


Goodwill from the appreciative inquiry (AI) perspective: innovation transforming intangible capital


O goodwill na perspectiva da appreciative inquiry (AI): a inovação transformando o patrimônio intangível

Goodwill desde la perspectiva de la *appreciative inquiry* (AI): innovación que transforma el patrimonio intangible


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Abstract

We present a theoretical essay on the relationship between accounting goodwill and the premises of appreciative inquiry (AI). We also adopt a new approach to goodwill, characterizing it as a state of potential wealth that will be converted into real wealth in the future. This essay introduces analyses and inquiries that will help deepen reflections on this very controversial topic in accounting literature. We ask if the interactions recommended in what some authors call the “positive revolution” might be responsible for generating superior earnings in organizations. Considering people’s best experiences, can the environment provided by AI be directly related to the goodwill we postulate? The lack of consensus on the nature of goodwill and the recent debates that have returned to the agenda of standard-setters create the opportunity for new critical reflections and epistemological debate on the topic.

Keywords: Goodwill; Appreciative Inquiry; Intangible Wealth; Organizations

Resumo

Apresentamos um ensaio teórico a respeito da relação existente entre o *goodwill* contábil e os ideais e premissas da *Appreciative Inquiry* (AI). Adotamos também uma nova abordagem sobre o *goodwill*, caracterizando-o como um estado de riqueza potencial que será convertido em riqueza real no futuro. Este ensaio traz análises e indagações que auxiliarão o aprofundamento das reflexões a respeito desse tão controverso tema da literatura contábil. Indagamos se não seriam as interações preconizadas no que alguns autores chamam de “Revolução Positiva” uma das responsáveis pela geração de ganhos superiores nas organizações? O ambiente propiciado pela AI – ao considerar as melhores experiências vivenciadas pelas pessoas – pode ter relação direta com o *goodwill* que postulamos? A falta de consenso sobre a natureza do *goodwill* bem como os recentes debates que voltaram à agenda dos normatizadores abrem espaço para novas reflexões críticas e debates epistemológicos sobre o tema.

Palavras-chave: *Goodwill*; *Appreciative Inquiry*; Patrimônio Intangível; Organizações

Resumen

Presentamos un ensayo teórico sobre la relación entre lo *goodwill* contable y los ideales y premisas de la *Appreciative Inquiry* (AI). También adoptamos un nuevo enfoque de lo *goodwill*, caracterizándolo como un estado de riqueza potencial que se convertirá en riqueza real en el futuro. Este ensayo trae análisis e indagaciones que ayudarán a profundizar las reflexiones sobre este tema tan controvertido en la literatura contable. Preguntamos si las interacciones recomendadas en lo que algunos autores llaman la “Revolución Positiva” podrían ser una de las responsables de ganancias superiores en las organizaciones. ¿Puede el entorno proporcionado por la IA – considerando las mejores experiencias vividas por las personas – estar directamente relacionado con lo *goodwill* que postulamos? La falta de consenso sobre la naturaleza de lo *goodwill* y los debates recientes que han vuelto a la agenda de los normatizadores abren espacio para nuevas reflexiones críticas y debates epistemológicos sobre el tema.

Palabras clave: *Goodwill*; *Appreciative Inquiry*; Patrimonio Intangible; Organizaciones

1 Introduction: connecting the knowledge “plug”

Goodwill, the most intangible of all intangibles, has grown in importance significantly in recent years, and attained important values in several organizations. This is a worldwide trend, in which investments are gradually migrating from physical to intangibles assets (Bloom, 2009; Lev, 2018). The consensus in the literature is that this is one of the most controversial and widely debated topics in accounting (McCarthy & Schneider, 1995; Chalmers et al., 2011; Betancourt & Irving, 2019). Some authors also question whether goodwill is actually an asset at all, while others claim it is not (Johnson & Petrone, 1998; Seetharaman et al., 2006; Gore & Zimmerman, 2010; Lustosa, 2017). The International Financial Reporting Standard (IFRS 3) defines goodwill as an asset that represents future economic benefits that result from other assets acquired in a business combination, which are not individually identified and separately recognized. This characteristic makes it possible to differentiate goodwill from other intangible assets, which are necessarily individualized in the balance sheet, and can, unlike goodwill, be sold or transferred to another entity.

For Martins et al. (2010), goodwill is characterized as an intangible asset resulting from a company's ability to generate higher than normal earnings (residual earnings). Goodwill arises in organizations through the synergy between all assets – whether registered or not – and other aspects (such as good management, location, sales force, customer loyalty, etc.). It is measured by the difference between the value of a company and its net equity calculated at market values. Academia also understands goodwill as something that has been developed (and that is always under development) within the entity, representing its abilities and capacity, and those elements of a different nature that compose it (Martins, 2002). Davis (1992) provides a metaphor for goodwill, when he points out that its value, as recorded in the balance sheet, is a “plug”, or a residual number. “The plug is the difference between the total price paid for a company and the fair market value (FMV) of its identifiable net assets, including intangible assets for which an FMV can reasonably be measured” (p. 3).

