

## Original Paper

# An Empirical Analysis of Mission Statements on Financial Performance of Indian Companies

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### Abstract

*Mission Statements drive the strategic planning process of organizations. Mission Statements adorn the receptions and websites of organizations the world over. It is a mission statement which defines the role that the organization plays in the society. A mission statement speaks about the essential purpose of the organization, concerning with why it is in existence, the nature of business it is in and the customers it seeks to serve and satisfy. Importance of mission statement in achieving vision pushes the organization to have a mission statement. On contrary there are several organizations that do not have any mission statement and doing well in business. This paper studies whether the mission statement plays a deciding role in growth and performance of any organization. Necessary statistical tools are used to analyse the data.*

### Keywords

*mission statements, vision statements, organization performance*

## 1. Introduction and Literature Review

It has said that “Mission Statement tells two things about a company, who it is and what it does”. These statements address number of audiences or stakeholders which include the management, employees, clients, shareholders, suppliers, communities and countries (Abrahams, 1995; Amato & Amato, 2002; Bart, 1999). A different definition is offered by Bartkus, Glassman and McAfee (2000), “We view a mission statement solely as a communication tool”. Peace and David (1987) had identified eight key components of a mission statement. The mission statement should provide information about its clients or customers, employees, products or services, markets, technology, self concept, philosophy, desired public image and strategies for growth and survival (David, 1989, 2007).

Companies create a mission statements for numerous reasons such as to assert leadership (Klemm et al., 1991), to unify the employees and help them to achieve the companies goals (Bart, 1998; Ireland & Hilt, 1992), to inspire enthusiasm about the firm (Bartkus et al., 2000).

Research conducted by Verma (2009) concluded that significant numbers of various stakeholders are now more aware of the mission statements and further they have understood the meaning, the context and the purpose of the mission statement. This research concluded that in order to approach the importance of the mission statement, the top management must use pragmatism in identifying the contents of the mission statement that would ardently reflect the stakeholders aspirations, company’s goals and other issues that will assist the company achieving the objectives of the business. Mission

statements assume great importance in laying the foundations for creating the atmosphere and culture of the organization wherein the deviations from the mission statements are automatically detected and corrected through monitoring and reviews.

Some of the researchers have conducted study on the life of the mission statement. King et al. (2011) in their research “*Mission statement Analysis comparing the United States and three other English speaking countries*”, concluded that there exists misconception with regards to the life of the mission statement. The researchers pointed out that there is a belief that a mission statement once constructed is applicable for the entire life cycle of the corporate as it would be sufficient enough to meet the needs and requirements of the business units. However, Drucker (1974) estimated that the life of the mission statement is approximately 10 years and that the managers must take time to review, revise or modify the mission statements. The author attributed this phenomenon to the dynamic environment of the business world wherein the conditions keep on changing with respect to the various forces in which the business is required to operate.

The above literature review shows that the mission statements play a vital role in organization performance. There are organizations that do not have mission statements but they are doing well in the market. In this paper we make comparative analysis of financial ratios that define performance of an organization.

## 2. Data Analysis

It is described that mission and vision statements are critical elements of organizational strategy of any company. These statements served as a foundational guide in the establishment of company’s objective. Realizing the need of having mission and vision statement most of the established companies have their mission and vision statements. The companies set their objectives guided by mission and vision statements.

The mission statement can also be understood as a statement of purpose. Decision making process of the company is governed by this. The mission statement is targeted generally towards stakeholders, leaders and employees. It enables the employees to understand and align tasks and decisions taken at different departments in the organization. A mission statement offers insight into what company leaders’ view as the primary purpose for being in business. The missions of companies vary from profitability to customer satisfaction. Other firms use a mission to point out more altruistic intentions that ultimately lead to profits.

Tactical planning is the process of evolving company’s objectives, strategies and policies to attain the mission of the organization. The company produces short and long-term goals using the mission statement. Objectives may comprise market-share targets, revenue or profit goals, customer satisfaction scores and improved brand awareness. Apart from that, it develops strategies to achieve objectives. For example, better training and observing of feedback scores are approaches to attain greater customer satisfaction. Actionable phases or tactics are then industrialized. Engagement of an outside training consultant for a sequence of service training sessions is a tactic knotted to the customer satisfaction goal and the training strategy.

