DETERMINANTS OF EARNINGS MANAGEMENT AMONG RETAIL CHAINS IN NAIROBI COUNTY

BY

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DECLARATION

This research project is my original work and has not been submitted for the award of a degree in any other university.

Signed: ………..……………………………….. Date: …………………………

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D63 / 84503 / 2016

This research project has been submitted for examination with my approval as university supervisor.

Signed:…………………………………… Date: …………………………

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DEDICATION

To my family for their financial and moral support which has seen me reach this far, may Allah bless you.

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I thank everyone who has assisted me in realizing my dream. I wish to express my gratitude to my supervisor Dr. Mirie Mwangi for the professional guidance in research methodology and his constant motivation. Many thanks also go to my fellow students for their invaluable support and encouragement throughout the course of the study.

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LIST OF ABBREVIATIONS AND ACRONYMS

LIFO	Last-In, First-Out
MD	Managing Director
NSE	Nairobi Stock Exchange
R&D	Research and Design
ROE	Return on Equity

ABSTRACT

Earnings management is still present subject since the 1960s and that previous studies only focused on examining how, why and in which situations earnings management is pursued and the expected consequences from earnings management behavior. But most of the previous works have not focused on private companies. Furthermore, previous studies on the presence of earnings management in both public and private companies has shown that it does occur but that the outcomes vary and they are sometimes contradictory. This motivated this study to fill the contextual and conceptual research gaps by focusing on the determinants of earnings management in retail chains in Nairobi County which are privately owned companies. Since studies have mainly focused on listed firms. A descriptive survey design was adopted. Both primary and secondary data was used for the study. A multivariate regression model was used to achieve the study variables. The results revealed that contracting motivations and industry performance have a positive and significant influence on earnings management while bonus system and regulatory requirements have a positive but not significant influence on earnings management. The study recommends that supermarkets should reduce the number of contracting motivations such as external contract incentives with suppliers, external contract incentives with customers, the availability of bonus contract and the presence of contacts relating to loyalty programmes as a result of better performance since it significantly increases engagement in earnings management activities. The study also recommends that there is a need for supermarkets to have contingency plans to counter changes and volatility of macroeconomic environment since it increases engagement into earnings management. Supermarkets can also consider reducing the presence of bonus systems such as the compensation of senior management attached to performance, private control benefits by the managers, retirement benefits, the pressure for wage increments and the need for a new employee to increase their future income potential since it increases engagement in earnings management.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

According to Jones (2011), accounting scandals and fraud are repetitive in history and in every country, however they are by nature extreme cases, but generally involve creative accounting such as earnings management .Companies have different reasons for managing earnings, which include presenting consistent results between years, maximizing their performance or in an attempt to receive a zero result to avoid profit tax (Bhattacharya, Daouk & Welker, 2003).

Eilifsen (2010) noted that the public have lost confidence on corporate responsibility, the public have lost sureness because of corruption practiced by auditors, investors and regulators as most of them engage in scandalous acts. Some of the risky earnings management cases can results into bankruptcies; such cases were reported by giant company WorldCom and Enron in U.S (Schilit, 2010).Unarguably in the light of similar corporate secretarial dishonors the community insight might view the scope of earnings management as an unlawful act where swindler executives involved in unsuitable accounting events for their own welfares (Jiraporn *et al.*, 2008).

However, according to Ronen and Varda (2008), earnings management mirrors unsuitable activities and this helps in determining the public opinion. Earning management is divided in three categories, namely the white category, the Gray category and the Black category. With the Black category transparency of financial reports is reduced by involving tricks while in the White category the flexibility advantage is used as a best accounting action in informing the director about future cash flow private information and for the Grey category the accounting behaviour is chosen based on either opportunistic and economical efficient. Jiraporn *et al.,* (2008) argue that the reliability of published financial statements is the main concern for both standard setters and regulators and this is determined by earnings management width.

Scholars have tried to link the concept of earnings management to theory, most notably, is the agency theory. Various Scholars for instance Eilifsen, (2010) posited that most executive officer in corporate world like the managers might end up misrepresenting the financial data for achieving pledged outcomes, in most cases agency theory has been used in explaining the risk of the financial accounting misrepresentation. Based on the agency concept, the financial accounting difficulties can only arise between the principal and the mediator as a result of asymmetric and incomplete information condition. An example of the agency concerns occurs when two parties show different interests; agents with incentives when preparing the financial information may assume actions and make choices that do not favour the interest of the owner. The managers' capability on distortion of the accounting information numbers is restrained by the accounting standards (Callao & Jarne, 2010). Fixed and firm accounting guidelines that permit narrow accounting alternatives can control the scope for subjective judgments, which can in turn constraint the managers' capability to act resourcefully (Callao & Jarne, 2010).

1.1.1 Earnings Management

Earnings management can be defined as a strategy used by the management of a company to manipulate deliberately the earning figures to match a predetermined target mainly with the aim of income smoothing. The main aim to keep the earnings figures relatively stable for a long period of time by either adding or removing cash from the reserve accounts of the business (Ronen &

Yaari, 2008). Fields *et al.* (2001) argue that earnings management arises when executives use self or organization decision in financial recording and in scheming connections to adjust monetary reporting either to misguide some investors about the essential cost-effective performance of the company or to have undue influence on contractual outcomes that depend on commentary accounting statistics.

Majority of companies employ the earnings management strategy deliberately with the purpose of controlling the company figure so that they can tie the company's a pre-determined target. According to Rahman and Ali (2006), earnings management strategy smoothens the company income; some companies eliminate cash reserve accounts by earnings management strategy. Ronen and Yaari (2008), value-enhancing earnings management and opportunistic earnings management can be used in classification of the earnings management. In value-enhancing management, the executives develop connection to the owners by only signals relevant values without involving the cumbersome details, this helps in safeguarding the goodwill of the owner. Opportunistic earnings management is characterized by the conflict of interest that exists between the shareholders and management.

On the debate as to whether earnings management is bad or good, Kothari, Leone and Wasley (2005) view the management of earnings as bad is sense that it diminishes the reliability of the financial statement data, moreover they argue that the cost of revealing inside information is high since the translation of inside information into public information the depends earnings management. Kothari, Leone and Wasley (2005) also argue that communication to outsiders can be effected by earnings management. Obstructed communication occurs when it is very hard and expensive to convert a manager's skilful knowledge about a firm to the board of managements or stockholders.

1.1.2 Determinants of Earnings Management

Fields *et al.* (2001) describe how various motives often predict identical earnings management behavior, making clear inferences regarding a specific motive difficult in many archival studies. Some of the factors which have been examined in previous research as the key determinants of the practice in both public and private companies are contracting motivations, ownership structure, tax incentives, and debt to equity ratio, the presence of bonus systems, type of audit firm, industry and profitability (Phillips *et al*, 2003). According to Liang (2004), additional benefit systems facilitate the determination of manager's benefits according to a linear connection to the present recorded net profit. However, the benefits will start with the least quantity of net profit and either balance at an optimal sum of net profit or go on substantially. On the other hand, Fields *et al*. (2001) posits that contracts related to benefits encourages the managers to take charge of income.

Bergstresser and Philippon (2006) argue that agreements influence the judgment of managers to participate in the management earnings. Control of income can act as an incentive to guide managers far from disobeying the agreements of debt as such infringements would be greatly expensive to the manager and are likely to influence his or her capability to function freely in the company. Management of income provides the manager with the options of selecting those bookkeeping strategies that circumvent a near location to breaking of the agreement. Availability of incentive systems can also affect the activity of income management. Workers and their managers can participate in the activity so as to profit from gains brought by better cost effectiveness.

According to Leuz *et al*., (2003), more often insiders end up using income management to hide the reality of company performance from the public while trying to guard their private control benefits. Chief operation officers participate in activities that optimize their use. This includes the application of use of income management plans to avoid termination of contracts while some chief operations officers will opt for optimization of earnings before they depart.

