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MANAGERIAL OWNERSHIP AND EARNINGS MANAGEMENT OF LISTED INSURANCE COMPANIES IN KENYA

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ABSTRACT
The purpose of this study was to determine the influence of ownership structure, board competency on earnings management of listed insurance companies in Kenya. The study objectives were; to establish the influence of managerial ownership on earnings management of listed insurance companies in Kenya. The study employed descriptive survey design and correlation survey design. The research population consisted of all the 6 Insurance companies listed on the National Securities Exchange as found on the NSE website. The research population consisted of 102 supervisory staff of all the 6 Insurance companies listed on the National Securities Exchange as found on the NSE website. Questionnaires were administered as well as data was extracted from the annual reports and accounts of the Insurance Companies over the period 2010 to 2017. Performance adjusted discretionary accrual model was employed in this study to determine earnings management. The data was analyzed by use of multiple regressions and presented using mean, standard deviations using tables. The result of the analysis was an indication that there is a relationship between managerial ownership and earnings management. The study therefore rejected the null hypothesis that managerial ownership does not influence earnings management of insurance companies in Kenya. It came out clearly in this research work that earnings management is determined and influenced by several factors which are dependent on the type of ownership structure a firm has. One of the main reasons why firms manage earnings is to influence the public towards investing in the firm for competitive advantage reasons. Therefore, there is a significant relationship between managerial ownership and earnings management of insurance firms listed on the NSE. The study recommended that insurance firms whether listed or not listed should resist the temptation of managing earnings to ensure prudential financial practice. The government should implement stringent measures against managing earning by listed insurance firms to ensure a transparent and competitive world to do business under.

Key Words: *Managerial Ownership, Earnings Management, Insurance*

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INTRODUCTION

Earnings and earnings determination constitute one of the central functions of accounting as it determines wealth transfer between persons (Bello, 2011). Bello (2011) adds that, earnings is widely considered as the most important economic variable in financial statements that measures the performance of business entity as well as provides decision base for different users of accounting information. However, management opportunistic behaviors together with inherent flexibility in Generally Accepted Accounting Principles (GAAP) are often regarded as factors that usually affect the quality of earnings adversely (Bello, 2011). Managerial ownership structure is measured as the percentage of shares owned by the directors from total shares issued (Yeo, 2012). While the division of control and ownership in corporations is now common in the modern business environment, it also creates a severe conflict of interest between owners and agents.

Globally, In East Asian companies, the relationship between ownership structure and earnings management is more unique compared to their western counterparts. The existence of significant block holder ownership can become an effective monitoring mechanism on managerial incentives when there is a low level of managerial ownership (Yeo, 2012). While the ownership structure in smaller sized East Asian corporations are dominated by owners who are usually the founder and have family relationship, the owners of larger sized corporations usually hold a large number of shares in blocks and operate in inter-connected but diversified.

Regionally Ghanaian's companies have unique ownership characteristics in insurance shareholding that differ from other countries. First, common shares sold publicly in the domestic market to Ghanaian residents are called 'A shares', while those sold initially to foreign investors are called 'B shares'. B shares have been accessible by Ghanian residents since the restriction was removed in April 2011. H shares are those issued by Ghanaians' companies and traded on their Stock Exchange. This research only includes firms that issued A shares, or A shares and B shares, and/or H shares (Adembago, 2011).

In Kenya there is a total of 50 insurance companies, 3 reinsurance companies, 198 insurance brokers, 4 reinsurance brokers and 5,155 insurance agents. Insurance firms in Kenya have experienced mergers, acquisition and other restructuring process. For instance the acquisition of Real Insurance by Britam Holdings, Old Mutual acquiring UAP Holdings and Pan Africa Holdings acquiring Gateway Insurance, all in a bid to create synergy for revenue growth and profitability. Further, the recent entry of foreign firms in Kenya is poised to bring in industry stability through injection of core capital, technical expertise, innovation and distribution networks globally (IRA, 2015). It is against this background that this study examined the relationship between ownership structure and earnings management of listed insurance companies in National securities Exchange.

