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Corporate Social Responsibility (CSR) and Financial Performance: A Critical Assessment of Oil Marketing Companies in Ghana

Stewart Selase L.T. Hevi
Ghana Technology University, Koforidua Campus, Ghana

David Tettei Ofeor Mantey
MBA Finance, Coventry University, UK.

Edmund Nana Kwame Nkrumah
Jiangsu University, School of Management Science and Engineering, China

Gifty Enyonam Ketemepi
Faculty of Management, University of Professional Studies, Accra- Ghana

Abstract
The study focuses on unravelling the dynamics behind organizations investment into Corporate Social Responsibility (CSR) and its effect on financial performances. The study examined a 6year (2010 – 2016) CSR activities of five selected oil companies in Ghana. Through the use of fixed-effect panel regression model, the study shows that CSR have differential effects on different indicators of financial performance measured in terms of ROA, ROE and ROCE. CSR activities was found to have positive significant association with ROCE but failed to predict same association with ROA and ROE which remain one of the major performance indicators. Never the less, communication on the social and environmental impacts of CSR was found to be positively associated with improvement in ROA and ROE but not ROCE. The study recommends future studies to examine the impact of CSR on non-financial performance indicators of the sampled organization.
Keywords: Corporate Social Responsibility, Financial Performance, Oil Marketing Companies, Ghana

1. Background of study

Business organization remains critical players in every aspect of the economy, including; politics and social interventions. Apart from being profit aggressive through the provision of goods and services for the public, they are also avenues for job creations, source of revenue to the government through the payment of taxes and as well invest in social intervention programs that can help the community they operate. The CSR has as well become one of the norms among the basic responsibilities of organizations. The subject of Corporate Social Responsibility (CSR) is not a new concept or theory in management studies. The subject have received quite an attention in both academia and management practices Recent studies like Rezaul & Hanh, (2017); Gu¨ ler, Aslı & Ozlem (2015); Mahabir & Rajinder (2013); Monika, Mahesh, Gurdip (2014); Changizi (2014); Weisheng,, Hongdi & Wei Pan. (2014) and Donatas Jonikas (2014) have all addressed the issue of CSR across different sectors in different geographic locations. Interestingly, the area sparking maximum interest in recent studies Rezaul & Hanh (2017) on the subject of CSR focuses on the financial benefits derived from organization that engages in CSR as it remains a huge expenditure item on the financial statement. The common theory behind CSR activities is the believe that as society provides the conditions or resources such as lands and in some cases raw materials for companies to thrive, it is expected that companies will show appreciation by giving back to society in the form of infrastructural developments, social intervention programs and other socially responsible activities. Others also holds the view that business ventures are profit oriented hence any activity that may distort profitability should not be a major concern for the organization. Amponsah – Tawiah and Dartey (2011) defined CSR in their paper as the strategic decision of an organization to voluntary act upon the social factors that have the potential of militating against the fulfillment of corporate goals. Other studies have given an indication that CSR deepens business' role in society (Lea, 2002; Marsden, 2001; Pinney, 2001). The concept of CSR and what it entails still remains debatable. In any case, however these dynamics views may look, it may have a role to play in organizations perception towards CSR as there exist no clear direction between giving back to the society through CSR and financial performance.

Current studies like Govindrajan & Amilan (2013); Vitezic (2011); Rezaul & Hanh, (2017) found CSR activities to positively influence financial performance of organizations whiles Babola (2012); Hassel, Nilsson & Nyquist (2005); Gu¨ ler, Aslı & Ozlem (2015) found no significant association between CSR activities and financial potency. Specifically, the study of Rezaul & Hanh, (2017) asserts that corporate governance features like foreign ownership, board size and board independence strengthen the positive relationship between CSR and financial performance whiles Gu¨ ler, Aslı & Ozlem (2015) found a relationship between firm size and corporate social responsibility but the data analysis failed to find any significant relationship between corporate social responsibility and financial performance.