Fan (2007) argues that one of the reasons for earnings management is Initial public offering. He argues that shareholders have an inclination to try to search for information about a company that aid it forecasting prospective performance of companies. Companies that are not listed on securities market have no proper market price. To report properly the income ability of a company to shareholders, the use of brochures is advised. If a shareholder forecasts a better reported net profits in the brochures, he/she is probable to propose up the starting market worth of the company. Income management is also influenced by the instability of the macro-economic factors in companies.

Regulatory requirements on different industries can influence the decision to engage in earnings management, for instance, accounting requirements. According to Chen and Yuan (2004) earnings management is influenced by the regulations across. Rules on auditing have an impact on earnings management. Hunton *et al.*, (2006) argue that reporting guidelines allowing less transparent financial reporting are likely to increase managers' earnings management attempts, and that auditors' beliefs about the effects of location on their reporting responsibilities will in some cases exacerbate this effect. When managers lack alternative forms of credible communication concerning the long-term implications of their investment choices, financial reporting standards can have significant effects on these choices through their impact on the pattern of reported earnings.

1.1.3 Effect of Determinants on Earnings Management

Outa (2013) argues that earnings management is adopted by the administration for different drives and procedures. Management compensation, capital markets motivations, external contract incentives and contract incentives are the four kinds of incentives as manipulated by the manager. According to Roychowdhury (2006), argue that manager's engage in various accounting activities in order to achieve a smooth income. For example, provision of debt costs, incorrect write-offs, income smoothing via loan loss provision accounts, and also capitalization of ordinary Research and Development costs are just a few linked to the broader scope of earnings management. According to Dilger and Graschitz, (2015), the previous studies lack statistical analyses on the distribution of income in detecting earnings management.

Several scholars both locally and globally have different opinions on the determinants of the earnings management. In Kenya, Iraya, Mwangi and Muchoki (2015) argue that ownership awareness, board size, board independence and board activity for instance are among the governance factors influencing earnings management of the firms listed at the NSE, on other hand Musa (2013) argues that earnings management can also be determined by factors such as CEOs interest and firm size. Irungu (2010) revealed that interest rate, money supply, foreign exchange rate and inflation rate also determine the earning management.

1.1.4 Retail Chains in Nairobi County

Kibera and Wairuingi (2007) define retailing as the activity involving the sale of goods while based at a fixed place or location such as residential areas, business districts or shopping malls. Kibera and Wairuingi (2007) further argue that super markets are large retail shops which operate on self-service basis. In Kenya, the retail industry contributes to the economy of Kenya to the tune of up to 10 percent of the total gross domestic product.

The retail industry, specifically focusing on wholesale and retail, contributes up to 30% of the employment in formal and informal establishments in Kenya. The industry is extremely informal since 97%of its employment is informal. In as much as the vision of the wholesale and retail trade sector is to move towards a formal sector, the industry has of late faced changes that have seen a number of large retail chains being affected due to poor performance for instance, Uchumi and Nakumatt.

The retail sector is said to have a huge untapped potential where the population of retailers is only up to 30 percent of the entire market (PWC, 2014). There are both informal and formal retailers in Kenya such as open air markets, kiosks and small shops as well as street traders. There are also formal retailers such as Tusky's and Nakumatt which had expanded their markets outside Kenya (COFEK, 2014).

1.2 Research Problem

According to Szczesny (2007) earnings management is still present subject since the 1960s, the scholar present that the past literature on earnings management only focused on examining how, why and in which situations earnings management is pursued and the expected consequences from earnings management behavior. But most of the previous works have not focused on private companies. Furthermore, previous studies on the presence of earnings management in both public and private companies has shown that it does occur but that the outcomes vary and they are sometimes contradictory (Tendeloo & Vanstraelen, 2008).

In Kenya context, the financial scandals subject is a common case; Madiavale (2011) study on financial scandals revealed that organization such as National Bank of Kenya, Unga group, CMC Motors, Euro bank among others have experienced financial crisis. Dubai bank and Imperial bank are the latest organization to experience financial crisis due to earnings management, this shows that earnings management is still a present problem in Kenyan economy since majority of these company experience the financial downfall just immediately after recording a better financial performance. Nevertheless, the problem of earnings management normally affects all industries; including both listed and unlisted.

Even the current case, public companies, especially listed companies, have been the main focus in previous studies because of their relevance to the masses and because they are all obliged to publish their financial reports. Burgstahler *et al.,* (2006) indicated that private companies are involved more in earnings management compared to public companies due to increased demand for greater quality of the financial reports in private companies.

According to Tendeloo and Vanstraelen (2008) study on examining the motives and factors for using earnings management in private companies, reveal that earnings management aids in relieving the agency fights between managers, public, owners and companies. The earnings management can also be important in evaluation of the managerial performance or can be useful in convincing various stakeholders on the credibility of the financial statements (Vanstraelen 2008).

Study by Burgstahler *et al*., (2006) on importance of reporting incentives on earnings management in European Private and Public Firms and also a study by Ball and Shivakumar (2005) on earnings quality in private firms in U.K showed that earnings management mostly exists in private firm, but recent studies have majorly focused more on public firms. According to Beatty *et al*. (2002) study on avoidance of earnings declines across public and private held banks on using earnings management revealed that most public companies that were not practicing earning management had low earning quality. This implies that the results vary and that further research on the subject is necessary.

The studies conducted in Kenya on earnings management majorly concentrated on the effect of corporate governance on earnings management of listed firms at NSE. For instance Waweru and Riro (2013) studied corporate governance features and earnings management in developing economy, Kaboyo (2013) ; Irungu (2010) studies mainly focused on factors that motivate earnings management and the relationship between macroeconomic variables and earnings management for listed firms at the NSE. The previous study presents both contextual and conceptual research gaps which the current study sought to fill. This study therefore sought to answer the question, what are the determinants of earnings management in retail chains in Nairobi County?

1.3 Research Objective

To establish the determinants of earnings management practice among retail chains in Nairobi County

1.4 Value of the Study

This study serves to add to the previous fairly vague research in the private sector area and to create awareness for all stakeholders about the existence of earnings management in the private sector. The study results are anticipated to be significant to the Government and policy makers because they can aid the policy makers in the devising of policies, which can be effectively applied for better and easier financial reporting. Other policy making institutions and accounting regulators like Institute of Certified Public Accountants (ICPAK) can also benefit from the findings of the study by determining whether to come up with the decision of developing more rules so as to advance the quality of financial information reported by companies.

The findings of the study are also expected to be beneficial to the owners of businesses and private companies. The study is expected to sensitize them on the practices of earnings management for various reasons. They can also be able to understand the whole concept of the determinants of this practice and come up with necessary strategies to reduce or curb the act.

The study is lastly expected to contribute to the existing body of academic knowledge through publishing the results of its key findings, as well as opening up areas of further research. Researchers and scholars can benefit from the findings to conduct further studies on the topic and expand more on the findings in the field. Theoretically, the findings of the study are expected to build to the existing theories regarding the practice of earnings management.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section summarizes literature reviewed in an effort to capture the study concepts as well as set basis for the study. In view of that, the chapter highlights theories guiding the study, previous empirical studies conducted and new developments related to the study. The chapter ends by providing an overview of major ideas for the study.

2.2 Theoretical Review

The following theories will be used to help explain the determinants of earnings management: The Prospect theory, Stakeholder theory and the Agency theory.

2.2.1 The Prospect Theory

The proponent of this theory was Kahneman and Tversky in 1979. The theory provides a clarification on the application of income management. It argues that firms benefit the most effectiveness when they shift from a complete or relative failure to an achievement. This normally means that, managers do not attain advantage from failures and achievements not with respect to comparison with the stage of riches, which is unlimited, however from a particular situation. This implies that, for instance, at a set growth in wealth the value expansion is the largest when by the time that the individual´s wealth rises from a loss to a gain in relation to a reference point. If the objectives of the stakeholders correspond with this theory, then there is an incentive for the manager to want to announce earnings which top the reference point, as in zero earnings or the threshold in order to achieve greater benefits. For that reason, firms attain the highest worth when shifting from pessimistic to affirmative income, and not just after income rise.