Lustosa (2017) takes an alternative approach to understanding goodwill that is based on the economic concepts used in the “Information System for the Firm's Economic Management”– GECONⁱ. In this approach, the focus of analysis is on measuring management decisions with a view to obtaining each contribution margin (revenues minus costs) using the concept of opportunity cost (Coase, 1937, 1990). As the object of measurement is each economic event represented by a managerial decision, the author breaks down the economic value of the company into: (i) “physical capital”, which is obtained when all assets and liabilities resulting from transactions that have already occurred, or have been implemented, are measured at their respective opportunity cost (the assets/liabilities individually identified, tangible or intangible, and reflected in the balance sheet); and (ii) “intangible capital”, represented by the difference between the company's economic value (present value of expected future economic earnings) and its physical capital. According to the author, intangible capital (IC) is the true nature of goodwill. It is not an asset *per se*, but a state of potential wealth that will or will not be converted into real wealth in the future. IC – or goodwill – refers to ideas, plans and intentions, that is, decisions that have not yet been substantiated in the physical exchange of implemented assets or transactions. In a going concern, IC is realized by its conversion into physical capital (PC) and is simultaneously renewed by the new ideas, plans and strategies of the company's management.

A similar approach to this has been debated since Myers's (1977) work, in which the author states that a significant part of the market value of many companies is accounted for as “assets that do not yet exist” (p. 150). Still in this line of reasoning, Ramanna and Watts (2012) emphasize that goodwill value is a function of future management actions, including the implementation of the company's strategy. Thus, just as Carlin (2019) calls on accounting to undertake a new journey that goes beyond double-entry towards blockchain technology, this essay invites the reader to a reflection that goes beyond the traditional measurement paradigms. The aim is to encourage reflection not only on the dynamics of goodwill with the company's physical capital, but also on the very nature of goodwill. It is this relationship that gives vitality to organizations! Companies' intellectual capital (which is part of goodwill) is a phenomenon of interactions, transformations and complementarities (Cabrita & Vaz, 2006).

We have followed this approach in particular in this essay. We adopted an understanding of goodwill as being a latent value driver in the minds of managers that will be incorporated into assets that will exist in the future, when they will generate residual earnings. The resource-based view (RBV) approach also follows this characteristic, by highlighting that the resources and capabilities that reside within the organization are sources for developing sustainable competitive advantage. This competitive advantage, however, occurs only when there is a situation of resource heterogeneity and resource immobility (Peteraf, 1993; Madhani, 2010). Among these resources, intangible assets – especially goodwill, due to its heterogeneity and immobility – are more likely to help companies reach and sustain superior performance when they are combined or integrated with other resources (Reed et al., 2006).

In parallel with the above reasoning, we address the concept of appreciative inquiry (AI), whose context can be understood as being part of the approach advocated both in the idealized assumptions of the field of positive psychology – the scientific study of emotions, character, forces and virtues, the positive intuitions of people – and in the field of action-research developed from the studies of Kurt Lewin (1944) (Marujo et al., 2007; Meireles & Lobo, 2012). Appreciative inquiry emerges from David Cooperrider's 1986 doctoral thesis in the USA as a new research method whose ambition was to expand on Kurt Lewin's initial view of action-research, in which theory and action engage in synergistic dialogue (Cooperrider & Srivastva, 1987; Grieten et al., 2018). In the following year, Cooperrider and Srivastva (1987) published the first article on AI that, while condemning the lack of new ideas generated by conventional action-research, proposed AI as the method most likely to create new ideas, images and theories that would lead to social innovations (Bushe, 2011). AI has its roots in organizational development and strategies that aim at enabling organizations to transform themselves (Aziz et al., 2018). By directly instigating collaboration it takes a different approach, but with no employee training or problem solving (Heslop et al., 2018). One aspect that differentiates AI from other participatory action-research methodologies, which tend to start with a focus on correcting problems, is that it focuses on exploring the positive ideas that people have about what they do and then tries to discover ways in which this can be built upon (Boyd & Bright, 2007; Cooperrider, 2013).

Considering these premises, we ask whether the manager's skills, way of managing, ideas and strategies, and the motivation and innovative capacity of employees, etc., are the company's true IC. If so, is this IC not a latent wealth that is capable of materializing in PC and generating economic gains? This materialization of PC is also a reflection of the synergy of the organization's staff who, the more motivated, trained and committed to change they are, the better able they are to respond to the competitive environment in which the company operates. Rego et al. (2007) maintain that people produce more when they feel they are doing meaningful work in their lives, and when they feel that their values and those of the organization are aligned. Certainly, an organization's IC can draw strength from various management environments, but when considering people's best experiences within an organization, this IC takes more strength from the AI environment and differs from the environment in which companies seek to detect and solve (old) problems. Thus, AI has the potential to leverage results and create an enabling environment for expanding organizational development and intellectual capital. Cooperrider and Whitney (2005) state that AI has been used to optimize customer satisfaction, employee engagement, costs and revenue competitiveness, as well as companies' abilities to meet the needs of society.

Based on the concepts highlighted here and adopting an interpretative approach, we present this theoretical essay on the relationship between goodwill and the approach advocated in AI. From this perspective, our aim is not to present any definitive conclusions in this or that respect, but rather to encourage reader reflection based on the discussions here presented. In the essay form, "guidance is given not by the search for answers and true statements, but by the questions that guide the subjects towards deeper reflections" (Meneghetti, 2011, p. 321, our translation). The objective is to construct joint knowledge in the field of accounting science through constructive joint discussions in order to achieve new insights. We aim to present a new point of view in relation to the topics raised here, as well as a new "angle of view" for goodwill, which is no easy task given the complexity of describing this relationship. Arendt (2008) states that "if a thing supports many points of view, it is precisely because it is highly complex, intricate, well-organized, and 'objectively beautiful'. This is not about relativism, but about relativity" (p. 8). We are dealing with knowledge that has been little developed in the literature, and requiring further studies on the subject, which does not invalidate it; on the contrary, it becomes a challenge. The expected contribution of this essay results from its varied critical reflections and the new epistemological debates that may arise with regard to the subject. We hope to encourage further discussions, reflections and additional studies, including positivist analyses.

