, Greece and Kenya. Neste Oy had to give up the business in 1998 when Neste Oy was privatized and NAPS Systems Oy was established.

The Finnish government merged the state-owned Neste Oy and the electric power company Imatran Voima Oy to form a larger energy group that could compete in Europe's rapidly deregulating power industry. The merger took place over objections to combining two companies that appeared to have no synergy (Cragg, 1998, and Madslien, 1998). Fortum Corporation Oyj was established as a new holding company for the combined operations of these companies in 1998. By the time of proposed merger, the state-owned Imatran Voima Oy was the main power company in Finland. Several deals in 1998 and 1999 transfigured various subsidiaries to the nascent Fortum Group and the European Commission approved the creation of Fortum Oyj.

The Finnish government founded Imatran Voima Oy to build a hydropower plant near the town of Imatra in 1932 (Auer and Teerimäki, 1982). At first, the company concentrated on building and operating hydroelectric power plants and the power transmission system in Finland. It expanded to coal-fired power plant during the 1960s and constructed power transmission links to the Soviet Union and Sweden. It also electrified the Finnish railway system. The company entered the nuclear power generation sector in the 1970s and began selling district heat in 1982. During the 1980s, the company began developing combined heat and power plants and expanded overseas in the area of design and construction of power plants.

The Finnish government pressed ahead with the decision to merge two state-owned companies - Neste Oy and Imatran Voima Oy - believing that these companies could easily enter the deregulating European power industry even they had no synergy. The Finnish government maintained a 75.5% stake in Fortum Oyj though it was a publicly traded company. The same diversification failure that had taken place decades earlier was repeated with the merger of Neste Oy and Imatran Voima Oy in 1998.

The merged energy company Fortum Oyj remained in business until its demerger in 2005. The oil division of Fortum Oyj was transferred to the re-established Neste Oil Oyj which took place on the Helsinki Stock Exchange. The company produces and sells premium quality traffic fuels. Its product segment focuses on gasolines, diesel fuels, aviation fuels, marine fuels, heating oils, heavy fuel oils, base oils, lubricants, traffic fuel components, solvents, liquefied petroleum gas and bitumen. Hence Neste Oil Oyj returned to the business area that Neste Oy had had when it was founded.

In 2013, Neste Oil Oyj presented its new mission statement, "Refining the Future" and its strategic plan, "Way Forward." Its business areas include oil products, renewables and oil retail. Neste Oil Oyj has created a renewable products business which generates more than EUR 2 billion in revenue within just a few years and is now the world's largest producer of renewable diesel. The technology developed by Neste Oil enables premium-quality renewable diesel to be produced from virtually any vegetable oil or waste fat. The renewable energy has synergies with traditional oil business and fits the company's previous business area.

CONCLUDING COMMENTS

This study analyzed the role of the mission in strategic management. The goal of the study was to investigate the connection of a business' mission statement to its corporate strategy. The common understanding is that the mission statement describes the purpose of an organization, defines the scope of business, promotes shared expectations among employees and is a basis for the corporate culture and values in promoting leadership. This paper argues that when the mission defines the scope of business it also sets limits to the focus strategy by defining the products and markets of the company. An organization that is not able to develop its strategy and activities within these limits may experience diversification failures.

The focus is a competitive strategy which is defined by the main business area, products and customers. The focused company sets limitations to its market share, serves the target market more efficiently than competitors with broad operation and is able to achieve high quality and competitive advantage. If the company is unable to maintain the scope of its mission or diversify by creating synergies with its previous activities and core competencies, it will probably be in a poor strategic situation and have low competitiveness. The successful implementation of the mission statement keeps the organization on the track and avoids unnecessary pitfalls.

The successful mission and focus strategy are based on the core competence, which is a requirement for efficient processes, high-quality products and customer satisfaction. The alignment of the core competence with both the mission statement and focus strategy is essential to ensure a viable strategy for a better future. Competitive advantage is attained by creating value to customers. The literature review of this study indicates that the core competence, mission statement, focus strategy and competitive advantage can be placed in the perspectives of the balanced scorecard.

The historical data of the Neste Oy case provides empirical evidence and supports the arguments found in the literature review. The company had a history of failed diversifications. Neste Oy entered the distribution and natural gas business in the 1970s, and left it in the 1990s. The mission of the company changed during the 1980s to include the energy business. It invested in coal and battery business areas, but rather quickly realized that there were no synergies with the oil business. The failed diversifications included solar and wind energies, which the company also abandoned in the 1990s. Neste Oy underwent yet another diversification failure in 1998, when it merged with electricity company Imatran Voima Oy to form Fortum Oyj which continued until the demerger in 2005. After the demerger, Neste Oil Oyj has successfully focused its mission on oil products, renewables and oil retail. These results support the argument that the mission statement should define the products and customers within the scope of business. The empirical results are limited only to Neste Oy, but the study can be extended to other companies.

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