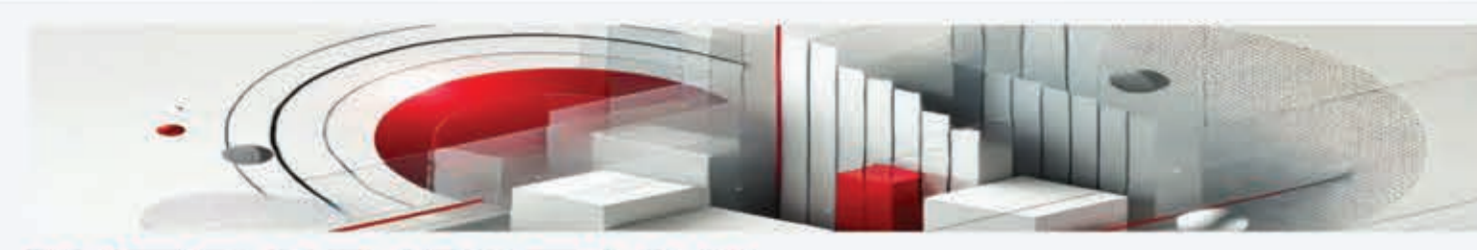


RESEARCH GROUP
MODERN TECHNOLOGIES

RESEARCH AREA
SOCIAL SCIENCES (POLITICAL SCIENCES, LAW, EDUCATIONAL SCIENCES)

BEHAVIORAL BIASES IN CONFLICT RESOLUTION IN FINANCIAL SECTOR



INTRODUCTION

Workplace conflicts are inevitable and significantly impact individual well-being and organizational performance. When effectively managed, conflicts can foster productivity, creativity, and improved team dynamics. However, behavioral biases, such as belief perseverance and information processing biases and emotional biases, can act as both sources of conflict and barriers to resolution.

The project investigates the role of these biases in conflict resolution within Bulgaria's financial sector, aiming to bridge a critical research gap and provide insights into improving workplace conflict management.

PROJECT GUIDELINES

The aim of this project is to examine behavioral biases in conflict resolution within financial sector organizations and to explore the relationships between these biases. This goal is achieved through the completion of the following tasks:

1. Conduct a literature review on behavioral biases and their effect on conflict resolution within organizations.
2. Perform an empirical study among employees in financial sector organizations to identify and assess the behavioral biases that arise in conflict situations.
3. Based on the research findings, provide practical recommendations for financial sector managers to integrate behavioral insights into conflict resolution strategies.

This project aims to contribute to both theoretical understanding and practical applications by providing implications into how behavioral biases shape conflict management in professional environments.

METHODOLOGY

Procedure

The study is conducted in 2024. The questionnaire is designed by the authors and consists of three sections. The first section includes an item about the perceived resolution level of employees' most recent conflict at the workplace. The second section consists of 19 statements for 17 different behavioral biases. The biases are identified on the basis of the literature review. The chosen biases are as follows: overconfidence bias, halo effect, illusion of control bias, conservatism bias, confirmation bias, out-group bias, self-attribution bias, optimism and wishful thinking bias, affect heuristic, representativeness bias, status quo bias, reactive devaluation, exaggeration bias, herding bias, horn effect, regret-aversion bias, and implicit bias. Two statements are used for testing for affect heuristic and regret-aversion bias. In the third section respondents are asked to provide demographic information.

Participants

A total of 231 full-time employees from organizations in the financial sector in Bulgaria participated in the study.

Measures

Conflict resolution. The extent to which the employee workplace conflict has been resolved is measured with a five-point Likert scale (1 – Strongly disagree, 2 – Disagree, 3 – Neither agree nor disagree, 4 – Agree, 5 – Strongly agree). The response "Strongly agree" indicates completely resolved conflicts.

Behavioral biases. Employees are asked to indicate the extent to which they agree with the 19 statements for the biases on a five-point Likert scale (1 – Strongly disagree, 2 – Disagree, 3 – Neither agree nor disagree, 4 – Agree, 5 – Strongly agree). The response "Strongly agree" indicates complete inclination towards a behavioral bias.

Statistical Methods

To examine whether the items for the biases form a reliable scale, Cronbach's coefficient alpha is measured. The results reveal acceptable reliability (> .70) for each of the items for the biases.

A Student's one sample t-test is performed to compare the mean value of the perceived level of conflict resolution and the mean values of the 19 variables for the 17 biases against the middle of the scale (Table 1).

A Spearman's Rho correlation analysis is conducted to examine the relationship between the level of conflict resolution and the behavioral biases as well as the relationship between each pair of biases.