The subject is a contemporary one. Standard-setters and financial statement preparers have been looking for a definitive way of accounting, and finding an ideal solution for the treatment of goodwill is still a challenge for the accounting community (Martins, 2002; Powell, 2003; Carvalho, 2015; Betancourt & Irving, 2019). Both the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have projects in progressⁱⁱ for rethinking the treatment of goodwill. These projects have received mixed comments and contributions from users, preparers and auditors about the current model based on impairment only; some support the current model, others support a return to the amortization model and still others support a hybrid method involving both. This has put the spotlight back on the topic (Betancourt & Irving, 2019). Wen and Moehrle (2016) claim that goodwill is a complex economic construct that is again on FASB's

agenda. Due to this complexity, FASB has revised goodwill accounting and disclosure several times over the years in constant attempts to improve it. For Carvalho (2015), goodwill is a classic and controversial accounting issue that has generated deep discussion, although no consensual solution has so far been found.

Following this initial context, we divided this theoretical essay into five further sections, which are developed in line with the AI implementation cycle, and the trajectory of the formation of IC. The next section presents the beginning of the AI cycle, and addresses the moment when the ideas emerged within the scope of management. Section 3 highlights the importance of knowledge sharing. It also presents how ideas are designed and how they can be structured into a workable model. Section 4 deals with the last phase of the AI cycle and highlights the future of the organization. In Section 5 we discuss how organizations are valued for their innovative ideas. Section 6 highlights some goodwill numbers and case studies using the AI approach, and presents our conclusions, final considerations and suggestions for future research.

2 Eureka: a new idea emerges!

As the information age advances, the world becomes more interconnected and information and knowledge flow faster and faster between people and organizations, causing organizational changes and transformations to take place at ever greater rates. But for transformations to happen, managers and/or top management first need to have a (good) idea(s). In a more general context, we can understand that a company is born as the result of the (good) idea of someone or a group of people. At this stage, it only has IC (ideas, plans, strategies, etc.). For Sarasvathy (1998), an idea is any one (or a combination) of the following items: (i) a product or service; (ii) a technology/innovation; and/or (iii) a market need. When the company “dies”, it has only PC (assets that will be used to settle any liability). Between these two extremes – which is equivalent to a going concern – companies work in order to “tangibilize” their IC, and this, in turn, is renewed as new ideas / plans / strategies that feed back into the decision-making process.

It is in this organizational context that we highlight the learning cycles dealt with in AI, which can greatly contribute to the dissemination of knowledge so that strategies and plans that have not yet been implemented can occur in a more productive way. The AI process was summarized by Troxel (2002, p. 6) in two stages or steps: (i) the research task is to identify and value the best of “what is” within the organization. In the first stage, the objective of the evaluation is to explore the key themes and forces that are important to the company; (ii) the research task then envisages what “might be”. When the best of what is has been identified and is valued and the values are re-narrated, the mind naturally begins looking beyond; it begins to envision new possibilities. Valuing the best of what is leads to envisioning what might be. Envisioning means allowing yourself to be inspired by what you see. Cooperrider and Whitney (2005) explain that this process goes through a cycle of activities called the “4D cycle” (Figure 1), which is briefly understood as: (i) **Discovery**: Mobilizing an entire investigation of the system for the positive nucleus of change; (ii) **Dream**: What is the world calling us for? (iii) **Design**: Creating possibility propositions of the ideal organization; (iv) **Destiny**: Strengthening the affirmative capacity of the entire system.

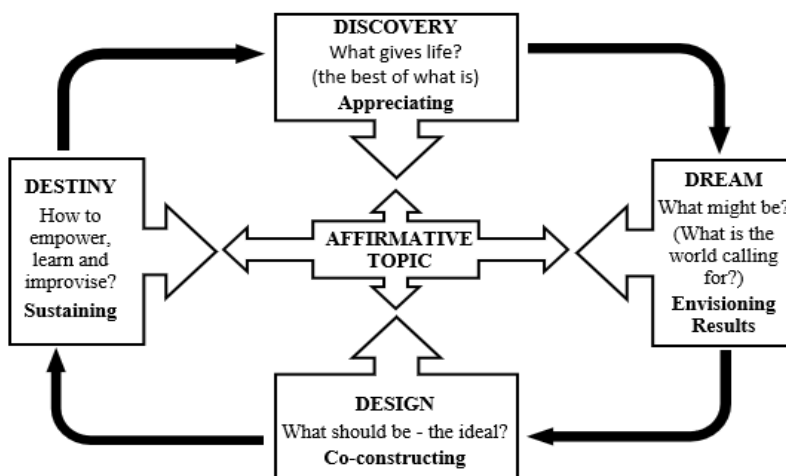


Figure 1 – 4D cycle

Source: Prepared by the author, based on Cooperrider and Whitney (2005).

According to the authors, at the center of the cycle lies the **affirmative topic choice**. This is the most important part of any AI. In our understanding, we may be talking about the “heart” of AI, considering that it is going to be the engine of the following phases. When choosing this topic, it is essential to understand that it must be judiciously and carefully chosen and must involve affirmative questions that were, at some point, related to the organization’s best experiences. This choice can be based on anything that an organization considers strategically and humanly important. It can be about technical processes, financial efficiencies,

human issues, market opportunities, social responsibilities or anything else (Cooperrider & Whitney, 2005). The challenge is to ask questions that deliberately focus on those factors that contribute to the functioning of the system at its best. The questions are designed to encourage participants to search for stories that incorporate these affirmative topics. Participants are encouraged to develop an eye that appreciates human capacity and human systems (Gergen et al., 2004).

