

PSYCHOLOGICAL ASPECTS OF INTERPERSONAL CONFLICTS IN FINANCIAL-LEGAL DISPUTE RESOLUTION

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Annotation. Financial-legal disputes are characterized by high levels of emotional burden and complex interpersonal interactions that significantly influence the process and outcomes of their resolution. This article examines the psychological aspects of interpersonal conflicts in the context of financial-legal disputes, analysing the impact of emotions on the negotiation process, the role of lawyers as mediators, and comparing the effectiveness of judicial and extrajudicial conflict resolution. The research findings demonstrate that consideration of psychological factors significantly enhances the effectiveness of financial-legal dispute resolution.

Extrajudicial settlement, despite its advantages, has certain limitations that are important to consider when choosing a strategy for resolving financial-legal disputes. The voluntary nature of participation means that if one party categorically refuses negotiations or mediation, alternative methods become impossible. This is particularly problematic in situations where one party has significant advantages and is not interested in compromises.

Issues of adequate legal protection arise in complex legal disputes where parties may not fully understand their rights and obligations. Mediators, even if they are lawyers, cannot provide legal advice to all parties simultaneously, which may lead to unfair outcomes. The varying levels of mediator qualifications create unpredictability in service quality, unlike judges who have standardized training.

The limited enforceability of reached agreements creates risks for parties, especially in cases where trust between participants is undermined. Although statistics show high levels of voluntary compliance with mediation agreements, the absence of automatic enforcement mechanisms can become problematic in certain cases.

Keywords: financial-legal disputes, mediation, emotions in negotiations, interpersonal conflicts, alternative dispute resolution.

Introduction. Financial and legal disputes constitute an important segment of legal conflicts, reflecting the complexity of financial transactions and the increasing interdependence between economic actors in modern society. These disputes are not limited to legal and economic dimensions; they are deeply rooted in complex psychological dynamics that significantly influence the trajectory and outcomes of conflict resolution. The interaction between legal norms and human behaviour, including emotional reactions, cognitive biases, and interpersonal tensions, often determines whether a dispute escalates or is resolved constructively. Understanding the

psychological mechanisms underlying interpersonal conflicts in the financial and legal arena is essential for the development of effective, person-centered approaches to dispute resolution. These mechanisms include emotional regulation, perceptions of justice, trust dynamics, and communication styles that shape how parties interpret conflict and participate in resolution processes. As financial relationships become more complex and globalized, the potential for misunderstandings and mismatched expectations increases, making psychological understanding not only useful but also necessary.

The relevance of studying psychological aspects in financial and legal disputes is highlighted by a number of contemporary trends: the complexity of contractual and financial agreements, the widespread use of cross-border transactions, the observed increase in social tensions and polarization. Traditional judicial procedures, while legally rigorous, often fail to address the emotional and relational aspects of conflict, leading to legally valid but psychologically unsatisfactory and even harmful outcomes. The emotional component, whether manifested through anxiety, frustration, or a perception of injustice, can hinder rational analysis and hinder the search for mutually beneficial solutions. In this context, the integration of psychological expertise into legal practice opens the way to more adaptive, empathetic and sustainable strategies, especially in the resolution of financial disputes. This encourages the development of alternative dispute resolution models, such as mediation and facilitation, which favor dialogue, emotional intelligence and joint problem solving. Ultimately, a deeper understanding of the psychological landscape of financial and legal conflicts enhances lawyers' ability to manage complexity, reduce adversary stress, and promote outcomes that support both legal integrity and human well-being.

Literature Review. The intersection of psychology and legal practice in financial dispute resolution represents a complex field that has garnered increasing attention from researchers worldwide. This literature review examines the psychological dimensions of interpersonal conflicts that arise during financial-legal dispute resolution processes, synthesizing contributions from both domestic and international scholars.

The foundational work of Deutsch (1973) in «The Resolution of Conflict» [5] established the theoretical framework for understanding interpersonal conflicts through a psychological lens. Deutsch's distinction between constructive and destructive conflicts remains influential in contemporary dispute resolution theory.

Kahneman and Tversky's (1979) prospect theory revolutionized understanding of decision-making under uncertainty, particularly relevant to financial disputes. Their research on loss aversion demonstrates why parties in financial conflicts often make seemingly irrational decisions, preferring to avoid losses rather than acquire equivalent gains [11].