Unlike India where CSR is legally mandatory through the companies Act, 2013 (Das & Bhunia 2016), it only remains non-legislative and a non-forcing approach in Ghana. In as much as the concept of CSR has received quite some level of attention from organizations in Ghana recently, the activity have not received the appropriate legal regulatory framework from the government to mandate or guide organizations in pursuing their CSR strategies. The study however will not focus much on regulatory frameworks but rather the influence CSR activities have on organizational profitability. Though CSR effect on financial performance have received quite a level of attention among developing and emerging economies Balabanis, Phillips & Lyall (1998); Tsoutsoura (2004) , Aras, Aybars & Kutlu 2009; Crisóstomo, Freire & de Vasconcellos (2011) it has not received same attention in the African sub-region, particularly Ghana. Visser (2005) asserts that out of the 53 countries in Africa, only 12 research work in well-known CSR top journals. Again, majority of the studies is either related to South Africa and Nigeria. This shows the lack of interest among industry players and academia as a whole in Africa compared to the develop world on the applicability of the CSR strategies. Particularly in Ghana, studies on CSR has focused on philanthropic, ethical and corporate governance issues (Abor 2007; Kyereboah-Coleman & Biekpe 2007; Ofori 2007), wholesale CSR typology issues (Ofori 2007; Ofori & Hinson 2007), overview of CSR in Ghana, (Amponsah – Tawiah and Dartey, 2011); CSR regulatory regime (Anku-Tsede, 2014), Issues and Concerns of CSR (Sarpong , 2017). Clearly, studies on CSR has not been fully explored as there still exist a very wide gap to be filled. Apart from the study of Ofori, Nyuur, & Darko (2014) whose studies focused on CSR and financial performance among Ghanaian banks, no single research has addressed the significance of CSR activities in other sectors. Considering the sudden rising interest by organizations to fulfill their corporate social responsibilities in Ghana, this subject of CSR-Performance remains quite significant issue than needs to be addressed. This study focuses on investigating the impact of CSR activities on financial performance of some selected oil marketing companies in Ghana. The study seeks to contribute to this study area and add to the conflicting existing literature. The study is expected to enlighten organizations and provide an empirical understanding of how CSR activities influence their financial performance.

2. Literature Review

There is no generally accepted definition for as to what constitute social responsibility of organizations (Frederick 1994; Griffin 2000). Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development, while improving the quality of life of the workforce and their families as of the local community at large (Holme & Watts 1999). Gössling and Vocht (2007) opine that organizations should see CSR as a duty and philanthropic contribution to the good of their stakeholders and the environment without expecting financial reward. Hopkins (2003) defines corporate social responsibility as treatment given to all stakeholders which is void of bribery and corruption but in a responsible and acceptable manner. Mcwilliams and Siegel (2001) opine that CSR is a voluntary action which is beyond a firm's interest and legal requirements carried out by corporations to promote social good. In other to achieve sustainable competitive advantage, corporations must not only seek their interest, they must contribute to the welfare of the community in which they are situated or operate. In the European Commission's CSR-report from 2002, CSR is described to have a close relationship between societies and companies to deal with both social and environmental concerns. In their most recent definition, the European Commission (2011) explains CSR as the responsibility of enterprises for their impacts on society.

Arguably, the most renowned concept of corporate social responsibility was the one postulated by Carroll (1991), it suggests that a business should follow four components:

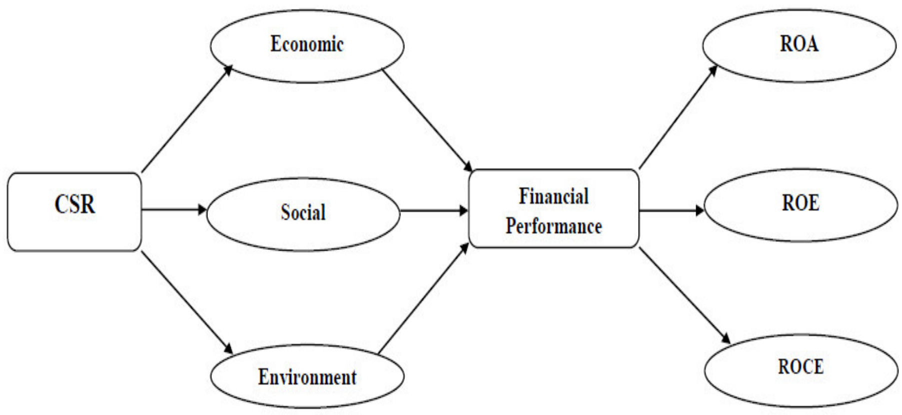
i. Economic responsibility: fundamental responsibility to make a profit and expand
ii. Ethical responsibility: business must obey the law and work within the legal framework of society
iii. Philanthropic: business has to value the rights of others and meet the hope applied by society to do what is right
iv. Legal responsibility: business should add to and support the broader community and improve the quality of society (Snider et al. 2003).

