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How do audit committee members' and audit partners' communication styles jointly influence client managers' negotiation behavior?

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ABSTRACT

Auditor-client negotiations over contentious accounting issues can shape reported financial outcomes, yet little is known about how communication dynamics between audit committee (AC) members and auditors influence client negotiation behavior. We conduct an experiment in which experienced financial executives, assuming the role of chief financial officer, negotiate a disputed inventory obsolescence allowance with a simulated audit partner in the presence of an AC member; the AC member's distributive communication style (offensive vs. defensive) and the audit partner's reflective empathy (high vs. low) are manipulated between participants. Drawing on relational framing theory in interpersonal communication, we predict and find that a distributive-offensive AC communication style leads clients to establish their reporting positions and concede less to the auditor's proposed adjustment, unless it is accompanied by high reflective empathy from the audit partner, which neutralizes this resistance. This pattern emerges in the client's initial negotiation position and persists through the final negotiated allowance. Our findings suggest that auditors can use empathetic communication as a strategic tool to defuse the competitive posture that an assertive governance signal may provoke. Overall, our results provide insights into how AC members' and auditors' communication styles jointly shape client negotiation behavior, highlighting the importance of communication strategies in achieving effective audit negotiation outcomes.

1. Introduction

Negotiations between auditors and client managers are a central component of the financial reporting process, particularly when resolving accounting disputes involving subjective judgments that affect reported earnings (Dodgson et al., 2021, 2023; Gibbins et al., 2001, 2005; Hatfield et al., 2008, 2010, 2022; Nelson, 2009; Tan & Trotman, 2010). Negotiation outcomes are influenced not only by the parties' technical positions, but also by interpersonal communication, relationship dynamics, and institutional power structures (Gibbins et al., 2005; Nelson, 2009). We add to this literature by considering the joint effect of governance and interpersonal communication in auditor-client negotiations, particularly the communication styles adopted by audit committees (ACs) and audit partners.[1] We examine whether and how an AC member's distributive communication style and an audit partner's reflective empathy jointly influence client negotiation behavior. We focus on the client's initial negotiation position as a primary indicator of negotiation behavior because it captures the strategic stance the client adopts upon entering the negotiation and serves as an important anchor for subsequent negotiation outcomes (Bame-Aldred & Kida, 2007; Bennett et al., 2015; Galinsky & Mussweiler, 2001; Hatfield et al., 2010; Pruitt & Carnevale, 1993).

We conceptualize audit negotiation as a triadic communicative process influenced by both governance and interpersonal forces. At the governance level, the AC provides a distinct source of oversight and accountability, and its communication can signal authority, monitoring, and support for the auditor's position (Cohen et al., 2010; DeFond & Zhang, 2014; Fiolleau et al., 2019; Gendron & Bédard, 2006; Pomeroy, 2010). Given its fiduciary responsibility to safeguard financial reporting integrity, the AC's communication is inherently distributive, or

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[1] Governance communication represented by the AC's governance-oriented tone signals formal oversight and accountability expectations Interpersonal communication is defined here as the audit partner's use of relational cues such as reflective empathy, which plays a key role in influencing how clients perceive auditor intentions and fairness.

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enforcement-oriented, because it emphasizes oversight, accountability, and control. However, distributive communication can vary in intensity, ranging from distributive-defensive, which is firm but less confrontational, to distributive-offensive, which is highly assertive and challenging. These variations affect how clients interpret the AC's authority and, in turn, how they respond during negotiations.[2] We argue that a distributive-offensive AC communication style is more likely to trigger psychological reactance because clients may perceive it as a threat to their professional autonomy, leading them to defend their preferred reporting position rather than concede (Brehm & Brehm, 2013; Reynolds-Tylus, 2019; Shen, 2015).[3] A distributive-defensive style, by contrast, signals firmness without overt confrontation and is therefore less likely to provoke resistance. More broadly, negotiation is rarely a neutral exchange of information: communication tone can shape whether parties respond cooperatively or competitively (Kopelman et al., 2006; Rafaeli & Sutton, 1991). Because an assertive AC stance can be a legitimate expression of the AC's fiduciary role, the practical question is not how to soften oversight, but how auditors can manage its unintended relational consequences.

One way to manage these consequences may be through the audit partner's interpersonal communication. Negotiation outcomes are influenced not only by substantive positions but also by relational dynamics, including interpersonal trust and the extent to which parties consider one another's perspectives (Galinsky et al., 2008; Galinsky & Mussweiler, 2001; Kong et al., 2014). These dynamics shape how negotiators interpret one another's intentions and respond to the relational cues conveyed alongside substantive positions (Burgoon & Hale, 1984; Dillard et al., 1996; McLaren et al., 2014). We propose that the audit partner's reflective empathy can help manage the relational consequences of AC communication. Prior psychology research suggests that reflective empathy, defined as deliberate and cognitively guided perspective-taking, activates affiliative frames that foster trust and collaboration (Cameron et al., 2019; Eisenberg & Miller, 1987; Gilin et al., 2013; Longmire & Harrison, 2018; Martinovski et al., 2007; Persson & Savulescu, 2018; Zaki, 2014). In the audit negotiation context, we expect reflective empathy demonstrated by the audit partner to create a more cooperative relational climate and reduce client resistance to proposed audit adjustments. The AC, by contrast, serves as a central governance mechanism responsible for overseeing the financial reporting process (Beasley et al., 2009; Center for Audit; Financial Reporting Council, 2013a, 2013b; Gendron & Bédard, 2006; Quality, 2014a, 2014b). Although ACs are expected to support the external auditor's judgment in disputes with management, their direct involvement in resolving specific auditor-client disagreements is relatively rare (Free et al., 2021). Accordingly, we focus not on AC intervention per se, but on the tone of AC communication as a governance signal within the broader negotiation environment, and on whether the audit partner's reflective empathy can mitigate its potential relational effects.

Taken together, AC distributive communication and audit partner reflective empathy represent complementary governance and interpersonal forces that shape the relational context in which clients interpret audit scrutiny and decide whether to cooperate or resist. This joint perspective is important because auditors and clients often enter negotiations with divergent communication styles and strategies (Bame-Aldred & Kida, 2007; Gibbins et al., 2010; Hermanson et al., 2003), and recipients respond not only to message content but also to the relational signals embedded in its delivery and interpersonal stance (Burgoon & Hale, 1984; Dillard et al., 1989; Gordon et al., 2012). Examining AC distributive communication alongside audit partner reflective empathy therefore provides a basis for understanding how governance-level and interpersonal communication jointly shape client behavior in audit negotiations.

To predict the joint effect of the AC member's distributive communication style and the audit partner's reflective empathy on client negotiation behavior, we draw on relational framing theory (RFT). RFT posits that individuals interpret messages through relational frames, such as dominance versus affiliation, that are shaped by the communication styles of all parties involved in an interaction (Dillard et al., 1996; Donohue & Roberto, 1993; McLaren et al., 2014; McLaren & Solomon, 2021). A distributive-offensive AC communication style signals dominance and is likely to trigger psychological reactance and a competitive posture, causing clients to defend their preferred reporting position (Brehm & Brehm, 2013). Reflective empathy, in contrast, activates affiliative frames that encourage openness and cooperation (Cameron et al., 2019; Gilin et al., 2013; Zaki, 2014). When the audit partner acknowledges the client's circumstances, the affiliative frame can defuse the reactance provoked by the AC's offensive stance; when the audit partner withholds empathy, adversarial cues likely dominate the interaction such that the client becomes increasingly committed to their initial reporting position (Martinovski et al., 2007). Under a distributive-defensive AC communication style, perceived threat is weaker, clients have less reactance to overcome, and empathy should therefore have less resistance to act upon (Donohue et al., 1984; Tutzauer & Roloff, 1988). We therefore expect the audit partner's reflective empathy to attenuate the reduction in client concessions caused by the AC's distributive-offensive relative to distributive-defensive communication style.

