



Goodwill, profitability, and the market value of the firm

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Abstract

Despite the importance of goodwill to the survival of many businesses, and to the easy working of most, the concept has been the focus of little theoretical and empirical research in accounting or financial economics. This paper identifies a number of firm-specific characteristics with a consistent influence on goodwill, and a consistently positive influence of accounting goodwill numbers on both profitability and the market value of the firm in the nonmanufacturing firm. As such, current accounting goodwill measures offer a useful perspective on the firm's intangible capital.

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2023, International Review of Financial Analysis

Citation Excerpt :

...This academic debate took place at a time when the regulatory framework differed significantly from country to country (Boennen & Glaum, 2014), with goodwill capitalized in some cases and written off in others. Most authors found that investors priced goodwill as an asset (Barth & Clinch, 1996; Chauvin & Hirschey, 1994; Godfrey & Koh, 2009), and that they attributed importance to its components (Henning, Lewis, & Shaw, 2000) and age, with new (recent) goodwill considered more relevant (Bugeja & Gallery, 2006; Li, Amel-Zadeh, & Meeks, 2010). Some authors indicated that amortization could inaccurately represent the way goodwill declines in value, which varies significantly from firm to firm (Jennings, Robinson, Thompson, & Duvall, 1996)....

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...We select the commonly used profit and ROS ((net profit/sales revenue)*100%) as an explained variable. The profit margin of costs and expenses (total profit/total costs and expenses*100%) reflects the ability of the enterprise to generate income from all costs and expenses incurred in the current period (Chauvin and Hirschey, 1994). Operational capability measures mainly include the accounts receivable turnover rate, inventory turnover rate, and total asset turnover rate (Liu et al., 2021)...

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...Like this study, considerable prior research uses a value-relevance approach in assessing the usefulness of information on intangible assets. In general, prior research documents a positive association between reported goodwill balances and U.S. equity market values (Chauvin & Hirschey, 1994; Henning, Lewis, & Shaw, 2000; Jennings et al., 1996; McCarthy & Schneider, 1995).⁷ While interesting, this prior research has not examined the separate value relevance of customer-related intangible assets, nor compared its value relevance to that of goodwill...

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