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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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Citation

Strohmaier, N. (2020, July 1). *Making sense of business failure: a social psychological perspective on financial and legal judgments in the context of insolvency*. Meijers-reeks. Retrieved from <https://hdl.handle.net/1887/123186>

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Issue Date: 2020-07-01

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Appendices

Appendix 4.1

Nationalities of the Participants

| | N | % | Cumulative % | | N | % | Cumulative % |
|----------------|----|------|--------------|-----------------|-----|-----|--------------|
| United Kingdom | 72 | 26.5 | 26.5 | Italy | 2 | .7 | 91.9 |
| Australia | 44 | 16.2 | 42.6 | Luxembourg | 2 | .7 | 92.6 |
| South Africa | 25 | 9.2 | 51.8 | Portugal | 2 | .7 | 93.4 |
| Canada | 15 | 5.5 | 57.4 | Singapore | 2 | .7 | 94.1 |
| United States | 13 | 4.8 | 62.1 | Slovakia | 2 | .7 | 94.9 |
| Netherlands | 13 | 4.8 | 66.9 | Belgium | 1 | .4 | 95.2 |
| Nigeria | 12 | 4.4 | 71.3 | Bermuda | 1 | .4 | 95.6 |
| Brazil | 10 | 3.7 | 75.0 | Brit.Virg. Isl. | 1 | .4 | 96.0 |
| New Zealand | 7 | 2.6 | 77.6 | Cayman Islands | 1 | .4 | 96.3 |
| Ireland | 6 | 2.2 | 79.8 | Colombia | 1 | .4 | 96.7 |
| China | 4 | 1.5 | 81.3 | Ghana | 1 | .4 | 97.1 |
| Finland | 4 | 1.5 | 82.7 | Hungary | 1 | .4 | 97.4 |
| Russia | 4 | 1.5 | 84.2 | Jamaica | 1 | .4 | 97.8 |
| Argentina | 3 | 1.1 | 85.3 | Peru | 1 | .4 | 98.2 |
| Japan | 3 | 1.1 | 86.4 | Philippines | 1 | .4 | 98.5 |
| Malaysia | 3 | 1.1 | 87.5 | Poland | 1 | .4 | 98.9 |
| Bahamas | 2 | .7 | 88.2 | Romania | 1 | .4 | 99.3 |
| France | 2 | .7 | 89.0 | Spain | 1 | .4 | 99.6 |
| Guatemala | 2 | .7 | 89.7 | Trinidad & Tob. | 1 | .4 | 100 |
| India | 2 | .7 | 90.4 | TOTAL | 272 | 100 | 100 |
| Indonesia | 2 | .7 | 91.2 | | | | |

Appendix 4.2

Valuation Case

History

Recently, one of UK's respectable fashion companies, 'International Women Clothing' ('the Company'), went bankrupt. Exceeding an annual turnover of GBP 100 million and having more than 350 people employed, the Company was unable to become profitable during the last years, partly due to a decline in consumer spending. After many years of different retrenchment programs and financial restructurings, no meaningful improvements became visible. In the last year the loss exceeded an amount of GBP 12 million. The banks and financiers of the Company decided to end the funding. A bankruptcy was inevitable after being in the market for more than twenty years.

Current situation

We would like you to put yourself in the shoes of the trustee who is appointed by the court and whose main task is to optimize the revenues in the interest of the creditors. There is a potential candidate to relaunch the Company and that offers a serious chance for continuation of the Company (i.e., by means of a transfer of all assets of the bankrupt Company including most of its personnel). The most important assets are tradenames, distribution rights, inventory, software, and leases of prime properties.

The secured and unsecured creditors of the Company are exposed to a deficit of approx. GBP 25 million, including all costs to settle the estate. You strive to sell the assets of the bankrupt Company for at least this amount to minimize any shortage of the estate. By doing so, you may possibly satisfy all creditors. All Company's stakeholders are of the opinion that these sales proceeds of the assets are realistic to expect. Importantly, outsiders follow the results in this bankruptcy with great interest as the (former) statutory director and main shareholder of the Company is well introduced in high society.

The potential buyer of the assets of the Company is a well-known European private equity firm ('PE-firm') specialized in fashion retail through one of its funds, but above all experienced in turnarounds of distressed companies. To prepare the negotiations with this potential buyer, you need some advice on the estimated value of the assets. Indeed, private equity is known for its financial knowledge and you want to avoid selling the assets too low. To realize a quick deal, you start the negotiations with this potential buyer who you know has the required capital to buy the assets. You hire a valuation professional who provides support in this delicate matter.

Although the available budget for this work is limited as it increases the costs of the estate, it may eventually support in maximizing the sales proceeds.

About the valuation professional and the valuation firm

You are introduced to a valuator called [Laura/Andrew]¹ Matthews. [Laura/Andrew]¹ Matthews is in [her/his]¹ [twenties/thirties/forties/fifties/sixties]¹ and is a certified valuation analyst accredited by the Association of Certified Business Valuators in the UK. [Laura/Andrew]¹ has a BA in economics with a specialization in business valuation and has worked in different capacities in finance. For quite some years now [she/he]¹ is active as a professional business valuator. [Laura/Andrew]¹ Matthews works for [a/an] [small, local valuation/international Big Four]² firm.

Valuation

[Laura/Andrew]¹ Matthews performed the valuation and presents the report, explaining the applied valuation assumptions and corresponding calculations in detail. A Discounted Cash Flow method (DCF, i.e. an intrinsic valuation) was used to calculate the present value of the future cash flows, applying an appropriate discount rate. The content of the valuation report includes the following main topics:

- About the DCF-method
- Historical performance
- Return on capital, Reinvestment rate and Growth rate
- Cash flow (from assets) projection
- Discount rate
- DCF-value of the assets (reflecting cash flow, growth, risk)

Unfortunately, it appears that the assets are valued at (rounded) GBP 18 million, around GBP 7 million less than the creditors deficit. Although a potential sale of GBP 18 million would imply a (mean) recovery rate of around 72%, senior unsecured and senior subordinated bond holders will lose a lot of money, contrary to earlier expectations.