We test these predictions using a 2 × 2 between-participants experiment that manipulates the AC member's distributive communication style, distributive-offensive versus distributive-defensive, and the audit partner's reflective empathy, high versus low. We find that when the AC member adopts a distributive-offensive communication style, clients establish substantially higher initial negotiation positions when the audit partner exhibits high rather than low reflective empathy, indicating greater willingness to make concessions toward the auditor's preferred adjustment. In contrast, when the AC member adopts a distributive-defensive communication style, clients' initial negotiation positions do not differ significantly between the high- and low-reflective-empathy conditions. These findings indicate that an audit partner's reflective empathy attenuates the adverse effect of a distributive-offensive AC communication style by encouraging greater client concession.

Our study offers several contributions. First, we introduce a theoretically grounded perspective from communication psychology, specifically RFT (Donohue, 2001; Donohue & Kolt, 1992; Donohue & Roberto, 1993), to explain how communication style operates as a behavioral cue in audit negotiations. Prior research has examined communication format (Brazel et al., 2004) and contextual negotiation factors (Hatfield et al., 2010), but less is known about how clients jointly interpret interpersonal and governance cues in triadic audit interactions. Our findings show that an assertive AC communication style can create a more competitive negotiation climate, leading clients to adopt a tougher negotiation posture by becoming more resistant to the auditor's proposed adjustment. Importantly, we find that the audit partner's reflective empathy mitigates this defensive response, reducing the competitive nature of the negotiation without requiring the AC to weaken its governance role. This insight extends the audit negotiation literature by demonstrating that auditors can use communication strategically to defuse the competitive posture that assertive governance actions may provoke and thereby facilitate more constructive

[2] Goering (1997) distinguishes between a distributive-offensive communication style, which challenges opposing positions through critique and rebuttal, and a distributive-defensive style, which protects one's stance through firm justification and reassertion.

[3] Psychological reactance is a motivational response that occurs when people feel their freedom to choose or behave is being threatened or restricted. When individuals perceive that their autonomy is being constrained, whether by rules, persuasion, or pressure, they experience discomfort and become motivated to restore their freedom, often by doing the opposite of what is being suggested or imposed.

negotiation outcomes.

Second, we contribute to research on ACs by foregrounding their communicative role in negotiation settings. Prior studies have examined AC oversight behaviors (e.g., Fiolleau et al., 2019; Pomeroy, 2010), whereas we conceptualize AC communication along a distributive continuum and show how variation in tone frames auditor-client interactions, demonstrating that oversight is enacted not only through formal authority but also through communication that shapes client responses in triadic auditor-client-AC interactions.

Finally, our study offers practical implications for audit firms, corporations, and ACs. An assertive AC style signals strong oversight but can lead management, particularly CFOs, to "dig in their heels," and reflective empathy mitigates this resistance while auditors maintain professional integrity. Our setting also places the client in a tough negotiation position: the auditor concedes nothing across rounds and the AC member sides with the auditor, so reciprocity norms would lead clients to mirror this contentious stance by refusing to move (Bame-Aldred & Kida, 2007; Sanchez et al., 2007), yet the audit partner's reflective empathy interrupts this reciprocal escalation. More broadly, embedding relational awareness into audit practice may facilitate more constructive auditor-client negotiations and, ultimately, enhance audit quality. The central implication is that effective audit negotiations require not only rigorous oversight but also reflective empathy, which can reduce client resistance and promote constructive engagement.

2. Literature review and hypothesis development

2.1. Auditor-client negotiations

Prior research examines how auditors and clients use negotiation tactics that affect both immediate outcomes and longer-term relationships (Bame-Aldred & Kida, 2007; Hatfield et al., 2008; Sanchez et al., 2007; Trotman et al., 2005, 2009). Moreover, disagreements are most likely to arise when managers have strong incentives to pursue aggressive reporting, precisely the conditions under which AC oversight becomes most consequential (DeFond & Jiambalvo, 1993). Factors influencing negotiation outcomes include client risk, auditor experience, and negotiation style (Brown & Johnstone, 2009; Fu et al., 2011; Hatfield et al., 2008). Audit partners draw on both formal authority and relational capital when negotiating accounting issues (McCracken et al., 2008), while client characteristics such as negotiating style and retention risk influence auditors' tactics (Hatfield et al., 2008). Experienced auditors tend to make fewer concessions and achieve more conservative outcomes (Brown & Johnstone, 2009), whereas clients appear to better interpret auditor positions (Bame-Aldred & Kida, 2007). Overall, auditor-client negotiations play a key role in shaping financial reporting outcomes (Antle & Nalebuff, 1991; Salterio, 2012).

Most auditor-client negotiation studies involve only one active party and provide limited opportunities for social interaction, often relying on text-based exchanges (Sanchez et al., 2007; Tan & Trotman, 2010), pre-programmed responses (Brown & Johnstone, 2009; Perreault et al., 2017), role-playing (Trotman et al., 2005), or abstract economic interactions (Kachelmeier & Van Landuyt, 2017). Although these approaches enhance experimental control, they can reduce the social cues present in actual negotiations. Kachelmeier (2018) argues that limited interaction may omit important cues such as communication style and questioning, thereby affecting response validity. Hatfield et al. (2022) address this limitation through an interactive web-based setting. Absent participant interaction, we examine how governance and interpersonal communication styles jointly influence client negotiation behavior by incorporating the AC as a contextual influence. In doing so, we provide a more socially embedded account of audit negotiations that integrates relational framing with governance cues.

2.2. Client-side negotiation research

Several studies examine client behavior in auditor-client negotiations. Hatfield et al. (2008) find that auditors are more likely to use reciprocity-based strategies when negotiating with competitive clients and when client retention risk is high, highlighting the importance of client characteristics in shaping negotiation dynamics. Bame-Aldred and Kida (2007) show that clients are generally more flexible in their negotiation positions and better understand auditors' objectives than auditors understand clients' objectives. Clients also employ tactical strategies, such as initially demanding favorable outcomes before making concessions. Dodgson et al. (2021) examine the role of relationship partners and find that clients are less likely to concede when negotiations reach a stalemate, but appropriately timed intervention by a relationship partner can restore trust and facilitate agreement. Communication research similarly shows that relational transgressions can be repaired through communicative acts that restore affiliation (Waldron & Kelley, 2005). Building on this literature, we focus on communication framing as a mechanism through which audit partners influence client receptivity. Specifically, we examine whether audit partners' reflective empathy fosters trust, reduces resistance, and increases acceptance of auditors' judgments on subjective accounting issues.

2.3. The role of the AC in auditor-client negotiations

Prior research primarily examines how AC members support or challenge auditors in fulfilling their oversight responsibilities (Brown-Liburd & Wright, 2011; Free et al., 2021; Kang, 2019; Kang et al., 2015; Ng & Tan, 2003; Tan et al., 2023). Prior studies show that ACs support auditors in technical disputes (Knapp, 1987), constrain aggressive reporting (Agoglia et al., 2011), reduce the waiver of material misstatements (Keune & Johnstone, 2012), and influence negotiation processes and outcomes (Brown-Liburd et al., 2016; Brown-Liburd & Wright, 2011; Gibbins et al., 2007). More specifically, Brown-Liburd and Wright (2011) find that auditors adopt more contentious negotiation positions when facing a strong AC and a history of contentious client interactions, reflecting greater perceived bargaining power and negotiation difficulty. From managers' perspectives, Brown-Liburd et al. (2016) show that CFOs and controllers become less aggressive when facing a strong AC and contentious auditor relationship, but more aggressive when a weak AC is paired with a cooperative auditor relationship. In contrast, Gibbins et al. (2007) find that CFOs generally perceive ACs as oversight bodies rather than active participants in auditor-client negotiations. Although ACs are usually informed of negotiated outcomes, they are seldom involved in the negotiation process itself.

