

УДК 378  
JEL: M1, M2, M11, L26

## GOODWILL IN SYSTEM OF EFFICIENT COMPANY'S DEVELOPMENT

N. A. Makashova<sup>1</sup>

<sup>1</sup> Russian Academy of Entrepreneurship, Russian Federation

14, Radio str., Moscow, 105005

Postgraduate

E-mail: poffice@rusacad.ru

Received: 05/15/2015

Approved: 06/10/2015

### Abstract

*With the development and stabilization of the business climate and market relations in Russia, more companies move to a new, qualitatively higher level of their development, with the goodwill being one of the company's main assets. The article specifies the definition of the goodwill as an intangible asset inseparable from the company's potential that can provide additional profits. The author reveals the dual nature of the goodwill as an internal controlled resource, on the one hand, and as a result, on the other hand; to control it, a unified policy is necessary. The article lists the key factors for its development and shows that the goodwill is an important internal controlled resource that determines the company's development.*

**The objective of the research** is to consider theoretical and practical aspects of the goodwill as an economic category and important internal controlled resource that determines the company's development. The object of the research is the goodwill in the company's management system.

*While working on the article, the following methods of economic research were used: abstract and logical method, empirical method, method of expert evaluations, as well as methods of structural and functional and statistical analysis.*

**Keywords:** Knowledge-driven economy, intangible assets, goodwill, goodwill capitalization, strategic asset, business entity.

**Reference:** Makashova N. A. Goodwill in System of Efficient Company's Development. M.I.R. (Modernization. Innovation. Research), 2015, vol. 6, no. 2, part 2, pp. 61–64.

The transition from the industrial economy to the knowledge-driven one expectedly changes the economic and social relations in the society. This trend is evident in the following: the company's position in the market depends on not only efficient use of business assets and financial resources, but also on the intangible assets, the quality of non-financial risks, i.e. the role of intellectual capital increases. As a result, there is a tendency to widening the gap between the market and book values of the company's assets, and this leads to increased importance and relevance of studies of such special economic and financial category as the goodwill.

The concept of 'goodwill' is derived from the English word 'goodwill' or 'good will', i.e. traditionally the purchase (acquisition) of a company was carried out with the appropriate monetary overpayment of the buyer's own good will (without compulsion). In the Western practice, the goodwill is widely used as an object of accounting and taxation. It is expressed in monetary terms as the difference between the selling price of the company and its book value. Thus, the goodwill is often considered as a value measure of the company's business reputation. The main components of the goodwill include technologies, know-hows, brand names, the employees' competence and expertise,

databases, good location, business communications, etc. In other words, the goodwill is based on the intellectual capital of the company and its employees. Goodwill management is not a single event but a continuous process with logical steps that should be kept (from the formation of the image and goodwill and search for the key reputational audience to the behavior evaluation and correction).

The category considered was included into the accounting systems in 1891, when an English accountant F. Moore first proposed to evaluate the goodwill using the amount of the additional income generated by it, but the study of this category has acquired the real relevance at the turn of XX–XXI centuries only.

Closer consideration of the goodwill as an economic category reveals the lack of consensus on the interpretation of the term now.

For example, some Russian scientists believe that the economic nature of the goodwill is valuation, accumulated by the company before its intangible value is analysed (trademarks, the company's patents that have been developed and are not reflected in the balance sheet, well-coordinated team, etc.), i.e. they think that the goodwill is "the difference between

the market valuation of liabilities and the market valuation of assets.”

Blank I.A., however, defines the goodwill as a type of intangible assets, the value of which is determined by the difference between the market (selling) value of the company as integral property complex and its book value (net assets). He believes that the increase of the company’s value is related to the possibility to obtain more profits (compared with the average level of investment efficiency) due to implementation of a more efficient management system, a dominant position in the commodity market, application of new technologies, etc. [1].

Barkauskas V., Jasinskas E. and Barkauskene K. mention that the goodwill as an asset is often included into the ‘patchwork’ of all possible options and, unlike other lines of the company’s balance sheet, which are clearly expressed with specific numbers, this concept defines a kind of an abstract value [6].

The review of scientific literature on the issues related to the concept of ‘goodwill’ shows that no clear understanding of this category has been developed yet. However, it is possible to identify some key approaches to definition of the goodwill using numerous sources (see. Table 1).