Bazerman and Neale (1992) in «Negotiating Rationally» identified specific cognitive biases affecting legal negotiations, including anchoring effects, escalation of commitment, and the fixed-pie assumption. These biases are particularly pronounced in financial disputes where monetary stakes create heightened emotional responses [3].

Fisher and Shapiro (2005) in «Beyond Reason: Using Emotions as You Negotiate»

specifically addressed emotional aspects of legal negotiations, identifying core emotional concerns including appreciation, affiliation, autonomy, status, and role fulfillment that drive party behavior in disputes [6].

Moore (2014) in «The Mediation Process» extensively examined psychological factors affecting mediation success, including party readiness, emotional states, and cognitive frameworks that influence settlement acceptance [20].

Bandurka and Bocharova (2001) examined psychological aspects of legal conflict resolution within post-Soviet contexts, identifying cultural factors that influence conflict perception and resolution preferences in financial disputes [2].

Slaikeu (1996) examined crisis intervention principles applicable to financial disputes, providing framework for understanding acute psychological responses to financial loss and legal proceedings [16].

Stolle, Wexler, and Winick (2000) developed practical guidelines for implementing therapeutic approaches in legal practice, with specific attention to financial dispute contexts [17].

Previous research by scholars has demonstrated that psychological factors play a crucial role in the resolution of financial and legal disputes, influencing everything from the initial perception of the conflict to the ultimate satisfaction with the outcome. Understanding these psychological aspects is essential for effective dispute resolution practice and requires ongoing interdisciplinary research and professional development.

Results. Interpersonal disputes in the financial and legal spheres are of particular interest because they combine rational economic interests with deep psychological contradictions of the parties.

Financial conflicts have special psychological characteristics. First, money represents not only material resources, but also security, status, power, and self-esteem. Second, financial losses can activate primitive fears and defense mechanisms that make it difficult to rationally resolve conflicts. Third, information asymmetry and different levels of financial literacy of the parties can create additional sources of tension.

It should be noted that emotions play a key role in the process of resolving financial and legal disputes. Studies show that the emotional reactions of negotiators can both facilitate and hinder the achievement of agreements. Positive emotions, such as trust and optimism, create a favorable atmosphere for cooperation, while negative emotions – anger, fear, resentment – lead to the escalation of conflict [8].

Financial and legal disputes are characterized by particularly strong emotional triggers that are rooted in human psychology. The fear of loss is the most common and destructive factor, activating the ancient «fight or flight» system even in civilized legal environments. When a person feels that his financial interests are threatened, his body reacts to physical danger, which leads to a narrowing of consciousness, increased aggression and a decrease in the ability to think rationally.

Anger at injustice is the second most powerful emotional trigger, especially when the parties perceive the opponent's actions as a violation of ethical principles or established norms of business relations. This anger often grows out of deep-rooted beliefs

about what should be and can persist for years, preventing any attempts at reconciliation.

Shame and humiliation are particularly acute in cases of bankruptcy, insolvency, or the disclosure of financial problems. These feelings can lead to a refusal to negotiate or, conversely, desperate attempts to hide the true state of affairs. Greed and envy often manifest themselves in the division of assets or profits, when each party is sure that he will receive less than he deserves.

Anxiety about the future overshadows all other emotions, creating a constant background of uncertainty that prevents a person from focusing on constructive solutions to current problems. This anxiety is especially exacerbated in conditions of economic instability or lengthy legal proceedings.

The emotional state of participants in financial and legal disputes causes a number of cognitive changes that significantly affect their ability to rationally analyse and make decisions. Stress and negative emotions lead to a narrowing of perception, to the point where a person does not really «see» possible alternatives and focuses only on the negative aspects of the situation. This tunnel vision phenomenon is especially dangerous in complex financial disputes, where successful resolution often depends on the ability to see a wide range of possibilities [1].

Stress hormones also significantly reduce the ability to think creatively, which is essential for finding innovative solutions to unusual financial situations. At the same time, emotional arousal can both increase risk-taking, when a person is desperate to take any action, and lead to excessive caution, when fear paralyzes any action.

The impact of emotions on communication processes is particularly destructive. Emotionally agitated participants often misinterpret the intentions of the other party, even where simple business considerations are involved [13]. This leads to an escalation of the conflict and the destruction of trust, which is the basis of any successful negotiation.

Effective emotional management in resolving financial and legal disputes requires a holistic approach that begins with developing emotional self-regulation and the ability of an individual to manage their emotions. Negotiators must first learn to recognize their emotional reactions and use control techniques.