Across studies, AC involvement is characterized by active questioning (Kang, 2019; Kang et al., 2015; Kang & Piercey, 2020; Pomeroy, 2010) and iterative information exchange (Bhattacharjee et al., 2020; Fiolleau et al., 2019), often framed as an information-processing function (Boivie et al., 2016; Free et al., 2021). More recently, research highlights the role of AC communication and perspective-taking in shaping stakeholder judgments and negotiation behavior (Bhattacharjee et al., 2020; Tan et al., 2023). Although ACs are rarely directly involved in auditor-client negotiations because many disagreements are resolved before reaching the committee (Free et al., 2021), they typically support the auditor and facilitate dispute resolution when negotiations escalate. Auditing Standard No. 1301 paragraph 15 issued by the Public Company Accounting Oversight Board (PCAOB, 2012) requires the auditor to communicate to the AC matters that are difficult or contentious, which explicitly encompasses disagreements with management and thereby institutionalizes the AC's role in overseeing and, when necessary, helping resolve significant auditor-client disputes.

We extend this literature by examining how the AC communicates its oversight role, rather than simply whether the AC supports the auditor

or becomes involved in a dispute. Specifically, we distinguish between distributive-offensive and distributive-defensive communication styles and consider how their relational meaning depends on the audit partner's communication. This approach recognizes that the role conveyed by one negotiator's behavior can depend on the behavior of the other (Brodt & Tuchinsky, 2000). Thus, the same AC communication style may have different implications for client negotiation behavior depending on whether the audit partner reinforces or counterbalances its relational signal. This perspective shifts attention from the strength of AC oversight alone to the interactional process through which AC authority is communicated and experienced by clients (Brown-Liburd et al., 2016; Brown-Liburd & Wright, 2011).[4] We develop this interactional perspective using RFT in the following section.

2.4. Theory and hypothesis development

We draw on RFT to predict the joint effect of the AC member's distributive communication style and the audit partner's reflective empathy on client negotiation behavior. RFT proposes that individuals interpret communication through relational frames, such as dominance versus submission and affiliation versus disaffiliation, which influence perceptions and responses (Dillard et al., 1996; Donohue & Roberto, 1993; McLaren & Solomon, 2021). Communication style, therefore, conveys relational meaning beyond message content. Assertive communication can activate resistance, whereas affiliative communication can promote trust and cooperation. Subsequent extensions of RFT show that communication style and displays of authority influence whether interactions are experienced as cooperative or adversarial (Donohue, 2001; Donohue & Kolt, 1992; Donohue & Taylor, 2006). Accordingly, RFT provides a useful framework for understanding how relational cues shape negotiation behavior.[5]

RFT also provides a basis for understanding how AC members' communication styles shape the relational dynamics of auditor-client negotiations. Although AC members primarily serve an oversight role, the way they communicate a preferred accounting position can convey relational cues about the nature and intensity of the governance challenge (Free et al., 2021). These cues can be captured by distinguishing between offensive and defensive distributive communication styles (Goering, 1997; McKersie et al., 1965). Drawing on Goering (1997), we define a distributive-offensive AC communication style as a confrontational approach that directly challenges, confronts, or pressures the client, thereby making the conflict more salient. In contrast, a distributive-defensive style seeks to maintain the same substantive position without directly attacking the client. Thus, although both styles communicate firmness and commitment to the AC's preferred outcome, they differ in the relational meaning they convey. The offensive style signals greater dominance and interpersonal threat creating an adversarial situation and increasing the likelihood of resistance, whereas the defensive style communicates the same position without directly challenging the client creating a cooperative situation (Dillard et al., 1989; Donohue et al., 1984; Tutzauer & Roloff, 1988). This distinction is important because AC communication can shape whether clients perceive AC oversight as a confrontational challenge or as a firm but less adversarial assertion of its position.

The relational meaning of the AC member's communication, however, depends not only on the AC member's behavior in isolation but also on the relational cues conveyed by the audit partner. Negotiation interactions are jointly constructed, such that one party's communication can influence how another party's behavior is interpreted (Brodt & Tuchinsky, 2000). Reflective empathy provides a particularly relevant affiliative cue in audit negotiations. We conceptualize reflective empathy as a deliberate, reason-guided process through which individuals actively seek to understand and adopt another person's perspective (Persson & Savulescu, 2018). This conceptualization distinguishes reflective empathy from automatic emotional reactions and aligns with research portraying empathy as a motivated, controllable, and regulable process (Cameron et al., 2019; Zaki, 2014). By actively acknowledging and engaging with the client's perspective, an audit partner exhibiting high reflective empathy may signal understanding and respect, encouraging the client to perceive the interaction as more constructive and collaborative. Such communication may reduce perceived threats to client autonomy and, in turn, lessen reactance (Brehm & Brehm, 2013) and increase the client's willingness to engage with proposed adjustments and move toward the auditor's preferred reporting position (Gibbins et al., 2010; Persson & Savulescu, 2018). At the low end of the construct, reflective empathy represents motivated non-engagement rather than merely the absence of an empathic response. That is, an audit partner who declines to acknowledge or engage with the client's circumstances may convey relational distance or detachment, contributing to a less supportive and potentially more adversarial interpretation of the interaction (Martinovski et al., 2007; Zaki, 2014). Low reflective empathy may therefore operate as a negative relational cue during negotiation. Thus, the audit partner's manner of engaging with the client may either reinforce or mitigate the relational implications of the AC member's communication style.

Together, the AC member's distributive communication style and the audit partner's reflective empathy produce different relational configurations. We do not expect these configurations to have symmetric effects because the two variables play different roles in the interaction. The AC member's distributive communication style provides the primary confrontational cue: a distributive-offensive style directly challenges the client's position and signals dominance, whereas a distributive-defensive style communicates the AC member's position without the same degree of interpersonal confrontation. The audit partner's reflective empathy, in contrast, influences how the client interprets and responds to that communication by providing either an affiliative and perspective-taking cue or a relatively detached and non-engaging cue (Martinovski et al., 2007; Zaki, 2014). Reflective empathy can therefore counterbalance a dominance cue only when the AC member's communication style has made that cue salient.

When a distributive-offensive AC member is paired with an audit partner high in reflective empathy, the audit partner's affiliative communication can mitigate the relational threat conveyed by the AC member's confrontational style. Clients in this condition may therefore be more willing to engage with the proposed adjustment and move toward the auditor's preferred reporting position. By contrast, when a

[4] While models of auditor-client negotiation have long included AC involvement as an important contextual feature (Gibbins et al., 2001), and more recent developments have increased AC accountability (Center for Audit Quality, 2014a; Financial Reporting Council, 2013a, 2017; Peecher et al., 2013), the auditing literature provides evidence suggesting that direct AC intervention in negotiation disputes remains uncommon (Free et al., 2021). Unresolved disagreements between management and external auditors are generally expected to be settled prior to formal AC meetings, and when AC involvement does occur, it typically takes the form of mediation or facilitation rather than direct negotiation, with AC chairs more commonly requesting additional information from management and auditors to guide resolution (Sanchez et al., 2007; Trotman et al., 2005). Direct intervention by AC in auditor-client negotiations is rare, as formally arbitrating disputes is generally considered to fall outside the AC's primary role (Free et al., 2021).

