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A Study on Impact of Negative Goodwill on Acquisition of Company's Reputations

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ABSTRACT

This study analyses the complex effects of negative goodwill on acquiring companies' reputation. Acquisitions made for less than the net asset's fair market value result in negative goodwill, which has both perceptual and monetary aspects.

The study explores the variables affecting stakeholders' opinions and how those views affect a company's reputation. The study explores how business environment, long-term performance, and strategies for communication influence stakeholder attitudes through an analysis of situations where there was negative goodwill. The findings show that while opaque tactics might put a company's reputation at risk, open communication and ethical considerations during acquisitions have an advantageous effect on interactions with stakeholders.

The results highlight the value of ethical business conduct and strategic communication in maintaining and improving corporate reputation, and they provide insights into practical management solutions for businesses navigating negative goodwill conditions.

INTRODUCTION

A complicated interaction of financial and reputational issues results in negative goodwill, a phenomenon originating from acquisitions where the purchase cost is less than the fair market worth of the acquired company's net worth. Although negative goodwill has quantifiable financial repercussions, its effect on the acquiring company's reputation is frequently less apparent but no less significant. The goal

of this study is to better understand the complex dynamics underlying how negative goodwill affects a company's reputation.

Acquisitions have been more common in corporate environments in recent years as businesses deliberately position themselves to obtain a competitive advantage or increase their market presence. But in the process of pursuing favorable financial results in acquisitions, the purchasing business's moral and strategic judgments may unintentionally come under scrutiny. Although negative goodwill may have financial benefits, it can also cast doubt on the fairness and honesty of the procedure for acquiring a business, which can affect stakeholders' attitudes.

LITERATURE REVIEW

- A study on GI of 740 to 780 million yuan (114.022 to 120.185 million dollars, depending on the currency rate in January 2020), and the company hit the lower price limit that same day. Global Info Tech's stock price fell 10.15 percent in January 2020 following the company's announcement of a GI of 645 million to 794 million. A common problem is that stock values plummet shortly after GI. Block shareholders, who own businesses, sincerely hope to keep the stock price stable and avoid fire sales caused by fearful investors.(Zhongsheng Pharmaceutical, 2020.)
- Chinese Accounting Standards for Business and Enterprises (ASBE) in order to comply with International Financial Reporting Standards (IFRS). Businesses need to determine whether to regularly assess goodwill impairment after GR. They must promptly adjust the book value and make goodwill impairment when the target company in an M&A lowers the value of the original company.(ASBE, 2006)
- A study on the number of listed companies—including Lianjian Optoelectronics (stock number: 300269)—saw a sharp decline in their stock prices and profits performance as a result of their cumulative
- goodwill impairments being recorded jointly. Similar incidents have happened in other places.(International Financial News, 2018.)
- The financial system in China is a suitable environment in which to investigate our study subject. In contrast to developed markets, China's capital markets still has an opaque information the environment and lax legal enforcement, which increases the risk of stock price crashes and frequent fluctuations in performance. This is despite the country's rapid growth and the gradual standardization of its information communication practices. (Piotroski, Wang, 2015.)

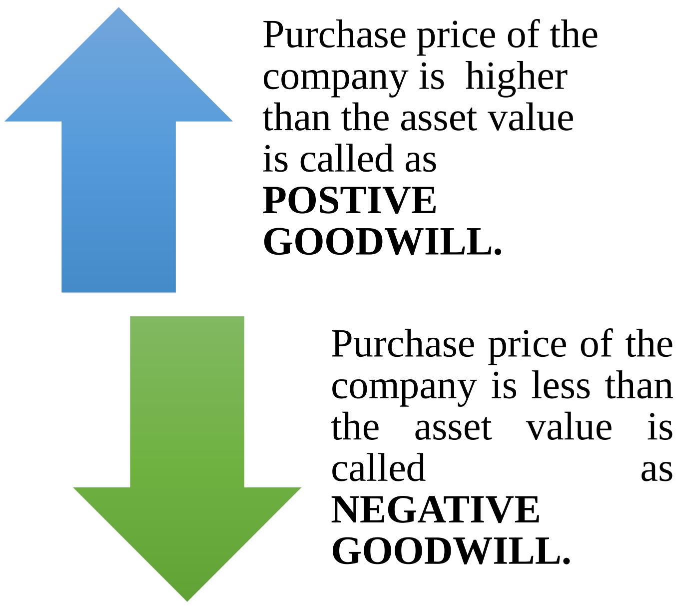
RESEARCH METHODS

Based on secondary data, the current study endeavours the analysis of impact of negative goodwill on rebuilding company reputation. The nature of this work is conceptual and descriptive. Secondary data are obtained from books, magazines, websites, journals, and other publications. And the study objectives is:

- To analyze the role of goodwill in building company reputation.
- To study on negative goodwill will impact on the operations of the business.
- To study the overcome of negative goodwill into stabilized goodwill.

NEGATIVE GOODWILL

In the context of a business acquisition, negative goodwill, commonly referred to as "bargain purchase gain," happens when the purchase price of an acquired company is less than the fair value of its identified net assets. Stated in various ways, the acquisition costs are lower for the buyer than the fair market value of the individual assets and liabilities that the buyer purchases.



