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Determinants of Earnings Management among Retail Chains in Nairobi County

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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.

Key Words: *Earnings Management, Retail Chains, Nairobi County, Kenya*

Introduction

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) 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

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. 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).

Statement of the 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.

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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?

The study objective

The main study objective was to establish the determinants of earnings management practice among retail chains in Nairobi County.

Theoretical Literature Review

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.

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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.

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.

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.

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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.

Empirical Literature Review

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. 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. 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.

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.

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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.

Research Methodology

The study employed descriptive survey research design. 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. 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. The primary data was quantitative in nature and was collected using a five point likert scale questionnaire. Secondary data was collected on variables that were used to calculate earnings management using Dechow et al. (1995) discretionary accruals model. 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. 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:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mathcal{E}$$

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, $\mathcal{E}$ – Is the error term and β – Predictor variables coefficients.

Results

Fifty nine questionnaires were given out but only 49 questionnaires were filled. This gave a response rate of 83% which is satisfactory according to assertions by Collins *et al*. (2007).

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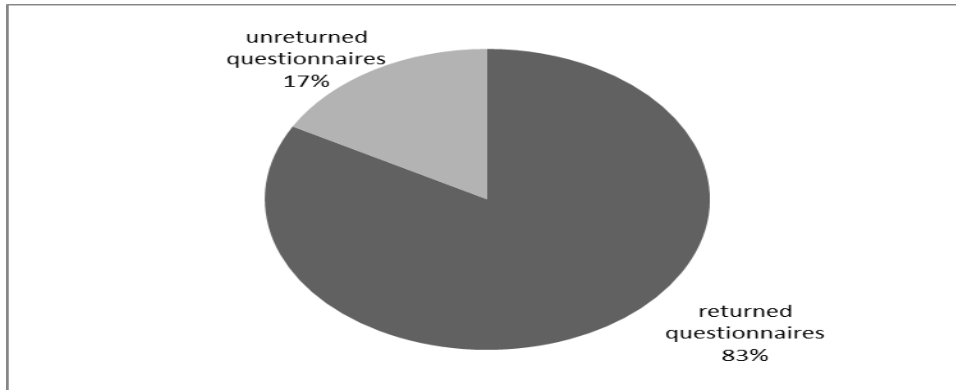

Figure 1 Response Rate

Descriptive Results of the Study

Contracting Motivations

The study sought to establish the extent to which various contracting motivations are practiced by the supermarkets. The findings in table 1 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.

Table 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**

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Presence of Bonus Systems

The study sought to establish the extent to which various bonuses are practiced by the supermarkets. The study findings in table 2 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.

Table 2 Descriptive Analysis of 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**

Industry Performance

The study sought to establish the extent to which various factors in the industry have been experienced by the supermarkets. The results also in table 3 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).

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Table 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**

Regulatory Requirements

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

Table 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**

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Correlation Results

The study findings in table 5 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.

Table 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

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Regression Analysis

The regression analysis findings presented in Table 6 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 6.

Table 6 Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.580	0.336	0.276	13.1421

The results of the overall model significance are as indicated in table 7. 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 =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 7

Table 7 Analysis of Variance (Model Significance)

	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			

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).

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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 =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.

Table 8 Regression 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

Conclusion of the Study

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 at-

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tached 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.

Recommendations of the Study

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. Change 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.

Conflict of Interest

No potential confict of interest was reported by the authors

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