There is a clear need for greater oversight of the management practices in companies listed on the stock market because investors' perceptions about the companies' future are essential for their market value. Managers may engage in earnings management to influence investors' perceptions (Macey, 2008), which motivates the analysis of discretion in management's selection of accounting processes. The insurance penetration in Kenya stands at 4.98% in 2017 according to KPMG Report on the growth of the Insurance Industry in Kenya (KPMG Report, 2017). This ranked Kenya at number four in Africa after South Africa, Namibia, and Mauritius. The country is said to be one of the few nations that contribute to African insurance growth. In spite of the fact that it lags significantly behind that of South Africa, the Kenyan insurance sector is one of the most sophisticated in Africa (KPMG, 2016).

Statement of the Problem

Listed insurance firms present adjusted and manipulated records of their books of accounts with an exaggerated representation with the view to reflect the firms in question as stable progressive organization to entice the stakeholders and public to joint or still maintain shareholding with the firm (Rao and Dandale, 2008). This manipulation puts at risk multitudes of potential and existing shareholders who end up investing or re-investing in a dying organization. The focus of this study was to investigate whether managerial ownership determines the possibility of a firm to manipulate its earnings. A number of previous studies attempted to examine whether earnings management exist in firms reports (Healy, 2013), endeavor to determine the types of earnings management (Sirgar and Utama, 2008; and Beneish, 2001), or questioned the motives behind earnings management (Healy and Wahen, 1999). Factors like management compensation contract incentives (Guidry et al., 1999, and Dechow and Solan 1991), regulatory motivations (Key, 1997), capital market motivations (Teoh et al., 1998), and external contract incentives have been examined to interpret managers behavior towards earnings management. The ability of managers to opportunistically manage reported earnings is constrained by the effectiveness of external monitoring by stakeholders such as institutional and external block-holders. These investors have the opportunity, resources, and ability to monitor, discipline, and influence managers of firms. Whether they use these powers is partially a function of the size of their individual or collective shareholdings (Chung, 2002). It's agreeable to note that similar studies have been conducted even though using different variables globally in countries like Jordan, regionally in Ghana and even South Africa but limited evidence is there in Kenya. Therefore, this study endeavored to investigate the influence of managerial ownership on earnings management for listed insurance companies in Kenya.

Study Objectives

The objective of this study was to establish the influence of managerial ownership on earnings management of insurance companies in Kenya.

In line with the objectives of the study, the following null hypothesis was tested:

H_{01}: Managerial ownership has no significant influence on earnings management of listed insurance companies in Kenya.

LITERATURE REVIEW

Agency Theory

The agency conflict theory is the major anchor theory for this study on ownership structure and earnings management among listed insurance companies in Kenya. Jensen and Meckling (1976) are the pioneers in introducing the agency theory and in relaxing the assumption of no conflict of interest between the managers and the shareholders. Their financial model is focused mainly on the relationship between the shareholders as the principal and the manager as the agent. Managers do not always act in the interest of the shareholders and consequently the goal is not always to maximize the value of the financial institution and therefore a conflict of interest arises.

Agency Theory explains how to best organize relationships in which one party determines the work while another party does the work. In this relationship, the principal hires an agent to do the work, or to perform a task the principal is unable or unwilling to do. For example, in an insurance company, the principals are the shareholders of a firm, delegating to the agent who is the management of the insurance firm, to perform tasks on their behalf. Agency theory assumes both the principal and the agent are motivated by self-interest. This assumption of self-interest dooms agency theory to inevitable inherent conflicts. Thus, if both parties are motivated by self-interest, agents are likely to pursue self-interested objectives that deviate and even conflict with the goals of the principal. This theory is anchored to describe managerial ownership structure and its influence on earnings management in listed insurance firms in Kenya.