Borgers and Pownall (2014) and Nofsinger and Varma (2014) asserted that, society expects firms to uphold the ethics of the field in which they operate and also contribute towards the welfare of the society through community development projects, donations and charitable gifts. Society in appreciation of the kind gestures will in turn patronize the products and services of the firms and remain loyal to them (Arnold & Valentin 2013).

2.1 Conceptual Framework

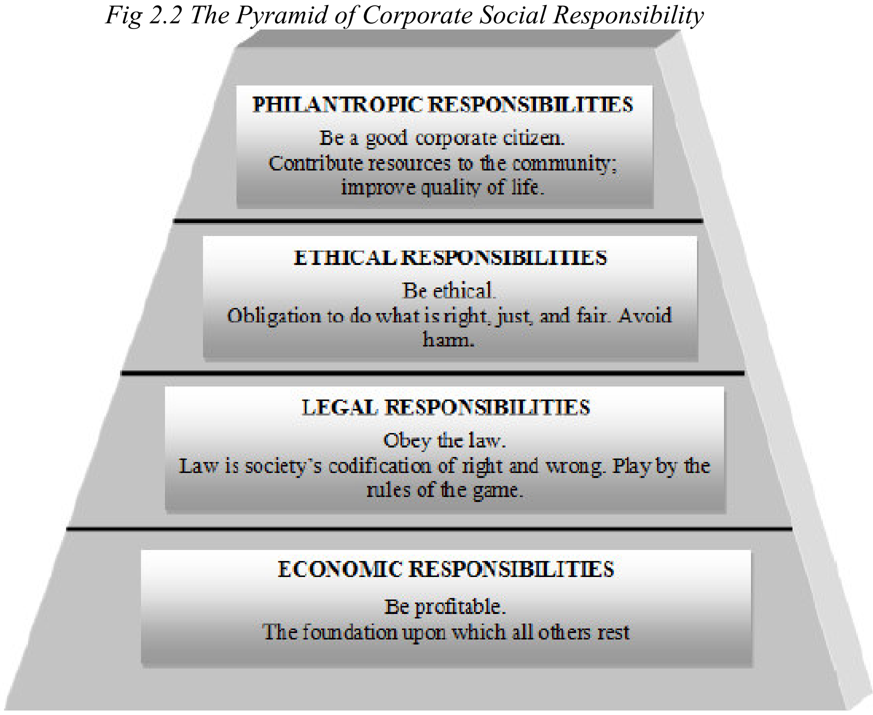
The conceptual framework for the study was based on the study's objective which seeks to investigate the relationship between CSR activities among oil marketing companies in Ghana and financial performance. The financial performance was measured by the Returns on Assets (ROA), Returns on Equity (ROE) and Returns on Capital Employed (ROCE) whiles CSR was measured based on CSR economic activities, social activities and environmental activities of the oil marketing companies studied. ROA, ROE and ROCE was suitable to measure performance because it has been widely used to measure performance in related literature.

Fig 2.1 conceptual framework based on research objectives



The measurement of CSR as used in the framework was carved from the pyramid of Carroll (1991) hence falls under the philanthropist, economic and ethical responsibilities. The framework did not capture the legal responsibilities because there exist no clear legal direction in Ghana towards CSR.