[5] Reciprocity theory (Cialdini, 2001; Hatfield et al., 2010) and social exchange theory (SET) (Blau, 2017; Homans, 1958) explain cooperative responses to others' behavior, but they primarily focus on exchanges between parties and provide less insight into how individuals interpret multiple, simultaneous relational cues. In our setting, clients receive concurrent signals from both the audit partner and the AC member. RFT is therefore more appropriate because it explains how communication tone and context shape relational frames (e.g., dominance versus affiliation) and how competing frames influence responses (Dillard et al., 1996, 1999; Solomon et al., 2002). We acknowledge that SET and RFT are complementary: SET explains broader exchange relationships, whereas RFT explains how communication style shapes relational meaning within a specific interaction.

distributive-offensive AC member is paired with an audit partner low in reflective empathy, the confrontational signal conveyed by the AC member is neither mitigated nor constructively reframed. Instead, the audit partner's relative detachment may reinforce a relational climate characterized by distance and hostility. The client therefore receives a direct challenge from the AC member together with little indication that the audit partner understands or acknowledges the client's perspective. Consistent with RFT, these concurrent cues are likely to reinforce perceptions of threat and dominance, making clients more likely to remain committed to their preferred reporting position. Prior research also suggests that the withholding of empathy is interpreted as a deliberate negotiating stance (Martinovski et al., 2007). This combination is therefore expected to reduce client concessions.

The role of reflective empathy is different when the AC member adopts a distributive-defensive communication style. Because distributive-defensive style protects the AC member's position without directly challenging the client or conveying the same salient dominance cue, there is less relational threat for reflective empathy to mitigate. High reflective empathy may nonetheless foster a more constructive and affiliative relational climate, whereas low reflective empathy may create greater relational distance. However, because the AC member's distributive-defensive communication does not simultaneously introduce a strong confrontational cue, the difference between high and low audit partner reflective empathy is expected to be less consequential. Thus, audit partner's reflective empathy may have its greater effect when paired with a distributive-offensive AC communication style, where an affiliative cue from the audit partner can counterbalance the AC member's confrontational signal.

We therefore expect the audit partner's reflective empathy to attenuate the reduction in client concessions associated with a distributive-offensive, relative to a distributive-defensive, AC communication style. Our prediction is illustrated in Fig. 1 and formally stated as follows.

H1. *The audit partner's reflective empathy attenuates the reduction in client concessions caused by the AC member's distributive-offensive communication style relative to a distributive-defensive style.*

3. Research design

3.1. Task

Consistent with prior auditor-client negotiation studies (Brown & Johnstone, 2009; Hatfield et al., 2010; Perreault et al., 2017), we examine the negotiation behavior of senior finance executives in a simulated (i.e., automated) negotiation setting.[6] We develop our scenario about Highpoint Electronics from two published studies (Bennett et al., 2015; Dodgson et al., 2023). Participants receive a report from the engagement partner regarding a disagreement over an inventory obsolescence estimate that may overstate pre-tax income. Highpoint Electronics is simultaneously engaged in merger discussions, giving management an incentive to resist an income-reducing adjustment. Participants are provided with background information about the company, audit firm, and governance environment. To hold contextual factors constant, participants are informed that the CFO has prior audit experience, a positive history of cooperation with auditors, and operates within a firm characterized by strong internal controls and active AC oversight.

Participants receive summarized financial information, including comparative income statements and inventory balances, and are informed of a material disagreement regarding inventory obsolescence. Specifically, management recorded an allowance of $2.5 million, whereas the auditor estimated the allowance at $10.0 million, creating a material audit difference of $7.5 million. Participants are asked to determine the allowance to be reported in the financial statements, selecting any amount between the client's recorded allowance and the auditor's estimate. Because the client has already recorded $2.5 million, the selected amount implies the corresponding audit adjustment necessary to resolve the dispute and obtain an unqualified audit opinion.

3.2. Independent variables

To test our hypothesis, we employ a 2 × 2 between-participants experimental design in which AC member distributive communication style (distributive-offensive vs. distributive-defensive) and audit partner reflective empathy (high vs. low) are fully crossed.

Goering (1997) identifies distributive-offensive and distributive-defensive communication styles. Offensive strategies foreclose negotiation and assert positional dominance (Putnam & Jones, 1982a), whereas defensive strategies protect one's position without directly challenging the opponent (Putnam & Jones, 1982b). Although both are distributive in orientation, they differ in the extent to which they restrict the counterparty's latitude to resist (Goering, 1997; Tutzauer & Roloff, 1988). The distributive-offensive condition is operationalized through the AC member's statement that "no further debate on the audit adjustment is necessary unless circumstances change," reflecting a non-conceding and negotiation-foreclosing stance (Donohue et al., 1984; Goering, 1997; Putnam & Jones, 1982a). The distributive-defensive condition is operationalized through the statement that "further debate on the audit adjustment may be necessary if circumstances change," reflecting a firm but less confrontational stance that leaves limited room for the client to maintain its position (Donohue et al., 1984; Goering, 1997; Putnam & Jones, 1982b). Both conditions employ identical contextual information regarding the audit team's compliance with regulatory requirements, ensuring that the manipulation isolates communication style rather than the substantive audit position (Tutzauer & Roloff, 1988).

Drawing on Persson and Savulescu (2018), reflective empathy is conceptualized as a voluntary, reason-guided effort to adopt another person's perspective. This view distinguishes reflective empathy from automatic emotional responses and is consistent with research describing empathy as a motivated and regulable process (Cameron et al., 2019; Zaki, 2014). In the high reflective empathy condition, the audit partner explicitly acknowledges the client's reporting objectives and operational pressures, demonstrating deliberate perspective-taking associated with more constructive negotiation outcomes (Gilin et al., 2013). In the low reflective empathy condition, the partner declines to consider the client's circumstances and focuses exclusively on technical implications, reflecting motivated non-engagement and the deliberate suppression of empathy rather than its mere absence (Cameron et al., 2019; Zaki, 2014).[7] The manipulation statements are provided in Appendix A.

[6] Hatfield and Saiewitz (2022) summarize the key features and considerations of using automated interaction in auditor-client communication experiments. They note that automated interaction is appropriate when researchers need some level of back-and-forth communication while maintaining strong experimental control over the responses of the other party. In this approach, participants typically interact with a computer system that delivers pre-programmed responses based on the participant's choices, allowing researchers to isolate specific causal mechanisms affecting communication outcomes.

[7] Consistent with prior research, the low-reflective-empathy condition represents motivated non-engagement rather than simply the absence of empathy (Martinovski et al., 2007; Zaki, 2014). In negotiation settings, deliberately withholding empathic consideration is itself an interactional choice that can shape the relational climate (Cameron et al., 2019). Thus, the low condition reflects a narrow and detached focus on the client's position, whereas high reflective empathy involves a deliberate effort to understand and consider the client's circumstances (Eisenberg & Miller, 1987; Gilin et al., 2013).