Variable	N	Mean	Std. Deviation	Median	Skewness	Kurtosis
Conflict resolution	231	3.75	1.200	4.00	-0.767	-0.358
Overconfidence bias	231	3.94	1.041	4.00	-1.068	0.969
Halo effect	231	3.77	1.090	4.00	-0.722	-0.133
Illusion of control bias	231	3.13	1.128	3.00	-0.212	-0.786
Conservatism bias	231	4.30	0.856	4.00	-1.541	2.755
Confirmation bias	231	4.21	0.960	4.00	-1.617	2.789
Out-group bias	231	1.91	1.078	2.00	1.360	1.292
Self-attribution bias	231	3.31	1.141	3.00	-0.342	-0.625
Optimism and wishful thinking bias	231	3.42	1.072	3.00	-0.228	-0.692
Affect heuristic 1	231	2.83	1.152	3.00	-0.001	-0.988
Representativeness bias	231	3.69	0.921	4.00	-0.866	0.670
Status quo bias	231	2.23	1.085	2.00	0.830	0.162
Reactive devaluation	231	2.29	1.113	2.00	0.598	-0.543
Exaggeration bias	231	3.06	1.154	3.00	0.009	-0.864
Herding bias	231	3.53	1.050	4.00	-0.416	-0.441
Affect heuristic 2	231	2.88	1.087	3.00	-0.052	-0.798
Horn effect	231	3.14	1.092	3.00	-0.166	-0.751
Regret-aversion bias (errors of commission)	231	3.10	1.090	3.00	-0.228	-0.810
Implicit bias	231	1.73	1.090	1.00	1.627	1.973
Regret-aversion bias (errors of omission)	231	2.72	1.203	3.00	0.194	-0.962

Source: Own calculations

RESULTS

Conflict Resolution

The findings reveal that employees in Bulgarian financial sector perceive their workplace conflicts as largely resolved (Table 2). However, they also exhibit a range of behavioral biases that influence how conflicts are managed and resolved.

Prevalence of Behavioral Biases

Employees in the financial sector tend to demonstrate several cognitive and emotional biases, as follows (Table 2):

- Overconfidence bias – employees tend to overestimate their own ability to resolve conflicts effectively.
- Conservatism bias – many employees resist new information, preferring to rely on pre-existing beliefs.
- Confirmation bias – employees selectively focus on information that supports their existing viewpoints, reinforcing personal biases.
- Self-Attribution bias – successes in conflict resolution are attributed to personal skills, while failures are often blamed on external factors.
- Optimism and wishful thinking bias – employees are inclined to view conflict resolution processes positively, often underestimating potential challenges.
- Representativeness bias – employees assess conflict situations based on their resemblance to stereotypes rather than objective analysis, leading to potential misjudgments.
- Herding bias – there is a tendency to follow group behavior rather than making independent judgments in conflict situations.
- Halo effect – employees' initial positive impressions of colleagues lead to overly favorable evaluations of their actions in conflict situations, potentially overlooking mistakes or misjudgments.
- Horn effect – employees' initial negative impressions of colleagues result in overly critical assessments of their actions in conflict situations, potentially dismissing valid contributions or solutions.

Moreover, financial employees tend to be strongly conservative and confirmative. However, they are not inclined to out-group bias, affect heuristic, status quo bias, reactive devaluation, implicit bias and regret aversion bias (errors of omission).

Variable	t-value	Sig. (2-tailed)	Cohen's d
Conflict resolution	9.482	0.000	0.62
Overconfidence bias	13.718	0.000	0.90
Halo effect	10.682	0.000	0.70
Illusion of control bias	1.808	0.072	0.12
Conservatism bias	23.069	0.000	1.52
Confirmation bias	19.119	0.000	1.26
Out-group bias	-15.386	0.000	-1.01
Self-attribution bias	4.096	0.000	0.27
Optimism and wishful thinking bias	5.894	0.000	0.39
Affect heuristic 1	-2.285	0.023	-0.15
Representativeness bias	11.428	0.000	0.75
Status quo bias	-10.792	0.000	-0.71
Reactive devaluation	-9.750	0.000	-0.64
Exaggeration bias	0.741	0.459	0.05
Herding bias	7.645	0.000	0.50
Affect heuristic 2	-1.634	0.104	-0.11
Horn effect	1.988	0.048	0.13
Regret-aversion bias (errors of commission)	1.448	0.149	0.10
Implicit bias	-17.683	0.000	-1.16
Regret-aversion bias (errors of omission)	-3.556	0.000	-0.23

Source: Own calculations

Correlation Between Biases

The study identifies multiple positive correlations between pairs of behavioral biases (Table 3). Thus, employees show a tendency to manifest certain combinations of behavioral biases. The strongest positive relationship is between conservatism and confirmation bias, indicating that employees who resist change are also more likely to seek information that confirms their existing views. Moreover, the negative correlations found include both conservatism and confirmation bias on the one hand and out-group bias, status quo bias, reactive devaluation and implicit bias on the other hand respectively. These findings suggest that while employees in the financial sector have a strong inclination to conservatism and confirmation bias, they are unlikely to manifest some of the other biases simultaneously.



