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Making sense of business failure: a social psychological perspective on financial and legal judgments in the context of insolvency

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The fate of a company and its directors in (near) insolvency situations is for an important part in the hands of financiers and legal professionals. Specifically, when a company is approaching insolvency, financiers need to assess the causes of the company's decline as well as its future outlook, in order to establish whether refinancing makes sense or whether liquidation would be more economical. When a company already entered insolvency proceedings, legal professionals need to determine the causes of the company's demise, as company directors risk being held personally liable for creditors' damages if mismanagement is considered an important cause of the company's downfall.

Given the potentially adverse consequences of faulty judgments made by these parties, such as erroneously liquidating an economically viable company or holding directors unduly liable, it is of utmost importance that a company's decline and its directors' actions are accurately and objectively assessed. Importantly, advances in psychological science have pointed out that humans are susceptible to so-called cognitive biases that can obfuscate otherwise sound judgments, in particular when dealing with complex matters under conditions of uncertainty and time constraints. This dissertation investigates to what extent cognitive biases cloud financiers' and legal professionals' judgments and aims to further our understanding of these biases.

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Making Sense of Business Failure



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