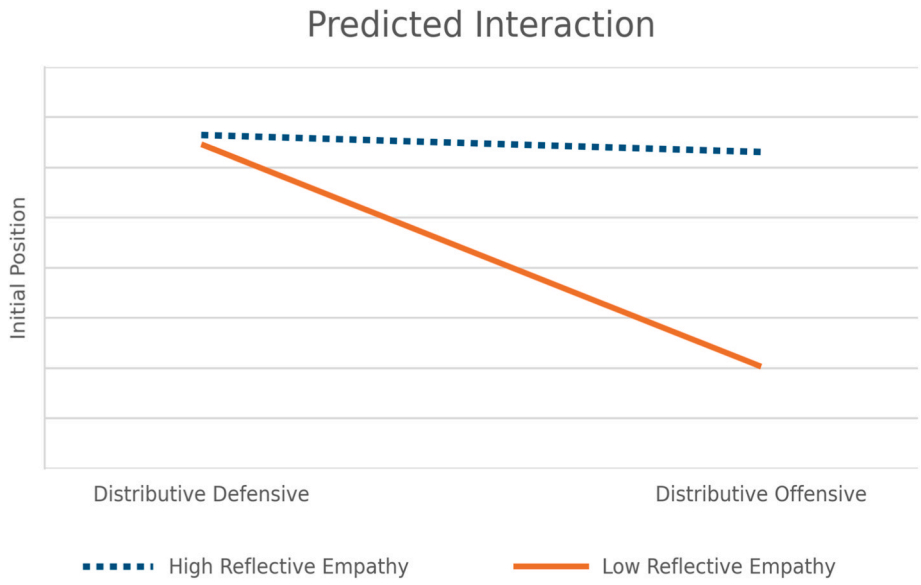


Fig. 1. Hypothesized Interaction between AC Member Distributive Communication and Audit Partner Reflective Empathy on Initial Negotiation Position
This figure illustrates the hypothesized interaction between AC distributive communication and audit partner reflective empathy on client's initial negotiation position regarding allowance for obsolete inventory. The AC distributive communication is manipulated as distributive defensive versus distributive offensive. Audit partner reflective empathy is manipulated as high reflective empathy and low reflective empathy.

3.3. Dependent variable

We capture participants' negotiated positions at two points. Our primary dependent variable is the *initial position,* that is, the inventory allowance participants intend to propose on entering the meeting with Highpoint's auditor. Our secondary dependent variable closely resembles the operationalization of the clients' negotiated outcome captured by Dodgson et al. (2023), which is the final allowance the finance executive participants want to report. The detailed mechanism is discussed in Appendix B.

3.4. Procedure and participants

We design the experiment in Qualtrics and use an online method to collect data. We recruit experienced finance executives (e.g., chief financial officer, senior accountant, or financial controller) from the United States using Dynata's panel management service.[8]

We incorporate two screening questions to filter out participants who do not meet our criteria. The first screening question is "Which of the following is a key principle of ASC 606, the US GAAP standard for revenue recognition?" If participants do not select "Revenue is recognized when the goods or services are transferred to customer, regardless of when cash is received," the survey terminates. The second screening question is "What is the primary method used under US GAAP (ASC 718) to measure stock-based compensation?" If participants do not select "Fair value of the stock option at the grant date using an appropriate valuation model (e.g., Black-Scholes)," the survey terminates. Then, we examine the participants' identification numbers and internet protocol, which reveal no similar numbers that would suggest a repeat participant. A quality check protocol prevents participants from taking a survey more than once by placing a cookie on participants' browsers when they submit a response Finally, participants respond to a series of demographic questions.

We receive a total of 187 responses across all experimental conditions. We note that 34 responses do not pass the two screening questions. As a control check, the questionnaire includes a general question: "What factors do you consider when assessing the amount of adjustment for inventory obsolescence?" Upon review, another 19 participants provide vague or irrelevant responses and are excluded, yielding 134 useable responses.[9] The demographic results are shown in Table 1. We conduct further analyses using ANOVA, controlling for eight demographic variables to examine their potential effects as covariates, as listed in Table 1, on participants' initial position. Collectively, these results confirm that the experimental effects are not moderated by participant

[8] Recent studies suggest that, with adequate screening questions, online platforms are an acceptable avenue for recruiting hard-to-reach participants for experimental settings. Finance executives are a difficult participant group to access because their seniority and experience make them challenging to recruit. Prior behavioral accounting studies have successfully used online platforms such as Qualtrics and Dynata to recruit experienced professionals and business participants (Dodgson et al., 2023; Long & Basoglu, 2016; Nelson & Rupar, 2015). Recent evidence suggests that online recruitment can provide valid experimental samples when appropriate screening procedures are implemented (Brandon et al., 2014; Hauser & Schwarz, 2016; Holt & Loraas, 2019; Leiby et al., 2021).

[9] Those participants provide responses, for example "Good", "Fair", "Revenue", "Stability", "Adjustment", "Amount", "Tax", "Inflation", "How far they willing to go", "More spending budgets". If these 19 responses are retained, the ANOVA results continue to show a significant interaction between the AC member's distributive communication and the audit partner's reflective empathy on initial negotiation position ($F_{1,149} = 10.08$, $p = 0.002$, two-tailed, untabulated). We exclude 6, 5, 4, and 4 responses from high empathy and distributive defensive, low empathy and distributive defensive, high empathy distributive offensive and low empathy and distributive offensive conditions, respectively.

Table 1
Demographics.

Variable	Category	Frequency	Percent (%)
Gender	Male	81	60.4
	Female	53	39.6
Job title	CFO	83	61.9
	Senior Accountant	12	9.0
	Financial Controller	12	9.0
	Other	27	20.1
Years of experience	Less than 5 years	18	13.4
	5–10 years	61	45.5
	11–15 years	25	18.7
	More than 15 years	30	22.4
Industry	Manufacturing	20	14.9
	Services	36	26.9
	Retail	23	17.2
	Financial Services	37	27.6
	Other	18	13.4
Involved in negotiation	Yes	96	71.6
	No	38	28.4
Responsible for presenting financial information during audits or review meetings	Yes	116	86.6
	No	18	13.4
Decision-making authority regarding financial reporting adjustments and disclosures	Yes	125	93.3
	No	09	6.7
Frequency of interaction with Audit Committee	Regularly (monthly/ quarterly meetings	70	52.2
	Occasionally (only during key reporting periods)	50	37.3
	Rarely	14	10.5

demographics, supporting the robustness of our study's findings.[10]

3.5. Manipulation checks

We include a manipulation check question on assessing the AC member's distributive communication style: "To what extent do you agree that the audit committee member's statement appeared defensive in maintaining their position on the audit adjustment?" Participants respond on an 11-point scale (from 0 = "strongly disagree" to 10 = "strongly agree"). Participants perceive the distributive-defensive style as more focused on maintaining a defensive position (mean = 8.12) compared with those in the distributive-offensive style (mean = 6.20). The difference is statistically significant ($t_{132} = 5.737$, $p < 0.001$, two-tailed, untabulated), indicating that the manipulation is effective.

We also include a manipulation check question on assessing the audit partner's reflective empathy: "To what extent do you agree that the audit partner's statement was intended to acknowledge and validate your concerns while avoiding unnecessary pressure?" Participants respond on an 11-point Likert scale (from 0 = "strongly disagree" to 10 = "strongly agree"). Participants perceive the engagement partner's communication as significantly more empathetic in the high reflective empathy condition (mean = 8.03) compared with the low reflective empathy condition (mean = 6.34). The difference is statistically significant ($t_{132} = 4.103$, $p < 0.001$, two-tailed, untabulated), indicating that the manipulation is effective.

Furthermore, to verify that verbal aggressiveness does not conflate with our experimental manipulations, we separately measure this construct for both the audit partner and the AC member by adopting the eight-item, five-point Likert scale (from 0 = "strongly disagree" to 4 = "strongly agree") developed by Infante and Wigley III (1986).[11] Following the recommendations of Piercey (2023), we conduct two separate ANOVAs, considering verbal aggressiveness as a fixed factor along with audit partner's reflective empathy and AC member's distributive communication on initial position. Using the audit partner's perceived verbal aggressiveness, neither the two-way interaction with the audit partner's reflective empathy ($F = 1.284$, $p = 0.231$, two-tailed, untabulated) nor with the AC member's distributive communication ($F = 0.684$, $p = 0.782$, two-tailed, untabulated) is significant. Using the AC member's perceived verbal aggressiveness, the corresponding two-way interactions are not significant (reflective empathy: $F = 1.029$, $p = 0.438$; distributive tone: $F = 0.746$, $p = 0.736$, two-tailed, untabulated). Therefore, perceived verbal aggressiveness does not interact with either the empathetic or the distributive tone.