This theory helps provide an understanding on the important ideologies of the study in determining the incentives for income management in the retail chains. The theory also argues that managers promote income management so as to gain some paybacks.

2.2.2 Stakeholder Theory

This theory encompasses broader perspectives of elements instead of centering on shareholders. The shareholders' worth is superseded when a broader group of shareholders for instance clients, loan facilitators, suppliers, workers, the state and the local government are factored in. This implies that dividend owners have personal concern in trying to make sure that capital are utilized to highest endeavor which as a result profits the community in entirety (Madiavale, 2011).

Jensen (2001) argues that the proponents of stakeholders' theory fail to highlight how to do a essential swapping between these opposing welfares, rendering managers with a hypothesis that complicates their significant decision making. Absence of a means to supervise managers, stakeholders' model would leave managers unchecked. According to Jensen (2001), therefore advocates liberalizing cost capitalization which is equivalent to progressive stakeholders' model. He further argues that improved price maximization uses a great deal of the composition of stakeholder model and takes into account making the most of the extended period worth of the company as a measure of making precondition exchanges between its investors and as a result decipher the predicaments that occur from several objectives that come with conventional stakeholder theory.

The theory helps provide an understanding on why firms call for management of earnings. According to the theory, the management is unaccountable for their actions. They are allowed to practice earnings management for the purpose of the extended period value of the company.

2.2.3 Agency Theory

The theory was developed by Jensen and Meckling (1976). The theory explains a principal agent relationship and it further highlights the problem of information asymmetry between the two parties, that is, principals and the agents. In this context, the insiders (agents) have information advantage which the principals don't have. This therefore motivates the agents, such as managers, to engage in activities which can enhance their own benefits without the principal's knowledge.

Scapens (1985) argued that this situation is worsened by the problem of adverse selection which can occur when the principal has less information during decision making time by the agent. Another key argument in this theory is that both the principal and the agent act rationally and aim to maximize their own interests hence easy for the agents to engage in activities such as earnings management that aim to improve their benefits in bonuses for the situation where their benefits are attached to performance.

The theory is relevant to this study in explaining the role of benefits schemes and contractual motivations to engagement in earnings management. According to the theory, the principals may believe that the agents are making best decisions for the better of the company. They hence put in place benefits such as bonuses and benefits to reward the agents. But the reward encourages earnings management instead. This normally happens when there is separation of ownership and control in governance between the shareholders and managers.

2.4 Empirical Review

This section discusses past studies conducted on earnings management both at a global and local perspective. The main aim of literature review is to identify research gaps in the previous empirical works.

2.4.1 International Studies

The study conducted by Holthausen and Seftwich (2008) revealed that companies only use income increasing accounting methods when they have recorded a high leverage, the reason being that as the company approach debt violation covenant they respond by applying income increasing accounting methods. However, there study findings also revealed that association between leverage and accounting choices leads to debt covenants violation.

In Norway, a study by Reksten and Kristiansen (2011) to establish the determinants of earnings management in Norwegian private companies, the study sampled approximately 1.5 Million private limited Norwegian companies. The study using primary data collected through questionnaires and interviews, analyzed through correlations analysis. The study findings revealed that earnings management are useful in reduction of small losses of the financial reports of the company and the same firms did not apply the Big Four audit firm.

Sun and Rath (2009) study sought to establish the industries in Australia with more cases of earnings management. The correlation method was used to analyze the data. The study findings revealed that Information technology Utilities industry, Healthcare Metal and mining Industries and the Motor industries and adopted the earnings management strategies. The study analyzed companies from 2000-2006 and also came to the conclusion that the companies, which managed their earnings, were less profitable and smaller than the companies, which did not.

Dücker and Wagenhofer (2007) study in Austria mainly aimed at examining earnings management of the Austrian companies. The study focused on data between 1995 and 2005. Correlation and regression analysis methods were used to analyze the panel data. The study results indicated that the earnings quality had a negative significant relationship with earnings management.

In another study, De Almeida et al(2016) investigated the industries' effect on earnings management. The study used primary data collected through both questionnaires and interviews. Data analysis involved the use of descriptive and inferential analysis. The study findings could not demonstrate and support the significance of the industry factor as an illustrative control of earnings management.

2.4.2 Local Studies

Abdullah and Norman (2010) sought to investigate the influence of board composition, rights formation, consultant composition and assets organization on discretionary current accruals an alternative for income management for a model of size-managed privileges issuers. The study findings revealed that companies with bigger debt to capital proportions with inferior ratios of non-executive managers, or with no high shareholder have a higher possibility of utilizing discretionary present accruals to influence income centering on rights issue.

Oluoch, Namusonge and Onyango (2015 sought to examine the influence of effect of accruals value on segmental cost of investment in the Kenyan capital securities' market. The target population for the study was 38 firms listed on non-financial firm segments of the NSE. The results of the study showed that accruals value between the segments is comparatively low in relation to accruals value in other stock markets. The study further established that those segmental characteristic accruals value aspects are significant in shaping business cost of investment.

Another study by Nguthuri, Maringa and George (2013) sought to examine the influence of performance contracting on the organisations performance at Kenyatta University in Kenya. The study used a descriptive research design. The target population for the study comprised of 961 teaching and 1800 on teaching staffs. The study randomly picked on 276 staff for the purposes of research. Results of the study indicated that performance contracting improves the delivery of services in public institutions.

Njogu, Gekara, Waititu and Omido (2014) conducted a study to assess the influence of executive compensation on creative bookkeeping between the listed manufacturing firms in Kenya. The study used descriptive survey design. The target population for the study was 104 senior managers and panel of directors of 9 listed manufacturing firms in Kenya. The study used structured questionnaires to collect primary data. The study used stratified random sampling to select the sample for the study. The findings of the study indicated that executive compensation impacts creative accounting between listed manufacturing firms in Kenya.

Kamau (2016) also sought to evaluate the influence of management practices on creative accounting among corporations listed at the NSE. The study adopted a mixed research design with descriptive design, causal design and cross-sectional design. The target population for the study was 64 firms listed at NSE as of 2015. Results of the study showed contractual obligations and creative accounting had a positive influence on the performance of firms listed at NSE.

2.5 Conceptual Framework

The study seeks to establish the determinants of earnings management practice among retail chains, the study seeks to find out whether contracting motivations, presence of bonus system, industry competition and regulatory requirements are the key motivations for companies in the retail chains engaging in earnings management. These variables are connected by the conceptual framework.