Table 1

Critical evaluation of approaches to the definition of goodwill [3]

Approach	Critical evaluation
Goodwill is the value of intangible as-sets calculated as the difference of the value of a ongoing company and the sum of the net tangible assets plus identifiable intangible assets.	Taking into account the multicomponent nature of the goodwill recognized by most authors, this definition is not complete as it reflects only one of the concept’s characteristics
Goodwill is all intangible assets or a part of intangible assets that can pro-vide additional income for the compa-ny.	This definition is not applicable in Russia, as it con-tradicts the official definition of intangible assets and their attributes provided by Russian Accounting Standards ‘Accounting of intangible assets’ (RAS 14/2007)
Goodwill is inseparable intangible as-sets used in the company’s business activities that can provide additional profit for the company.	This definition does not take into account the fea-tures of intangible assets specified in the RAS 14/2007, as well as some more features of the com-ponents included to the goodwill by other researchers
Goodwill is inseparable intangible as-sets used in the company’s business activities that can provide additional profit for the company.	This definition does not take into account the fea-tures of intangible assets specified in the RAS 14/2007, as well as some more features of the com-ponents included to the goodwill by other researchers

Having analysed definitions available, the goodwill can be interpreted as follows: it is off-balance sheet intangible assets that are inseparable from the company’s potential, reflects its distinctive features (the level and condition of the business reputation, corporate culture, management techniques, etc.) and is able to provide it with additional profit.

This more sophisticated approach takes into account the key role of the relationship between the company and parties concerned. This approach emphasizes the importance of expectations of the parties concerned and enables relating the company’s business reputation to its economic profits. Some studies explain the correlation between the corporate reputation and managers’ payment, while K. Ballen states that the management quality is a key criterion of the business reputation, or ‘goodwill’ [5].

Robert F. Reilly and Robert P. Schweih name three components of the goodwill that can be considered as factors responsible for the goodwill [2]:

The first component is the company’s operating assets available at the local level and ready for use.

These company’s elements include the capital (for example, equipment), labor (for example, employees) and coordination (for example, management). The company’s added value is formed dependent on the way these components are arranged in one place and function as a whole;

The second component of the goodwill is the excess economic profit. The excess economic profit is the company’s profit exceeding the average profit in the industry. This component of the goodwill can not be specifically attributed to any tangible or identified intangible assets of the company under consideration;

The third component of the goodwill is expectation of future events that have no direct connection with the current business operations of the company considered (future capital investments, future mergers and acquisitions, future products or services and future customers, or clients).

The goodwill develops in business activities due to the influence of internal and external factors. Internal factors are formed within the company itself and do not depend on external circumstances, for example,

licenses and patents, a fixed number of customers, and trademarks. External factors are formed with the company's participation but under the influence of external circumstances, such as making excessive profits, expecting investments, etc.

Considering the abovementioned, we can say that the goodwill is an indicator that describes the company's activity at any time, regardless of whether it is positive or negative.

For this reason, it is extremely important for the company to manage the cost of the goodwill as it is the company's asset and it enables obtaining additional competitive advantages and occupy a better position in the market.

It can be concluded that goodwill like business reputation is an intangible asset of a business entity (company, enterprise), which has a strategic importance for it, and, therefore, refers to the strategic assets. The concept of strategic assets was borrowed by the modern economics from the resource theory that has become widely spread in the strategic management thanks to the work of B. Wernerfelt, R. Rumelt, J. Barney, etc.

It is advisable to determine whether the company's assets belong to strategic ones, i.e. assets that provide a sustainable competitive advantage, using the following four criteria proposed by J. Barney [7]:

- Value for the company;
- Lack of substitutes;
- The difficulty or impossibility to copy or reproduce;
- The uniqueness among the assets-competitors.

Does the goodwill correspond to these criteria? As it was shown above, this asset is valuable for the company. Today, it is common knowledge that the reputation is more important than the company's market value. In some companies, for example, Microsoft and Yahoo, the share exceeds 80% of the value.

The goodwill cannot be copied or replaced; it is a unique characteristic of each company, which is the result of its sophisticated recurring activities of producing goods and values under certain operating conditions.

The goodwill is the company's rare and unique asset that cannot be bought or obtained without applying certain efforts. It is obtained in the development process and cannot be separated from the company.

Thus, the goodwill is a strategic asset and the company should develop this asset in accordance with both external and internal economic conditions.

The importance of intangible assets in ensuring the company's strategic success determined the relevance to study methodological base of the strategic management of the goodwill.

The organizational and economic mechanism of developing and enhancing the goodwill capitalization, of developing the so-called 'reputational capital' can be determined by considering possible ways to solve the issue. There are two ways to solve the problem of increasing the share of intangible assets, particularly of the goodwill in the company's capitalization:

- 1) the traditional method of using intangible assets based on the increase of their value in management and accounting;
- 2) the innovative method based on the strategic management of such assets.

Particular attention should be paid to the innovative approach that implies the following steps:

- a) developing the system of strategic goals and objectives in the field of formation, use and development of the business reputation and goodwill (e.g., in the form of strategy maps using analytical methods and strategy sessions);
- b) studying the markets in which the company operates in the light of identifying strategically important lines;
- c) specifying the list of intangible assets and requirements for these assets that identifies key market advantages, and the company's sustainable development;
- d) inventorying non-standard intangible assets, including knowledge accumulated by the company, etc.

