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Abstract

We estimate the effect from mission statement on firm financial performance in a sample of Colombian companies. The mission power, a latent variable defined by using tools from word content analysis, is included in a structural equation model to compute its impact across two channels: the profit margin and the assets turnover. Our estimates show that the no-significant impact of mission statement, which is documented in the literature, may be caused by the opposite effect that sales amount induces on both channels. We disentangle both effects and show that the assets turnover dominates which suggest that the mission statement compels good assets management practices.

Keywords: mission statement, financial performance, word content analysis, structural equation model

1. Introduction

The mission statement is an expression about what a firm is and should be. In the strategic planning setting, this statement is critical because it (i) communicates the firm's direction and purpose, (ii) keeps the firm on track
5 (a control mechanism), (iii) helps day-to-day decisions and (iv) inspires and motivates employees [1]. However, recent literature reviews in [2] and [3] suggest skepticism from practitioners and scholars about the actual benefits to the firm from this strategic tool. Relevant empirical studies suggest counterproductive effects on performance because empty, or culturally inappropriate statements
10 [4] that can negatively influence the employees' behavior [1, p. 23], or yet, it appears to be irrelevant for the success of firms [4, p. 65].

Conceptual and methodological issues can explain the antagonistic results in literature on mission and firm performance [2], although the border between both issues is unclear. From a conceptual point of view, financial performance
15 is commonly defined as the Return-On-Assets (ROA)¹. As it is widely known,

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¹Other common measures are return on equity (ROE), return on sales (ROS), percentage change in sales and profits (**author?**) [2]

return-on-assets results from the interaction between profit margin and asset turnover, both measures including the value of sales. Given constant values for profits and assets, an increasing-sales mission reduces firm’ profit margin as it increases asset turnover. That is, it simultaneously impacts the operating and
20 asset use efficiency, but in opposite directions. Consequently, using return on assets as a performance measure can hide the mission impact on performance and lead to non significant statistical relationships as it is sometimes documented in the literature. In this paper, we propose to disentangle the effect of mission statement on performance to identify the impact on assets management—asset
25 turnover—and competitive performance—profit margin.

To operationalize the mission statement variable, we define a latent factor named mission power as the ability of a mission statement to fulfill the four purposes mentioned before. In this work we state that mission purposes are manifested in the level of language positivism used in the construction of the
30 mission statement (employee motivation), the orientation to financial goals (direction, purpose and control), the level of readability (direction, purpose and orientation), and the assets endowment observed in our sample (employee motivation).

In addition to this conceptual issue, we address two relevant methodological
35 issues by using structural equation modeling (SEM). First, SEM allows us to overcome the limitations of bivariate approaches by introducing relevant control variables in multiple regression models which reduce the sub-specification bias. Second, the SEM’s capability to model the factor analysis provides us with a methodological setup to build a latent, and multivariate, operationalization of
40 mission based on observed variables, which we term Mission power.

We find that powerful missions are easier to read, written in positive tone, make explicit the performance criteria and are supported by the confidence of shareholders and managers. In addition, we show that decomposing return on assets into profit margin and asset turnover allows us to explain the diversity of
45 mission-performance links found in the empirical literature. Positive, negative and null impact from mission to performance are plausible, but each one conveys information on temporal scope of firm’s strategic planning. This finding has deep implications to firm valuation due to its impact on short and long term cash flows. As [5] note, the benefit exploitation in the short term, given by the
50 increase in profit margin, can reduce long term cash flows determined by asset turnover

The rest of the paper is organized as follows: First, we review the literature. After we present data and the methodology proposed. Then, we present the results and discuss the main findings. Finally, we provide conclusions and
55 recommendations to practitioners.

2. Literature review

According to [6], a business is defined by its mission statement. This declaration grants the definition of a mission the role to articulate business, define its purpose, practices and values [7]. A good mission statement conveys the

60 required organizational identity and values to trigger the action and improve performance. There are four main objectives a mission statement pursues [1, 8]: (i) to give direction and purpose to the firm, (ii) to work as a control mechanism, (iii) to orient non-routine decisions, and (iv) to motivate the employees. The mission statement is then a central part of the strategic plan in a firm and
65 becomes a managerial tool to boost employees effort, reducing moral hazard, printing values and guiding the action [9].