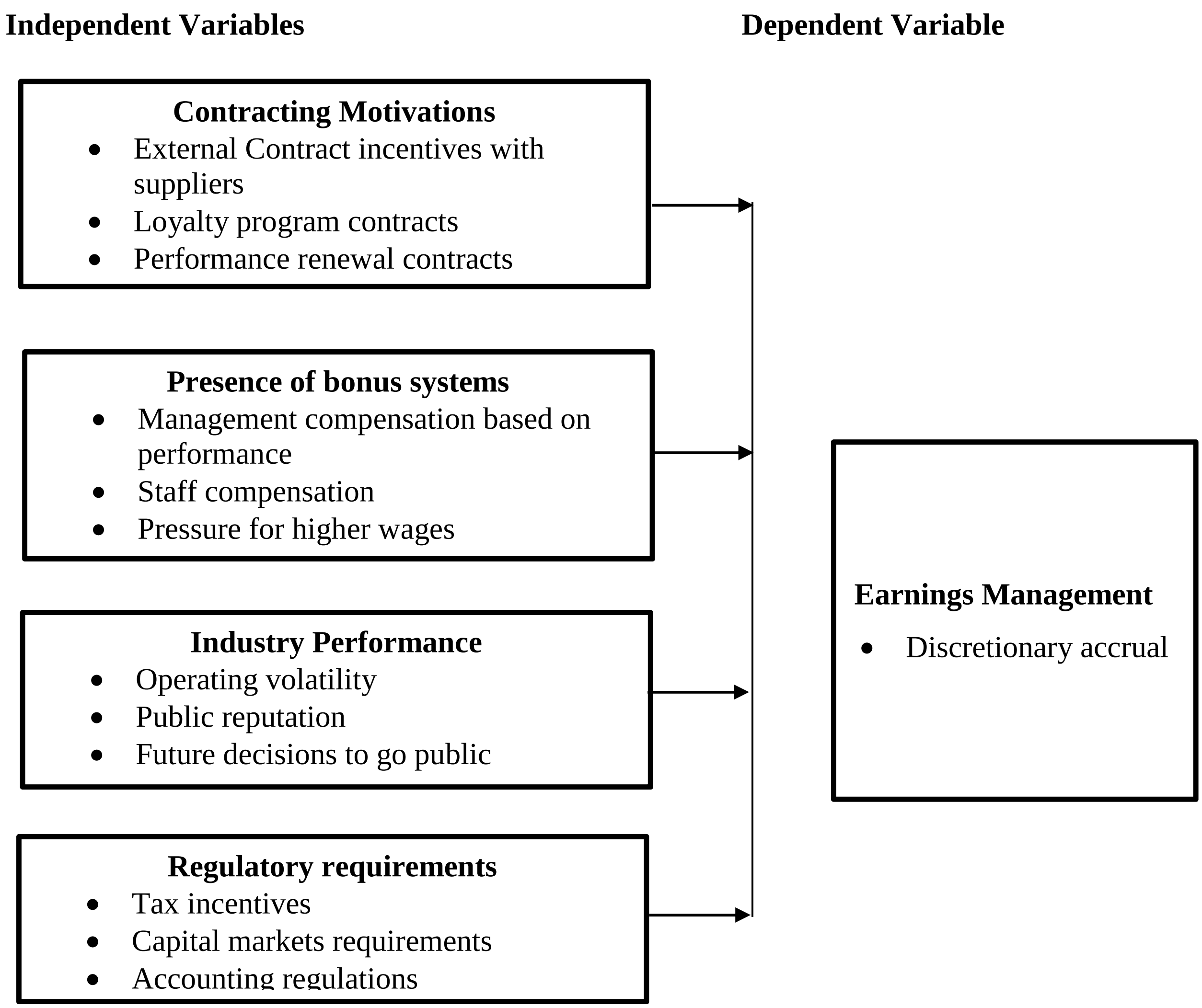

Figure 2.1: Conceptual Framework

Source: Author (2017)

2.6 Summary of Literature Review

Studies have been conducted on earnings management from a global to a local context revealing contextual and conceptual knowledge gaps which this study seeks to fill. Previous studies such as Holthausen and Seftwich (2008); Sun and Rath (2009) mainly focused on public companies thus creating contextual knowledge gaps. A study by Reksten and Kristiansen (2011) indicated that earnings management is also rampant in not just pubic, but also private companies. A study conducted by Dücker and Wagenhofer (2007) helped to strengthen the point that it is not just public companies which engage in earnings management but also private companies. However, the studies were conducted in developed economies and not developing economies. This reveals contextual knowledge gaps which this study will seek to fill. Nevertheless, the studies had established that earnings management is more existent in private firms but studies have mostly focused on public firms. Studies by Waweru and Riro (2013) as well as Kaboyo (2013) argued that fewer studies exist in the developing economies to explain earnings management. In as much as they argued so, no study had been conducted in Kenya to investigate earnings management in private companies and specifically among retail chains. This study sought to investigate the concept of earnings management in the retail sector in Nairobi County.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to achieve the research objectives. The section presents the research design, target population, sample size determination technique, data collection and analysis techniques.

3.2 Research Design

The study employed descriptive survey research design. Descriptive research is conducted to describe the current people believe, their current situation and what people are engaged at the moment (Collins, Onwuegbuzie & Jiao, 2007). A descriptive survey design was appropriate for this study because it plays a role in answering the “what” question which hinges the study is explaining what determines earnings management in retail shops. The research design helped to describe the present situation which involves earnings management in retail chains in Nairobi County hence suitable for the study. A survey was conducted on the super markets in Nairobi County.

3.3 Population

The population target of the study was 144 retail chains in Nairobi County according to the Nairobi County Trade and Commerce department (2017). A questionnaire was used to collect primary data on the independent variables which were industry performance, contracting motivations, presence of a bonus system and regulatory framework. Secondary data was collected on variables that were used to calculate earnings management using Dechow *et al.* (1995) discretionary accruals model. Since the supermarkets don't publish their financial reports, a secondary data collection sheet will be dropped to the finance manager or accountant to fill secondary data. They were also requested to fill the primary data questionnaire.

3.4 Sample

The study used Yamane (1967) formula to determine the sample size out of the target population of 144 retail chains in Nairobi County. The formula is as indicated; n = (N/ (1+N (e) ^2); Where: n = sample size, N = total number of retail chains in Nairobi County, e = margin of error (10%). Substituting the values gives a sample size of 59 retail chains operating in Nairobi County, n = (144/ (1+144(10) ^ 2 gives a sample size of 59. Simple random sampling was afterwards adopted in order to avoid bias.

3.5 Data Collection

The study used both primary and secondary data. A questionnaire was used to collect primary data on the independent variables which were industry performance, contracting motivations, presence of a bonus system and regulatory framework. Secondary data was collected on variables that were used to calculate earnings management using Dechow *et al.* (1995) discretionary accruals model. The primary data was quantitative in nature and was collected using a five point likert scale questionnaire. The questionnaire is subdivided into four sections that deal with the independent variables of the study (Appendix I).

3.6 Data Analysis

The data collected was quantitative; the study hence used descriptive and inferential analysis methods to analyze. Descriptive analysis entailed the use of means, standard deviation, percentages and trends in the study variables over the period of time. The study used correlation analysis to establish the association between the study variables. To establish the significant determinants of earnings management, the study used a multivariate regression model where the independent variables were contracting motivations, presence of a bonus system, industry performance and regulatory framework and dependent variable was earnings management.

3.6.1 Regression Model

A regression model was used to establish the determinants of earnings management. Because of the presence of more than one predictor variable, a multivariate regression analysis was suitable. The model is as indicated:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where Y – dependent variable (Earnings Management)

X_1 – Contracting Motivations

X_2 – Presence of a bonus System

X_3 – Industry Performance

X_4 – Regulatory Framework

ε – Is the error term

β – Predictor variables coefficients

3.6.2 Measurement of Variables

The determinants investigated in this study are contracting motivations, presence of a bonus system, industry performance and regulatory framework and the dependent variable was earnings management. Earnings management was measured as total accruals.

The measure of total accruals (Earnings Management tool) used in this study was as applied previously in studies by Iraya, Mwangi and Muchoki (2015); Jesus and Emma (2013); based on the Dechow *et al.* (1995) total accruals model as follows:

Total Accrual = (ΔCA-ΔCash) – (ΔCL-ΔSTD-ΔTP) –DEP.

Where;

ΔCA=change in Current Assets

ΔCash=Change in cash /Cash equivalents.

ΔCL=Change in Current Liabilities

ΔSTD =Change in Short-term Debts included in the Current Liabilities

ΔTP= Change in Income Taxes Payables

DEP= Depreciation and Amortization expense.