4. Results and discussion

4.1. Tests of the hypothesis

Descriptive statistics for the initial position reveal notable differences across conditions relative to the AC member's distributive communication and the audit partner's reflective empathy. The mean initial positions along with ANOVA results are shown in Table 2, and illustrated in Fig. 2. H1 predicts that the audit partner's reflective empathy attenuates the reduction in client concessions caused by the AC member's distributive-offensive communication style relative to a distributive-defensive style. Because the simulated auditor's negotiation stance is held constant across all conditions and rounds, the client's initial negotiation position provides the direct measure of the negotiation posture the client adopts, and initial positions are primary determinants of final negotiation outcomes (Bame-Aldred & Kida, 2007; Galinsky & Mussweiler, 2001; Hatfield et al., 2010). The interaction between the AC member's distributive communication and the audit partner's reflective empathy on initial negotiation position is significant ($F_{1,\ 130} = 7.475$, $p = 0.007$). Consistent with H1, simple-effects analyses show that when the AC adopts a distributive-offensive communication style, audit partner reflective empathy communication style has a significant effect on clients' initial positions ($F_{1,130} = 19.810$, $p < 0.001$). Specifically, clients report substantially higher initial allowances when

[10] To examine whether participant demographic characteristics interact with the manipulations, we run additional ANOVA models for each of eight demographic variables: gender, job role, experience in financial reporting, industry, negotiation experience, frequency of AC interaction, responsibility for financial reporting, and decision-making authority following the approach of Piercey (2023). For each demographic variable, we use a semi-omnibus *F*-test model comparison approach, comparing a full model (which includes the demographic variable and all potential interaction terms with audit partner's reflective empathy and AC member's distributive tone) against a reduced model that includes the demographic variable only as a main effect. The semi-omnibus *F*-test is non-significant for all eight demographic variables, suggesting that none of the demographic variables produce unexpected interaction effects with the manipulations. Consistent with these results, all two-way and three-way interactions with participant demographics are non-significant ($p > 0.10$). Importantly, the audit partner's empathy× AC's distributive tone interaction remains significant across the eight demographic models. All analyses are untabulated.

[11] The items are as follows: 1. Attacked my ideas rather than offering logical criticism. 2. Tried to make me feel inferior during the negotiation. 3. Communicated in a way that seemed insulting or rude to me. 4. Comments were intended to embarrass or upset me. 5. Raised their voice in a way that felt aggressive or dominating. 6. Appeared to be personally attacking me rather than discussing the issues. 7. Used sarcasm or mocking language during the negotiation. 8. Dismissed my arguments with hostility or contempt. The model fit indices indicate acceptable fit: CFI (0.933), TLI (0.906), Normed NFI (0.920), and GFI (0.920) all meet or exceed the recommended threshold of 0.90. Although the chi-square statistic is significant ($\chi^2 = 116.08$, $df = 20$, $p < 0.001$), this index is sensitive to sample size (Bentler & Bonett, 1980; Hu & Bentler, 1999), and the remaining indices support an acceptable model fit.

Table 2
Effects of AC distributive communication and audit partner reflective empathy on initial position.

Panel A: Descriptive statistics

Audit Partner Reflective Empathy	AC Distributive Communication		
High Reflective Empathy	**Distributive Defensive**	**Distributive Offensive**	**Overall**
Mean	7,430,000	8,375,000	7,902,500
(S.D.)	(2,717,785)	(2,511,265)	(2,614,525)
Sample size	35	32	67
Low Reflective Empathy			
Mean	7,009,394	5,320,588	6,164,991
(S.D.)	(2,970,149)	(2,914,517)	(2,942,333)
Sample size	33	34	67
Overall			
Mean	7,219,697	6,847,794	7,033,746
(S.D.)	(2,843,967)	(2,712,891)	(2,778,429)
Sample size	68	66	134

Panel B: ANOVA results

Independent variable	df	F	p-value (two-tailed)
Audit partner reflective empathy	1	13.012	<0.001
AC distributive communication	1	0.596	0.441
Audit partner reflective empathy X AC distributive communication	1	7.475	**0.007** (H1)
Error	130		

Panel C: Simple effects

	df	F	p-value (two-tailed)
Effect of audit partner reflective empathy at presence of AC distributive defensive	1	0.387	0.535
Effect of audit partner reflective empathy at presence of AC distributive offensive	1	19.810	< 0.001
Effect of AC distributive communication at partner's low reflective empathy	1	6.152	0.014
Effect of AC distributive communication at partner's high reflective empathy	1	1.923	0.168

This Table displays the initial positions by the client at the start of the negotiation, as influenced by the interaction between the AC distributive communication and the audit partner reflective empathy. The manipulation of AC distributive communication is at two levels: distributive defensive and distributive offensive. The manipulation of audit partner reflective empathy is at two levels: low reflective empathy and high reflective empathy.

the audit partner exhibits high reflective empathy ($8,375,000) than when the partner exhibits low reflective empathy ($5,320,588). When the AC adopts a distributive-defensive communication style, clients' initial positions do not differ significantly between low and high reflective empathy conditions (means = $7,430,000 vs. $7,009,394; $F_{1, 130} = 0.387$, $p = 0.535$). These findings suggest that high reflective empathy mitigates the adverse effect of a distributive-offensive AC communication style by encouraging greater client concession. Thus, rather than reciprocating the AC member's contentious communication style, clients exposed to a highly reflective audit partner adopt positions closer to the auditor's preferred adjustment, supporting H1.

These findings are notable given the negotiation context. Across all conditions, the auditor maintains the same substantive position and makes no concessions during the negotiation rounds, while the AC member consistently supports the auditor's preferred adjustment. Under these circumstances, reciprocity norms would predict that clients mirror the auditor's contentious stance by becoming more entrenched and making fewer concessions (Bame-Aldred & Kida, 2007; Sanchez et al., 2007). Consistent with this expectation, clients exhibit their defensive negotiation posture when a distributive-offensive AC communication style is paired with low reflective empathy from the audit partner. In contrast, high reflective empathy eliminates this effect, suggesting that positive relational framing interrupts the tendency for clients to reciprocate adversarial communication by "digging in." Importantly, we observe no evidence that reflective empathy weakens the auditor's negotiating position. Rather, empathy attenuates the adverse effect of the AC member's distributive-offensive communication style without reducing client concessions when the AC member adopts a distributive-defensive style. Together, these findings suggest that reflective empathy improves the relational climate of the negotiation while allowing the auditor to maintain the same technical position throughout the negotiation.

4.2. Final negotiated allowance

Consistent with the initial-position results, the interaction between the AC member's distributive communication style and the audit partner's reflective empathy remains significant for final negotiated allowance.[12] The mean final negotiated allowance along with ANOVA results are shown in Table 3. An ANOVA analysis show that interaction between the AC member's distributive communication and the audit partner's reflective empathy on final negotiated allowance is significant ($F_{1, 130} = 8.686$, $p = 0.004$). The simple main effects analysis shows that when the AC member adopts a distributive-offensive communication style, the audit partner's reflective empathy significantly increases clients' final negotiated allowance (i.e., greater concession) (means = $8,546,875 vs. $5,335,294; $F_{1, 130} = 23.731$, $p < 0.001$). When the AC member adopts a distributive-defensive communication style, clients' final negotiated allowance does not differ regardless of the audit partner's reflective empathy (means = $7,748,571 vs. $7,264,545;

[12] Although materiality is not explicitly referenced in the experimental materials, applying the conventional rule of thumb of 5 percent of pre-tax income yields a materiality threshold of approximately $1.5 million based on a pre-tax income of $30 million. The gap between the auditor's proposed write-off of $10 million and the client's proposed write-off of $2.5 million is $7.5 million, substantially exceeding this threshold. All final negotiated write-off means across the four conditions fall between $5.34 million and $8.55 million, well above the materiality threshold, suggesting that participants recorded materially significant amounts throughout the negotiation. At the same time, the mean final allowance remains materially below the auditor's $10 million estimate in three of the four conditions, leaving the audit difference unresolved on average; this pattern is consistent with our theory, as the gap narrows to the materiality threshold only where high reflective empathy accompanies the offensive AC signal ($8.55 million), and in practice such residual differences would require further negotiation before an unqualified opinion could be issued.