Vision statements are sometimes confused or used synonymously with mission statements. However, vision statements should bargain more of a direction and include a viewpoint of corporate values. A vision might offer a way for the company for the next five to ten years, while also noting a promise to truthfulness, transparency, openness and other such values. “Mind tools”, indicates that a vision statement takes your mission and adds an element of human values. It should inspire employees and

given them a sense of purpose.

In this paper the research question under investigation is;

**RQ: Do mission and vision statements impact overall performance of the company?**

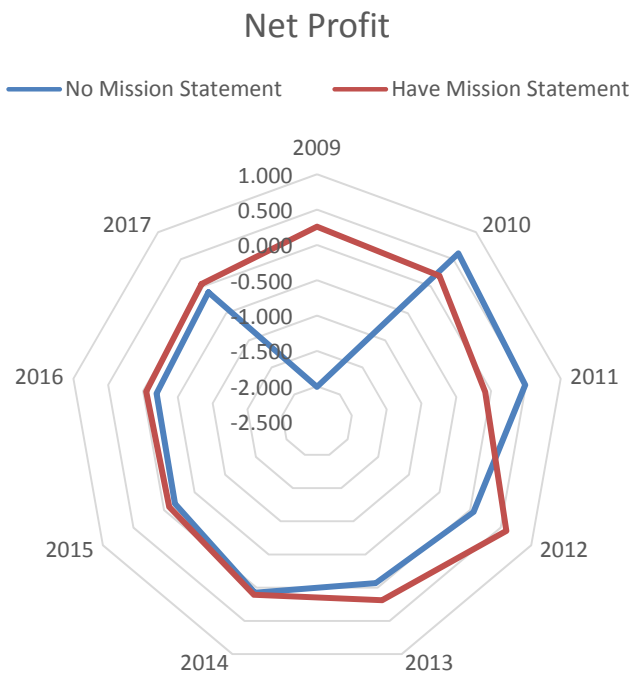
For the purpose mentioned above performance of 14 companies having mission statements are compared with 17 companies that do not have mission statement.

The research question is answered by using descriptive and inferential statistical tools. Null and alternate hypotheses are formulated and tested with suitable test statistic. The major components and financial ratios measuring company’s performance are taken in to account.

**2.1 Net Profit**

Net profit is a key decider in company’s growth. It is the end line of an income statement. Net profit decides the distribution of earnings amongst the owners of the company. The stake of net profit is decided on the basis of partnership agreement. Net profit also attracts investors as they are advised by financial analysts to look in to the net profit of any company before investing. It also decided dividends to be paid to shareholders. Company’s future investments are also guided by Net Profit.

Hence net profit is very important and key component. This motivated us to analyze the performance of companies on the basis of net profit. We conduct analysis on net profit of companies having mission and vision statement and do not have mission and vision statement.



**Figure 1. Radar Diagram for Average Net Profit of Companies**

From Figure 1 it is clear that there is a difference between average net profit of the companies having mission statement and not having mission statement. In 2008 and 2009 the average net profit for the companies having no mission statement is higher while for rest of the years the average net profit remains below than the companies having the mission statement. Overall net average change in net profit for companies having mission statement is 13.02% and for the companies not having the mission

statement is 14.75%. Now we formulate null and alternate hypothesis to test the statistical significance of the difference mentioned.

$H_{00}$ : Mission and vision statements do not create any effect on Net Profit.

$H_{10}$ : Mission and vision statements impact Net Profit.

In order to test the hypothesis we calculated net change in profit each year for all companies and later calculated average change in net profit for each year, overall average net profit is calculated for all years and all companies. Same is repeated for the companies having no mission statement. There is a difference between the average profits of companies having mission statements and not having mission statements. There is a difference in average net profit. It is clearly visible from the table below that companies not having any mission statement having a low average net profit while companies having a mission statement have a higher net profit.