Table 3.1 indicates how the variables are measured

Table 3.1 Measurement of Variables

Variable	Type	Measurement	Questions in the Questionnaire
Contracting Motivations	Independent	External Contract incentives with suppliers Loyalty program contracts Performance renewal contracts	B1-B6
Presence of a bonus system	Independent	Management compensation based on performance Staff compensation Pressure for higher wages	C1-C6
Industry Performance	Independent	Operating volatility Public reputation Future decisions to go public	D1-D6
Regulatory Framework	Independent	Tax incentives Capital markets requirements Accounting regulations	E1-E6
Earnings Management	Dependent	Discretionary accrual	Secondary Data

3.6.3 Test of Significance

The study used F statistics to establish the model significance. Test on coefficient of determination was used to establish the percentage change in earnings management accounted for by the determinants. A level of significance of 5% was adopted for this study.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter details the descriptive and inferential analysis results for the data collected. The study used both primary and secondary data to achieve the objectives. A questionnaire was used to collect primary data on the independent variables which were industry performance, contracting motivations, presence of a bonus system and regulatory framework. Secondary data was collected on variables that were used to calculate earnings management using Dechow *et al.* (1995) discretionary accruals model. The data was collected on a on a five year period from 2012 to 2016. The study gave out 59 questionnaires but only 49 questionnaires were filled. This gave a response rate of 83.05% which is satisfactory according to assertions by Collins *et al.* (2007).

4.2 Descriptive Statistics

The respondents were asked to rate statements on a five point likert scale to establish the extent to which contracting motivations and bonus systems are practiced in the supermarkets and the extent to which industrial performance indicators and regulatory requirements have been experienced by the supermarkets. A scale of 5 represented very high extent, 4 represented high extent, 3 represented moderate extent, 2 represented low extent while 1 represented very low extent. The findings have been discussed per variable as shown in the subsections that follow.

4.2.1 Contracting Motivations

The study sought to establish the extent to which various contracting motivations are practiced by the supermarkets.

Table 4.1 Contracting Motivations

Indicators	**1**	**2**	**3**	**4**	**5**	**Mean**	**Std Dev**
External contract incentives with suppliers	28.60%	10.20%	8.20%	16.30%	36.70%	3.22	1.70
External contract incentives with customers	30.60%	14.30%	14.30%	16.30%	24.50%	2.90	1.60
The need by the senior management to safeguard their tenure	38.80%	24.50%	6.10%	8.20%	22.40%	2.51	1.61
The availability of bonus contract	30.60%	22.40%	12.20%	8.20%	26.50%	2.78	1.61
The presence of contacts relating to loyalty programmes as a result of better performance	40.80%	16.30%	4.10%	12.20%	26.50%	2.67	1.71
Average						**2.82**	**1.65**

Source: Research Findings

The findings revealed that on average, the external contract incentives with suppliers is practiced to a moderate extent by supermarkets in Nairobi County (Mean = 3.22), external contract incentives with customers is also practiced to a moderate extent (Mean = 2.90) as well as the need by the senior management to safeguard their tenure (Mean = 2.51).Similar results reported that the availability of bonus contract and the presence of contacts relating to loyalty programmes as a result of better performance are practiced to a moderate extent (Mean = 2.78 and 2.67) respectively.

4.2.2 Presence of Bonus Systems

The study sought to establish the extent to which various bonuses are practiced by the supermarkets.

Table 4.2 Presence of Bonus Systems

Indicators	**1**	**2**	**3**	**4**	**5**	**Mean**	**Std Dev**
The compensation of senior management attached to performance	16.30%	24.50%	8.20%	18.40%	32.70%	3.27	1.54
Private control benefits by the managers	42.90%	26.50%	6.10%	12.20%	12.20%	2.24	1.44
Retirement benefits	36.70%	30.60%	8.20%	8.20%	16.30%	2.37	1.47
The pressure for wage increments	28.60%	32.70%	4.10%	18.40%	16.30%	2.61	1.48
The need for a new employee to increase their future income potential	42.90%	24.50%	6.10%	12.20%	14.30%	2.31	1.49
Average						**2.56**	**1.48**

Source: Research Findings

The study findings showed that on average, the compensation of senior management attached to performance is practiced to a moderate extent (Mean = 3.27) and that the pressure for wage increments is also practiced to a moderate extent (Mean = 2.61). On the other hand, the need for a new employee to increase their future income potential , private control benefits by the managers and retirement benefits are practiced to a low extent (Mean = 2.31, 2.24 and 2.37) respectively.

4.2.3 Industry Performance

The study sought to establish the extent to which various factors in the industry have been experienced by the supermarkets.

Table 4.3 Industry Performance

Indicators	**1**	**2**	**3**	**4**	**5**	**Mean**	**Std Dev**
Volatility of the macroeconomic environment	40.80%	8.20%	16.30%	4.10%	30.60%	2.76	1.73
The need to protect public reputation of the company	22.40%	22.40%	10.20%	14.30%	30.60%	3.08	1.59
The need to gain investor confidence	26.50%	20.40%	18.40%	6.10%	28.60%	2.90	1.58
The need to have a sustainable company in the competitive world	26.50%	14.30%	14.30%	14.30%	30.60%	3.08	1.62
The company’s future decisions to go public	22.40%	26.50%	12.20%	14.30%	24.50%	2.92	1.53
Average						**2.95**	**1.61**

Source: Research Findings

The results also showed that volatility of the macroeconomic environment have been experienced by the supermarkets operating in Nairobi County to a moderate extent (Mean = 2.76). Similar results were reported for the need to protect public reputation of the company, the need to gain investor confidence and the need to have a sustainable company in the competitive world which have been experienced by the supermarkets operating in Nairobi County to a moderate extent (Mean = 3.08, 2.90 and 3.08) respectively. The findings also revealed that the company's future decisions to go public have been experienced by the supermarkets operating in Nairobi County to a moderate extent (Mean = 2.92).

4.2.4 Regulatory Requirements

The study sought to establish the extent to which various regulatory requirements have been experienced by the supermarkets.

Table 4.4 Regulatory Requirements

Indicators	**1**	**2**	**3**	**4**	**5**	**Mean**	**Std Dev**
The need to gain tax incentives	32.70%	30.60%	14.30%	12.20%	10.20%	2.37	1.33
The capital markets requirements	34.70%	26.50%	22.40%	12.20%	4.10%	2.24	1.18
Stringent regulations on the calculation of taxable net income	24.50%	32.70%	28.60%	8.20%	6.10%	2.39	1.13
Stringent accounting regulations regarding depreciation	32.70%	26.50%	20.40%	14.30%	6.10%	2.35	1.25
Stringent regulations on financial reporting	22.40%	32.70%	26.50%	4.10%	14.30%	2.55	1.29
Average						**2.38**	**1.24**

Source: Research Findings

Stringent regulations on financial reporting have been experienced by supermarkets in Nairobi County to a moderate extent (Mean = 2.55). On the other hand, the need to gain tax incentives, the capital markets requirements and stringent regulations on the calculation of taxable net income has been experienced by supermarkets in Nairobi County to a low extent (Mean = 2.37, 2.24 and 2.39). Stringent accounting regulations regarding depreciation has also been experienced to a low extent (Mean = 2.35).

4.3 Inferential Analysis

The study carried out inferential analysis to establish the relationship between the study variables. The study used both correlation and regression for analysis.

4.3.1 Correlation Analysis

The study conducted correlation tests to determine the association between the predictor variables that is industry performance, contracting motivations, presence of a bonus system and regulatory framework and earnings management. A Pearson correlation coefficient was used.

Table 4.5 Correlation Analysis

		Contracting motivations	Bonus system	Industry performance	Regulatory requirements	Earnings Management
Contracting motivations	Pearson Correlation	1				
	Sig. (2-tailed)					
Bonus system	Pearson Correlation	0.108	1			
	Sig. (2-tailed)	0.461				
Industry performance	Pearson Correlation	.471**	0.103	1		
	Sig. (2-tailed)	0.001	0.482			
Regulatory requirements	Pearson Correlation	0.19	0.212	0.03	1	
	Sig. (2-tailed)	0.191	0.144	0.839		
Earnings Management	Pearson Correlation	.502**	0.114	.487**	0.124	1
	Sig. (2-tailed)	0.000	0.437	0.000	0.394	
	N	49	49	49	49	49
** Correlation is significant at the 0.01 level (2-tailed).						