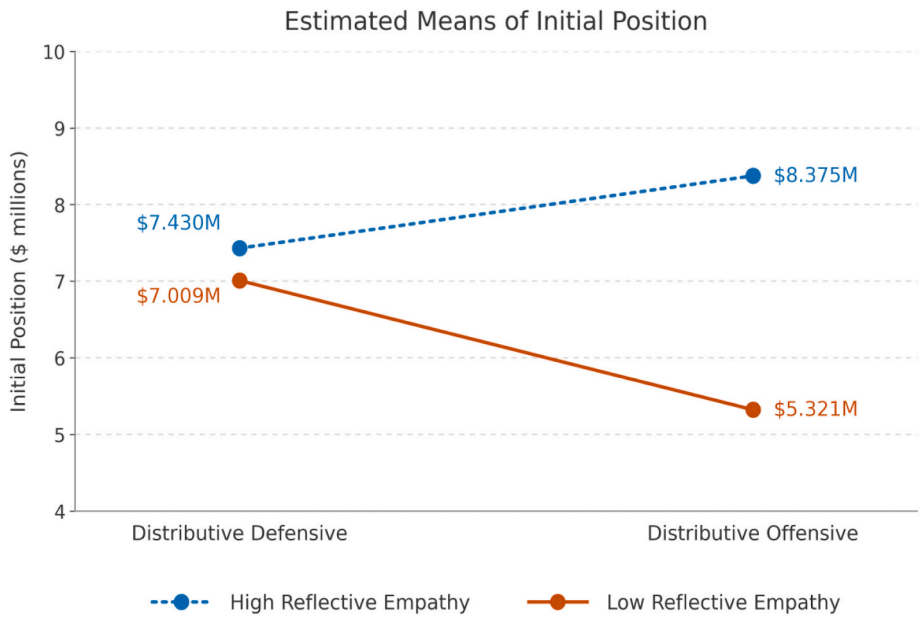


Fig. 2. Interaction between AC Distributive Communication and Audit Partner Reflective Empathy on Initial Position
This figure displays the mean allowance for obsolete inventory based on clients' initial positions at the start of the negotiation, as influenced by the interaction between the AC distributive communication (distributive offensive vs. distributive defensive) and the audit partner reflective empathy (high vs. low reflective empathy).

$F_{1,\ 130} = 0.555$, $p = 0.457$).[13]

5. Conclusion

Our study provides insights into how AC and audit partner communication jointly shape client behavior during audit negotiations. Using a simulated negotiation setting, we find that audit partner's reflective empathy generally promotes greater client concessions and closer alignment with auditor preferences. Specifically, high reflective empathy attenuates the reduction in client concessions caused by the AC member's distributive-offensive communication style relative to a distributive-defensive style. More broadly, our findings suggest that reflective empathy can help auditors manage the relational consequences of assertive governance communication and, in particular, diffuse an adversarial relational environment without compromising the AC's oversight role. These findings underscore the importance of considering how governance-level and interpersonal communication jointly influence client responses in audit negotiations.

Theoretically, our study extends RFT (Donohue, 2001; Donohue & Kolt, 1992; Donohue & Roberto, 1993) to audit negotiations by showing how audit partner reflective empathy functions as an affiliative relational cue within a triadic interaction involving the client, audit partner, and AC. By conceptualizing AC communication along a distributive continuum, we show that governance communication can contribute to either a more adversarial or a more cooperative relational environment, depending on how the AC communicates its preferred position. Importantly, our findings suggest that the relevance of reflective empathy extends beyond situations involving a distributive-offensive AC communication style. Rather, its value lies in its potential to address the adversarial situations that may arise during audit negotiations. Reflective empathy thus represents an interpersonal mechanism through which auditors can manage the relational dynamics that accompany difficult negotiations, with particular relevance when interactions become adversarial. Our study broadens RFT's application to complex, multi-party negotiations by showing how interpersonal communication can shape the relational consequences of adversarial interactions and influence clients' responses to contentious substantive positions.

Practically, our findings have implications to audit firms, corporations, and ACs. The most direct implication is that the relational climate of a negotiation is a lever available to auditors before any number is exchanged. Because the client's initial position is set before the auditor has conceded or contested anything, reflective empathy operates at the point where relational cues, rather than substantive concessions, are the only instrument the audit partner holds. Our results also show that this lever carries little downside: empathy neutralizes the resistance provoked by an offensive AC communication style and does not weaken client concessions when the AC communicates defensively. For audit firms, this suggests that psychologically informed communication training, particularly in reflective empathy, is not a soft skill peripheral to audit quality but a determinant of the position from which clients

[13] We further examine participants' choices of Option 1 (no adjustment), Option 2 (full adjustment), and Option 3 (propose a new allowance). Of the 134 participants, 11 (8.2%) select Option 1, 62 (46.3%) select Option 2, and 61 (45.5%) select Option 3 (Table 4). Overall, 73 participants resolve the matter without negotiating, comprising 11 who maintain the existing $2.5 million allowance and 62 who fully accept the auditor's $10.0 million estimate. The remaining 61 participants chose to negotiate. The distribution of choices differs significantly across conditions ($\chi^2 = 22.36$, $p < 0.001$, untabulated). Refusals to record any additional adjustment are concentrated in the low reflective empathy/distributive-offensive condition (8 of 34 participants, compared with 0 to 2 in the other conditions), whereas full concessions are most common in the high reflective empathy/distributive-offensive condition (21 of 32 participants). This pattern is consistent with reciprocity norms. When auditors make no concessions and the AC adopts a distributive-offensive style that limits discussion, clients would be expected to reciprocate with a similarly contentious stance (Bame-Aldred & Kida, 2007; Sanchez et al., 2007). Such reciprocity is evident under low reflective empathy, where resistance to adjustment is greatest. Under high reflective empathy, however, clients are less likely to mirror the AC's contentiousness, suggesting that the audit partner's affiliative communication mitigates reciprocal escalation. Among the 61 participants who negotiate, most finalize at their initial proposal (47 of 61), and the proportion improving their offer after the first round is lowest in the low reflective empathy/distributive-offensive condition, suggesting that entrenched positions persist throughout the negotiation process despite the auditor's programmed non-concession behavior.

Table 3
Effects of AC distributive communication and audit partner reflective empathy on final negotiated allowance.