Previous arguments appear convincing from academic and practitioner’s view points, but the empirical evidence supporting them is scarce and conflicting. Positive- [10, 11, 12] and negligible-effects [13, 14] from mission on
70 performance have been found in empirical studies. In a meta analysis, [2] find a positive, but small, correlation between mission and financial performance, and they argue that the antagonistic results found in empirical literature may be caused by methodological issues. The operationalization of both the mission statement and performance measures, the analysis through bivariate ap-
75 proaches, the timing of both measures, the additional missing intervening factors, the diversity in conceptual frameworks [2, p. 479], and the presence of endogeneity issues can bias the measurement of the impact of mission on firm’s performance.

A stream of research, focused on missing intervening factors, explores mediating constructs in the mission-performance link. Authors in this vein argue
80 that the mission effect depends on organizational features such as the stakeholders concerns and the philosophy and values system in the firm [e.g. 15, 3]. Thus, the influence of mission on performance is affected by the commitment of organization members [15], the commitment of top management [16], and the
85 organizational commitment [17]. [18] adds that some attributes of communication process can affect the individuals commitment. Specifically, he highlights the cognitions and attributes of the message receiver, the employee perceptions regarding the sender, and the mission ambiguity. Consequently, this literature seems to converge toward a positive effect from mission to performance that
90 arises from the alignment among organizational stakeholders concerns and mission statement.

A recent vein of research has used some word content tools to analyze the features of outperforming firms’ mission with mixed results. Most of the studies based on frequencies analysis suggest insignificant differences among mission
95 statements. For example, [19] compare the largest companies in Turkey and around the world using independent group tests, and they did not reject the null hypothesis of non-difference in mission’s quality into the sample. Similarly, (author?) [20, p. 494] argue, based on content analysis, that mission statements in the top 100 business school in the 2009 Financial Times Full-Time
100 MBA ranking exhibit very few, if any, significant differences. Partial similarities in the mission statements have been also found. For instance, [21] compare the 2012 mission statements of 250 firms in ten countries and find significant differences in both stakeholders- and goals-components. Likewise, [22] compares the mission statements of 58 South Africa’s mining companies to 56 world companies (Europe, Japan and USA) measuring the frequency of its components.
105

They find similarities between companies in stakeholders, and differences when product-, objectives-, and market-components are considered.

Small differences between the statements of mission convert the measurement of its impact on performance into a challenge. The study of [23], for instance, suggest that the ambiguity of mission can arise from coding troubles. [23] show that a high degree of similarity between mission statements when they run a text analysis of 489 distinct statements from US organizations. They find that a small number of concepts are consistently included in the mission statements², but there is not any attempt from managers "...to clarify, explain, or operationalize the concepts." [23, p. 76]. Their result is consistent with the aforementioned communication issue of mission ambiguity identified by [18]. Similarly, the tone of the mission statement can explain a portion of performance variance. The study of the management discussion and analysis section in 10k and 10Q forms run by [24], [25] and [26] show significant correlation between tone, returns and future earnings³

3. Data and methods

3.1. Data and sources

We use two publicly available sources of data. The first was SIREM database which is maintained by Colombian Supervisory Agency of Commercial companies (Superintendencia de Sociedades), and it collects the financial statements of the largest Colombian Corporations spanning the period 1995-2014. Our observational unit is each of the 20 companies with the largest 5-year average of operating revenues in each of 17 out of 21 CIIU's sections included in the four revision for Colombia (CIIU Rev. 4 A.C.). We compute the mean of each financial indicator for 99 companies in 17 sectors included in SIREM database.

The second source was the website of companies. We extracted the mission, vision, and principles statements published by the companies in its websites which should be available to employees and general stakeholders. When a statement was unavailable in its website, we contacted the company through email or phone. We merge the statements of mission, vision, and principles to build a wider indicator of strategic orientation. We were able to collect and revise 99 mission statements⁴.