Source: Research Findings

The study findings showed that contracting motivations is positively and significantly associated with earnings management (r = 0.502, Sig = 0.000). The findings imply that an increase in contracting motivations is associated with an increase in earnings management among supermarkets in Nairobi County. The study findings also showed that presence of bonus system is positively but not significantly associated with earnings management (r = 0.114, Sig = 0.437). The findings imply that an increase in presence of bonus system is associated with an increase in earnings management among supermarkets in Nairobi County.

The study results also showed that industry performance factors are positively and significantly associated with earnings management (r = 0.487, Sig = 0.000). The findings imply that an increase in industry performance factors is associated with an increase in earnings management among supermarkets in Nairobi County. Furthermore, regulatory requirements are positively but not significantly associated with earnings management (r = 0.124, Sig = 0.394). The findings imply that an increase regulatory requirements is associated with an increase in earnings management among supermarkets in Nairobi County.

4.3.2 Regression Analysis

The study also used a multivariate regression model to establish whether industry performance, contracting motivations, presence of a bonus system and regulatory framework determine earnings management among supermarkets. The regression model summary is presented in table 4.6 below.

Table 4.6 Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.580	0.336	0.276	13.1421
Predictors: (Constant), Regulatory requirements, Industry performance, Bonus system, Contracting motivations			

Source: Research Findings

The regression analysis findings presented in Table 4.10 indicated that the coefficient of determination (R squared) was 0.336 which imply that 33.6% of the variation in earnings management is accounted for by industry performance, contracting motivations, presence of a bonus system and regulatory framework. This shows that other determinants account for 66.4% of the earnings management among supermarkets in Nairobi County. The results for model significance (ANOVA) were established and presented in Table 4.7.

Table 4.7 ANOVA Results

	Sum of Squares	df	Mean Square	F	Sig.
Regression	3850.52	4	962.63	5.574	.001
Residual	7599.45	44	172.715		
Total	11449.97	48			
Dependent Variable: Earnings Management					
Predictors: (Constant), Regulatory requirements, Industry performance, Bonus system, Contracting motivations					

Source: Research Findings

The results of the overall model significance are as indicated in table 4.8 above. The study findings reveal that the overall model was significant. The F statistic for the model of 5.574 was significant (Sig = 0.001), hence an indication that the model predicting the determinants of earnings management in supermarkets was significant. To corroborate the findings, the study also used the F-distribution table to obtain the F-critical value ($F_{0.05\ (4,44)}$) calculated at α =5%, using denominator degrees of freedom of 44 and numerator degrees of freedom of 4 and compared against the F-calculated value of 5.574. The rule of the thumb was that if F-calculated is greater than the F-critical, then the model was significant. The F-critical value from the F-distribution table was 2.584, which is less than 5.574 hence it confirms the previous findings that the model predicting the determinants of earnings management in supermarkets was significant. The model coefficients are presented in Table 4.8.

Table 4.8 Model Coefficients

Predictor Variable	**Beta**	**Std. Error**	**t**	**Sig.**
(Constant)	-25.058	8.208	-3.053	0.004
Contracting motivations	3.809	1.604	2.375	0.022
Bonus system	0.455	1.646	0.276	0.784
Industry performance	4.188	1.812	2.312	0.026
Regulatory requirements	0.900	2.669	0.337	0.737
Dependent Variable: Earnings Management				

Source: Research Findings

The results revealed that contracting motivations and industry performance have a positive and significant influence on earnings management while bonus system and regulatory requirements have a positive but not significant influence on earnings management.

The study findings showed that contracting motivations is a significant positive determinant of earnings management (β = 3.809, Sig = 0.022). The findings imply that a unit increase in contracting motivations leads to a 3.809 unit increase in earnings management among supermarkets in Nairobi County.

The study findings also showed that industry performance is a significant positive determinant of earnings management (β = 4.188, Sig = 0.026). The findings imply that a unit increase in pressure from the industry of operation leads to a 4.188 unit increase in earnings management among supermarkets in Nairobi County.

The results also showed that bonus system is a positive determinant of earnings management although the effect is not significant (β = 0.455, Sig = 0.784). The findings imply that a unit increase in bonus system leads to a 0.455 unit increase in earnings management among supermarkets in Nairobi County although the increase is not significant.

Furthermore, regulatory requirements is a positive determinant of earnings management although the effect is not significant (β = 0.900, Sig = 0.737). The findings imply that a unit increase in the regulatory requirements leads to a 0.737 unit increase in earnings management among supermarkets in Nairobi County although the increase is not significant.

The significance of the coefficient using p values is corroborated by use of z or t values. At α =5%, z = 1.96 (note this being a large sample greater than 30 since n = 49). Z values for contracting motivations (2.375) and industry performance (2.312) are greater than 1.96, hence statistically significant while those of bonus system (0.276) and regulatory requirements (0.337) are less than 1.96 hence the effect is not significant.

4.4 Interpretation of the Findings

The study findings from the regression model showed that contracting motivations is a significant positive determinant of earnings management ($\beta = 3.809$, Sig = 0.022). The implication of the findings is that those supermarkets that have more contracting motivations such as external contract incentives with suppliers, external contract incentives with customers, the availability of bonus contract and the presence of contacts relating to loyalty programmes as a result of better performance have a tendency to engage more in earnings management activities. Contractual motivations play a significant role in engagement in earnings management. Contracts of managers play the application of use of income management plans to avoid termination of contracts while some chief operations officers will opt for optimization of earnings before they depart. The findings are consistent with the findings of a study by Njogu, Gekara, Waititu and Omido (2014) who revealed that executive compensation impacts creative accounting in firms.

The regression results also revealed that industry performance is a significant positive determinant of earnings management ($\beta = 4.188$, Sig = 0.026). The findings imply that various industry performance factors such as volatility of the macroeconomic environment, the need to protect public reputation of the company, the need to gain investor confidence, the need to have a sustainable company in the competitive world and the company's future decisions to go public leads to higher practices among supermarkets in Nairobi County. Plans to go public can also lead to engagement in earnings management positively since shareholders have an inclination to try to search for information about a company that aid it forecasting prospective performance of companies. Companies that are not listed on securities market have no proper market price. To report properly the income ability of a company to shareholders, the use of brochures is advised. If a shareholder forecasts a better reported net profits in the brochures, he/she is probable to propose up the starting market worth of the company.

The findings are however not consistent with the findings of a study by De Almeida *et al*. (2016) who did not establish the significance of the industry factor as an illustrative determinant of earnings management.

The results also showed that bonus system is a positive determinant of earnings management although the effect is not significant ($\beta = 0.455$, Sig = 0.784). This implies that presence of bonus systems such as the compensation of senior management attached to performance , private control benefits by the managers, retirement benefits, the pressure for wage increments and the need for a new employee to increase their future income potential increases engagement in earnings management among supermarkets insignificantly. The findings are consistent with Kamau (2016) who established that contractual obligations had a positive effect on creative accounting among firms listed at NSE.

The influence of regulatory requirements on earnings management was established to be positive but not significant ($\beta = 0.900$, Sig = 0.737). The findings imply that various regulatory requirements such as the need to gain tax incentives, the capital markets requirements , stringent regulations on the calculation of taxable net income , stringent accounting regulations regarding depreciation and stringent regulations on financial reporting leads to higher practices of earnings management among supermarkets but in an insignificant manner. Regulatory requirements on different industries influence earnings management positively for instance rules on auditing. Reporting guidelines allowing less transparent financial reporting are likely to increase managers' earnings management attempts, and those auditors' beliefs about the effects of location on their reporting responsibilities will in some cases exacerbate this effect. When managers lack alternative forms of credible communication concerning the long-term implications of their investment choices, financial reporting standards can have significant effects on these choices through their impact on the pattern of reported earnings.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusions and recommendations. It also presents the recommendation for further studies.