Managerial Ownership structure
- Number of shares held by managers,
- Number of managers who have shares
- Number of shares held by non-managers
- Number of non-managers holding shares
- Evidence of growth in managerial shares

→

Earnings Management
- Cash flow
- Earnings
- Accruals
- Level of divergent between earnings and cashflow
- Level of predictability of earnings
- Transparency of financial statements

Independent Variable **Dependent Variable**

Figure 1: Conceptual Framework

Empirical literature Review

Management ownership may become an important characteristic in influencing the effectiveness of monitoring function in the financial accounting process (Palenzuela, 2013). Consistent to agency theory, if the management also holds a portion of equity ownership in a firm, the interest of the management and the shareholders starts to converge (Warfield et al, 2015). There are two views concerning managerial ownership. The convergence hypothesis states that insiders will be seen as monitoring mechanism when they acquire some portion of the company equity and prevent managers opportunistic behavior, and the magnitude of discretionary accruals is predicted to be negatively associated with insider ownership (Warfield 2015).

On the other hand, when there is little separation between managers and owners (that is, when the managers are also part of the owners), management face less pressure from capital markets to signal the firm value to the market and they pay less attention to the short term financial report (Klassen, 2017). Then highly invested managers are more likely to manipulate earnings, since the lack of market discipline, may lead managers to make accounting choice that is out of self-serving interest.

In a study by Alves (2012) examined the relationship between management ownership structure in Portugal and earnings management. Using a sample of 34 non-financial listed Portuguese firms for the period between 2002 to 2007, discretionary accruals were estimated using both the cross sectional variation of the Jones model (1991) and the cross sectional variation of the modified Jones model proposed by Dechow, Sloan & Sweeney (1995). They found that, the coefficient of management ownership variable was positive and significant. The result was without control variables. However, the result was not corroborated when control variable was added; the coefficient on managerial ownership was negative, but not statistically significant; while discretionary accruals as a proxy for earnings management was negatively associated to managerial ownership. The study's result suggested that managerial ownership improved the quality of annual earnings by reducing the levels of earnings management. This means that when managers also form part of equity owner, they report earnings that represent the true performance of the firm.

Roodposhti and Chashmi (2010) examined the Tehran Stock Exchange for the period between 2004 and 2008. The sample was arrived at after excluding financial firms which was up to 196 firms. Earnings management was measured by modified Jones model of discretionary accruals. Panel data method was employed as technique to estimate the model. They found discretionary accruals as a proxy for earnings management and it was negatively related to managerial ownership. This suggests that the presence of block holders could effectively monitor the management to avoid opportunistic behavior of the management including earnings management.

There is no consensus on the definition of earnings management (Beneish, 2012). For example, Schipper (2015) defined earnings management as “the process of taking deliberate steps within the constraints of Generally Accepted Accounting Principles to bring about a desired level of reported income. Healy and Wahlen (2015) state that "earnings management occurs when managers use judgment in financial reporting in structuring transactions to alter financial reports, to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depends on reported accounting".

Discretionary accruals represent the extent of earnings management. Discretionary accruals reflect subjective accounting choices made by managers (Chung, 2012). The magnitude of discretionary accruals is indicated as a percentage of assets of a firm. The higher the value of discretional accruals, the greater the earnings is manipulated. Earnings management may take the form of either income-increasing or income-decreasing accounting choices. Income-increasing manipulation means positive discretionary accruals whereas income-decreasing indicate negative discretionary accruals.

Incentives to engage in earnings management could be mitigated through effective corporate governance mechanisms such as board structure, ownership structure, advisor structure and capital structure. Besides internal factors, good corporate governance practice is also guided by the requirements of Registrar of Companies (ROC), Securities Commission (SC), Bursa Saham Kuala Lumpur (BSKL), Bank Negara, Foreign Direct Investment Committee (FIC) and Ministry of Finance (MOF). However, having a good set of rules and regulations do not guarantee good corporate governance practices unless regulatory authorities effectively enforce these requirements (Chung, 2014).

In general, accounting accruals, which is the difference between earnings and cash flows from operating activities, have been used in different terms in the previous literature. While Healy (2015) used total accruals to measure earnings management, subsequent studies attempt to separate them into components, discretionary and non-discretionary accruals. Discretionary accruals are extensively used to demonstrate that managers transfer their accounting earnings from one period to another. In other words, managers exercise their discretion over an opportunity set of accrual choices within GAAP, for example, choosing the depreciation method of fixed assets (Healy, 2015). Additionally, total accruals include non-discretionary accruals which reflect none manipulated accounting accruals items because they are out of managers’ control.