3.2. Methods

To address both the simultaneity of regression equations and the estimation issues of the unobserved latent factor, Mission Power, we use the structural

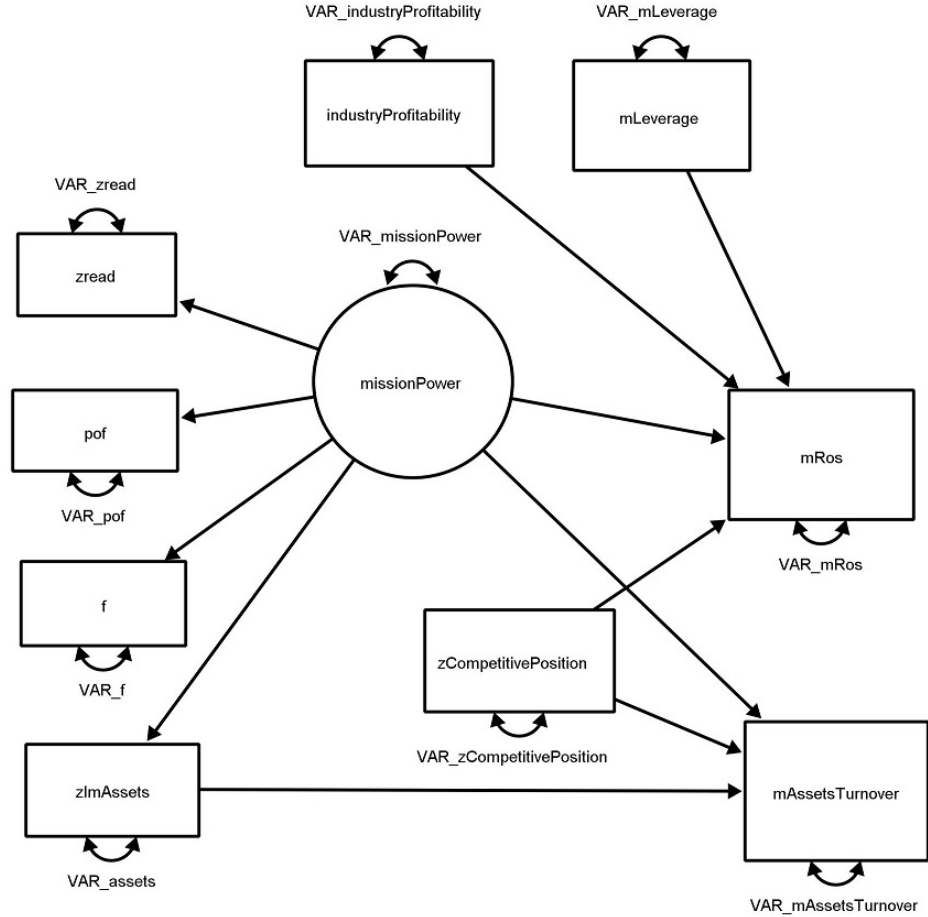
² For example, from their Table 2, [23, pp. 72-74], we count 16 concepts that were common in over 100 statements, and 29 concepts with frequencies in less than 10 statements. They suggest that the high degree of similarity is due to the companies have similar needs, motives, objectives and concerns [23, p. 76].

³ For literature reviews about tone-performance link in the fields of finance and accounting see [27], [28], and [29].

⁴ Incomplete or unavailable statements to stakeholders were excluded from the sample.

equation modeling (SEM) approach introduced first in the strategy literature by [30]. The use of SEM in strategic management has been increasing during the last years [31, 32]. The model proposed includes four measurement equations and two regression models where Mission power latent variable is introduced as an explanatory variable. (See Figure 1).

Figure 1: Structural model



Concerning the operationalization of mission statement, most of the literature has used a “static” focus to measure a mission statement. This approach mainly values the mission statement by its presence, components and quality [2]. We propose a different methodological approach to analyze the value of a mission statement in firm’s performance. To operationalize the mission variable, we define a latent factor named Mission Power which captures the underlying

goals in the mission statement⁵.

In this work we argue that mission goals are manifested in the level of language positivism used in the construction of the mission statement (employee motivation), the orientation to financial goals (direction, purpose and control), the level of readability (direction, purpose and orientation), and the assets endowment observed in our sample (employee motivation)

We use word content analysis to define positivism, financial language and readability in mission statement. Concerning positivism we use the word list proposed by [26]. According to [29], a dictionary based approach has three important advantages (subjectivity avoidance, application to large samples and replicability).