Active listening becomes not only a method of communication, but also a way to demonstrate respect for the emotional needs of the other party. When people feel that their experiences are heard and understood, they are naturally more open to finding a common solution. This is especially important in financial disputes, where deep personal experiences are often hidden behind numbers [19].

Reframing the issue allows you to move the discussion from an emotional to a rational level. Instead of focusing on past grievances and accusations, the focus shifts to future opportunities and mutual benefits. Creating an emotionally safe environment involves establishing clear rules of engagement, ensuring confidentiality, and respecting all participants.

Using pauses in negotiations is a minor tool for managing emotions. When tensions reach a critical level, a brief pause in the argument allows all parties to cool down and reconsider their positions. This is especially effective in long-running financial and legal

disputes, where emotional exhaustion can lead to hasty decisions.

Traditionally, lawyers have played the role of advocates representing the interests of one party. However, modern practice recognizes the role of the lawyer as a mediator or representative who helps the parties find a mutually beneficial solution. This change in role requires lawyers to develop new competencies in the psychology of conflict and mediation [15].

The modern lawyer-mediator must possess a wide range of psychological competencies that go beyond the scope of traditional legal training. Emotional intelligence is becoming a core skill, including not only understanding one's own emotional reactions, but also the ability to correctly read the emotional state of a client and quickly adapt one's behaviour to the situation. This skill is especially important in financial and legal disputes, where emotions often hide behind rational arguments.

Active listening skills include not only paying attention to words, but also the ability to hear subtext, emotional messages, and unspoken needs. An experienced mediator can recognize when angry statements are hiding fear and when strong positions are hiding the need for security and recognition. Empathy as a professional competence allows lawyers to put themselves in the shoes of each party, without losing objectivity and neutrality.

Understanding nonverbal communication opens up access to hidden layers of information, as studies show that up to 70% of communication is through body language, intonation, and pauses. Mediators who can recognize these signals can identify escalating disagreements or, conversely, a willingness to compromise [4]. Managing group dynamics becomes important in complex financial disputes, which often involve multiple participants with different interests. Legal mediators must be able to constructively channel group energy, prevent coalitions from forming against individual participants, and ensure that all parties have an equal opportunity to express their positions.

Psychological methods of mediation in financial and legal disputes are based on a deep understanding of human nature and motivation. The separation of positions and interests is a fundamental technique that helps the parties understand the difference between what they declare as demands and what is actually needed to satisfy their deep needs. For example, the position «I want to get the entire loan amount immediately» may hide the interest «I need financial security for my family» [14].

Generation of alternatives involves the creative process of creating several options for solutions that satisfy the interests of all parties. This requires mediators to think outside the box and encourage participants to be creative. Often the best solutions are found at the intersection of seemingly incompatible interests.

Using objective criteria allows you to move the discussion beyond the level of subjective evaluation and emotional argument. When parties agree to evaluate offers based on independent standards, such as market prices, expert assessments, or legal precedents, this significantly reduces the level of disagreement and increases the legitimacy of decisions.

Building trust is a long-term process that requires consistent actions that demonstrate trustworthiness, competence, and honesty. In financial disputes, trust is often lost, and rebuilding it requires special effort and time. Managing emotions in mediation processes involves not only controlling negative manifestations, but also constructively using positive emotions to create an atmosphere of cooperation.

At the same time, lawyer-mediators face many challenges in working with financial and legal disputes that require ongoing professional and personal development. Role conflicts arise due to the need to balance the traditional functions of the lawyer, which protect the interests of the client, and the functions of the mediator, which help all parties find mutually beneficial solutions [7].

Ethical issues arise especially in cases where mediators have confidential information that could affect the outcome of the negotiation. The need to maintain confidentiality and impartiality often requires lawyers to refrain from using all available means to achieve a result.

The need for additional professional training is becoming increasingly apparent, since traditional legal education does not include in-depth study of conflict psychology, mediation techniques, and emotional intelligence skills. This requires significant time and financial investments for advanced training.

Clients' resistance to mediation approaches is often associated with a stereotypical perception of legal aid as an aggressive defence of personal interests. Some clients consider the willingness to compromise to be a weakness or lack of professionalism on the part of the lawyer, which creates additional difficulties for the implementation of mediation methods [12].