Impact on Conflict Resolution

The results suggest that certain biases can positively influence conflict resolution (Table 3). Some of the behavioral biases tested indicate a positive correlation with the level of conflict resolution. Employees exhibiting overconfidence, conservatism, confirmation, herding, regret aversion (errors of commission), optimism and wishful thinking bias and halo effect tend to perceive their conflicts as more effectively resolved. This implies that in some cases, behavioral biases may help employees feel more confident in their ability to handle disputes, leading to quicker and more decisive conflict resolution.

The study also finds no significant relationship between illusion of control bias, out-group bias, self-attribution bias, affect heuristic, representativeness bias, status quo bias, reactive devaluation, exaggeration bias, horn effect, implicit bias, and regret aversion (errors of omission), on the one hand, and conflict resolution levels, on the other, suggesting that these biases do not play a significant role in the process.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
1	1																				
2	.222*	1																			
3	.186*	.335*	1																		
4	.028	.163*	.239*	1																	
5	.241*	.263*	.234*	.071	1																
6	.271*	.234*	.227*	.000	.541**	1															
7	-.036	.034	.033	.000	-.451**	-.361**	1														
8	.074	.311*	.233*	.011	.020	-.051	.260*	1													
9	.149*	.127	.234*	.014	.207**	.219**	.005	.293*	1												
10	.005	.354*	.190*	.314*	.042	.071	.022	.008	-.002	1											
11	.028	.262*	.254*	.134*	.181**	.155*	.022	.300*	.284*	.134*	1										
12	-.028	-.075	.144*	.254*	-.291**	-.130*	.379*	.188*	.005	-.236*	.096	1									
13	-.036	.035	.032	.240*	-.291**	-.181**	.493*	.240*	.064	.357*	.028	.450*	1								
14	-.061	.246*	.239*	.082	.099	.024	.062	.264*	.237*	.041	.149*	.134*	.048	1							
15	.184*	.312*	.189*	.012	.256**	.170**	-.025	.015	.080	.264*	.143*	.045	.016	-.031	1						
16	-.066	.127	.223*	.302*	-.008	.005	.194*	.137*	.330*	.440*	.261*	.289*	.361*	.353*	.080	1					
17	-.044	.126	.351*	.160*	-.022	.002	.173*	.195*	.056	.213*	.333*	.213*	.318*	.124	.148*	.364*	1				
18	.140*	.194*	.186*	.061	.038	.111	.193*	.267*	.047	.243*	.245*	.215*	.309*	.107	.181*	.332*	.357*	1			
19	-.029	.032	-.045	.132*	-.263**	-.236**	.412*	.018	-.019	.169*	-.005	.341*	.333*	.159*	-.014	.289*	.141*	.079	1		
20	-.012	-.001	.087	.012	-.150*	-.008	.213*	.140*	-.023	.144*	.012	.140*	.028	.140*	.223*	.231*	.417*	.152*	-.012	1	

1. Resolution of conflicts, 2. Overconfidence bias, 3. Halo effect, 4. Illusion of control bias, 5. Conservatism bias, 6. Confirmation bias, 7. Out-group bias, 8. Self-attribution bias, 9. Optimism and wishful thinking bias, 10. Affect heuristic 1, 11. Representativeness bias, 12. Status quo bias, 13. Reactive devaluation, 14. Exaggeration bias, 15. Herding bias, 16. Affect heuristic 2, 17. Horn effect, 18. Regret-aversion bias (errors of commission), 19. Implicit bias, 20. Regret-aversion bias (errors of omission).
p < .05; ** p < .01 (2-tailed)
Source: Own calculations

CONCLUSION

The project highlights the importance of recognizing various behavioral biases that can have an influence on employee conflict resolution in organizations. Being aware of and understanding behavioral biases can help employees to navigate through them and deal with their workplace conflicts more effectively.

The research contributes to both behavioral theories and conflict resolution in finance by identifying inclinations toward specific cognitive and emotional judgements. It also contributes to the intersection between these areas as a way of transfer of knowledge. Internationally, research literature on behavioral biases is predominantly focused on investors' behavior, not on employees in the financial sector, and lacks sufficient examination of the cross-section between conflict resolution and behavioral inclinations. To the best of our knowledge, research has not yet focused on analyzing conflicts among financial employees in Bulgaria, and on manifestation of behavioral biases.

The findings could be useful for managers of organizations operating in the financial sector in Bulgaria to better understand behavioral aspects of conflict resolution and put these issues into practice when developing strategies to deal with interpersonal conflicts.

The research reveals main behavioral biases that financial employees are prone to, the relationships between these inclinations as well as the relationship between the biases found and the level of conflict resolution. Possible further research might examine the causal relationship between the level of conflict resolution and the major biases found in employee behavior as underlying factors in conflict dynamics. To get a deeper insight into the financial sector, further research can analyze the results by various demographic factors, such as age, gender, education background, job position, work experience, etc.



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