The dictionaries proposed by [26] are widely used in accounting and finance and are preferred over other dictionaries such [33] word list, diction, and Harvard general inquirer word list⁶. To measure financial language we proceed to construct a financial word list using our sample of mission statements. We first created a frequency word list and extracted those words with a financial orientation. After we applied a questionnaire to a set of people familiar to financial language asking to rank words from finance to non finance. With the word lists, we follow the information retrieval literature to create a term-document matrix and score each mission statement as the weighted sum of terms over total of terms in each document.

Readability is measured using the Fog index [34], which is a function of the average number of complex words. The number of syllables and the average sentence length are used to measure the word complexity. Fog index has been widely used in finance and accounting although recently it has been criticized [29]. [35] argue that most common words in business and finance (management, operations, customers, financial, etc) are classified as complex words by the index even though they are easily understood. They propose the natural log of text size in megabytes as a proxy for readability. In this work we hold Fog index to ease the comparison with previous studies.

The latent factor Mission Power explains, simultaneously with a set control variables, the variance of both profit margin and assets turnover ratios. In their literature review, [2] classifies the measures of performance between “hard financial indicators” and “soft financial indicators”. One of the most common “hard financial indicators” used in empirical research on performance is return-on-assets ratio [e.g. 36, 15, 8, 11, 10]. In this work, we argue it is the composition of the ratio what counts not the ratio itself. This decomposition, widely known as DuPont analysis, is a common method used to assess financial performance drivers [37, 5, 38, 39] and earnings management [40].

Following the literature in financial analysis, we measure profit margin as the ratio between net income and total sales; while, asset turnover is the sales-

⁵ As stated before, a good mission statement gives direction, purpose and orientation, serves as a control mechanism and motivate employees[1, 8]

⁶ For a more extensive description of these dictionaries see [29]

to-asset ratio[37]. The set of control variables includes industry profitability
[41], leverage [42], market concentration, and competitive position [43] which
195 are used to explain the firm’s performance in industrial organization literature.

4. Results

4.1. Univariate and bivariate analysis

Tables 1 and 2 provide the univariate and bivariate statistics respectively
for the variables studied. Table 1 suggests a sample of homogeneous firms in
200 terms of both size (assets) and industry profitability, and heterogeneous ones in
terms of assets turnover, leverage, and financial performance (mRoa and mRos).
Statistics also suggest that firms in our sample participate in low-concentration
markets. Except mRoa-to-profit margin and mRoa-to-assets turnover, Pearson’s
correlation coefficients in Table 2 show weak bi-variate linear associations among
205 observed variables.

Table 1: Descriptive statistics of observed variables.

Variable (key)	Obs	Mean	sd	Min	Max
Frequency of financial terms (f)	99	0.06	0.05	0.00	0.19
Profitability of industry (industryProfitability)	99	0.07	0.02	0.02	0.10
Total assets, log. (lnAssets)	99	17.87	1.84	15.08	23.84
Assets turnover, times (mAssetsTurnover)	99	1.51	1.12	0.11	6.50
Financial leverage (mLeverage)	99	2.06	2.35	-10.40	12.32
Market concentration (mMarketConcentration)	99	0.03	0.04	0.00	0.28
Return-On-Assets (mRoa)	99	0.07	0.06	-0.06	0.30
Profit margin (mRos)	99	0.06	0.06	-0.14	0.23
Frequency of positive terms (pof)	99	0.10	0.05	0.00	0.25
Readability index (read)	99	28.05	7.79	9.85	54.98
Competitive position index (zCompetitivePosition)	99	-0.00	1.00	-1.42	4.01

Table 2: Bivariate correlation coefficients among observed variables.

[illegible]

The word content indicators show that the sample contains a wide variety of mission statements. We find statements featured by null presence of financial and positive terms up to statement where 19 percent of words refers to financial indicators or 25 percent of words concern to positive terms. However, the
210 presence of positive or financial words appears does not affect the readability of statements (see Table 2).