If the goodwill is considered from the strong business viewpoint, the amount of investments in this asset can provide ten or even twenty times higher return. Having a high goodwill, one can obtain more favorable loan at lower interest rates. Besides, the credibility of the company allows it to charge a higher price for their products. On the other hand, the goodwill requires constant investments to the product or service quality, image and brand advertising.

Thus, the goodwill is not only the external characteristics of the company developed as the result of its financial and economic activities, but the important internal controlled resource that determines the company's development.

#### References

1. Blank I.A. Encyclopedia of financial management: in the 4 vol. Vol. 1: Conceptual Framework of Financial Management. M.: Nika-Center, 2008. 448 p.
2. Internal goodwill enterprise [Electronic Resource] / Robert F. Reilly, Robert P. Schweihs // Willamette Management Associates BUSINESS VALUATIONS GUIDE. 2007. №1. Mode of Access to Journal: [http://www.cfin.ru/appraisal/intel/purchased\\_goodwill.shtml](http://www.cfin.ru/appraisal/intel/purchased_goodwill.shtml)

3. Dudin M.N., Lyasnikov N.V., Didenko E.N. Economic features of the category "goodwill" as a factor in improving the management of companies. *European researchers*, 2013, Т. I (58), no. 9-1, pp. 2212–2217.
4. Dudin M.N., Didenko E.N. Goodwill (business reputation) as a source of competitive advantage of the company // Scientific notes: the role and place of civilized business in the Russian economy. Collection of scientific papers. Issue XXXVII. M.: Russian Academy of Entrepreneurship; News Agency "Science and Education", 2013. pp. 396–401.
5. Ballen K. America's Most Admired Corporations. *Fortune*, 1992, vol. 125, no. 3, pp. 30–34.
6. Barkauskas V., Jasinskas E, Barkauskiene K. Goodwill as element of intellectual capital // <http://eir.pstu.edu/bitstream/handle/123456789/5039/%D1%81.%20207.pdf?sequence=1>
7. Barney, J.B. Firm resources and sustainable competitive advantage. *Journal of Management*, 1991, no. 17.
8. Dudin M.N., Innovative Development Path as a Form of Business Enterprises' Activity Boost. *European Researcher*, 2014, vol. 74, no. 5-1, pp. 831–836.
9. Baranenko S.P., Dudin M.N., Ljasnikov N.V., Busygin K.D. Using environmental approach to innovation-oriented development of industrial enterprises. *American Journal of Applied Sciences*, 2013, vol. 11, no. 2, pp. 189–194.
10. Dudin M.N., Lyasnikov N.V., Sekerin V.D., Veselovsky M.Y., Aleksakhina V.G. The problem of forecasting and modelling of the innovative development of social economic systems and structures. *Life Science Journal*, 2014, vol. 11, no. 6, pp. 535–538.

МИР (Модернизация. Инновации. Развитие)

ISSN 2411-796X (Online)

ISSN 2079-4665 (Print)

РАЗВИТИЕ

## ГУДВИЛЛ В СИСТЕМЕ ЭФФЕКТИВНОГО РАЗВИТИЯ ПРЕДПРИНИМАТЕЛЬСКОЙ СТРУКТУРЫ

Н. А. Макашова

### Аннотация

С развитием и стабилизацией делового климата и рыночных отношений в России все большее количество предприятий переходят на новый, качественно высокий уровень своего развития, когда деловая репутация является если не самым, то, конечно, одним из основных активов компании. В статье дано уточненное определение понятия «гудвилл» как неотделимого от потенциала предпринимательской структуры нематериального актива, способного приносить дополнительные выгоды. Раскрыта двойственная природа гудвилла как внутреннего контролируемого ресурса, с одной стороны, и как результата – с другой, для управления которым необходимо формирование единой политики. Определены ключевые факторы его возникновения и показано, что гудвилл представляет собой важный внутренний контролируемый ресурс, определяющий развитие предпринимательской структуры.

**Цель данного исследования** состоит в исследовании теоретических и практических аспектов экономической категории "goodwill", как важного внутреннего контролируемого ресурса, определяющего развитие предпринимательской структуры.

**Объектом** исследования являются гудвилл в системе управления предпринимательскими структурами.

В процессе работы над статьей применялись следующие **методы экономических исследований**: абстрактно-логический, эмпирический, метод экспертных оценок, использовались приемы структурно-функционального и статистического анализа).

**Ключевые слова**: экономика знаний, нематериальные активы, гудвилл, капитализация гудвилла, стратегический актив, предпринимательская структура.

**Для ссылки**: Макашова Н. А. Гудвилл в системе эффективного развития предпринимательской структуры // МИР (Модернизация. Инновации. Развитие). 2015. Т. 6. № 2. Часть 2. С. 61–64.