The conclusion of the valuator is that based on the assumptions described in the report, the value of the assets at valuation date is GBP 18,25 million. Based on this outcome, a sale of the assets will very likely result in a deficit of the estate. Moreover, in the negotiations with the potential buyer it will now become more difficult to achieve sales proceeds close to GBP 25 million as they will probably do their math as well.

1 NB either Laura or Andrew, resp. his or her, resp. twenties or thirties or forties or fifties or sixties, depending on the experimental condition.

2 NB either a small, local valuation firm, or an international Big Four firm, depending on the experimental condition.

Appendix 4.3

Positive and Negative Outcome Scenarios

Positive deal:

You moved forward with the PE-firm and started the negotiations based on the GBP 18 million valuation. The buyer probably made his own calculations as they were reluctant to accept the value of GBP 18 million. The Company's creditors and other stakeholders were surprised by how long the deal took to close, knowing that private equity normally is keen to jump on a good opportunity. During the negotiation process, you were approached by a few other interested parties who ended their interest after hearing the negotiation price was GBP 18 million. Nonetheless, in the end the deal was closed for GBP 18 million. The Company's creditors and other stakeholders felt that the deal was a good one and that a higher price for the assets was unattainable. They reported feeling satisfied, believing that a deal to cover the whole deficit of the estate was not feasible.

Negative deal:

You moved forward with the PE-firm and started the negotiations based on the GBP 18 million valuation. The buyer probably made his own calculations as they accepted the value of GBP 18 million instantly. The Company's creditors and other stakeholders were surprised by how fast the deal was closed, knowing that private equity normally takes the time to negotiate. Additionally, after closing this deal, you were approached by a few other interested parties who indicated a value of GBP 25 million and above. Based on these factors, the Company's creditors and other stakeholders felt that the deal was not a good one and that a higher price for the assets was attainable. They reported feeling frustrated, believing that a good enough deal to cover the whole deficit of the estate was feasible.

Appendix 5.1

Overview of the participants' nationalities in Study 1

| | N | % | Cumulative % | | N | % | Cumulative % |
|----------------|-----|------|--------------|----------------|------------|------------|--------------|
| United Kingdom | 253 | 34.8 | 34.8 | Scotland | 7 | 1.0 | 93.5 |
| Germany | 68 | 9.4 | 44.2 | Hungary | 6 | .8 | 94.4 |
| Romania | 65 | 8.9 | 53.1 | Netherlands | 5 | .7 | 95.7 |
| Ireland | 39 | 5.4 | 58.5 | Estonia | 5 | .7 | 95.7 |
| Italy | 36 | 5.0 | 63.4 | Luxembourg | 4 | .6 | 96.3 |
| Poland | 28 | 3.9 | 67.3 | Unknown | 3 | .4 | 96.7 |
| France | 24 | 3.3 | 70.6 | Czech Republic | 3 | .4 | 97.1 |
| Spain | 21 | 2.9 | 73.5 | Kosovo | 3 | .4 | 97.5 |
| Switzerland | 17 | 2.3 | 75.8 | Latvia | 3 | .4 | 97.9 |
| Portugal | 16 | 2.3 | 78.0 | Bulgaria | 2 | .3 | 98.2 |
| Greece | 14 | 1.9 | 79.9 | Croatia | 2 | .3 | 98.5 |
| Sweden | 13 | 1.8 | 81.7 | Iceland | 2 | .3 | 98.8 |
| Belgium | 12 | 1.7 | 83.4 | Serbia | 2 | .3 | 99.0 |
| Non-Europe | 12 | 1.7 | 85.0 | Turkey | 2 | .3 | 99.3 |
| Denmark | 11 | 1.5 | 86.5 | Albania | 1 | .1 | 99.4 |
| Finland | 11 | 1.5 | 88.0 | Cyprus | 1 | .1 | 99.6 |
| Slovakia | 11 | 1.5 | 89.5 | Liechtenstein | 1 | .1 | 99.7 |
| Austria | 8 | 1.1 | 90.6 | Norway | 1 | .1 | 99.9 |
| Lithuania | 7 | 1.0 | 91.6 | Slovenia | 1 | .1 | 100 |
| Russia | 7 | 1.0 | 93.6 | TOTAL | 727 | 100 | 100 |

Appendix 5.2

The business case of Study 1

The publicly listed company 'Automotive Parts Group' (APG) was experiencing financial difficulties for quite some time. For eight years straight they were loss-making and in 2014 they were facing a projected €100 million loss on a total turnover of approximately €1,2 billion. The cash reserves were also in a critical state that year and in the absence of any intervention, bankruptcy was inevitable. Originally, APG was a small manufacturer of car-parts supplying German carmakers. Despite starting off small, at the time of the crisis APG was a huge company with 97 different product groups and a global presence.

To turn the company around, a Dutch captain of industry named Cees van Gelder was asked to replace the CEO at APG. Before his position at APG, Cees was the CEO of a Paris-based corporation of luxury fashion brands, with a yearly turnover of around €800 million and sound profits. Cees' professional background and specialism is marketing and sales management. The appointment of Cees van Gelder as the turnaround CEO of APG was received with skepticism by 'industry watchers'. Despite being esteemed by his peers and recognised as a compelling leader, it was said he did not have the right background for APG.

After three months as head of the company, Cees presented his turnaround plan that consisted of three major pillars. First, a rigorous internal culture shift was deemed necessary; from secrecy to transparency and honest communication. Cees wanted to create a culture in which senior management focused primarily on the needs of the customers again, and in which mediocrity was no longer accepted. In addition, Cees wanted his senior management team to tell him honestly when things were not going well so they could all help each other out.

Second, Cees van Gelder put together a rigorous cost-cutting program. Several factories were shut down and 30% of staff was laid off, which combined resulted in a cost reduction of €50 million.

Finally, Cees decided to ask for additional loans of €50 million, putting a mortgage on all of APG's assets. This was considered a risky strategy as failing to turnaround the company would mean losing the company to the lenders. A group of major shareholders objected to this move as they too thought this to be a very risky strategy, but Cees followed through anyway, telling the shareholders that the additional loans were necessary to prevent imminent bankruptcy.