4.2. Multivariate analysis

A Structural Equation Model (SEM) was estimated using maximum likelihood with bootstrapping (5,000 bootstrap samples). Both the fit indexes ($\chi^2_21 =$
215 $38.12, p = 0.012; CFI = 0.82, AGFI = 0.84, NFI = 0.70, RMSEA = 0.091$) and the theoretically consistent signs of loading factors suggest that the proposed model (see 1) captures the relationship found in data.

Table 3 shows the standardized coefficients of SEM. Mission power, the main construct underlying our measurement model was statistically supported by
220 the significance ($p < 0.05$) of the concomitant variables, and non-trivial loading factors (absolute standardized loadings > 0.23). Indicator variables linked to mission power construct are readability (zread), positive tone of statement (pof), presence of financial terms (f), and the commitment of shareholders and managers measured through the assets endowment to achieve mission goals (zlmAssets). Our estimates show that: powerful missions are easier to read; they
225 are written in positive tone; they make the performance criteria explicit, and they are supported by the confidence of shareholders and managers.

We find a positive and significant coefficient for positive tone. This result suggests higher power to those mission statements that induce commitment and
230 legitimacy in employees through positive language. Our estimates also show that both the density of financial terms and the endowment of resources are related to higher mission power. In the first case, the mission statement can induce better output if financial interest is clearly conveyed to employees. In the second case, the resource endowment (assets) captures shareholder and manager's
235 commitment with mission statement declaration. Higher assets signal stronger confidence in employees' ability to create value and advantageous competitive position in the market.

The regression model captures the effect of mission power on profit margin and asset turnover. Control variables were included to disentangle the impact
240 of both industrial and firm's factors. We find that mission power is significant ($p < 0.05$) in both regression models and the predicted directions are supported by the sign of estimated coefficients.

In the assets turnover equation, the positive coefficient of mission power ($\beta_1 = 0.32, p - value = 0.04$) indicates that higher efficiency from using firm's
245 assets can be obtained from more powerful missions. According to Bartkus et al, 2000 and Sanchez and Heene, 2004, mission statement includes both the guides to resources allocation of firm, and the motivational message forward to firm's goals.

In addition to the Mission power construct, we note that firm's competitive
250 position ($\beta_2 = 0.26, p - value = 0.00$) and size ($\beta_3 = -0.67, p - value = 0.00$) are

also relevant variables. A privilege competitive position provides the ability to increase the level of sales in relation to assets, while larger firms have difficulties to turnover its investment.

255 In the profit margin equation, the negative coefficient of Mission power variable ($\beta_4 = -0.31, p - value = 0.01$) suggests that the positive impact on sales dominates over the impact on profits. While increasing-sales marketing strategies can be induced by a powerful mission, profits are mainly determined by factors that are out of scope of the firm, so profit margin ratio likely decreases when Mission power is higher. Remaining variables, industry profitability ($\beta_5 =$
260 $0.09, p - value = 0.34$), competitive position ($\beta_6 = -0.04, p - value = 0.70$), and leverage ($\beta_1 = -0.27, p - value = 0.00$) show the expected signs documented in Industrial organization literature.

Table 3: Structural equation model (SEM).

Variable	Relation	Variable	Coefficient	se	z	pvalue	ci.lower	ci.upper
Measurement equations								
missionPower	→	zread	-0.23	0.12	-1.92	0.05	-0.46	0.00
missionPower	→	pof	0.55	0.12	4.80	0.00	0.33	0.78
missionPower	→	f	0.71	0.12	5.90	0.00	0.47	0.94
missionPower	→	zlmAssets	0.59	0.12	5.02	0.00	0.36	0.82
Profit margin regresion equation								
mRos	←	missionPower	-0.31	0.11	-2.68	0.01	-0.53	-0.08
mRos	←	industryProfitability	0.09	0.09	0.96	0.34	-0.09	0.26
mRos	←	zCompetitivePosition	-0.04	0.09	-0.39	0.70	-0.22	0.15
mRos	←	mLeverage	-0.27	0.09	-2.92	0.00	-0.44	-0.09
Assets turnover regresion equation								
mAssetsTurnover	←	missionPower	0.32	0.16	2.03	0.04	0.01	0.63
mAssetsTurnover	←	zCompetitivePosition	0.26	0.09	2.86	0.00	0.08	0.43
mAssetsTurnover	←	zlmAssets	-0.67	0.13	-5.15	0.00	-0.92	-0.41
Covariance								
mRos	↔	mAssetsTurnover	-0.19	0.09	-2.18	0.03	-0.36	-0.02