Sveiby (1998) states that “people are the only real agents in the company. All assets and structures – whether tangible or intangible – are the result of human actions. Everyone depends on people, ultimately, to continue to exist” (p. 9). From this premise, we can understand that the process of wealth generation in an organization, despite the technological revolution, is initially permeated by human knowledge. Every day countless decisions are taken – by humans, certainly – in the business environment that influence and interfere with their success and are influenced by them, determining levels of work quality (Dutra, 2010). Thus, all hierarchical levels are called upon to collaborate in the creation of new knowledge, each of them doing their part, their best.

This differentiation of the roles played in the organization requires a synchronized dynamic, a harmonious interaction between them aiming at the creation of organizational knowledge, which can be understood as “the organization’s ability to create new knowledge, disseminate it in the organization as a whole and **incorporate it into products, services and systems**” (Nonaka & Takeuchi, 1997, p. 8, our translation, emphasis added).

It is clear that the managers’ ideas, ways of thinking and managing, as well as the employees’ contribution capacity in an organization can leverage its organizational potential and, consequently, its results. The better and more creative the idea, and the more quickly they are put into practice, the greater the chances of success and value creation for the company. It is as if we were to say that the ideas of brilliant minds like Leonardo da Vinci, Beethoven, or Nikola Tesla would be of no (or little) use if their ideas did not become a PC like the Mona Lisa, the 9th Symphony, or the transmission of alternating current, to name just a few examples. Ideas are conceived, matured and put into practice to become PC. From then on, when the company starts operating, it builds its intangible competitive advantages, such as the institutional brand and its products, differentiated technological and managerial capacity, intellectual capital, employee motivation, and customer satisfaction and loyalty, etc. But this IC does not exist by itself, and it has no economic value because it “only exists” in an organization: in fact, it is channeled, directed towards the purpose (mission) of the firm. Therefore, IC, despite being valued in a business combination in the form of goodwill, does not exist separately from PC (assets, liabilities, products and services).

The “Discovery” and “Dream” phases are more strongly linked to this initial context of the emergence of new ideas. As summarized by Whitney and Trosten-Bloom (2001):

The Discovery phase is a quest to identify positive stories and spread them throughout the organization. It brings into focus those things which give life and energy to people, their work, and their organization [...] shifts the balance of organizational attention from what isn’t working to what is, and to what may possibly work in the future; [...] The Dream phase is a time for groups of people to engage in thinking big, thinking out of the box, and thinking out of the boundaries of what has been in the past. It is a time for people to describe their wishes and dreams for their work, their working relationships, and their organization (Whitney & Trosten-Bloom, 2001, pp. 4-5).

It is possible to observe the importance of the broad participation of the functional staff, since it is they who are at the head of the production chain and can observe more closely the weaknesses and virtues of the process. In the Dream phase, participants identify their positive essential values and apply them to their ideal future, as this phase involves creating a vision oriented towards the results of the discovered potential and its relationship with higher purpose issues (Tittle, 2018; Gray et al., 2019). It is at this stage that the capacity for creative ideas to emerge proliferates, ideas that may assist top management in the decision-making process, which, in turn, will be reflected in the company’s PC. Therefore, by sustaining goodwill as an intangible capital of organizations, we are asserting that human qualities, virtues and actions are drivers of value for the PC. Both (IC and PC) act “entangled” in the process of generating residual earnings.

The predominant literature highlights that goodwill is related to the company’s ability to obtain residual earnings (Martins, 1972, Johnson & Petrone, 1998; Wen & Moehrl, 2016). However, Ma and Hopkins (1988) contend that “to understand the nature of goodwill, it is necessary to go beyond the measurement issue and ask why superior earnings exist?” (p. 76). According to the authors, the use of an asset in combination with other assets leads to an interaction that favorably affects the company’s productivity – also called synergy from the interaction of assets – which results in residual earnings. So, “thinking out of the box, and thinking out of the boundaries of what has been in the past” allows for the creation of interaction between new ideas (IC) and future assets (PC) with a view to residual earnings.

When a company decides to acquire or merge with another company, the managers certainly evaluate the pros and cons of the merger/acquisition taking into account the ability to generate positive results for the business and comparing them with other possible investment alternatives. Managers at different levels participate in the analysis and are advised by senior management on the potential gain of the combination. A decision is made based on their assessment and advice (Mirvis & Marks, 1992; Calipha et al., 2010). In this

spectrum, we highlight the perspective approached in AI as a way to enhance the acquired goodwill. When looking for an environment that is conducive to the adoption of new ideas – with the participation of the entire functional body, considering the best that is within the organization, motivating employees, highlighting affirmative topics, among other aspects of AI – it is possible to create an environment that is conducive to synergy resulting from the interaction of assets (in their broadest sense!).

3 The “rugby” metaphor: passing the ball to advance as a unit!

In this topic we look for inspiration in the metaphor used by Nonaka and Takeuchi (1997) when presenting their discussion of the importance of sharing innovative knowledge. This knowledge is not transmitted in a defined or structured way, or even in a linear or sequential way: “the movement of the ball in rugby arises from the interaction between team members on the field” (Nonaka & Takeuchi, 1997, foreword vii, our translation). All companies have certain organizational knowledge, which is their ability to perform activities and processes harmoniously that people would be unable to do in isolation. This is what creates value for the products / services they offer their customers. Knowledge translates into the products, services and image that the organization presents to its stakeholders (Brito, 2008).