Consistent with the previous literature on earnings management, we used discretionary accruals to measure the extent of earnings management. This study uses the cross sectional variation of the modified Jones model (Dechow et al., 1995) to obtain a proxy for discretionary accrual. Guay et al., 2016 among some others argue that modified Jones model is the most powerful model for estimating discretionary accruals among the existing models.

The dependent variable in our model, earnings management, is measured as discretionary accruals using a cross-sectional version of the modified Jones model (Dechow et al. 1995).

METHODOLOGY

The researcher employed descriptive survey and correlation research designs. Descriptive Survey design was suitable as it was used to collect data that describes accurately the nature and extent of effect of managerial ownership, institutional ownership and foreign ownership on earnings management (Saunders, 2002). The research population consisted of 124 supervisory staff from all the 6 Insurance companies listed on the National Securities Exchange as found on the NSE website (IRA, 2017). The study used both primary (questionnaire) and secondary sources of data; this is due to the fact that, the models of the study required the use of pragmatic methods of data collection. The method of data collection for the study was supervisory staff and specific insurance company's financial report 2015/2016, 2016/2017 and 2017/2018. The technique of data analysis in this study was Generalized Least Square (GLS) regression model.

RESULTS

To establish the influence of managerial ownership on earnings management of insurance companies in Kenya

The objective of this study was to examine the influence of managerial ownership on earnings management of insurance companies in Kenya. To achieve this respondent were asked to give their opinions on whether they agreed or disagreed with the statements in Likert scale of 1-5, where 1= Strongly Disagree, 2= Disagree, 3= not sure, 4= Agree, 5= Strongly Agree.

Respondents were asked to state their observation on whether most of the shares in their organization were held by managers of the firm. As tabulated they observed as follows: 4.7% (6) strongly disagreed, 21.9% (26) disagreed, 28.1% (34) were undecided, 25.0% (30) agreed and 20.3% (25) strongly agreed. Therefore, majority 45.3% (55) of the respondents generally agreed that most of the shares in their organization were held by managers of the firm. However, 26.6% (33) generally disagreed.

The study also sought to investigate whether organizations whose high shareholding is by the organizations managers had high chances of growth. It was realized that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 4.7% (6) were undecided, 39.1% (47) agreed and 56.3% (68) strongly agreed. As indicated by the high percentage 95.4% (115),

Majority of the respondents agreed that organizations whose high shareholding was by the organizations managers had high chances of growth. However, none 0.0% (0) disagreed.

The study sought to establish whether most of the managers in our organization held shares in the firm. It was established that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 1.6% (2) were undecided, 26.6% (32) agreed and 71.9% (87) strongly agreed. As indicated by the high percentage 98.5% (119), majority of respondents agreed that most of the managers in our organization held shares in the firm. However, 0.0% (0) disagreed.

The study also sought to establish whether an organization whose managers had shares in the firm had high potential to excel. It was found that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) was undecided, 23.4% (28) agreed and 76.6% (93) strongly agreed. General, it was evident that 100.0% (121) of respondents agreed that an organization whose managers had shares in the firm had high potential to excel.

The study sought to establish whether most shares in our organization are held by non-managers. The employees' responses were as follows: 0.0 (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 54.8% (55) agreed and 45.2% (66) strongly agreed. Therefore, all respondents 100% (121) generally agreed that Most shares in our organization are held by non-managers. In establishing whether organizations whose majority shares were from non-managers were likely to do well, it was realized that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 1.6% (2) were undecided, 45.3% (55) agreed and 53.1% (64) strongly agreed. Majority of respondents agreed, as seen from the high percentage 98.4% (119) that organizations whose majority shares were from non-managers were likely to do well. The study also sought to determine whether non managers hold most of the shares in their organization. It was established that 0.0% (0) strongly disagreed, 1.6% (2) disagreed, 1.6% (2) were undecided, 21.9% (26) agreed and 75.0% (91) strongly agreed. As indicated by the high percentage 96.9% (75), majority of respondents agreed that non managers held most of the shares in their organization. However, 1.6% (2) disagreed.

