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PERSONALITY AND LEADERSHIP STYLE AS PREDICTORS OF INTENT TO ESCALATE COMMITMENT IN FINANCIAL INSTITUTIONS

Olusola Iyabode AKINBOBOLA

INTRODUCTION

Decision making is inevitable in organisations including the financial institutions where decisions are made mostly in relation to disbursement of funds. Financial institutions diversify into capital market, insurance, pension and banking industry to provide financial services. The banking industry incorporates mortgage banks, investment banks and commercial banks. Commercial banks such as cooperative banks are retail, and are organized on cooperative basis. Cooperatives are people and not capital oriented as other Commercial banks; provide financial services to low income clients who traditionally lack access to banking and help people out of poverty through provision of credit services to poor clients in developing economies. The result of decisions made in financial institutions may be favourable or unfavourable. When decisions are unfavourable, decision makers in order to justify a losing previous decision, have a heightened need for continued commitment to the initial course of action (Drummond, 1994; Staw, 1982). There is tendency to persist with a losing course of action termed escalation of commitment. Intent to escalate commitment is the individual's predisposition and tendency to stick to an initial course of action despite convincing proofs received from negative feedback that the initial decision was ineffective. Fishbein and Ajzen (1975) proposed that behaviour can be preceded by intention specifically intent to escalate commitment predicted escalation of commitment behavior (Akinbobola, 2008). Staw (1976) propounded in his theory of escalation of commitment that decision makers persist on a losing initial course of action because of self justification for ego defense and external justification for face saving. Escalation of commitment is an irrational commitment and most probably has a magnitude effect on the organisation. Kahneman and Tversky (1979) used an alternative approach of framing of preferences into gains and losses to further explain escalation of commitment. Decision makers tend to exhibit risk seeking or risk averting behaviour to the framed outcomes. Decision makers who become risk seeking when they receive negative consequence will increase commitment to a losing course of action and undergo risk of further losses (Kahneman and Tversky, 1979; Schoorman, Mayer, Douglas and Hertrick, 1994. Decision makers who become risk averting when they receive negative consequence will decrease commitment to a losing course of action. Wong (2005) reported that risk taking behaviour is associated with escalation of commitment.

The banking industry in Nigeria in 1985 (Kayode and Odusola, 2002) and cooperative banks in developing countries in the 1990's (Birchall, 2001), experienced distress with the introduction of Structural Adjustment Programme (SAP). Distress became a perennial

phenomenon in the banking industry in Nigeria (Soludo, 2004) and led to the collapse of some banks. The apex bank, the Central Bank of Nigeria (CBN), against this background advocated the banking sector's reforms (CBN, 2004). The global stock market in 2008 (Crawford and Young, 2009) dropped due to problems in the mortgage market which led to a worldwide credit crisis culminating in financial institutions failure in Europe and the United States of America. Azmi (2011), ILO (2002) and ILO (2008) advocated cooperative financing which is social and economic reforms for developing economies. Birchall, Hammond Ketilson (2009) commented that cooperatives in developing economies endured the financial distress better than their commercial bank counterparts; nevertheless cooperatives are still developing (Pollet, 2009). Furthermore, only few studies viewed distress in financial institutions from an escalation of commitment perspective. Most studies viewed financial institutions distress from an economic point of view. This study therefore seeks to highlight escalation of commitment and the challenges of financial institution distress, from a psychological perspective.

Decisions made by financial institution staff lead to financial institution distress. Certain psychological factors in the individual may influence him or her to make decisions that lead to distress. However, in organisations, decisions are mostly made by its leadership. Continued commitment to a losing initial course of action may be a function of leadership. Some researchers, such as Miller and Toulouse (1998) explored escalation of commitment and suggested that leadership style of decision makers could be a source of inappropriate persistence within an organisation. Some approaches to leadership are trait, behavioural, contingency and contemporary styles.

Transformational/transactional leadership is one of the most recent researched approaches to conceptualizing leadership (Bass, 1990; Pawar, 2003). Transactional leadership refers to a leader who manages, sustains and controls achievement of already established goals in the organisation. McKenna (2000) explained that transactional leadership is appropriate under stable conditions in an environment characterised by risk aversion in decision making. Transformational leadership on the other hand refers to a leader who brings about changes in people and organisation by creating, communicating and modeling a vision and inspiring the organisation to strive for the vision and goals. Such leader also brings the organisation to a greater awareness of its environment and the understanding of established views and decisions, which are necessary to keep the organisation aligned with its outside environment. In another view, Conger and Kanungo (1994) found that transformational leaders have a strong personal commitment to their goals and are prepared to take high risks and incur significant costs to support their vision. When financial institutions such as few Nigerian banks in 1985 and global stock market in 2008 collapsed, the management of the institutions was believed to be one of the factors that contributed to such failure (Azmi, 2011; Udegbe, 2005; World Bank, 1993). Managers in general including those of financial institutions perform leadership and decisional roles. They make decisions on disbursement of funds such as credit cooperative financing, microfinancing, mortgage loans financing and bank loan financing. They exhibit escalation of commitment behaviour in some decisions as they

become locked into an escalation situation (Staw, 1981). The escalation of commitment is partially responsible for the worst financial losses experienced by organisations (Kreitner and Kinicki, 2000).