First, it is necessary to address the different forms of knowledge exist in an organization. Extensive literature highlights two forms of knowledge: explicit and tacit, the first being highly coded and transmissible in formal and systematic language; while tacit knowledge is abstract, non-verbalizable, intuitive and can only be communicated with the active involvement of the knowledge holder. It is learned through collaborative experiences (Cavusgil et al., 2003; Hussi, 2004). The conversion of tacit knowledge into explicit knowledge is critical to the success of a company, as it is a prerequisite for expanding organizational knowledge and learning (Herschel et al., 2001). According to Cavusgil et al. (2003), companies that create and use knowledge quickly and effectively are able to innovate more quickly and successfully. The authors discuss the importance of the external environment in obtaining knowledge and find empirical evidence that: (i) the transfer of tacit knowledge enables companies to develop a great capacity for innovation; (ii) collaborative experience among companies also plays an important role in the transfer of tacit knowledge; and (iii) companies with a greater collaborative experience can benefit more from this transfer of tacit knowledge. The key point in creating knowledge is precisely the interaction between tacit and explicit knowledge instead of them acting separately (Hussi, 2004).

In this phase of interaction and the sharing of ideas – in addition to the previous phases that also provide this interaction – we highlight the design phase. Both the discovery and dream phases encourage participants to think about new possibilities, while the design phase uses provocative proposals for encouraging participants to create actions around the possibilities (Tittle, 2018). Whitney and Trosten-Bloom (2001), point out that in the design phase organization members and stakeholders “recreate the ‘social architecture’ of the organization, so that everything about the organizing reflects and is responsive to the organization’s most positive past and highest potential” (p. 5). This phase is essential for sustaining positive changes and responding to the most positive and highest potential of the organization. Based on the best, good appreciation projects address all three elements that are necessary for effective organizational change: continuity, novelty and transition (Fernando, 2010). According to Varona (2004), it is the time “to generate real visionary propositions that allow us to design a vision of the organization as an excellent place to work” (p. 23). At this stage, organization members decide which proposals will be executed and how to achieve success in realizing their dreams for the organization through an action plan.

This sharing of knowledge generating learning among organization members means a leap in quality, specialization, skills and - why not? - in the motivation of different employees at different hierarchical levels. This knowledge synergy adds economic value to a company. For Glautier and Underdown (2001), goodwill can be described as the sum of those intangible attributes of a business that contribute to its success, such as a favorable location, a good reputation, the capacity and skill of its employees and managers, and their relationships with creditors, suppliers and customers. We postulate that this synergistic set of staff capacities / abilities, which spreads among its members through the transmission of knowledge in the AI environment, provides the ideal scenario for the emergence of innovative products / services, thus generating gains in scale for an organization. This is the goodwill we stand for (!); that something more that each particular company can itself absorb, and that we understand is interconnected with AI.

For Citolin (2009), AI, which is different from traditional approaches, can be an important tool for supporting innovation, since the exchange of experiences, dialogue and collective vision of the future creates the learning and the commitment necessary for the emergence of innovation (for example, improvements in existing processes, the adoption of new processes, the creation of new products/services, or management practices themselves). It is clear that to add value, knowledge sharing in organizations needs to be a “fair game”, free from feelings such as selfishness, envy or jealousy. It needs to be an “unstuck game”, in which there is no fear of exposing oneself and, at the same time, in which minds are open to receive new ideas. It must also be a game without fouls or penalties that lead to yellow or red cards. People need to feel encouraged to play this game; a participatory game of passing and receiving “the ball” with the constant desire to score tries, I mean, to increase organizational knowledge and, consequently, its innovative capacity.

The ball that is passed from one player to another contains a shared understanding of the company's reason for being, for the direction it is taking [...] and how to make this world a reality. Insights, intuition and feeling are taken into account. That's what the ball contains – that is, ideas, values and emotions (Nonaka & Takeuchi, 1997, foreword xi, our translation).

4 2001: a space odyssey

In this section we refer to the future the organization has to face. But it is not an uncertain future as suggested by the famous film that serves as the title for this topic. It is a future that will be achieved through feasible goals and constructed in a shared, a combined manner. It is the moment to collectively glimpse, by way of what was constructed in previous phases, how to achieve the dream that was designed. How are people going to take the knowledge acquired into this desired future? In fact, this question reminds us of another theme related to the year 2001, the title of a sambaⁱⁱⁱ: “*Desse mundo louco, de tudo um pouco eu vou levar pra 2001. Avançar no tempo e nas estrelas. Fazer meu Ziriguidum*”. From all the knowledge shared and acquired by collaborators, each one takes a little to build this innovative future. This is the destiny (or delivery) phase, in which commitments are made to ensure that the product from the design phase is carried out. In this phase, individuals are committed to applications and action plans.

The change, certainly, occurs in all phases of an AI, as the process provides an open space for employees to collaborate and move forward towards the more varied issues of the organization. It is in the delivery phase, however, that personal and organizational commitments are specifically concentrated, as are the “paths forward” (Whitney & Trosten-Bloom, 2001, p. 6). Ludema *et al.* (2003) state that the destiny phase is “an invitation to construct the future through innovation and action”, since “people find innovative ways to help move the organization closer to the ideal” (p. 11). We believe that in this phase it is time to “roll up your sleeves”, to seek even stronger organizational integration and to put into practice the goals established in the previous phases. It is time to implement the improvements that will materialize in PC and make it possibly more valuable than before. In this phase, the entity begins to see the results of the entire process taking shape, materializing in the way people act and innovate. It is also the time to sow the organizational ground for transformation and best practices. This last phase is, in a sense, both a closure and the beginning of the rest of the organization's life (Fernando, 2010).