Paragraph containing the outcome of the case, only presented in the outcome condition:

Unfortunately, APG's shareholders turned out to be right. The company's high running costs and additional loans of €50 million put the business over the edge into bankruptcy. Not only were APG's employees left without a job, several of APG's suppliers

were also put out of business as APG was their most important customer. Furthermore, many small shareholders saw all their assets evaporate.

Appendix 5.3

Analyses of exploratory questions of Study 1

For exploratory reasons, we conducted analyses to see if there is a difference between the No-outcome condition and the Negative-outcome condition for the variables measuring whether participants believe outcome information *should* affect their legal judgments and whether they believe it *would* (in the No-outcome condition) or *did* (in the Negative-outcome condition) affect their judgments. Interestingly, whereas 43.6% in the No-outcome condition believed they should not be affected by outcome information but that they probably still would be affected (likely the most realistic position to take), this percentage dropped in the Negative-outcome condition, in which only 14.9% believed they were affected by the outcome information when they thought they should not be. Hence, it appears as though in hindsight, people are more confident in their abilities to not be affected by outcome information, compared to when these people predict their behavior in foresight. Indeed, whereas 39.3% indicated in foresight to expect not to be affected by outcome information when they also believed they should not be, in hindsight this percentage increased to 69.3%. The complete set of descriptive statistics can be found in the table below.

| | | No-outcome condition | | | Negative-outcome condition | | |
|-------------------------------|-------|------------------------|-------------|-------------|----------------------------|-------------|-------------|
| | | Would you be affected? | | | Were you affected? | | |
| | | Yes | No | Total | Yes | No | Total |
| Should you be affected? | Yes | 45 (14.8%) | 7 (2.3%) | 52 (17.0%) | 69 (21.9%) | 28 (8.9%) | 97 (30.8%) |
| | No | 133 (43.6%) | 120 (39.3%) | 253 (83.0%) | 47 (14.9%) | 171 (69.3%) | 218 (69.2%) |
| | Total | 178 (58.4%) | 127 (41.6%) | 305 (100%) | 116 (36.8%) | 199 (63.2%) | 315 (100%) |

Appendix 5.4

Overview of the participants' nationalities in Study 2

| | N | % | Cumulative % | | N | % | Cumulative % |
|----------------|-----|------|--------------|---------------------|------|-----|--------------|
| Australia | 204 | 20.4 | 20.4 | Trinidad and To. | 3 | .3 | 96.2 |
| United Kingdom | 145 | 14.5 | 34.8 | Italy | 3 | .3 | 96.5 |
| Canada | 109 | 10.9 | 45.7 | Poland | 3 | .3 | 96.8 |
| South Africa | 101 | 10.1 | 55.8 | Bermuda | 2 | .2 | 97.0 |
| USA | 71 | 7.1 | 62.9 | Filipins | 2 | .2 | 97.2 |
| New Zealand | 61 | 6.1 | 69 | Guatemala | 2 | .2 | 97.4 |
| Brazil | 57 | 5.7 | 74.7 | Switzerland | 2 | .2 | 97.6 |
| Finland | 39 | 3.9 | 78.5 | Sweden | 2 | .2 | 97.8 |
| Malaysia | 26 | 2.6 | 81.1 | Thailand | 2 | .2 | 98.0 |
| India | 25 | 2.5 | 83.6 | Uganda | 2 | .2 | 98.2 |
| China | 16 | 1.6 | 85.2 | Czech Republic | 2 | .2 | 98.4 |
| Ghana | 15 | 1.5 | 86.7 | Albania | 1 | .1 | 98.5 |
| Nigeria | 14 | 1.4 | 88.1 | Bahama's | 1 | .1 | 98.6 |
| Japan | 10 | 1.0 | 89.1 | British Virgin Isl. | 1 | .1 | 98.7 |
| Mexico | 9 | .9 | 90.0 | Cayman Islands | 1 | .1 | 98.8 |
| Mauritius | 8 | .8 | 90.8 | Malta | 1 | .1 | 98.9 |
| Singapore | 7 | .7 | 91.5 | Nepal | 1 | .1 | 99.0 |
| Colombia | 6 | .6 | 92.1 | Sri Lanka | 1 | .1 | 99.1 |
| France | 5 | .5 | 92.6 | Zimbabwe | 1 | .1 | 99.2 |
| Russia | 5 | .5 | 93.1 | Belgium | 1 | .1 | 99.3 |
| Argentina | 4 | .4 | 93.5 | Cyprus | 1 | .1 | 99.4 |
| Germany | 4 | .4 | 93.9 | Hungary | 1 | .1 | 99.5 |
| Indonesia | 4 | .4 | 94.3 | Kenya | 1 | .1 | 99.6 |
| Uruguay | 4 | .4 | 94.7 | Luxembourg | 1 | .1 | 99.7 |
| Chile | 3 | .3 | 95.0 | Spain | 1 | .1 | 99.8 |
| Netherlands | 3 | .3 | 95.3 | Taiwan | 1 | .1 | 99.9 |
| Korea | 3 | .3 | 95.6 | Missing | 1 | .1 | 100 |
| Peru | 3 | .3 | 95.9 | TOTAL | 1002 | 100 | 100 |

Appendix 5.5

Business case of Study 2

The publicly listed company 'Automotive Parts Group' (APG) was experiencing financial difficulties for quite some time. For eight years straight they were loss-making and in 2014 they were facing a projected € 50 million loss on a total turnover of approximately € 600 million. The cash reserves were also in a critical state that year and in the absence of any intervention, bankruptcy was inevitable. Originally, APG was a small manufacturer of car-parts supplying German carmakers. Despite starting off small, at the time of the crisis APG was a huge company with 97 different product groups and a global presence.

To turn the company around, a Dutch captain of industry named Cees van Gelder was asked to replace the CEO at APG. Before his position at APG, Cees was the CEO of a Paris-based corporation of luxury fashion brands, with a yearly turnover of around € 800 million and sound profits. Cees' professional background and specialism is marketing and sales management. The appointment of Cees van Gelder as the turnaround CEO of APG was received with skepticism by 'industry watchers'. Despite being esteemed by his peers and recognised as a compelling leader, it was said he did not have the right background for APG.