At the same time, it is necessary to understand that the judicial system has a number of key advantages, which make it indispensable for certain categories of financial and legal disputes. Formal procedures create a clear framework for interaction, which is especially important in high-conflict situations where the parties are unable to independently organize a constructive dialogue. These procedures, perfected over the centuries, ensure fair consideration of cases even in the most difficult conditions.

The possibility of enforcing decisions through state mechanisms creates necessary guarantees for the parties, especially in cases involving significant amounts or fundamental legal issues. The precedential value of court decisions contributes to the formation of a single legal practice and the creation of predictable standards for future similar situations.

The openness of the judicial process provides social control over the observance of justice and can be important for establishing the truth in cases of public interest. Professional forensic expertise, their independence and specialized training create a reliable basis for resolving complex legal issues that may go beyond the competence of the mediator [18].

Despite its advantages, the judicial system has significant shortcomings, which are especially evident in financial and legal disputes. The high costs of litigation include not only direct court costs and legal services, but also indirect costs related to the length

of the process, the diversion of resources from core activities, and the psychological stress of the participants.

Litigation can last for years, during which time conflicts not only remain unresolved, but often escalate. This is particularly problematic for business relationships, where the speed of decision-making is critical. The antagonistic nature of litigation, built on adversarial principles, naturally exacerbates conflict and makes it virtually impossible to maintain a partnership after the case is concluded.

The limited flexibility of the judicial system is manifested in the rigidity of the procedural framework, which does not allow it to adapt processes to the specific characteristics of the case. Courts can only resolve the issues raised in the claims and cannot offer creative solutions that meet the deep interests of the parties.

The emotional stress of participating in legal proceedings is often underestimated, but this can have long-term consequences for the mental health of the participants. The need to disclose the process, to delve into the details of personal and business problems, as well as the uncertainty of the outcome, create a strong psychological burden that can outweigh the benefits of justice.

Thus, out-of-court resolution of financial and legal disputes demonstrates convincing advantages that are especially important in today's dynamic business environment. The effectiveness of this approach is manifested not only in lower direct costs compared to litigation, but also in significant savings in indirect costs associated with time, human resources and lost opportunities.

The speed of resolving disputes through out-of-court mechanisms can be dozens of times faster than in litigation. When conflicts are resolved in weeks or months, rather than years, this allows the parties to quickly return to normal activities and the development of activities. The flexibility of out-of-court procedures allows you to adapt the processes to the specific features of the case, taking into account the characteristics of the participants, the nature of the relationship and the nature of the conflict [4].

The confidentiality of out-of-court settlements is crucial for many business disputes where public disclosure of information could be more damaging than the dispute itself. This is especially true for financial institutions, investment firms, and other organizations whose reputations are of direct economic importance.

Maintaining relationships through cooperative approaches to conflict resolution allows parties to not only resolve current issues but also to lay the groundwork for future collaboration. This is especially valuable in long-term business relationships where isolated conflicts do not have to destroy long-term partnerships.

Control over the process remains in the hands of the participants, which increases their responsibility for the results and reduces the likelihood of dissatisfaction with the decisions made. When people shape the terms of the contract themselves, they are more likely to comply with them.

At the same time, parties to financial conflicts should take into account that out-of-court resolution has certain limitations. For example, the exclusively voluntary nature requiring the consent of all parties; limited tools for influencing the implementation of

the reached agreement; the qualification of the mediator, etc.

Conclusions. The analysis of the psychological aspects of interpersonal conflicts in the context of financial and legal disputes shows that the emotional factor plays a decisive role in the process of their resolution. Ignoring the psychological component can reduce the effectiveness of the resolution, even in the case of legally justified decisions.

In this context, the role of the lawyer is transformed: it gradually moves from traditional advocacy to the functions of a mediator and facilitator, which, in turn, requires the acquisition of new competencies in the field of conflict psychology.

Out-of-court resolution forms demonstrate higher efficiency according to criteria such as meeting the needs of the parties, economic feasibility and efficiency of dispute resolution. The most promising approach is the integration of judicial and extrajudicial mechanisms, which allows adapting the resolution process to the characteristics of a specific dispute. To implement such an approach, systemic changes are necessary, both in the training of lawyers and in the organization of justice, taking into account the psychological aspects of conflicts.

Future research should be aimed at developing specific psychological tools for different types of financial and legal disputes, as well as assessing the long-term consequences of using different resolution methods for the psychological well-being of the participants in the process.

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