Panel A: Descriptive statistics

Audit Partner Reflective Empathy	AC Distributive Communication		
High Reflective Empathy	**Distributive Defensive**	**Distributive Offensive**	**Overall**
Mean	7,748,571	8,546,875	8,147,723
(S.D.)	(2,660,232)	(2,283,741)	(2,471,987)
Sample size	35	32	67
Low Reflective Empathy			
Mean	7,264,545	5,335,294	6,299,920
(S.D.)	(2,788,993)	(2,914,112)	(2,851,553)
Sample size	33	34	67
Overall			
Mean	7,506,558	6,941,085	7,223,822
(S.D.)	(2,724,613)	(2,598,927)	(2,661,770)
Sample size	68	66	134

Panel B: ANOVA results

Independent variable	df	F	p-value (two-tailed)
Audit partner reflective empathy	1	15.946	<0.001
AC distributive communication	1	1.493	0.224
Audit partner reflective empathy X AC distributive communication	1	8.686	**0.004**
Error	130		

Panel C: Simple effects

Simple effect	df	F	p-value (two-tailed)
Effect of audit partner reflective empathy at presence of AC distributive defensive	1	0.555	0.457
Effect of audit partner reflective empathy at presence of AC distributive offensive	1	23.731	<0.001
Effect of AC distributive communication at partner's low reflective empathy	1	8.699	0.004
Effect of AC distributive communication at partner's high reflective empathy	1	1.487	0.225

This Table displays the final allowance for inventory obsolescence accepted by the client, as influenced by the interaction between the AC distributive communication and the audit partner reflective empathy. The manipulation of AC distributive communication is at two levels: distributive defensive and distributive offensive. The manipulation of audit partner reflective empathy is at two levels: low reflective empathy and high reflective empathy.

begin to negotiate. Our findings also have implications for engagement staffing. When an AC is likely to adopt an assertive approach to contentious accounting matters, assigning an audit partner who is skilled in and willing to demonstrate reflective empathy may help prevent the client entrenchment observed under low-empathy conditions.

Several limitations provide opportunities for future research. Our pre-programmed negotiation setting enables controlled observation of client behavior but captures only part of the complexity of real-world negotiations, where dynamic exchange, spontaneity, and emotional nuance are important. In addition, the simulated auditor in our design never concedes; in practice, a highly empathetic auditor may concede positions, which could limit the ability of an empathetic style to constrain aggressive reporting. Prior research suggests that face-to-face communication enhances social presence and interpersonal accountability relative to computer-mediated settings (Bazerman et al., 2000; Bennett & Hatfield, 2018). As audit practice increasingly relies on digital communication (Baltes et al., 2002; Brazel et al., 2004), future research could examine how reduced social presence affects negotiation outcomes. Researchers could also employ confederates to enhance realism (Bennett & Hatfield, 2013, 2018; Saiewitz & Kida, 2018) or use experimental economic designs that model multi-party interactions more directly (Kachelmeier, 2018; Wang & Tuttle, 2009), thereby providing additional insights into how communication styles, negotiation strategies, and power dynamics influence client judgments and negotiation outcomes.

Declarations of interest

None.

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Appendix A. Manipulation of AC Member's and Audit Partner's Communication Styles

Manipulation of AC Distributive Communication

Distributive Offensive

Based on the gravity of the issue, the member from the audit committee stated that the audit team has followed the same approach in previous audits, which has consistently complied with regulatory guidelines. Specifically, the member of the audit committee told you, "I find the audit team's analysis conclusive as it stands. I believe no further debate on the audit adjustment is necessary unless circumstances change."

Distributive Defensive

Based on the gravity of the issue, the member from the audit committee stated that the audit team has followed the same approach in previous audits, which has consistently complied with regulatory guidelines. Specifically, the member of the audit committee told you, "I find the audit team's analysis conclusive for now. I believe further debate on the audit adjustment may be necessary if circumstances change."

Manipulation of Audit Partner Reflective Empathy

High Reflective Empathy

During the meeting, the engagement partner informed you that the decision to record the audit adjustment would be made to meet auditing standards. Specifically, the audit partner told you that, "I would consider how the adjustment might impact your reporting objectives, and I acknowledge the operational challenges you are facing. My discussion focuses on the effect of the proposed audit adjustment, but I also

understand the situational pressures you are navigating as you consider whether to record it."

Low Reflective Empathy

During the meeting, the engagement partner informed you that the decision to record the audit adjustment would be made to meet auditing standards. Specifically, the audit partner told you that, "I would prefer not to consider how the adjustment might impact your reporting objectives or the operational challenges you are facing. My discussion focuses solely on the effect of the proposed audit adjustment, and the situational pressures you are navigating as you consider whether to record it are not part of my discussion."

Appendix B. Final Negotiated Outcome

We ask participants to "assume that you are now in the meeting with Highpoint's auditor to resolve the inventory issue. You may choose to agree or disagree with the auditor over a maximum of 5 rounds of interaction. You must now decide how to proceed."

Following Hatfield et al. (2010), participants are given three options, and they can choose any one of them: Option 1: No adjustment: Remain firm with your estimated allowance of $2.5 million to be reported in the financial statements. Option 2: Full adjustment: Accept auditor's estimated allowance of $10 million to be reported in the financial statements. Option 3: Propose new adjustment: Propose a new allowance somewhere between $2.5 million and $10 million to be reported in the financial statements. Providing three options to participants enables us to capture whether a participant is willing to negotiate with the auditor or has already decided on the allowance to be reported before negotiating with the auditor. In Option 3, participants assume the role of CFO and are asked to propose an allowance for obsolete inventory between $2.5 million and $10 million for inclusion in Highpoint Electronics' financial statements.

The auditor's position is held constant throughout the conditions; the simulated auditor always challenges the CFO's proposed allowance, irrespective of the allowance submitted, ensuring that no proposal is accepted without resistance. The auditor maintains a firm stance throughout all rounds of negotiation, conceding nothing in response to the CFO's proposed allowance. The high versus low manipulation statements appear for all rounds in their respective conditions. The negotiation is structured across a maximum of five rounds. In each round, participants submit a proposed allowance, after which the auditor issues a challenge. Participants may elect to finalize their allowance at the conclusion of any round; doing so terminates the negotiation and advances the participant to the final questionnaire. Participants who continue to readjust their proposed allowance through round 4 are permitted to submit one final proposal in round 5; at that point, a notification informs them that there will be no further negotiation.

Negotiation Logic Description

The logic displayed below represents a multi-round negotiation interaction between participants (in the role of CFO) and the simulated auditor. The structure captures both the decision path and conditional branching based on participant choices, when participants choose Option 3: Propose a New Adjustment. In each round the manipulation statements for the Audit Partner's empathetic tone and AC member's distributive tone remain the same and are displayed when the participants input their allowance.

Overview of Logic Flow

Initial Condition

Participants select Option 3: Propose a New Adjustment. They are asked to propose an allowance amount between $2.5 million and $10 million to be reported in the financial statements.

Round 1. Participants enter their proposed allowance amount. If the proposed allowance is less than or equal to $10, 000, 000, the audit partner's reflective-empathy statement and the AC member's distributive statement for the participant's assigned condition are displayed and participants are asked whether they want to readjust their proposed allowance.

Two possible paths follow.

1. If the participant chooses NOT to readjust the allowance, the negotiation ends, and the survey moves directly to the final questionnaire.
2. If the participant chooses to readjust the allowance, the negotiation continues to Round 2.

Round 2. Participants again propose an allowance amount and decide whether they want to readjust it.

- If they choose NOT to readjust, the survey proceeds to the final questionnaire.
- If they choose to readjust, the negotiation continues to Round 3.

Round 3. Participants again decide whether to readjust the allowance.

- If they choose NOT to readjust, the survey proceeds to the final questionnaire.
- If they choose to readjust, the negotiation continues to Round 4.

Round 4. Participants again decide whether to readjust the allowance.

- If they choose NOT to readjust, the survey proceeds to the final questionnaire.
- If they choose to readjust, the negotiation continues to Round 5.

Round 5. Participants are asked to provide their allowance.

A message appears: You have reached the last round of the discussion.

Then, the survey proceeds to the final questionnaire.

Data availability

Data will be made available on request.

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