Fig 2.2 The Pyramid of Corporate Social Responsibility



Source: *Carroll, A 1991, "The pyramid of corporate social responsibility": Toward the moral management of organizational stakeholders.*

2.2 Empirical Review Corporate Social Responsibility and Financial Performance

Theoretical and empirical literature related to CSE influence on organization's financial performance has not produced any clearer direction as there still exist conflict findings. The relationship between CSR and financial performance has been empirically examined by one hundred twenty-seven published studies between 1972 and 2002 with different measurement methods (Margolis and Walsh, 2003). Through the review of empirical research related to CSR–financial performance relationship, Lu *et al.* (2014) found 6 negative relationships, 38 positive relationships, 21 studies revealed no significant relationship whiles 18 studies show unrelated U-shaped. What should however be noted in the findings is the variation of factors such as data periods, methodology, proxy of measuring financial performance and geographical location. The empirical review was divided into three unresolved relationship that has been established by literature. Thus, positive relationship, negative relationship and mixed relationship.

On the count of positive relationship, the study of Ocran (2011) in determining the effect of corporate social responsibility on profitability of multinational companies through a Pearson Product Moment Correlation coefficient concluded that CSR activities positively impact profitability of MNCs firms in Ghana. The researcher recommended that to have a maximum impact, CSR activities should be well structured and implemented. In Russia, Dzhavdatovna, Rishadovna and Alexandrovna (2014) assessed the influence of corporate social responsibility on financial efficiency on ten (10) large oil and gas companies for the period 2009 to 2011 also found that corporate social policy affects the financial efficiency of Russian oil-and-gas companies. Through the content analysis of primary data, Ekatah et al. (2011) investigated the association between CSR and profitability of Royal Dutch Shell Plc in the United Kingdom (UK) for the period 2001-2005 and also found a positive relationship between CSR and profitability. Palmer (2012) carried out a study on "Corporate Social Responsibility and Financial Performance using time series regression for the period 2001 to 2005 and concluded that CSR and financial performance have a significantly positive relationship. In relation to whether CSR influence the financial performance of Islamic banks in Asia, Khan and Tariq (2017) through a regression analysis found CSR to positively and significantly influence financial performance to embark on CSR activities.

With regards to negative relationship, Hassel, Nilsson and Nyquist (2005) examined the effect of CSR on financial performance of Swedish companies. CSR was measured by environmental information and financial performance by market value and it was concluded that CSR has negative effect on financial performance. In Nigeria, the study of Babola (2012) investigated the relationship between CSR and firms' profitability among Ten (10) companies listed on Nigeria Stock Exchange for the period 1999-2008. Through the OLS method, the study revealed a negative relationship between CSR and firms' profitability and recommended that since most companies in Nigeria do not engage in social responsible activities, policies should be put in place by the government to make CSR activities mandatory. However, recent study of Madugba and Okafor (2016) which as well focused on corporate social responsibility on financial performance of listed banks through the simple regression analysis for the period 2010 to 2014 found mixed relationship between CSR and financial indicators. CSR was found to have a negative significant relationship with EPS, positive significant relationship with ROCE and no significant relationship with DPS.

A current study in Germany by Zhang (2016) on "does corporate social responsibility affect financial performance of listed manufacturing firms in Germany?" using 5 manufacturing sectors involving 87 listed manufacturing firms in Germany for the period 2010 to 2015. The financial measurements adopted were accounting - based and market based. The study concluded that, no particular relationship exists between CSP and corporate financial performance (CFP). Adeneye and Ahmed (2015) findings show that CSR has a positive relationship with MBV and ROCE whiles recording a negative relationship with the size of the company. Data for the study was obtained from 500 United Kingdom (UK) companies and analyzed using multiple regression and Pearson correlation methods.

3.0 Methodology

Panel data regression model technique was used to test the effect of different components of corporate social responsibility on financial performance of the selected oil companies. Panel data regression models was suitable for the study because it provides detail information on data collected overtime by combining the cross-sectional and longitudinal dynamics (Moon and Weidner, 2015). The study targeted five (5) selected oil companies listed on the Ghana Stock Exchange that has engaged in CSR activities for the period 2010 to 2016. The companies include Ghana Oil Company Limited, Total Petroleum Ghana Limited, Unity Oil Company Limited, Shell Ghana Limited and Allied Oil Company Limited. Annual audited financial report of each of the 5 selected oil companies namely was used to extract data on financial performance on the companies. Annual reports of organizations have been used to study CSR practices and financial performance by other researchers in Ghana (Ofori, Nyuur & S-Darko 2014) and elsewhere (Murtaze et al. 2014). Three main proxies were used as measurement of financial performance; thus, Return on Asset (ROA), Return on Equity (ROE) and Return on Capital Employed (ROCE). Khan et al. (2016); Ofori, Nyuur & S-Darko (2014) examining financial performance of firms used some of these indicators as measures of corporate financial performance.