Respondents were asked to state their observation on whether organizations where non managers held most of the shares had potential to grow. They observed as follows: 4.7% (6) strongly disagreed, 21.9% (26) disagreed, 28.1% (34) were undecided, 25.0% (30) agreed and 20.3% (25) strongly agreed. Therefore, majority 45.3% (55) of the respondents generally agreed that organizations where non managers held most of the shares had potential to grow. However, 26.6% (33) generally disagreed.

This findings were confirmed by previous studies by Alves (2012) who examined the relationship between management ownership structure in Portugal and earnings management Using a sample of 34 non-financial listed Portuguese firms for the period between 2002 to 2007, discretionary accruals were estimated using both the cross sectional variation of the Jones model (1991) and the cross sectional variation of the modified Jones model proposed by Dechow, Sloan & Sweeney (1995). They found that, the coefficient of management ownership variable was positive and significant. The study's result suggested that managerial ownership improved the quality of annual earnings by reducing the levels of earnings management. This means that when managers also form part of equity owner, they report earnings that represent the true performance of the firm.

Table 1: The influence of managerial ownership on earnings management of insurance companies in Kenya

Description	SD	D	U	A	SA	Total
Most of the shares in our organization are held by managers of the firm	4.7% (6)	21.9% (26)	28.1% (34)	25.0% (30)	20.3% (25)	100.0% (121)
Organizations whose high shareholding is by the organizations managers has high chances of growth	0.0% (0)	0.0% (0)	4.7% (6)	39.1% (47)	56.3% (68)	100.0% (121)
Most of the managers in our organization hold shares in the firm	0.0% (0)	0.0% (0)	1.6% (2)	26.6% (32)	71.9% (87)	100.0% (121)
An organization whose managers have shares in the firm has high potential to excel	0.0% (0)	0.0% (0)	0.0% (0)	23.4% (28)	76.6% (93)	100.0% (121)
Most shares in our organization are held by non-managers	0.0% (0)	0.0% (0)	0.0% (0)	54.8% (66)	45.2% (55)	100.0% (121)
Organizations whose majority shares are from non-managers are likely to do well	0.0% (0)	0.0% (0)	1.6% (2)	45.3% (55)	53.1% (64)	100.0% (121)
Non managers hold most of the shares in our organization	0.0% (0)	1.6% (2)	1.6% (2)	21.9% (26)	75.0% (91)	100.0% (121)
Organizations where non managers hold most of the shares have potential to grow	4.7% (6)	21.9% (26)	28.1% (34)	25.0% (30)	20.3% (25)	100.0% (121)

Earnings Management of insurance companies in Kenya

The dependent variable of this study was earnings management of insurance companies in Kenya. To achieve this respondent were asked to give their opinions on whether they agreed or disagreed with the statements in Likert scale of 1-5, where 1= Strongly Disagree, 2= Disagree, 3= not sure, 4= Agree, 5= Strongly Agree.

The study sought to investigate whether the respondent's reported financial reports on the NSE had variance with the actual reports they realized in the organization. It was realized that 0.0% (0) strongly disagreed, 1.6% (2) disagreed, 0.0% (0) were undecided, 18.8% (23) agreed and 79.7% (96) strongly agreed. A higher percentage of 98.5% (119), showed that most respondents agreed that their reported financial reports on the NSE had variance with the actual reports they realize in the. However, 1.6% (2) disagreed.

The study sought to establish whether most of the organizations on the NSE manipulate their financial records to influence the public. 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 15.6% (19) agreed and 84.4% (102) strongly agreed. As indicated all, 100.0% (121), of respondents agreed that most of the organizations on the NSE manipulated their financial records to influence the public.

The research sought to establish whether there was a high level of predictability in their earnings. It was found that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) was undecided, 12.5% (15) agreed and 87.5% (106) strongly agreed. General, it was evident that 100.0% (121) of respondents agreed that there was a high level of predictability in their earnings.

The study sought to establish whether there had been a progressive growth in their earnings for the last five years. The employees' responses were as follows: 0.0 (0) strongly disagreed, 1.6% (2) disagreed, 0.0% (0) were undecided, 12.5% (15) agreed and 85.9% (104) strongly agreed. Therefore, a majority of respondents 98.4% (119) generally agreed that there had been increased transparency and accountability in the use of their gross county revenue due to internal audit independence.