5.2 Summary of Findings

Chapter one of the study provided an overview of the determinants of earnings management. The chapter presented the problem statement, background, objectives as well as the value of the study. Chapter two presented a literature review on the theme of the study. Both empirical and theoretical literature was presented. The study discussed the Prospect theory, Stakeholder theory and the Agency theory which anchored to the study. The chapter then presented the empirical review of studies conducted on earnings management both globally and locally and from the review, the studies were critiqued and knowledge gaps established. Chapter three of the study detailed the research methodology. The study employed descriptive survey design. Both primary and secondary data was used for analysis. A multivariate regression model modeling the determinants of earnings management was used in the study. The study detailed the use of mean to present descriptive statistics.

Chapter four presented the results of the study obtained from the collected data. The correlation findings showed that contracting motivations is positively and significantly associated with earnings management ($r = 0.502$, $Sig = 0.000$) meaning that an increase in contracting motivations is associated with an increase in earnings management among supermarkets in Nairobi County. Presence of bonus system is positively but not significantly associated with earnings management ($r = 0.114$, Sig = 0.437) implying that an increase in presence of bonus system is associated with an increase in earnings management among supermarkets in Nairobi County.

More correlation findings showed that industry performance factors are positively and significantly associated with earnings management ($r = 0.487$, Sig = 0.000) implying that an increase in industry performance factors is associated with an increase in earnings management among supermarkets in Nairobi County. Regulatory requirements on the other hand are positively but not significantly associated with earnings management ($r = 0.124$, Sig = 0.394).

The regression findings showed that contracting motivations is a significant positive determinant of earnings management ($\beta = 3.809$, Sig = 0.022) implying that a unit increase in contracting motivations leads to a 3.809 unit increase in earnings management among supermarkets in Nairobi County. The study findings also showed that industry performance is a significant positive determinant of earnings management ($\beta = 4.188$, Sig = 0.026) implying that a unit increase in pressure from the industry of operation leads to a 4.188 unit increase in earnings management among supermarkets in Nairobi County.

Furthermore, it was established that bonus system is a positive determinant of earnings management although the effect is not significant ($\beta = 0.455$, Sig = 0.784) implying that a unit increase in bonus system leads to a 0.455 unit increase in earnings management among supermarkets in Nairobi County although the increase is not significant. Regulatory requirements was established to be a positive determinant of earnings management although the effect is not significant (β = 0.900, Sig = 0.737) implying that a unit increase in the regulatory requirements leads to a 0.737 unit increase in earnings management among supermarkets in Nairobi County although the increase is not significant.

The implication of the findings is that when a firm has additional benefit systems, it facilitates the determination of manager's benefits according to a linear connection to the present recorded net profit. Contracts related to benefits encourage the managers to take charge of income and easily engage in earnings management. Other contractual motivations relating to agreements to control income influence the judgment of managers to participate in the management earnings. Control of income can act as an incentive to guide managers far from disobeying the agreements of debt as such infringements would be greatly expensive to the manager and are likely to influence his or her capability to function freely in the company. Management of income provides the manager with the options of selecting those bookkeeping strategies that circumvent a near location to breaking of the agreement. Availability of incentive systems can also affect the activity of income management. Workers and their managers can participate in the activity so as to profit from gains brought by better cost effectiveness.

5.3 Conclusion

The study concludes that those supermarkets that have more contracting motivations such as external contract incentives with suppliers, external contract incentives with customers, the availability of bonus contract and the presence of contacts relating to loyalty programmes as a result of better performance have a tendency to engage more in earnings management activities. Contracts of managers play the application of use of income management plans to avoid termination of contracts while some chief operations officers will opt for optimization of earnings before they depart.

The study also concludes that various industry performance factors such as volatility of the macroeconomic environment, the need to protect public reputation of the company, the need to gain investor confidence, the need to have a sustainable company in the competitive world and the company's future decisions to go public leads to higher practices among supermarkets in Nairobi County. Engagement in earnings management can be motivated the need to go public since ccompanies that are not listed on securities market have no proper market price and to report properly the income ability of a company to shareholders, the use of brochures is advised. If a shareholder forecasts a better reported net profits in the brochures, he/she is probable to propose up the starting market worth of the company.

Another conclusion is that the presence of bonus systems such as the compensation of senior management attached to performance , private control benefits by the managers, retirement benefits, the pressure for wage increments and the need for a new employee to increase their future income potential increases engagement in earnings management among supermarkets insignificantly. When the bonuses of the senior management of a company are attached to performance, they tend to inflate the net profits so that it appears as if they are performing well so that they can be incentified.

Lastly, it was concluded that various regulatory requirements such as the need to gain tax incentives, the capital markets requirements , stringent regulations on the calculation of taxable net income , stringent accounting regulations regarding depreciation and stringent regulations on financial reporting leads to higher practices of earnings management among supermarkets but in an insignificant manner. Regulatory requirements for instance financial reporting guidelines allowing less transparent financial reporting are likely to increase managers' earnings management attempts, and those auditors' beliefs about the effects of location on their reporting responsibilities will in some cases exacerbate this effect. When managers lack alternative forms of credible communication concerning the long-term implications of their investment choices, financial reporting standards can have significant effects on these choices through their impact on the pattern of reported earnings.

5.4 Recommendations for Policy and Practice

The study recommends that supermarkets should reduce the number of contracting motivations such as external contract incentives with suppliers, external contract incentives with customers, the availability of bonus contract and the presence of contacts relating to loyalty programmes as a result of better performance since it significantly increases engagement in earnings management activities. When the companies have bonus contracts with the employees, it tends to incentify them to come up with alternative ways of indicating that the company is performing well. During times of poor performance, there is a chance that there could be deliberate efforts to manipulate the company's figures so as to indicate better performance.

The study also recommends that there is a need for supermarkets to have contingency plans to counter changes and volatility of macroeconomic environment since it increases engagement into earnings management. Changes in the macroeconomic environment of operation affects the decision by some of the managers to manipulate the figures so as to send a signal to stakeholders that the company is performing well. When a company is not performing well, the external stakeholders such as debtors, suppliers and customers may be worried and feel the need to look for alternatives which may worsen the scenario. To avoid such situations, firms go the earnings management way. In such a case, companies need to have contingency plans to manage the volatility of the macroeconomic environment.

Supermarkets can also consider reducing the presence of bonus systems such as the compensation of senior management attached to performance, private control benefits by the managers, retirement benefits, the pressure for wage increments and the need for a new employee to increase their future income potential since it increases engagement in earnings management. The presence of such contracts may give the employment an incentive to manipulate the figures of the company.

5.5 Limitations of the Study

During data collection, some of the supermarkets were reluctant to provide information on their financials which could be used to calculate the total accruals which was a measure of earnings management. The researcher however assured the respondents that the study was for academic purpose only and that helped to obtain data. However, those supermarkets that had provided incomplete data were excluded from the overall analysis and that is why the response rate was only 49 out of the 59 issued questionnaires.

The study also used an ordinary regression model to establish the study relationships. Alternative methods of analysis could also have been exploited. Methods of analysis such as the use of binary regression models can be exploited by categorizing earnings management into low and high.

The study focused on non-listed firms. Specifically the focus was on retail chains. Even though other studies have focused on listed firms only, a combination of both listed and non-listed firms can give a true picture. However, the focus of this study was on retail chains only.

5.6 Recommendations for Further Research

The study recommends future scholars to look into other factors that contribute to 66.4% of the variation in earnings management among supermarkets in Nairobi County since the coefficient of determination results showed that 33.6% of the variation in earnings management is accounted for by industry performance, contracting motivations, presence of a bonus system and regulatory framework.