After three months as head of the company, Cees presented his turnaround plan that consisted of three major pillars.

(1) A major internal culture shift was deemed necessary; from secrecy to transparency and honest communication. Cees wanted to create a culture in which senior management focused primarily on the needs of the customers again, and in which mediocrity was no longer accepted.

(2) Cees van Gelder closed several factories and 15% of staff was laid off. However, many major shareholders were disappointed by these measures as they were expecting a more rigorous cost-cutting program.

(3) Cees decided to take out additional loans of € 50 million, putting a mortgage on all of APG's assets. The additional loans were allocated to product and brand innovation. Cees wanted to produce the best products that were in highest demand and for the best price.

A group of major shareholders objected to this move as they thought this to be a very risky strategy, especially due to the lack of a rigorous cost-cutting program. Failing to turnaround the company would mean losing the company to the lenders. Cees was well aware of the risks involved, but followed through anyway, telling the shareholders that the additional loans were necessary to prevent imminent bankruptcy. In Cees' vision, focussing on innovating and investing was the only way to secure a financially stable future for APG.

Negative outcome:

Unfortunately, APG's shareholders turned out to be right. The company's high running costs and additional loans of € 50 million put the business over the edge into bankruptcy. The internal culture shift did not quite work out as hoped and has been perceived as naive. Not only were APG's employees left without a job, several of APG's suppliers were also put out of business as APG was their most important customer. Furthermore, many small shareholders went bust and saw all their assets evaporate. APG's former employees and shareholders blame Cees van Gelder for the company's bankruptcy.

Positive outcome:

In the end, Cees' turnaround plan worked like a charm. The additional credit of € 50 million allowed APG to develop market leading products that were very well received, resulting in a significant increase in revenue. Additionally, production processes were made more efficient which led to further cost reductions. Not only did APG avoid bankruptcy, they are currently reporting huge profits and experience massive growth across the business. APG's staff and shareholders have praised Cees van Gelder for his leadership and fellow CEOs have nominated Cees for a number of industry awards.

Neutral outcome (only presented when measuring likelihood of three scenarios):

Although a bankruptcy has been avoided for the foreseeable future, APG has by no means rid itself from its troubled past. The internal culture shift has been slow to result in any tangible positive effects and the newly developed products are not quite living up to the expectations. With running costs still high and revenue growth less than hoped, APG's long-term future is still very insecure. Even though the major shareholders appreciate Cees van Gelder's role in avoiding bankruptcy, they are still skeptical about the chosen path and worry about what is to come.

Appendix 5.6

Analyses of exploratory questions of Study 2

We again conducted analyses to see if there is a difference between the No outcome and Negative outcome condition on the variables measuring whether participants believe outcome information should affect their legal judgments and whether they believe it would/did. Again we find that people appear in hindsight more confident in their belief that they are not affected by outcome information than they are in foresight when predicting their behaviour. In foresight, 40.4% said they should not be affected by outcome information, but believed they would still be affected. In hindsight, in case of the negative outcome, only 19.9% believed they were affected by the outcome information while they also believed they should not have been. Likewise, in foresight 28.9% of the participants believed they should not and would not be affected by outcome information, whereas in hindsight in case of the negative outcome 45.3% believed they were not affected when they also should not have been. The complete set of descriptive statistics can be found in the table below.

| | | No-outcome condition | | | Negative-outcome condition | | |
|-----------|-------|------------------------|------------|------------|----------------------------|-------------|------------|
| | | Would you be affected? | | | Were you affected? | | |
| | | Yes | No | Total | Yes | No | Total |
| Should | Yes | 75 (27.1%) | 10 (3.6%) | 85 (30.7%) | 71 (25.7%) | 25 (9.1%) | 96 (34.8%) |
| affected? | Total | 187 (67.5%) | 90 (32.5%) | 277 (100%) | 126 (45.7%) | 150 (54.3%) | 276 (100%) |

Appendix 6.1

Case used in Study 1-2

Yonos is a private company based in the Netherlands that manufactures premium suitcases. Yonos started in the early 1990s as a small company serving the local market with its signature premium suitcase. Afterwards, Yonos became an internationally operating company with a wide collection of suitcases, as well as a number of related accessories. However, in 2014 Yonos was experiencing financial difficulties. It had been making a loss for several years and in 2014 it was heading for the worst financial year since the company was founded twenty years ago.

The founder, CEO and majority shareholder of the company is Devin Savelberg. He received his education in the Netherlands and worked as an executive at several different companies before founding Yonos in 1994. Devin Savelberg is a well-known figure in international corporate circles.

| Bad moral character | Good moral character |
|--|--|
| However, within these circles he has a terrible reputation. He is known for using his influence to pro-actively block the development of animal shelters, as he believes the real estate can better be used for commercial purposes. The CEO tried to keep his anti-animal rights activism under the radar, but it became public when a local journalist noticed he used his private wealth to buy a piece of land, only to shut down the animal rescue shelter that was situated on the land. | Within these circles, he has an excellent reputation. He is mostly known for the founding of a non-profit organization that builds and develops animal shelters aimed at rescuing dogs who have been abused in illegal dogfights. These dogs require substantial medical care, as well as a lot of attention and devotion to help them recover. Apart from running the organization, Devin Savelberg also spends one day a week working at the shelters, helping with more hands-on tasks. The CEO tried to keep his admirable activities under the radar, but they became public when a local journalist noticed he donated a large chunk of his private wealth to his non-profit organization. |

In a response to the crisis at Yonos, and as a final effort to save the company from bankruptcy, Devin formulated a plan to turn the company around. The most important aspect of the turnaround plan was the launch of a new and innovative line of luxury suitcases. Devin expected this new product line to sell very well, allowing Yonos to increase its revenue substantially and ultimately regain profitability. To reduce costs, unprofitable product lines were terminated and several production facilities were closed.

For the new product line, Yonos needed to place large orders with its suppliers. However, if the turnaround plan would fail and Yonos would ultimately go bankrupt, it would not be able to pay for the orders and thus damage Yonos' suppliers.