In establishing whether they embraced transparency in their financial reporting at all times, the study realized that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 22.2% (27) agreed and 77.8% (94) strongly agreed. This finding indicated that all respondents agreed, as seen from the high percentage 100.0% (121), that they embraced transparency in their financial reporting at all times.

In establishing whether there had been a progressive growth in their annual shareholdings, the study realized that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 20.3% (25) agreed and 79.7% (96) strongly agreed. This finding indicated that all respondents agreed, as seen from the high percentage 100.0% (121), that there had been a progressive growth in their annual shareholdings.

The research sought to determine whether there had been a progress growth in their profitability. It was established that 15.6% (19) strongly disagreed, 84.4% (102) disagreed, 0.0% (0) were undecided, 0.0% (0) agreed and 0.0% (0) strongly agreed. As indicated all respondents 100.0% (121), were of the opinion that there had been a progress growth in their profitability.

The study tend to establish whether there was a high divergent between their earnings and our cash flow. It was found that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) was undecided, 12.5% (15) agreed and 87.5% (106) strongly agreed. General, it was evident that 100.0% (121) of respondents agreed that there was a high divergent between our earnings and our cash flow.

In general, accounting accruals, which is the difference between earnings and cash flows from operating activities, have been used in different terms in the previous literature. While Healy (2015) used total accruals to measure earnings management, subsequent studies attempt to separate them into components, discretionary and non-discretionary accruals. Discretionary accruals are extensively used to demonstrate that managers transfer their accounting earnings from one period to another. In other words, managers exercise their discretion over an opportunity set of accrual choices within GAAP, for example, choosing the depreciation method of fixed assets (Healy, 2015). Additionally, total accruals include non-discretionary accruals which reflect none manipulated accounting accruals items because they are out of managers' control.

Table 2: Earnings Management of insurance companies in Kenya

Description	SD	D	U	A	SA	Total
Our reported financial reports on the NSE have variance with the actual reports we realize in the organization	0.0% (0)	1.6% (2)	0.0% (0)	18.8% (23)	79.7% (96)	100.0% (121)
Most of the organizations on the NSE manipulate their financial records to influence the public	0.0% (0)	0.0% (0)	0.0% (0)	15.6% (19)	84.4% (102)	100.0% (121)
There is a high level of predictability in our earnings	0.0% (0)	0.0% (0)	0.0% (0)	12.5% (15)	87.5% (106)	100.0% (121)
There has been a progressive growth in our earnings for the last five years	0.0% (0)	1.6% (2)	0.0% (0)	12.5% (15)	85.9% (104)	100.0% (121)
We embrace transparency in our financial reporting at all times	0.0% (0)	0.0% (0)	0.0% (0)	22.2% (27)	77.8% (94)	100.0% (121)
There has been a progressive growth in our annual shareholdings	0.0% (0)	0.0% (0)	0.0% (0)	20.3% (25)	79.7% (96)	100.0% (121)
There has been a progress growth in our profitability	15.6% (19)	84.4% (102)	0.0% (0)	0.0% (0)	0.0% (0)	100.0% (121)
There is high divergent between our earnings and our cash flow		0.0% (0)	0.0% (0)	0.0% (0)	12.5% (15)	87.5% (106)

Correlational and Regression Analysis

The means of managerial ownership and earnings management of listed insurance firms were regressed. The purpose of this analysis was to find the causal relationship between managerial ownership and earnings management of listed insurance firms. This aided in testing the first hypothesis of the study that posits, $H_0 1$: Managerial ownership has no significant effect on earnings management in the listed insurance firms. This was tested using significance of R square and Regression coefficient at 95.0% confidence level.

There was evidence that the relationship between managerial ownership and earnings management of Listed insurance firms which was linear; the correlation coefficient (R) of 0.510 indicated moderately strong positive linear relationship. This implied that managerial ownership has a significant and moderate strong relationship with the earnings management of listed insurance firms. The coefficient of determination, R-square of 0.260 implied that 26.0% of the variance in earnings management of listed insurance firms is explained by managerial ownership. The significance value was 0.000 which was less than 0.05 thus the model was statistically significant in predicting the effect of managerial ownership on earnings management of listed insurance firms.