**Table 1. Data Analysis of Average of Net Profit of Indian Companies**

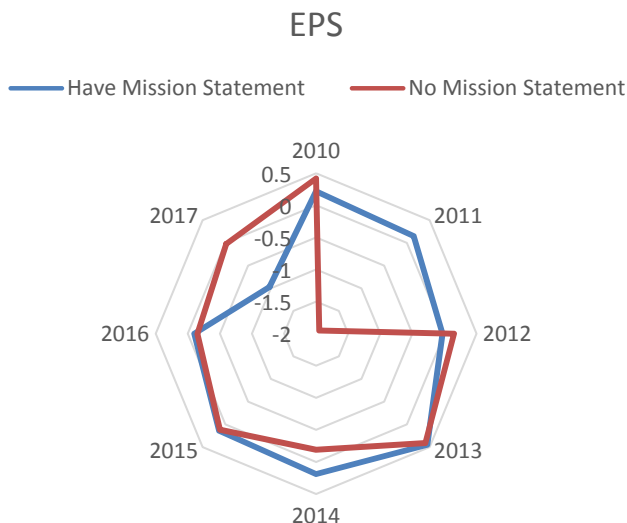
Anova: Single Factor						
SUMMARY						
Groups	Count	Sum	Average	Variance		
No Mission Statement	9	-1.33	-0.15	0.57		
Have Mission Statement	9	1.17	0.13	0.05		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.347	1	0.347	1.13	0.303	4.49
Within Groups	4.906	16	0.307			
Total	5.253	17				

We can see that p-value for two tailed test is higher than level of significance, i.e.,  $\alpha = 0.05$ . Hence, we do not reject the null hypothesis that mission statement doesn't impact the net profit. We also conclude that the difference in net profit is just a matter of chance and is not having any impact of mission and vision statements.

## 2.2 Earnings Per Share

Next important measure of company's performance is Earnings Per Share (EPS). Though EPS is not an adequate measure of company's performance still it plays a key role in measuring performance of any company. EPS can have several but acceptable values depending on method of calculation. The time value of money is not considered in EPS.

As EPS is not complete but a partial decider in the performance measurement of any company. We carry out our analysis on the basis of EPS next. We compare average EPS for companies having mission and vision statement to the companies not having mission and vision statement.



**Figure 2. Radar Diagram of Average Earning Per Share for Companies**

From figure above it is clear that, there is a difference in average earning per share amongst the companies having a mission statement and do not have a mission statement. In 2009 difference is maximum while in 2011 the difference is almost zero. We calculated average percent dip or gain in next year comparative to previous year then calculated the average change in EPS.

Now we wish to see whether this difference of ESP is statistically significant to believe that there is a difference between earning per share or not. In order to do that we develop and test hypothesis as per details.

$H_{01}$ : Mission and vision statements do not create any effect on EPS.

$H_{11}$ : Mission and vision statements impact EPS.

**Table 2. Data Analysis of Average of Earning Per Share of Indian Companies**

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Have Mission Statement	8	0.05	0.00625	0.182941
No Mission Statement	8	-1.19	-0.14875	0.569755

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.0961	1	0.0961	0.255349	0.621195	4.60011
Within Groups	5.268875	14	0.376348			
Total	5.364975	15				

We can see from the table above that p-value is greater than level of significance and hence we do not reject the null hypothesis. We also conclude that there is no significant impact of mission and vision on EPS.

### 2.3 Price on Earning

P.E. ration is a stock valuation tool which is used worldwide. It is given by the ratio of a company’s current market share price compared to its annual earnings per share. P.E. ration is generally connected with the sentiment of the investors. A high ratio ensures the optimism of investor the expectations in case of high P.E. ration is higher earnings growth and vice-versa. Thus P.E. ratio is of utmost significance for an investor. The investor is willing to pay more than company’s earnings for the stock. Hence it is clear that P.E. ration is a key decider in any company’s image in the market. There is also one of the parameters that ensures that the company is doing well. In order to understand the connection of vision and mission statement with the P.E. ration we run following analysis.