IMPACT OF NEGATIVE GOODWILL IN STAKEHOLDERS

1. **Shareholders of the Acquired Company**

When the purchase price is less than the fair value of the shares, shareholders of the purchased company may suffer financial losses. A negative goodwill score could be a sign of undervaluation or financial difficulty, which would lower shareholder returns.

2. **Employees of the Acquired Company**

During the merger process, workers might become uncomfortable and nervous about losing their jobs. Restructuring, layoffs, or changes to worker conditions could result from negative goodwill, which might point to trouble in the business that was acquired.

3. **Suppliers and Creditors of the Acquired Company**

In the event that the acquired company relied on trade or credit arrangements, suppliers and creditors would encounter difficulties. A negative goodwill score could indicate financial issues, which could have an impact on relationships or payment conditions.

4. **Customers of the Acquired Company**

If the acquisition brings about modifications to the quality, customer service, or offerings of goods or services, then consumers may be impacted. Negative goodwill might be linked to problems that may influence the experience of customers.

5. **Credit Rating Agencies**

During an acquisition with poor goodwill, credit rating agencies may evaluate the acquiring company's financial soundness and credit differently. This can have an impact on the business's funding costs.

CAUSES OF NEGATIVE GOODWILL

1. **Distressed Selling**

The acquired company may be forced to sell its assets rapidly due to financial distress or operational issues, which would undercut the stipulated purchase price. Example: A company may be forced to look for a buyer quickly due to a downturn in the industry or bad financial performance, which could result in a low acquisition price.

2. **Strategic Negotiations**

During acquisition talks, the acquiring business may be able to secure better conditions and a reduced purchase price by employing skilful negotiation techniques. An organization having adept negotiating abilities could take advantage of favourable market circumstances, rivalry patterns, or the competitor's estimated worth to secure a discounted purchase.

3. **Recovering Overpayments**

It's possible that the acquiring business first overestimated the net asset worth of the acquired company. A cheaper purchasing price might result from concessions taken during negotiations. Example: If the assets and liabilities of the purchased business are revaluated, it can be discovered that the initial valuation was excessively optimistic, which might end up in a decrease in the purchase price.

4. **Market Conditions**

Market dynamics shifts, specific to an industry difficulties, or economic downturns can produce an atmosphere in which businesses can be bought for a fraction of their true values.

Example: Even though a company's net assets are highly valuable, financial difficulties during the recession may make firms more willing to consider selling at a lower price.

5. **Asset Valuation Adjustments**

Adjustments based on the fair value evaluation of the acquired company's specific assets and liabilities may result in a lower valuation in general. Example revaluating intangible assets like patents or trademarks could uncover a lower fair value that first anticipated.

6. **Competitive Bidding Dynamics**

When an organization is successful in negotiating a purchase price below fair value, it could end up in a bidding war amongst interested acquirers. Example: A number of businesses may indicate interest in purchasing the same target, resulting in a price environment that is competitive and advantageous to the acquirer.

Overcome the challenges of negative goodwill

1. Transparent Communication

Clearly convey the acquisition's strategic goals as well as the causes of the goodwill. By fostering trust amongst stakeholders—including workers, investors, clients, and suppliers—transparent communication helps allay worries and potential backlash.

2. Employee Engagement

Communicate freely and frequently with staff members about their responsibilities and how they will affect the company. Impact is on a staff that is happier reduces the risk of talent turnover and preserves business continuity by facilitating a more seamless integration process.

3. Cultural Alignment

Assess and address differences in culture between the acquiring and purchased businesses. Impact on Cooperation, teamwork, and a shared commitment to operational excellence are encouraged through a well-aligned company environment.

4. Focus on Operational Synergies

Determine anything operational advantages can be accomplished by acquiring something and rank them. Impact on Improving efficiency, eliminating duplication, and adding to overall cost savings are the results of strategic alignment along with the incorporation of important operational processes.

5. Innovation and Research & Development (R&D)

Contribute money to R&D and creative endeavours. Impact on Putting money into innovation boosts competitiveness, fosters long-term growth, and promotes the quality of operations.

6. Continuous Monitoring and Adaptation

Establish in place a monitoring mechanism for keeping tabs upon occurrences and change plans as required. Impact on Prompt modifications are made possible by routine evaluation of the integration process, ensuring that operational issues are dealt addressed as promptly as practicable.

CONCLUSION

In conclusion, the impact of negative goodwill on repairing a company's reputation is a delicate process requiring strategic planning, clear communication, including ethical concerns. Negative goodwill has important implications for the management of reputation even if it might not directly benefit the company that bought the product monetarily.

Stakeholder perceptions of the corporation are greatly influenced by its actions and the way with which it handles the events concerning the negative goodwill acquisition.

Essentially, the rate at which bad goodwill can be employed to repair an organization's image depends on how well the purchase process is conducted. Companies can reduce risks to their reputations and gain greater credibility from their stakeholders by being upfront about issues, strategically aligning their operations, and emphasizing ethical and responsible corporate behaviour.

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