This suggests that goodwill is also materializing economically in parallel, that is, becoming PC and generating residual earnings. Goodwill as an integral part of intangible assets can be characterized as a synthesis of several other intangible elements present in the organization (such as management flexibility, reputation, differentiated technology, location, intellectual capital, customer loyalty, employee motivation, etc.), and “the harmonic interactions of those assets with the firm's internal and external environment produce synergy effects capable of generating excess returns for the company” (Lustosa, 2017, p. 2). In this final phase, the interconnection between the AI approach and the goodwill that we postulated in this essay seems to be even more evident. These forces, which are not recognized separately, start to emerge from the discovery phase. They are incorporated into the following phases until they “materialize” definitively in the form of the goodwill that is recognized by the market in the destiny phase, at least until a new organizational learning cycle begins, which could even result in an increase in this goodwill. This final phase aims to create a culture and structure of continuous learning, innovation, improvisation and change (Fernando, 2010).

After highlighting the 4D cycle, which presents the phases of AI implementation, it is also important to highlight its guiding principles, that is, the doctrinal currents that underlie AI. We briefly present these five principles based on Cooperrider and Whitney (2005). First, the Constructionist Principle, which has to do with organizational collectivity rather than individual collectivity, which acts proactively to guide the company's destiny. For Bushe and Kassam (2005), this principle states that “how we know and what we do” are closely interconnected (p. 166). Second, the Simultaneity Principle: “inquiry and change are not separate moments but totally entwined and entangled” (Cooperrider, 2013, p. 26). Change starts happening at the moment the first questions in the investigation process begin. Inquiry is intervention. Third, the Poetic Principle: the history of an organization is constantly co-authored, that is, it is due to the stories that people tell each other on a daily basis. Past, present or future are endless sources of learning and inspiration. Fourth, the Anticipatory Principle: our positive images of the future drive our positive actions. Our actions today are an anticipation of what we envision and desire in the future. Fifth, the Positive Principle: construction and sustaining momentum for change demand huge amounts of positive feeling and social bonding. The more positive the questions we ask in our work, the more lasting and successful will be the change effort.

5 Organizations seen as brains

In this topic we refer to Gareth Morgan and his book, “Images of Organization”, to present further reflections on the interaction proposed in this essay. When we argue that goodwill is that intangible asset that resides in the ideas of managers and employees, but that are not yet embodied in physical capital, we argue that organizations are valued for what they think and are able to put into practice. An environment of innovative ideas, together with the ability to quickly execute the consequent transformations (including their own

organizational structures and products/services), are instruments that enhance the market value of organizations in the form of goodwill. However, this is no simple task! Morgan (2000) asks: “Is it possible to create ‘learning organizations’ with the capacity to be as flexible, elastic and ingenious as the functioning of the brain?” (p. 91). In this challenging scenario, the author highlights the need for the organization to be interrelated: (i) as an information-processing brain; (ii) as complex systems capable of learning; and (iii) as holographic systems that combine centralized and decentralized characteristics. Organizations with the skills needed for adapting better to environmental changes, trending and customer preferences (existing and potential), are the ones that will survive this modern scenario, in which companies need to think ahead and envision new businesses and markets, internationalization, business discontinuation, etc.

We believe that the market positively values the adaptive capacity of companies, which makes them worth (much) more than the amounts they present in their financial statements. Imbued with this vision, companies can (in fact, they must!) indicate the strength of their IC to the market. Some authors consider that current financial reports do not adequately reflect or capture the value vectors that dominate the new economy (Lev & Zarowin, 1999; Kang & Gray, 2011) since the source of economic value is no longer the production of material goods, but the creation of intellectual capital (Chen et al., 2005). Therefore, notes on the financial statements, annual reports, voluntary reports, internet pages, among other tools, are sources of valuable information for investors, as they allow management to show their IC to all stakeholders. This greatly contributes to the investor’s ability to measure the company’s earnings-generation capacity (in addition to the accounting figures). However, reliably measuring this “something else”, this IC, is no trivial matter. For Martins (2002), expatiating on goodwill is a difficult task and one that involves several different and even conflicting, subjects. Given the characteristics of the current economy, it is a topic that has been widely debated until today, both in academia and in the capital market, despite being a relatively old subject.

Wen and Moehle (2016) define goodwill as those amounts paid in excess of the fair value of the identifiable net assets for acquiring a business. It is understood that this “premium”, which is paid to take control of a business, is directly related to excess profits in the future on the same assets that existed before the transaction between the parties. A question then arises: How will the same assets that did not generate excess profits for the acquired company generate these residual earnings for the acquiring company? The answer we postulate in this essay is that it is the managerial forces, ideas to be implemented, intellectual capital, in short, the scale gains implemented in the form of managing these assets, which will provide abnormal gains for a company that acquires another (totally or in part). This additional gain is visualized in advance by managers who then decide to acquire a business.