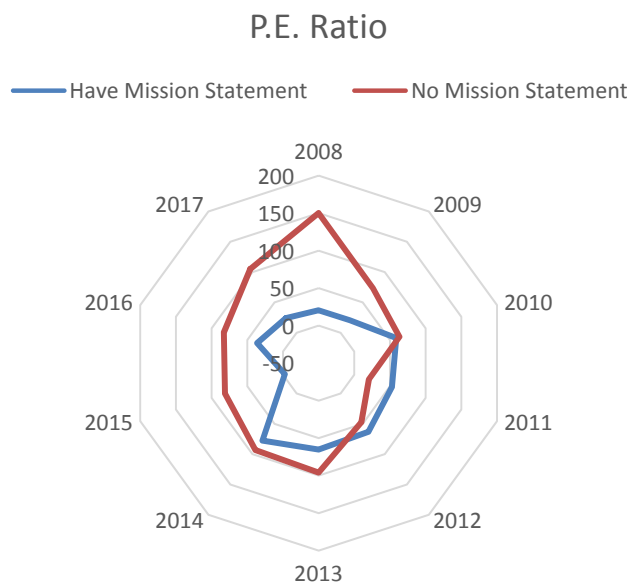


Figure 3. Radar Diagram for Average P.E. Ratio

Figure 3, clearly states that average P.E. ratio of companies not having a mission and vision statement is better in comparison to the companies having mission and vision statements. In order to see the impact of vision and mission statement on the averages we run t-test and see whether the difference of means of means is statistically significant to believe that mission and vision statements have an impact on companies’ P.E. ratio. We analyze the details using analysis of variance at 5% level of significance.

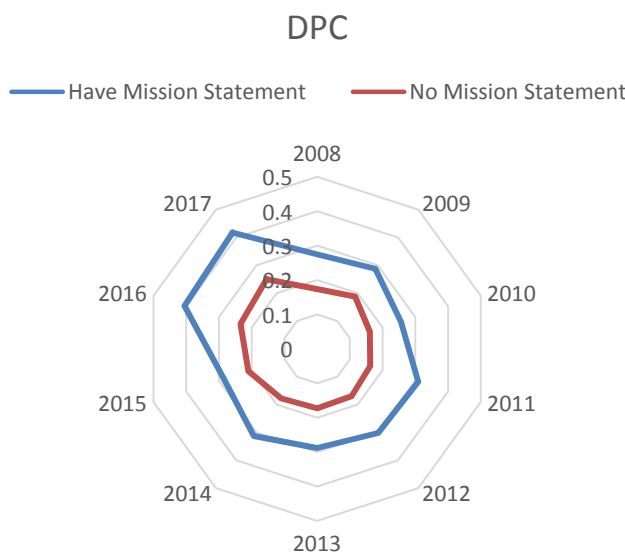
$H_{02}$ : Mission and vision statements do not create any effect on P.E. Ratio.

$H_{12}$ : Mission and vision statements impact P.E. Ratio.

**Table 3. Data Analysis of Average of Price on Earning of Indian Companies**

Anova: Single Factor						
SUMMARY						
Groups	Count	Sum	Average	Variance		
Mission and vision statement (yes)	10	416.757	41.676	655.658		
Mission and vision statement (No)	10	812.898	81.290	1211.485		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	7846.40	1	7846.405	8.405	0.010	4.414
Within Groups	16804.29	18	933.572			
Total	24650.69	19				

From table above it is clear that f-calculated is above f-critical hence we reject null hypothesis and conclude that mission and vision have an impact on P.E. ratio. It is clear in this case that companies not having mission and vision and mission statements are doing better in comparison to companies having mission and vision statement.



**Figure 4. Radar Diagram for Average Dividend Payout of Companies**

One of the simplest ways for companies to communicate financial well-being and shareholder value is to say “the dividend check is in the mail”. Dividends, those cash distributions that many companies pay out regularly to shareholders from earnings, send a clear, powerful message about future prospects and performance. A company’s willingness and ability to pay steady dividends over time, and its power to increase them—provide good clues about its fundamentals.

Hence dividend payout comparison is another powerful measure for measuring the performance of any company. We analyze dividend payout ratio for the companies having mission and vision statement and the companies that do not have mission and vision statement. The radar diagram above shows that the companies having mission and vision statement are completely dominating the companies not having vision and mission statement.

We further consider that mission and vision statement doesn't have an impact on dividend payout ratio. The difference appearing in data is purely a matter of chance. Hence we formulate following hypothesis and use one-way single factor analysis of variance to test it.