3.1 Model Specification

The equation for FE entity model for *n* entity-specific intercepts is given as:

$$Y_{it} = \beta_1 X_{it} + \ldots + \beta_k X_{kt} + \alpha_i + u_t + e_{it}$$

Where

- Y_{it} = dependent variable (DV)
- X_{it} = one predictor variable (IV),
- β_1 = coefficient for that IV,

- α_i (i =1...n) = unknown intercept for each entity (n entity-specific intercepts).
- U_t = a trend term that allow for a shift of the DV overtime
- e_{it} = error term
- i = unit of observation
- t = time period

In FE models, part of the assumptions requires that all time effects are controlled for if there is the possibility that any unexpected variation or special events may affect the dependent variable (Bryman & Bell 2015). In the model specified, there is no trend term that tracks the shift or the changes in the intercept or the dependent variable overtime (Bryman & Bell 2015). In that case, the effect of time is controlled for. The model equation for such a specification therefore reads as:

$$Y_{it} = \beta_1 X_{it} + \ldots + \beta_k X_{kt} + \alpha_i + e_{it}$$

The empirical models used in the current study therefore are given as follows:

i. $ROE_{it} = \beta_1(CSRD\_Economic)_t + \beta_2(CSRD\_Environment)_{2t} + \beta_3(CSRD\_Social)_{3t} + e_{it}$
ii. $ROA_{it} = \beta_1(CSRD\_Economic)_t + \beta_2(CSRD\_Environment)_{2t} + \beta_3(CSRD\_Social)_{3t} + e_{it}$
iii. $ROCE_{it} = \beta_1(CSRD\_Economic)_t + \beta_2(CSRD\_Environment)_{2t} + \beta_3(CSRD\_Social)_{3t} + e_{it}$

Where:

ROE_{it} = Return on Equity in company i in year t
ROA_{it} = Return on Asset in company i in year t
$ROCE_{it}$ = Return on Capital Employed in company i in year t
CSRD_Economic = Report of information on the economic performance of CSR among the company
CSRD_Environment = Report of information on the environmental concerns of the company
CSRD_Social = Report of information on the concern for society by the company

Table 3.1 Descriptions of variables included in the model in the study

Variable	Description
Dependent Variable:	*Proxies of Financial Performance*
ROE (Return on Equity)	Ratio of net income returned as a percentage of equity and measures how much shareholders' investment generate profit
ROA (Return on Asset)	Ratio of net-profit to total assets which indicates how efficient assets generate earnings.
ROCE (Return on Capital Employed)	Ratio of profitability and efficiency. A higher ROCE indicates more efficient use of capital.
Predictor Variables:	Components of CSR Activities
CSRD_Economic	Report of information showing how much or what percentage of income was spent on social responsibility activities
CSRD_Environment	Report of information showing commitment to environmental sustainability such as protection of material, energy, water, biodiversity, emissions effluents waste, products and services, compliance, transport; overall.
CSRD_Social	Report of information showing obligations to society such as information on societal impact, human rights protection, labour practices and descent work, product responsibility etc.

4. Discussion of Findings

The findings was divided into four main sub headings; thus, descriptive statistics and regression results on the relationship between CSR, ROE, ROA and ROE.