Future studies should also consider expanding the scope in order to focus other sectors other than the retail chains as well as focus on the listed firms since the availability of their data is easy. Other family owned businesses also collapse due to cases of funds mismanagement hence a need to focus on them also.

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APPENDICES

Appendix I: Questionnaire

This questionnaire is divided into four short sections that should take only a few moments of your time to complete. Please respond appropriately in the blanks provided. This is an academic exercise and all information collected from respondents will be treated with strict confidentiality.

<u>Section A: Contracting Motivation</u>

Please mark (x) in the box which best describes the extent to which the following contracting motivations are practiced in the company

No	Statement	Very small extent	Small extent	Moderate extent	High extent	Very high extent
		1	2	3	4	5
1	External contract incentives with suppliers					
2	External contract incentives with customers					
3	The need by the senior management to safeguard their tenure					
4	The availability of bonus contract					
5	The presence of contacts relating to loyalty programmes as a result of better performance					

Section B: Presence of bonus systems

Please mark (x) in the box which best describes the extent to which the following bonus systems are practiced by the company

No	Statement	Very small extent	Small extent	Modera te extent	High extent	Very high extent
		1	2	3	4	5
1	The compensation of senior management attached to performance					
2	Private control benefits by the managers					
3	Retirement benefits					
4	The pressure for wage increments					
5	The need for a new employee to increase their future income potential					

Section C: Industry Performance

Please mark (x) in the box which best describes the extent to which the following industry performance indicators have been experienced by the company

No	Statement	Very small extent	Small extent	Modera te extent	High extent	Very high extent
		1	2	3	4	5
1	Volatility of the macroeconomic environment					
2	The need to protect public reputation of the company					

No	Statement	Very small extent	Small extent	Moderate extent	High extent	Very high extent
		1	2	3	4	5
3	The need to gain investor confidence					
4	The need to have a sustainable company in the competitive world					
5	The company's future decisions to go public					

SECTION D: Regulatory requirements

Please mark (x) in the box which best describes the extent to which the following regulatory requirements have been experienced by the company

No	Statement	Very small extent	Small extent	Moderate extent	High extent	Very high extent
		1	2	3	4	5
1	The need to gain tax incentives					
2	The capital markets requirements					
3	Stringent regulations on the calculation of taxable net income					
4	Stringent accounting regulations regarding depreciation					
5	Stringent regulations on financial reporting					

Appendix II: Secondary Data Collection Sheet

Company	Year	Total Assets	Net Revenue	Accounts Receivables	Property, Plant, Equipment
	2012				
	2013				
	2014				
	2015				
	2016				

Appendix III: Secondary Data Collection Sheet

Company	Contracting motivations	Industry performance	Regulatory Requirements	Earnings Management
1	1	1	1.4	-4.057
2	5	5	2.4	4.985
3	1	1	2.4	-4.140
4	5	5	1.6	5.663
5	1	3.2	1.6	-3.453
6	1.6	2.6	2	1.173
7	1.8	2	2.4	-1.655
8	2	2.8	2	3.740
9	2	3.8	2.2	2.254
10	1.4	3.2	1.8	-0.241
11	1	2	2	-4.339
12	1.8	3.2	2.4	-0.696
13	1.6	2.4	1.6	2.970
14	2	2.2	1.6	1.532
15	1.6	3	2	-1.457
16	2	4.6	2	3.674
17	1.2	2.4	1.6	-4.031
18	4	1.8	1.6	2.908
19	3.8	3.4	2.4	-1.930
20	4.4	2.4	2	2.765
21	4.8	2.4	1.4	5.196
22	3.6	3.4	1.8	0.379
23	3.4	2	2.2	1.064
24	2.2	2.8	1.8	0.645
25	3	3	2.4	-2.104
26	3.4	3.6	2.6	0.268
27	3	2.8	2.6	0.819
28	2.8	3.8	1.8	1.294
29	4.2	4.2	3	2.874
30	5	5	2.6	25.576
31	5	5	2.6	28.444
32	3.8	3	3.8	-8.592
33	1	2.8	3	-31.252

Company	Contracting motivations	Industry performance	Regulatory Requirements	Earnings Management
34	5	2.4	3.4	31.828
35	1	3.8	3.4	-29.559
36	2	2.6	2.2	-7.317
37	2.8	2.8	3.6	-1.872
38	2.8	1.8	4.2	9.142
39	4	2.2	3.4	-2.341
40	3.8	4	2.8	47.904
41	1.8	2.4	3.4	-3.747
42	2.4	1.8	1.8	-40.295
43	2.8	5	3.6	43.643
44	3.4	1	3.4	-14.097
45	3.2	1	3	-10.272
46	1.6	1	2.6	-5.976
47	5	5	2.8	15.166
48	1	1.8	1	-11.754
49	5	5	1.4	13.838

Appendix IV: List of Retail Chains in Nairobi County

1	Uchumi	37	Gigiri	73	Tirana	109	Dry House Holdings
2	Nakumatt	38	Starehe	74	Joja Ks	110	New Ricken Shop
3	Ukwala	39	Naivamatt	75	Fair price	111	Rajesh Gloria
4	Select 'n' pay	40	Schilada	76	Harrys	112	Well Brand
5	Lucky star	41	Nova	77	Salisbury	113	Ngara Road
6	Jack and Jill	42	New Westlands	78	Shopping Paradise	114	Lilian Rahisi
7	Fair lane	43	Queensway	79	FCC selfservice	115	Mwiki
8	Safeways	44	Continental	80	Ngara	116	Fransa
9	Tusker	45	Karen	81	MIS whole Store	117	Datelvey
10	Chandarana	46	Spring valley	82	Centalinte	118	Rafaels
11	Magic	47	Westlands	83	The Good Earth	119	Holiffied Super Store
12	Mega Market	48	General Stores	84	Kieni	120	Jojan
13	Fairdeal	49	Super Value	85	Uchuzi	121	Cheeji
14	City Mattresses	50	Spicy Spice	86	Lucky and sons	122	Victory
15	Woolworths	51	Ongata Rongai	87	Kalay	123	Vantage
16	Ebrahims	52	Umoja Mini	88	Rose collection	124	Stella
17	Rikana	53	Maridadi	89	Alliance	125	Amil and Dryers
18	Trister	54	Eastleigh	90	Flora petty	126	Total Thika Road
19	Mumsies	55	Mattresses	91	Seven eleven	127	Geska
20	JDSS	56	Muthaite	92	Midas touch	128	Green Forest
21	Baranuki	57	MITO	93	Trichem	129	Donholm star
22	Peponi Grocers	58	Ridgeways	94	Lucky shop	130	White star
23	Stellar	59	Kamindi	95	Mathare	131	Jazeer
24	Muthaiga	60	Franka	96	Sheera	132	Furaha
25	Santosh	61	Tihana	97	Njond	133	Caledermia
26	Jamia	62	Joss Toy	98	Alpany	134	Sippy
27	Sikendo	63	Hurlingham	99	Marta	135	Versian
28	Elipa Grocer	64	Comer A	100	Angelas	136	Mesora
29	Macson	65	Acacia	101	Suriha Price Rite	137	Furaha
30	Star sunrise	66	Bomo Grocers	102	Evergreen	138	Save More
31	Star umoja	67	Green Spot	103	LadywoodStores	139	Shaflus
32	Kahawa	68	Porarim	104	Fonta	140	A&D Karajas

33	Gipsy	69	Tricor	105	P& Shah	141	ick Pick 1
34	Green Field	70	Decoy Discount	106	Baobao Mini	142	Vijiko 18
35	Green	71	Kenton	107	Supra and Sons	143	Faine Fayn
36	Leadsw	72	Chemusia	108	K&A Gr	144	Good father

Source: Nairobi City County, Registered Retail Chains