The unstandardized regression coefficient (β) value of managerial ownership was 0.541, correlation coefficient (β) of 0.510 and with a t-test of 10.89 and significance level of p = 0.000, which further confirmed existence of a significant and moderate strong positive linear correlation between managerial ownership and earnings management of Listed insurance firms . At 5% level of significance and 95% level of confidence, managerial ownership is significant in predicating the degree of earnings management of listed insurance firms. The regression equation to estimate the relationship between managerial ownership and earnings management of listed insurance firms is stated as:

EM = 1.914 + 0.541MANOWN +e

An F-significance value of p = 0.000 indicated that there was a probability of 0.00% from the regression model to accept the null hypothesis. The first research hypothesis posited H_01: Managerial ownership has no significant effect on earnings management of listed insurance firms, Kenya. Thus, the model was significant and therefore the null hypothesis was rejected on the ground that managerial ownership had a significant and moderate strong positive linear correlation with earnings management of listed insurance firms.

Table 3: Regression Results of Managerial ownership and earnings management

Model Summary [c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change statistics			
					R Square change	F change	df1	Sig. F change
1	0.510[a]	0.260	0.258	0.76894	0.260	118.737	1	0.000

a. Predictors: (Constant), Managerial ownership

c. Dependent Variable: Earnings management

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	70.206	1	70.206	118.737	0.000[b]
	Residual	199.850	338	0.591		
	Total	270.056	339			

a. Dependent Variable: Earnings management

b. Predictors: (Constant), Managerial ownership

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations		
		B	S.E.	Beta			Zero order	Partial	Part
1	(Constant)	1.914	0.167		11.445	0.000			
	Managerial ownership	0.541	0.050	0.510	10.89	0.000	0.510	0.510	0.510

a. Dependent Variable: Dependent Variable: Earnings management

b. Predictors: (Constant), Managerial ownership

CONCLUSIONS

The specific objective here was to establish the influence of managerial ownership on earnings management of insurance companies in Kenya. There was evidence that the relationship between managerial ownership and earnings management of Listed insurance firms which was linear; the correlation coefficient (R) of 0.510 indicated moderately strong positive linear relationship. This implied that managerial ownership had a significant and moderate strong relationship with the earnings management of listed insurance firms. The coefficient of determination, R-square of 0.260 implied that 26.0% of the variance in earnings management of listed insurance firms was explained by managerial ownership. The significance value was 0.000 which was less than 0.05 thus the model is statistically significant in predicting the effect of managerial ownership on earnings management of listed insurance firms. The unstandardized regression coefficient (β) value of managerial ownership was 0.541, correlation

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coefficient (β) of 0.510 and with a t-test of 10.89 and significance level of p = 0.000, which further confirmed existence of a significant and moderate strong positive linear correlation between managerial ownership and earnings management of Listed insurance firms. At 5% level of significance and 95% level of confidence, managerial ownership was significant in predicating the degree of earnings management of listed insurance firms.

The research hypothesis posited $H_0$1: Managerial ownership has no significant effect on earnings management of listed insurance firms, Kenya. Thus, the model was significant and therefore the null hypothesis was rejected on the ground that managerial ownership had a significant and moderate strong positive linear correlation with earnings management of listed insurance firms.

Based on our findings, we concluded that Earnings Management is a critical factor in the insurance sector especially among firms listed on the NSE. It came out clearly in this research work that earnings management is determined and influenced by several factors which are dependent on the type of ownership structure a firm has. One of the main reasons why firms manage earnings is to influence the public towards investing in the firm for competitive advantage reasons. Therefore, there is a significant relationship between ownership structure and earnings management of insurance firms listed on the NSE.

RECOMMENDATIONS

The study recommended that insurance firms whether listed or not listed should resist the temptation of managing earnings to ensure prudential financial practice. Insurance firms should emphasis on majority local ownership over foreign ownership to enhance local control and benefits. The government should implement stringent measures against managing earning by listed insurance firms to ensure a transparent and competitive world to do business under.

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