A director can be held liable for damages to third parties if at the time of incurring debts (for example when placing an order with suppliers), the director knew or could reasonably have known that there was no realistic prospect of paying these debts.

An internal e-mail exchange revealed that Devin's advisor informed him of the relevant laws and advised him to consider informing Yonos' suppliers of its dire financial state before placing the orders. Devin and his advisor could possibly oversee how badly their suppliers might be damaged. Informing the suppliers would allow the suppliers to make an informed decision as to whether or not they would still deliver the goods despite Yonos' financial problems.

Importantly, however, disclosing the financial situation of Yonos to its suppliers meant risking being withheld delivery of the orders, as the suppliers might have worried they would not get paid. If the suppliers would not deliver, Yonos would definitely go bankrupt. If the suppliers would deliver, Devin would at least have a chance at saving his company from bankruptcy.

| Bad moral character | Good moral character |
|--|---|
| <p>The same e-mail exchange revealed that Devin responded to his advisor with “I don’t care at all about our suppliers, all I care about is making my own company profitable again. Besides, I have some significant gambling debts and need the dividends to settle those.”</p> <p>When pressed by his advisor on the chances of survival, Devin said:</p> <p>Study 1: I believe the chance we will fail and won’t be able to pay for the orders is small.</p> <p>Study 2: I believe the chance we will fail and won’t be able to pay for the orders is very big.</p> <p>He concluded with: “Go ahead and place the orders, and don’t disclose our financial difficulties”.</p> | <p>The same e-mail exchange revealed that Devin responded to his advisor with “I care deeply about our suppliers. We have great relationships with all of them. However, I have to ensure our company becomes profitable again as I am committed to taking care of our employees.”</p> <p>When pressed by his advisor on the chances of survival, Devin said:</p> <p>Study 1: Luckily, I believe the chance we will fail and won’t be able to pay for the orders is small.</p> <p>Study 2: I’m afraid the chance we will fail and won’t be able to pay for the orders is unfortunately very big.</p> <p>He concluded with: “It hurts me to say it, but go ahead and place the orders, and don’t disclose our financial difficulties”.</p> |
| <p>The suppliers delivered the orders and production of the new product line started, and soon afterwards the product line was launched. However, in the end the new product line of luxury suitcases did not sell as well as anticipated, pushing Yonos into bankruptcy. As a result, Yonos was unable to pay for the last orders they placed with its suppliers.</p> | |
| Moderately bad outcome | Severely bad outcome |
| <p>Luckily, the adverse effects for Yonos’ suppliers were limited. All suppliers were financially healthy and could handle the slight reduction in their cashflows. After the small dip, all suppliers remained profitable and managed to continue growing. Nonetheless, several suppliers decided to collectively sue Devin for damages.</p> | <p>Unfortunately, the adverse effects for Yonos’ suppliers were severe. A few of the suppliers were in financial distress themselves and could not handle the decline in their cashflow. These suppliers had to file for bankruptcy and their employees are now left without a job. As a result, many of these employees went personally bankrupt and some lost their entire retirement savings. Several suppliers decided to collectively sue Devin for damages.</p> |

Appendix 6.2

Case and moral Character manipulations used in Study 3

| | |
|--|---|
| <p>Yonos is a private company based in the Netherlands that manufactures premium suitcases. Yonos started in the early 1990s as a small company serving the local market with its signature premium suitcase. Afterwards, Yonos became an internationally operating company with a wide collection of suitcases, as well as a number of related accessories. However, in 2014 Yonos was experiencing financial difficulties. It had been making a loss for several years and in 2014 it was heading for the worst financial year since the company was founded twenty years ago.</p> <p>The founder, CEO and majority shareholder of the company is Devin Savelberg. He received his education in the Netherlands and worked as an executive at several different companies before founding Yonos in 1994.</p> | |
| Bad moral character version 1 | Good moral character version 1 |
| <p>Within his own social circles he has a terrible reputation. Devin is known for using his influence to pro-actively block the development of animal shelters, as he believes the real estate can better be used for commercial purposes. The CEO tried to keep his anti-animal rights activism under the radar, but it became public when a local journalist noticed he used his private wealth to buy a piece of land, only to shut down the animal rescue shelter that was situated on the land.</p> | <p>Within his own social circles he has an excellent reputation. Devin is mostly known for the founding of a non-profit organization that builds and develops animal shelters aimed at rescuing dogs who have been abused in illegal dog-fights. The CEO tried to keep his admirable activities under the radar, but they became public when a local journalist noticed he donated a large part of his private wealth to his non-profit organization.</p> |

| | |
|---|---|
| Bad moral character version 2 | Good moral character version 2 |
| <p>Within his own social circles he has a terrible reputation. Devin is known for being untrustworthy and disloyal. He has had several marriages and all of his ex-wives left him after he had cheated on each of them on a regular basis. Moreover, he has several children with different wives but hardly pays any attention to them.</p> | <p>Within his own social circles he has an excellent reputation. Devin is known for being a very trustworthy and loyal person. He married his high school sweetheart and they are still in a happy marriage and have four children. Despite his demanding job, Devin is adamant when it comes to spending time with his children. He frequently takes his wife and children on weekend camping trips.</p> |
| Bad moral character version 3 | Good moral character version 3 |
| <p>Within his own social circles he has a terrible reputation. Devin is known for his polluting behavior and general disregard for environmental concerns. He explicitly stated that he considers it more important that he himself is comfortable and has an easy time rather than making even a slight effort to not actively harm the environment.</p> | <p>Within his own social circles he has an excellent reputation. Devin is known for his environmentally friendly behavior and general concern for the planet's well-being. He explicitly stated that he considers it more important to make an effort to actively protect the environment rather than being comfortable and having an easy time.</p> |

In a response to the crisis at Yonos, and as a final effort to save the company from bankruptcy, Devin formulated a plan to turn the company around. The most important aspect of the turnaround plan was the launch of a new and innovative line of luxury suitcases. Devin expected this new product line to sell very well, allowing Yonos to increase its revenue substantially and ultimately regain profitability. To reduce costs, unprofitable product lines were terminated and several production facilities were closed.