$H_{03}$ : Mission and vision statements do not create any effect on dividend payouts.

$H_{13}$ : Mission and vision statements impact dividend payouts.

**Table 4. Data Analysis of Dividend Payouts of Indian Companies**

Anova: Single Factor						
SUMMARY						
<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>		
Mission and Vision Statement (Y)	10	3.137	0.314	0.003		
Mission and Vision Statement (N)	10	1.901	0.190	0.001		
ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	0.076	1	0.076	39.525	0.000	4.414
Within Groups	0.035	18	0.002			
Total	0.111	19				

This is to note from Table 4 that F-calculated is far above than F-critical. Therefore we reject the null hypothesis. That is mission and vision statements have an impact on dividend payouts. Hence we can say that companies having mission and vision statement are better in paying dividends or they have a better dividend payout ratio.

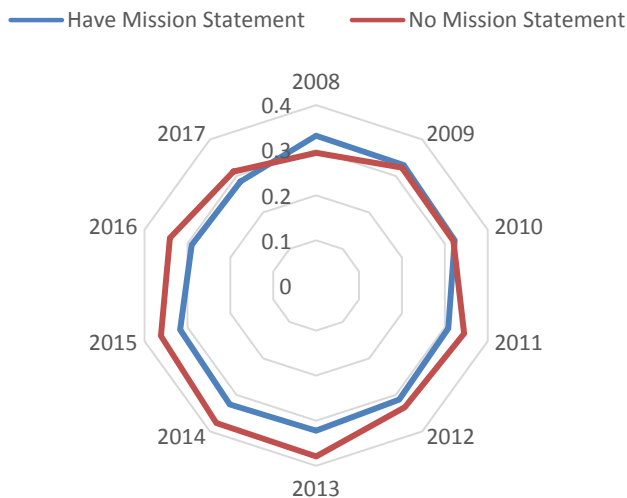
#### 2.4 Operating Profit Margin Ratio

Yet another important parameter for measuring the performance of a company is operating profit margin ratio. Operating margin is a margin ratio used to measure a company's pricing strategy and operating efficiency. Operating margin is a measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc. It can be calculated by dividing a company's operating income (also known as "operating profit") during a given period by its net sales during the same period. "Operating income" here refers to the profit that a company retains after removing operating expenses (such as cost of goods sold and wages) and depreciation. "Net sales" here refers to the total value of sales minus the value of returned goods, allowances for damaged and missing goods, and discount sales.

Now we analyze company's performance on operating profit margin. We take companies having mission statement and vision statements and companies that do not have mission and vision statement. Following radar diagram compares the companies.



### Operating Marging Comparison



**Figure 5. Radar Diagram for Average Operating Margin Comparison**

Radar diagram shows that companies not having mission and vision statement are doing better when it comes to operating margin comparison. Only in 2007 companies having mission and vision statement are doing slightly better. We also consider that the difference between the operating profit margins is purely a matter of chance. Hence we formulate a null and alternate hypothesis and use one way single factor analysis of variance to test it.

$H_{06}$ : Mission and vision statements do not create any effect on operating profit margin.

$H_{16}$ : Mission and vision statements impact dividend operating profit margin.

**Table 5. Data Analysis of Average of Operating Margin Comparison of Indian Companies**

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Mission and Vision Statement (Y)	10	3.146	0.315	0.000
Mission and Vision Statement (N)	10	3.384	0.338	0.001

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.003	1	0.003	5.454	0.031	4.414
Within Groups	0.009	18	0.001			
Total	0.012	19				

It can be observed from the table above that mission and vision statements creates an impact on operating profit margin, we could observe the F-calculate is above F-critical and hence we reject the null hypothesis. The companies do not have mission and vision statement do better when it comes to operating profit margin.

### 3. Conclusion

The paper has analysed and compared the financial performance of companies having mission statement and companies do not have mission statements. It is found that mission statement doesn't impact the net profit, while it is evident that companies not having mission and vision and mission statements are doing better in comparison to companies having mission and vision statement when it comes to earnings per share. Further companies having mission and vision statement are better in paying dividends or they have a better dividend payout ratio. The companies do not have mission and vision statement do better when it comes to operating profit margin.

No significant impact of mission and vision on EPS.

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