This essay maintains that the premium paid in a business merger is due to management decisions that will be implemented and that are related to the acquirer’s intellectual capacity – firstly – whether they are added, or not, to certain characteristics of the acquiree. This acquired goodwill (IC) will still be transformed into PC in the future, as **“all assets and structures – whether tangible or intangible – are the result of human actions**. Everyone depends on people, ultimately, to continue to exist” (Sveiby, 1998, p. 9, our translation and emphasis). This IC can also be “exported” through the acquisition of companies in a transnational scenario. Frésard et al. (2017) highlight the role of specialization as a factor in the internationalization of companies – through the acquisition of less specialized companies – and note that the volume, direction and value creation are related to the acquiring firms’ willingness to implement advantages related to mobile intangibles over foreign assets. The authors point out that the economic gains in transnational businesses are greater when specialized buyers buy assets in less specialized sectors in other countries, and that the intensity of transnational businesses is stronger when the acquiring industry benefits from human and technological capital compared to the acquired sector.

Put another way, AI seems to be part of this context as it refers to a research perspective that aims to discover, understand and foster innovations in socio-organizational arrangements and processes (Cooperrider & Srivastva, 1987). This methodology, which is idealized in the (re)discovery of the strengths of each experience lived by managers and collaborators – instead of being concerned with solving problems – seeks to promote and share this knowledge, aiming at new discoveries and innovations in organizational processes in an environment of collaboration and harmony. Through AI, organizations around the world have sought to create positive changes for a number of issues, such as building partnerships and alliances, strategic planning, reducing product development time, improving employee morale and retention, and improving productivity, quality and finances (Cooperrider & Whitney, 2005).

It is important to note that AI postulates that the goals and commitments established must be fully attainable. This must be considered in each of the phases of the 4D cycle. Cooperrider and Srivastva (1987) stress that action-research should not investigate phenomena that transcend the competence of human reason. Questions that cannot be answered should not be asked, and matters that cannot be put into practice should not be explored (that is, action-research is not a branch of political philosophy, poetry or theology). Perhaps it is for this reason that AI, differentiating itself from other approaches, allows the participation of several stakeholders. For Boyd and Bright (2007), AI allows the involvement of multiple stakeholders and, therefore, reflects an appreciation and respect for the diversity and tolerance of individual differences. By its very nature, AI also tends to create interventions that increase the power of diversity as an ongoing resource within organizations.

6 Not to say I did not mention the numbers

Intangible investments have been growing in such a way that Lev (2018) points out that they have become the trademark of developed economies, and have initiated significant changes in the business models, strategies and performance of companies. The GIFT (Global Intangible Finance Tracker) report of 2019 corroborates this information, showing that goodwill has been increasing. It doubled in magnitude, from \$ 3 trillion in 2005 to \$ 6 trillion in 2015, and by 2019 that figure had reached \$ 8.4 trillion. Furthermore, the same report states that disclosed goodwill continues to hover around 8 to 10% of a company's total worth, and that the undisclosed global intangible worth rose from \$ 15 trillion in 2011 to \$ 35 trillion in 2016.

Lev (2004) states that intangible assets generate most of the corporate growth and shareholder value. In fact, it is these "soft" assets that give today's companies their competitive advantage. More specifically in relation to goodwill, we sought to highlight its relevance in organizations in Figure 2. We obtained data from the Compustat – Capital IQ database on the goodwill balances of global companies in a wide variety of sectors and countries between 2000 and 2017. The sample ranged from 14,983 companies (in 2000) to 25,998 (in 2014). The average participation of goodwill was about 5% of total assets in the period.

We also presented some case studies that were covered in the AI literature to exemplify the synergy gains and the impact on the results of organizations around the world after they adopted the AI approach. These were taken and adapted from Cooperrider and Whitney (2005). From these examples, we asked whether such reflexes could be correlated with the recognition of goodwill in these organizations. GTE/Verizon won the ASTD (American Society for Training and Development)^{iv} award for the best organizational change program in the country. This award was based on significant and measurable changes in stock prices, morale research measures, quality and customer relations, among others. Roadway Express launched an initiative for reducing costs and increasing business more quickly. When AI started, the company's stock was around \$ 14 a share. In two years, the stock rose to more than \$ 40 per share. After a merger in 2003, the combined company was valued at around \$ 42 per share, due to the strength of Roadway's improvements.