For the new product line, Yonos needed to place large orders with its suppliers. However, if the turnaround plan would fail and Yonos would ultimately go bankrupt, it would not be able to pay for the orders and thus damage Yonos' suppliers.

A director can be held liable for damages to third parties if at the time of incurring debts (for example when placing an order with suppliers), the director knew or could reasonably have known that there was no realistic prospect of paying these debts.

An internal e-mail exchange revealed that Devin's advisor informed him of the relevant laws and advised him to consider informing Yonos' suppliers of its dire financial state before placing the orders. Devin and his advisor could possibly oversee how badly their suppliers might be damaged. Informing the suppliers would allow the suppliers to make an informed decision as to whether or not they would still deliver the goods despite Yonos' financial problems.

Importantly, however, disclosing the financial situation of Yonos to its suppliers meant risking being withheld delivery of the orders, as the suppliers might have worried they would not get paid. If the suppliers would not deliver, Yonos would definitely go bankrupt. If the suppliers would deliver, Devin would at least have a chance at saving his company from bankruptcy.

| Bad moral character | Good moral character |
|---|---|
| <p>The same e-mail exchange revealed that Devin responded to his advisor with “I don’t care at all about our suppliers, all I care about is making my own company profitable again. Besides, I have some significant gambling debts and need the dividends to settle those.”</p> <p>When pressed by his advisor on the chances of survival, Devin said: I believe the chance we will fail and won’t be able to pay for the orders is small.</p> <p>He concluded with: “Go ahead and place the orders, and don’t disclose our financial difficulties”.</p> | <p>The same e-mail exchange revealed that Devin responded to his advisor with “I care deeply about our suppliers. We have great relationships with all of them. However, I have to ensure our company becomes profitable again as I am committed to taking care of our employees.”</p> <p>When pressed by his advisor on the chances of survival, Devin said: Luckily, I believe the chance we will fail and won’t be able to pay for the orders is small.</p> <p>He concluded with: “It hurts me to say it, but go ahead and place the orders, and don’t disclose our financial difficulties”.</p> |
| <p>The suppliers delivered the orders and production of the new product line started, and soon afterwards the product line was launched. However, in the end the new product line of luxury suitcases did not sell as well as anticipated, pushing Yonos into bankruptcy. As a result, Yonos was unable to pay for the last orders they placed with its suppliers.</p> | |
| Moderately bad outcome | Severely bad outcome |
| <p>Luckily, the adverse effects for Yonos’ suppliers were limited. All suppliers were financially healthy and could handle the unpaid invoices without any issues. All suppliers remained profitable and continued growing. Nonetheless, several suppliers decided to collectively sue Devin for damages.</p> | <p>Unfortunately, the adverse effects for Yonos’ suppliers were very severe. A few of the suppliers were in financial distress themselves and could not handle the decline in their cashflow. These suppliers had to file for bankruptcy and their employees are now left without a job. As a result, many of these employees went personally bankrupt and some lost their entire retirement savings. Many even stated that losing their job meant they could not take proper care of their children any more. Consequently, several suppliers decided to collectively sue Devin for damages.</p> |

Appendix 6.3

Case and moral character manipulations used in Study 4-5

| | |
|--|---|
| <p>Yonos is a private company based in the Netherlands that manufactures premium suitcases. Yonos started in the early 1990s as a small company serving the local market with its signature premium suitcase. Afterwards, Yonos became an internationally operating company with a wide collection of suitcases, as well as a number of related accessories. However, in 2014 Yonos was experiencing financial difficulties. It had been making a loss for several years and in 2014 it was heading for the worst financial year since the company was founded twenty years ago.</p> <p>The founder, CEO and majority shareholder of the company is Devin Savelberg. He received his education in the Netherlands and worked as an executive at several different companies before founding Yonos in 1994.</p> | |
| Bad moral character version 1 | Good moral character version 1 |
| <p>Within his own social circles he has a terrible reputation. Devin is known for using his influence to pro-actively block the development of animal shelters, as he believes the real estate can better be used for commercial purposes. The CEO tried to keep his anti-animal rights activism under the radar, but it became public when a local journalist noticed he used his private wealth to buy a piece of land, only to shut down the animal rescue shelter that was situated on the land.</p> | <p>Within his own social circles he has an excellent reputation. Devin is mostly known for the founding of a non-profit organization that builds and develops animal shelters aimed at rescuing dogs who have been abused in illegal dog-fights. The CEO tried to keep his admirable activities under the radar, but they became public when a local journalist noticed he donated a large part of his private wealth to his non-profit organization.</p> |

| | |
|---|---|
| Bad moral character version 2 | Good moral character version 2 |
| <p>Within his own social circles he has a terrible reputation. Devin is known for being untrustworthy and disloyal. He has had several marriages and all of his ex-wives left him after he had cheated on each of them on a regular basis. Moreover, he has several children with different wives but hardly pays any attention to them.</p> | <p>Within his own social circles he has an excellent reputation. Devin is known for being a very trustworthy and loyal person. He married his high school sweetheart and they are still in a happy marriage and have four children. Despite his demanding job, Devin is adamant when it comes to spending time with his children. He frequently takes his wife and children on weekend camping trips.</p> |
| Bad moral character version 3 | Good moral character version 3 |
| <p>Within his own social circles he has a terrible reputation. Devin is known for his polluting behavior and general disregard for environmental concerns. He explicitly stated that he considers it more important that he himself is comfortable and has an easy time rather than making even a slight effort to not actively harm the environment.</p> | <p>Within his own social circles he has an excellent reputation. Devin is known for his environmentally friendly behavior and general concern for the planet's well-being. He explicitly stated that he considers it more important to make an effort to actively protect the environment rather than being comfortable and having an easy time.</p> |

In a response to the crisis at Yonos, and as a final effort to save the company from bankruptcy, Devin formulated a plan to turn the company around. The most important aspect of the turnaround plan was the launch of a new and innovative line of luxury suitcases. Devin expected this new product line to sell very well, allowing Yonos to increase its revenue substantially and ultimately regain profitability. To reduce costs, unprofitable product lines were terminated and several production facilities were closed.