Notes. Variables in the model means: missionPower, Mission Power latent variable defined in Method section; zread, Fog readability index; pof, positive terms index; f, frequency of financial terms; zlmAssets, stardardized value of log of mean assets; mRos, mean of profit margin; industryProfitability, mean of profitability in firm's industry; zCompetitivePosition, standardized value of competitive position; mLeverage, mean of firm's leverage; mAssetsTurnover, mean of firm's assets turnover. Arrows in *Relation* column refer to causality direction, and double-headed arrow refers to covariance measures. Coefficients are Maximum Likelihood estimators.

5. Discussion and conclusion

Our estimated SEM shows that the impact of mission power on firm's performance may be identified through the profit margin and assets turnover channels. The negative effect through profit margin and the positive one through asset turnover may explain the negative, null or positive impact of mission statements on return-on-assets as empirical literature has shown.

By decomposing Return-On-Assets (ROA), we are able to analyze the marginal effects mission power construct has over the variables studied. In both, asset turnover and profit margin, the positive impact of mission power over sales dominates the impact on total assets and profits, respectively. The net effect of mission power over ROA will then be negative for those cases in which the marginal effect of profit margin dominates the effect in asset turnover or even non-significant when the negative effect on profit margin counterbalance the positive impact from mission on assets turnover as the obtained by [44, 14]. Finally, the positive effect documented by [15, 10], and [2] may result from assets turnover that outweigh the impact of mission power on profit margin. In particular, there is empirical evidence about the persistence of asset turnover over profit margin [39, 38]. These results shed light about the effect profitability and expected future growth have on firms value [45]. If firms value is determined by short and long term cash flow, the exploitation of benefits in the short term, captured by an increase in profit margin, will reduce the long term cash flow determined by asset turnover. While profit margin can contribute to the forecast of firm's short-run financial performance, the assets turnover provide better forecast in the long-run. The trade-off between short- and long-run profits support the negative relation that we find in our SEM specification. [5].

Three generations of models described in [2] attempt to identify the relation between firm's mission statement and performance using the observable features of mission statement which are dictated by theoretical literature. The presence or absence of components and the direct reference to goals or stakeholders are used as the key driver to boost the firm's performance. This approach misses the main features included in its definition. Mission motivates the employees and provides a guide to action. We propose a construct that capture those features. The power of mission refers to ability of mission statement to convey a straight message to employees and to motivate them. Our manifest variables linked to the mission power construct are significantly explained by it. The significance of coefficient of positive word frequency indicates that a motivational message is included into the mission statement, which is a potential driver of high performance to employees. The significance of readability variables suggest that simpler statement of mission may convey the message to the target people. Communication theory dictates that two conditions are required to effective communication: the message and the channel. We show that missions including motivational messages on simple and readable statements provide the right incentives/right factor to boost firm's high performance.

Our mission power construct is a first approach to research the relation between mission and performance based on indicators nearly linked to the def-

310 initiation of mission. In addition, our approach addresses the simultaneity issue
 suggested by literature on mission-performance link. SEM methodology cap-
 tures the reverse causality between mission, performance and endowment noted
 by [36, p. 381]. The employees' ability to fulfill the goals included in the mission
 depends on the resource endowment. Simultaneously, the shareholders provide
 resource according to mission's requirements. Using firm's assets as a proxy of
 endowment, our estimates suggest that the shareholders signal their commit-
 315 ment with the mission. Higher resource endowment means more support and
 higher confidence in the employees' skill to achieve the assigned mission. Our
 positive and significant relation to mission power construct support that com-
 mitment. However, higher assets endowment also imply higher effort to achieve
 better performance indicators. Our negative coefficient in the assets turnover
 320 regression support the negative impact of assets endowment.

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