Cognitive bias in the judgment of business valuations and valuators : how systematic patterns of irrationality affect entrepreneurs, legal professionals and business valuators

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Worldwide, conflicts arise daily as a result of differences of opinion about the outcome of a business valuation and the role of valuation experts. These often lead to lengthy and costly lawsuits, the reasons for which are usually sought in technical issues. This thesis, however, focuses on the role of human behavior. More specifically, it examines the extent to which cognitive biases play a role in the assessment of business valuations and valuation experts.

Four empirical studies were conducted with entrepreneurs, legal professionals and valuation experts. The first three show that stakeholders can be affected by a range of biases, including buyer-seller position effects, anchoring bias, similarity bias, outcome bias, gender bias, and so-called engagement bias. The fourth study concerns a survey among an international group of leading valuation experts with the aim of verifying insights gained in the previous studies. A statement of principles to mitigate cognitive biases in valuation practice is also introduced.

The thesis provides empirical insights into the existence of cognitive biases in the context of business valuation and thereby contributes to both practice and theory in this field. It also adds to legal theory with respect to improving our understanding of conflicts.

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How Systematic Patterns of Irrationality Affect Entrepreneurs, Legal Professionals and Business Valuators

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