For the new product line, Yonos needed to place large orders with its suppliers. However, if the turnaround plan would fail and Yonos would ultimately go bankrupt, it would not be able to pay for the orders and thus damage Yonos' suppliers.

A director can be held liable for damages to third parties if at the time of incurring debts (for example when placing an order with suppliers), the director knew or could reasonably have known that there was no realistic prospect of paying these debts.

An internal e-mail exchange revealed that Devin's advisor informed him of the relevant laws and advised him to consider informing Yonos' suppliers of its dire financial state before placing the orders. Devin and his advisor could possibly oversee how badly their suppliers might be damaged. Informing the suppliers would allow the suppliers to make an informed decision as to whether or not they would still deliver the goods despite Yonos' financial problems.

Importantly, however, disclosing the financial situation of Yonos to its suppliers meant risking being withheld delivery of the orders, as the suppliers might have worried they would not get paid. If the suppliers would not deliver, Yonos would definitely go bankrupt. If the suppliers would deliver, Devin would at least have a chance at saving his company from bankruptcy.

When pressed by his advisor on the chances of survival, Devin said: 'Our CFO and external consultants have conducted careful analyses of our financial situation and also thoroughly analyzed the turnaround plan. We are confident that there is a good chance we can save Yonos from bankruptcy. We believe that we have done everything we can to weigh all factors and consider it necessary to move forward with the turnaround plan. Disclosing our financial problems to our suppliers poses too great a risk. There is of course a possibility that our turnaround plan will fail and that we cannot pay our suppliers due to bankruptcy, but we consider the chance this will happen to be small.'

| Bad moral character | Good moral character |
|--|---|
| <p>The same e-mail exchange revealed that Devin concluded with 'Anyway, I don't care at all about our suppliers, all I care about is making my own company profitable again. Go ahead and place the orders, and don't disclose our financial difficulties'.</p> | <p>The same e-mail exchange revealed that Devin concluded with 'I care deeply about our suppliers. We have great relationships with all of them. However, I have to ensure our company becomes profitable again. It hurts me to say it, but go ahead and place the orders, and don't disclose our financial difficulties'.</p> |
| <p>The suppliers delivered the orders and production of the new product line started, and soon afterwards the product line was launched. However, in the end the new product line of luxury suitcases did not sell as well as anticipated, pushing Yonos into bankruptcy. As a result, Yonos was unable to pay for the last orders they placed with its suppliers.</p> | |
| Moderately bad outcome | Severely bad outcome |
| <p>Luckily, the adverse effects for Yonos' suppliers were limited. All suppliers were financially healthy and could handle the unpaid invoices without any issues. All suppliers remained profitable and continued growing. Nonetheless, several suppliers decided to collectively sue Devin for damages.</p> | <p>Unfortunately, the adverse effects for Yonos' suppliers were very severe. A few of the suppliers were in financial distress themselves and could not handle the decline in their cashflow. These suppliers had to file for bankruptcy and their employees are now left without a job. As a result, many of these employees went personally bankrupt and some lost their entire retirement savings. Many even stated that losing their job meant they could not take proper care of their children any more. Consequently, several suppliers decided to collectively sue Devin for damages.</p> |

Appendix 6.4

Overview of the participants' nationalities in Study 1

| | N | % | Cumulative % | | N | % | Cumulative % |
|----------------|-----|------|--------------|-----------------|------------|------------|--------------|
| United Kingdom | 118 | 29.4 | 29.4 | Cyprus | 2 | 0.5 | 92.5 |
| Australia | 56 | 14.0 | 43.4 | Ghana | 2 | 0.5 | 93.0 |
| Canada | 31 | 7.7 | 51.1 | Mauritius | 2 | 0.5 | 93.5 |
| South Africa | 26 | 6.5 | 57.6 | Nigeria | 2 | 0.5 | 94.0 |
| United States | 19 | 4.7 | 62.3 | Singapore | 2 | 0.5 | 94.5 |
| New Zealand | 19 | 4.7 | 67.1 | Spain | 2 | 0.5 | 95.0 |
| Germany | 10 | 2.5 | 69.6 | Albania | 1 | 0.2 | 95.3 |
| Ireland | 10 | 2.5 | 72.1 | Bermuda | 1 | 0.2 | 95.5 |
| Brazil | 9 | 2.2 | 74.3 | Croatia | 1 | 0.2 | 95.8 |
| Finland | 7 | 1.7 | 76.1 | Czech Republic | 1 | 0.2 | 96.0 |
| Malaysia | 7 | 1.7 | 77.8 | The Netherlands | 1 | 0.2 | 96.3 |
| Unknown | 6 | 1.5 | 79.3 | Estonia | 1 | 0.2 | 96.5 |
| India | 5 | 1.2 | 80.5 | Guatemala | 1 | 0.2 | 96.8 |
| Switzerland | 5 | 1.2 | 81.8 | Hong Kong | 1 | 0.2 | 97.0 |
| Denmark | 4 | 1.0 | 82.8 | Iceland | 1 | 0.2 | 97.3 |
| Romania | 4 | 1.0 | 83.8 | Japan | 1 | 0.2 | 97.5 |
| Sweden | 4 | 1.0 | 84.8 | Korea | 1 | 0.2 | 97.8 |
| France | 3 | 0.7 | 85.5 | Latvia | 1 | 0.2 | 98.0 |
| Greece | 3 | 0.7 | 86.3 | Lithuania | 1 | 0.2 | 98.3 |
| Hungary | 3 | 0.7 | 87.0 | Mexico | 1 | 0.2 | 98.5 |
| Italy | 3 | 0.7 | 87.8 | Rwanda | 1 | 0.2 | 98.8 |
| Poland | 3 | 0.7 | 88.5 | Serbia | 1 | 0.2 | 99.0 |
| Portugal | 3 | 0.7 | 89.3 | Slovakia | 1 | 0.2 | 99.3 |
| Russia | 3 | 0.7 | 90.0 | Slovenia | 1 | 0.2 | 99.5 |
| Austria | 2 | 0.5 | 90.5 | Sri Lanka | 1 | 0.2 | 99.8 |
| Belgium | 2 | 0.5 | 91.0 | Turkey | 1 | 0.2 | 100 |
| China | 2 | 0.5 | 91.5 | Total | 401 | 100 | |
| Colombia | 2 | 0.5 | 92.0 | | | | |

Acknowledgements

As will have become evident from the preface of this dissertation, I believe I do not deserve any real praise for completing my PhD. Rather, I have many people to thank who played an important part in the process.