4.1 Descriptive Statistics

The descriptive statistics provide a summary of the scores of the dependent and predictor variables. The descriptive results presents number of observations, minimum and maximum scores, means scores, standard deviations, skewness and kurtosis. The results of the descriptive statistics are summarized in Table 4.2

Table 4.1 The Results of the Descriptive Statistics

Variable	Min.	Max.	Mean	SD	Skewness	Kurtosis
ROA	1.67	7.00	3.35	1.416	0.523	-1.075
ROE	2.53	50.00	21.29	9.614	-0.015	-0.913
ROCE	0.340	1.860	0.806	0.3691	1.528	1.696
CSRD_Environment	4.00	10.00	6.69	2.056	0.482	-1.230
CSRD_Social	10.00	40.00	24.48	7.729	-0.087	-0.878
CSRD_Economic	3.00	10.00	6.74	1.821	0.302	-0.977

4.2 Results for Estimation of CSR on Return on Equity (ROE)

This sub-section presents results on the predictors of profitability among the selected oil companies. The predictors test the hypotheses that were formulated based on the specific objectives of the study.

Table 4.2 The Panel Regression Model Results 1

Predictors	β	S.E.	*t*	*p*
CSRD_Environment	1.6838	0.1933	8.71	0.000
CSRD_Social	0.7096	00.0533	13.31	0.000
CSRD_Economic	0.2675	.1968	1.36	0.175
Constant	-9.1614	1.9300	-4.75	0.000
R – square ($R^{2)}$	0.6112			
Adjusted R^2	0.5824			
F	140.63			
Df	(4, 45)			
p	0.000			
Root MSE	6.2129			

Table 4.2 shows that overall model was significant ($F = 140.63$, $p < 0.001$). All the predictors accounted for about 61.12% variance in return on equity ($R^2 = 0.6112$). The individual predictors were then assessed for their individual contributions to ROE. The result shows two factors (i.e. CSRD_Environment and CSRD_Social) significantly predicted ROE. Specifically, ROE was positively predicted by CSRD_Environment, accounting for about 16.84 variance in ROE ($\beta = 1.683$, $p < 0.001$). ROE was also positively predicted by CSRD_Social accounting for about 70% variance in ROE ($\beta = .7096$, $p < .001$).

Table 4.3 Estimation of CSR on Return on Asset (ROA)

Panel regression model of the determinants of Return on Asset (ROA) is presented

Predictors	β	S.E.	*t*	*p*
CSRD_Environment	0.3977	0.026	15.27	0.000
CSRD_Social	0.0692	0.007	9.64	0.000
CSRD_Economic	0.0368	0.027	1.39	0.166
Constant	-1.258	0.260	-4.84	0.000
R – square ($R^{2)}$	0.6742			
Adjusted R^2	0.6501			
F	179.67			
Df	(4, 45)			
p	0.000			
Root MSE	0.8373			

From Table 4.3, the overall model was significant ($F = 179$, $p < 0.001$) and accounted for a total of 67.42% variance in return on asset ($R^2 = 0.67.42$). After that, the 3 dimensions of CSR activities were examined to assess their independent contributions. The result shows that two factors (i.e. CSRD_Environment and CSRD_Social) significantly predicted ROE. Specifically, ROA was positively predicted by CSRD_Environment, accounting for about 39.8% variance in ROA ($\beta = 0.3977$, $p < 0.001$). ROA was also positively predicted by CSRD_Social accounting for about 7% variance in ROA ($\beta = 0.0692$, $p < 0.001$).

Table 4.4 Estimation of CSR on Return on Capital Employed (ROCE)

Panel regression model of the determinants of ROCE is presented in Table 4.4 below. The overall model was significant (F = 61.13, p <0.001) and accounted for a total of 40.14% variance in return on capital employed (R^2 = 0.4012). After that the 3 dimensions of CSR activities were examined to assess their independent contributions. It can be observed on Table 4.4 that only one factor (i.e. CSRD_Economic) significantly predicted ROCE. Specifically, CSRD_Economic accounted for about 12.59% variance in ROCE (β = 0.1259, p <0.001).