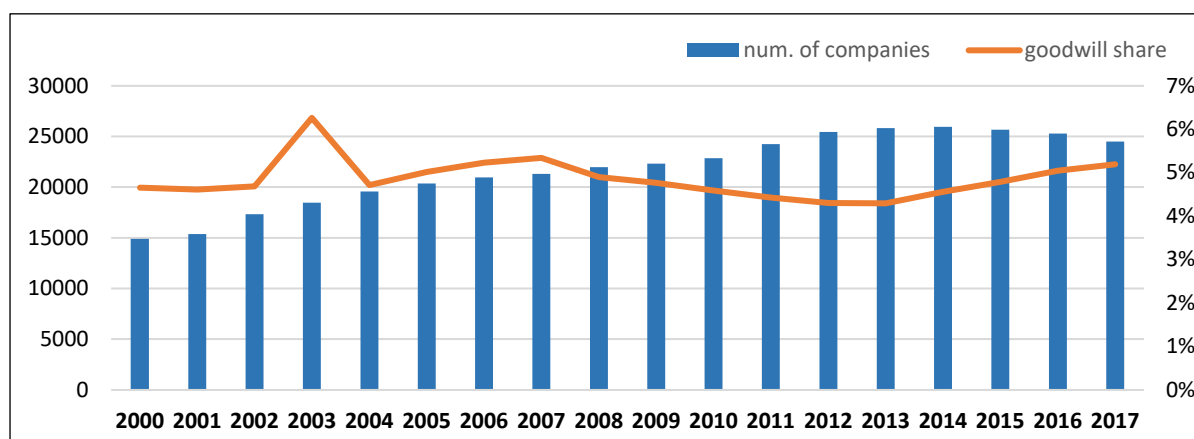


Figure 2 – Goodwill as a proportion of total assets – Global

Source: prepared by the author, based on Compustat data

In Brazil, Rocha Loures (2008) pointed out that Nutrimental implemented AI in 1997 and completed the 4D cycle in 1999, giving results at different levels in the company: financial, individual and organizational. Sales doubled in just a few years, while operating results increased tenfold. In a recent study that used the AI approach to optimize a company's relationship network (relational capital), Shah et al. (2020) observed that after the adoption of AI there was a significant improvement in the employees' relational skills in the Sales and Purchases Department over a short period of three months after the intervention. The attitude of employees in dealing with members of the supply chain and customers also improved, as did intra-organizational communication

Despite the success stories, AI is also subject to criticism and concern, just like any other approach. The study by Bushe and Kassam (2005), with twenty cases relating to the use of AI, showed that only seven (35%) had transformational results, that is, innovations in organizational change. Some authors also draw attention to the issue of positivity bias, which can blind the researcher to part of the reality, that is, deficits, gaps and problems (Grieten et al., 2018). Thus, the focus on positive stories and experiences may end up hiding or camouflaging some of the negative organizational experiences of participants, thereby repressing potentially important and significant stories for the company (Bushe, 2011).

For Gergen et al. (2001), the specific means of fostering AI derives from the constructionist emphasis on narrative. People have their own life stories, many of which derive from stories of overcoming, values, wonderment and joy. "Within an organization, these stories are valuable resources, **almost like money in the bank** (...). And in listening to these stories confidence is encouraged to believe that the vision really can be

realized” (p. 698, our translation and emphasis). Thus, they unleash the powers of creative change. For Rocha Loures (2008), when a company is innovative in this process, the results are achieved simultaneously with people’s learning. No additional time is needed for reflection, the internalization of change, or learning new attitudes and skills, which makes the organizational change process very dynamic and effective.

The issues discussed here help us reflect and seem to converge towards the similarities that could, at least in part, explain the recognition of goodwill. We argue that the positive elements (or affirmative topics) constitute the intangible forces “with no defined useful life”, whose monetary effect is embedded in the economic value of the PC (inventory, machines, accounts receivable, etc.) and IC (ideas, innovation plans, strategies, etc.) of the company. This interrelation stands out even more insofar as AI provides for the exercise of dialogue as a means of transformation. From it, individuals overflow with their best in terms of creativity and innovation in an environment of cooperation. It is in this window of opportunity that organizational knowledge is created, which is capable of making organizations worth (much) more than balance sheets indicate. However, the virtuous circle presented in this essay needs to be constantly renewed so that it does not depreciate, like the “double circuit”, as defined in Morgan (2000). According to the author,

... to learn and change, members of the organization need to be able to understand the assumptions, benchmarks and standards that govern current activity and to challenge and change them when necessary (...) Double circuit learning depends on what is sometimes described as the art of framing and reframing... (Morgan, 2000, p. 102, our translation).

Argote et al. (1990) suggest that the knowledge acquired in production depreciates quickly (much faster than the rate of turnover of the workforce), that is, a substantial component of organizational learning depreciates quickly, and understanding why this happens is a good question for future research to address.

The insights in this essay point to future research opportunities for fostering new discussions and reflections. Given the lack of empirical research and critical reflection along this line (Van der Haar & Hosking, 2004), we suggest further research might analyze the PC growth curve after business combination processes involving the payment of goodwill; undertake interpretive and positivist analyses of the relationship between IC and themes related to innovation, such as startups, artificial intelligence, big data, machine learning, etc. ; carry out empirical studies that investigate the relationship between PC and IC; and explore critical approaches to maintaining goodwill indefinitely. In the latter case, we ask whether this synergistic set, which characterizes goodwill, does not suffer depreciation as it materializes in PC. In this case, is it not possible that goodwill is being doubly recognized in several companies: acquired goodwill and internally generated goodwill? Lastly, could goodwill be considered an expense (instead of an asset)? The literature has shown that most mergers and acquisitions are considered a failure when it comes to delivering shareholder value (Calipha et al., 2010; Marks & Mirvis, 2011), and further research on goodwill can help us understand the reason why. Such issues can also help in understanding the real nature of goodwill, thus making contributions to the regulatory process conducted by the main world standard setters.

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NOTES

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ⁱ Gecon is a theoretical model on the nature of organizations that was developed at the University of São Paulo - USP by Professor Armando Catelli, between the late 1970s and the early 2000s. It systematically brings together knowledge from various fields, mainly the General Theory of Systems, Business Administration, Economics and Accounting (Lustosa, 2017, p. 12-13).

ⁱⁱ For additional information on ongoing projects, see the links:

https://www.fasb.org/jsp/FASB/FASBContent_C/ProjectUpdateExpandPage&cid=1176171566054&pf=true

<https://www.ifrs.org/news-and-events/updates/iasb-updates/july-2019/>

ⁱⁱⁱ 1985's Brazilian carnival samba theme - G.R.E.S. Mocidade Independente de Padre Miguel: Ziriguidum 2001, Carnival in the stars.

^{iv} In 2014 ASTD changed its name to ATD (Association for Talent Development).