First, I would like to thank Jan Adriaanse and Jean-Pierre van der Rest for hiring me in the first place. I can imagine it was a risky move at the time to hire a psychologist who stepped away from academia several years back. I would like to thank Jan specifically for all the enthusiasm and encouragement, as these have had a very positive and motivating effect.

I also owe a great deal of gratitude to Marc Broekema. Thank you for all the opportunities you provided me with and for taking a leap of faith by taking on a psychologist in a corporate finance firm.

Helen Pluut, I can imagine it must have been difficult at times to have to supervise a PhD student who really does not want to be supervised. However, I definitely needed the occasional reality check, so thanks a lot for putting up with me and for having become a confidant much more than a supervisor.

Kees van den Bos, thank you very much for wholeheartedly and selflessly guiding and advising me throughout my PhD trajectory. Feeling a bit lost among all the lawyers, I benefited a lot from your experience and support.

Joshua Knobe, based on limited information you invited me to Yale and introduced me to great research and an invaluable network of people I am now happily collaborating with. Thank you so much for all your kind gestures. They are much appreciated.

Reinout, it was actually your inaugural lecture and our discussions prior to that on hindsight bias that inspired me to pursue this line of research. Needless to say, those events had an important and beneficial impact on my PhD trajectory, so thank you for that.

I have been very lucky with my supportive department and great colleagues. Maral, Peter, Tim, Ellen, Lisette, Niels, Dick, Jessie, Gert-Jan, Morshed, thanks for making the past years so enjoyable.

In addition to my colleagues, I also need to thank my friends. Two I would like to highlight. Myrthel, I am still convinced that if it wasn't for you, I would not have even graduated from our Master's programme. I greatly value the support we provide each other and look forward to visiting you and your new life in London soon. Shanna, in onze Grutto-tijd hadden we toch nooit gedacht dat ik ooit een proefschrift zou schrijven, laat staan over dit onderwerp. Vele belangrijke momenten hebben we al gedeeld en het doet mij veel

plezier dat ik ook mijn promotie met jou zal delen. Heel veel dank voor je vriendschap en alle steun door de jaren heen.

In addition to my friends, my support system consists for an important part of my family. It is evident that without the support of my mother and father I would never have made it here. Who knows how life would have turned out without you preventing me from having to drop a level in high school due to bad behaviour, and without you forcing me to recommence studying while I just wanted to be on the streets with my skateboard, just to mention two pivotal events out of many. Thanks for everything!

Finally, I owe by far the most to you, Natalie. Thank you for your patience, understanding, love, and care. Je suis désolé pour tout le mal que je t'ai fait. Tu me manques et je t'aime pour toujours.

Curriculum Vitae

Niek Strohmaier, born on June 3rd 1987 in Harderwijk, completed his Bachelor of Science in 2011 and Master of Science (cum laude) in 2013 at Utrecht University, both in Psychology, while at the same time engaging in numerous extracurriculars, such as the Young Leaders League, the Louis Bonaparte Society, and the Dutch National Student Union. After graduating, Niek studied macroeconomics and corporate strategy in London at the London School of Economics and Political Sciences (LSE). He then moved to the United Kingdom to work in the headhunt industry for two years. In 2016, he returned to academia and joined the Department of Business Studies at the Leiden Law School of Leiden University to start his PhD research on the psychology of legal decision making in the context of business failure and insolvency, under the supervision of prof. Jan Adriaanse and dr. Helen Pluut. While at Leiden University, Niek joined BFI Global in Amsterdam to gain experience in corporate finance and dispute resolution. Moreover, to start his formal legal training, he entered the Advanced LL.M. program in Law & Finance at Leiden University. In March 2020, he will, conditional on obtaining his PhD, start his position as an Assistant Professor at Leiden Law School, while continuing his legal training as well as his consulting work at BFI.

In the range of books published by the Meijers Research Institute and Graduate School of Leiden Law School, Leiden University, the following titles were published in 2019 and 2020

- MI-315 T.B.D. van der Wal, *Nemo condicit rem suam. Over de samenloop tussen de rei vindicatio en de conductio*, (diss. Leiden), Den Haag: Boom juridisch 2019
- MI-316 R. Zandvliet, *Trade, Investment and Labour: Interactions in International Law*, (diss. Leiden), Amsterdam: Ipskamp Printing 2019
- MI-317 M. de Jong-de Kruijf, *Legitimiteit en rechtswaarborgen bij gesloten plaatsingen van kinderen. De externe rechtspositie van kinderen in gesloten jeugdhulp gezien vanuit kinder- en mensenrechten*, (diss. Leiden), Den Haag: Boom juridisch 2019, ISBN 978 94 6290 600 6
- MI-318 R.J.W. van Eijk, *Web Privacy Measurement in Real-Time Bidding Systems. A Graph-Based Approach to RTB system classification*, (diss. Leiden), Amsterdam: Ipskamp Printing 2019, ISBN 978 94 028 1323 4
- MI-319 M.P. Sombroek-van Doorm, *Medisch beroepsgeheim en de zorgplicht van de arts bij kindermishandeling in de rechtsverhouding tussen arts, kind en ouders*, (diss. Leiden), Den Haag: Boom juridisch 2019, ISBN 978 94 6236 906 1
- MI-320 Y. Tan, *The Rome Statute as Evidence of Customary International Law*, (diss. Leiden), Amsterdam: Ipskamp Printing 2019
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- MI-331 P. van Berlo, *Human Rights Elephants in an Era of Globalisation. Commodification, Crimmigration, and Human Rights in Confinement* (diss. Leiden), Nijmegen: Wolf Legal Publishers 2020, ISBN 978 94 6240 565 3
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