Predictors	β	S.E.	*t*	*p*
CSRD_Environment	-0.0135	0.0092	-1.41	0.158
CSRD_Social	-0.0015	0.0025	-0.62	0.533
CSRD_Economic	0.1259	0.0094	13.43	0.000
Constant	0.0834	0.0919	0.91	0.365
R – square ($R^{2)}$	0.4014			
Adjusted R^2	0.3571			
F	61.13			
Df	(4, 45)			
p	0.000			
Root MSE	0.2960			

4.3 Discussion of Findings

Overtime, several studies have shown that organizations engaged in CSR activities as an act of improving their performance (Ofori, Nyuur & S-Darko 2014). When this line of research began, the argument turned to whether CSR has impact on the performance of firms; the findings from these studies have largely been inconsistent. From the study outcomes, the entire regression models for Corporate Social Responsibility and Return on Equity (ROE); Return on Asset (ROA) and Return on Capital Employed (ROCE) were significant. This result is consistent with earlier studies conducted by (Khan et al. 2016; Ofori, Nyuur & S-Darko 2014) have all reported that CSR positively impact the performance of organizations. The study outcomes further showed some levels of mixed relationships amongst the specific variables. Despite the entire regression model being significant, a component under CSR (Economic responsibility) was statistically insignificant with Return on Equity (ROE) as well as Return on Asset (ROA); these results are consistent with other studies such as (Madugba & Okafor 2016) who have reported findings to the effect that CSR either has no or insignificant impact on performance. By implication, the study therefore is not in consonance with studies conducted by (Babola 2012; Hassel, Nilsson & Nyquist 2005) negative impact on financial performance, as well as, studies done by (Madugba & Okafor 2016) which reported mixed findings.

5. Summary and Conclusions

The concept of Corporate Social Responsibility (CSR) has recently gained a lot of attention in Ghana as many businesses seek to propound their involvement in CSR. The study examined the impact of CSR information on the financial performance among 5 selected oil companies in Ghana. Three indicators of financial performance were used; return on asset (ROA), return on equity (ROE) and return on capital employed (ROCE). Three key aspects of CSR activities were also used; economic dimension, social dimension and environmental dimension. Findings from the study showed that providing enough information about environmental impact and social impact improves both return on equity and return on asset but providing information on economic impact has no effect on ROE and ROA. However, in the case of return on capital employed, providing in-depth information on economic impact is associated with increased ROCE while environmental and social impact had no effect on it. The study recommends future studies to examine the impact of CSR on non-financial performance indicators of the sampled organization. Both qualitative and quantitative methods can be considered to help explore the subject of CSR among oil marketing companies. Other studies can as well use time series data to examine the CSR and performance nexus among other organizations.

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APPENDICES

Output Tables from Stata - Appendix 1

```
. areg ROA CSRD_Environment CSRD_Social CSRD_Economic, absorb( banknum)

Linear regression, absorbing indicators           Number of obs   =       320
                                                  F(   3,    297) =    179.67
                                                  Prob > F        =    0.0000
                                                  R-squared       =    0.6742
                                                  Adj R-squared   =    0.6501
                                                  Root MSE        =    0.8373
```

ROA	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
CSRD_Environment	.3977036	.0260503	15.27	0.000	.346437	.4489701
CSRD_Social	.0692878	.0071839	9.64	0.000	.05515	.0834256
CSRD_Economic	.0368289	.0265268	1.39	0.166	-.0153754	.0890332
_cons	-1.258033	.2601232	-4.84	0.000	-1.769951	-.7461144
banknum	F(19, 297) =		2.242	0.002	(20 categories)	

```
. areg ROCE CSRD_Environment CSRD_Social CSRD_Economic, absorb( banknum)

Linear regression, absorbing indicators           Number of obs   =       320
                                                  F(   3,    297) =     61.13
                                                  Prob > F        =    0.0000
                                                  R-squared       =    0.4014
                                                  Adj R-squared   =    0.3571
                                                  Root MSE        =    0.2960
```

ROCE	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
CSRD_Environment	-.013028	.0092077	-1.41	0.158	-.0311487	.0050927
CSRD_Social	-.0015841	.0025392	-0.62	0.533	-.0065813	.003413
CSRD_Economic	.1259064	.0093762	13.43	0.000	.1074543	.1443586
_cons	.083442	.0919432	0.91	0.365	-.0975007	.2643847
banknum	F(19, 297) =		0.967	0.501	(20 categories)	