The success and failure of an organisation depends on the quality of its leadership. Researchers such as Kisfalvi (2000), Miller and Toulouse (1998) did not agree with Bass' s

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view of the omnipotent transformational leader. Bass (1990) believes that transformational leadership is the solution to organisational success. However, no empirical study was conducted to verify this opinion. Other schools of thought (for example, Pfeffer, 1992) earlier down played the role of leadership style in organisational outcomes. Little attention has been given to the role of transformational/transactional leadership style on escalation of commitment. It has therefore become imperative to conduct an empirical study on the influence of leadership style on escalation of commitment. Leaders bring personality attributes to the organisation which is regarded as being of key significance in their decisionmaking. Decision makers also experience a number of personal limitations that make it difficult to identify problems and opportunities, choose solutions and evaluate decision outcomes. Personality factors such as self efficacy and need for achievement may predispose a leader to behave in certain ways, including decision making and the escalation effect (Schaubroeck and Williams, 1993).

Other researchers, such as Seijts, Latham and Whyte (2000), Whyte, Saks and Hooks (1997) reported that high self-efficacy subjects have a tendency to persist especially in economic task and therefore escalate commitment. McClelland, (1965) propounded that people have a need for achievement and an attitude towards risk. Lack of adequate commitment to a losing course of action might be due to some personality factors such as self efficacy and need for achievement. It is pertinent to determine in this study if self efficacy and need for achievement will influence intent to escalate commitment. Demographic factors may also play role in persistent behaviour (Datta and Rajagopalan, 1988), but in this study they are controlled for. According to Barnes (1984), Schwenk (1988), being a male or a female may influence escalation of commitment. Finkelstein and Hambrick (1996) and Kilsfalvi (2000) found that top management team demographic heterogeneity, which is variation in sex, age and job tenure of leaders who are open-minded with wider range of ideas, influence escalation Of commitment.

The objective of this study is to highlight the influence of leadership style and personality factors on intent to escalate commitment among decision makers who work in financial institutions in Nigeria and who are Banking and Finance graduate students of a university in Nigeria. These factors must be understood if solutions to leaders' problem on commitment to investment decisions leading to financial distress are to be adequately considered. Findings from this study will provide information not only on personality and leadership style of decision makers but also on the problem of commitment to investment decisions leading to financial distress. Findings

may eventually be useful for policy formulation and implementation for Millenium Development Goals (MDGs) in developing economies. Based on the foregoing, the hypothesis stated was that leadership style, self efficacy and need for achievement will independently and jointly predict intent to escalate commitment while controlling for sex, age and job tenure.

METHOD

The study adopted an ex post facto design; the variables were not under the direct manipulation of the reseacher. The independent variables were transformational leader behavior, transactional leader behavior, self efficacy and need for achievement. Demographic variables sex, age and job tenure were controlled for. The dependent variable was intent to escalate commitment. A total of 348 participants who were Master of Business Administration (Banking and Finance) graduate students of a University in Nigeria took part

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in the main study. These participants were randomly selected and comprised 210 (60.3%) male and 138 (39.7%) female, whose average age was 37.62 with standard deviation of 6.16. Tenure on the job had average of 11.36 and standard deviation of 6.14. The participants were working, with 185 (53.2%) in banking, 26 (7.5%) in financial institutions and 115 (33.0%) in finance and accounts departments of non-financial organisations. Following Bialagorsky, Boulding and Staelin (2001) pattern of study in choice of participants; the MBA students used for this study were logically and significantly generalized to the population of senior level managers as utilized by Boulding, Morgan and Staelin (1997) who normally make major investment decisions. Bialagorsky, Boulding and Staelin (2001) using MBA students replicated Boulding et. al. (1997) study, the results of these studies showed no substantial differences and that increased researchers' confidence that findings of MBA students' can be generalised to the population of senior managers. The participants indicated their willingness to participate in the present study. A questionnaire was used and divided into sections. In Section A is contained the intent to escalate commitment scale developed for the purpose of this study. The scale comprised 27 items, Likert format and rated as strongly agree 5, to strongly disagree 1. Content validity was established by giving the 34 items to experts on the basis on which 27 items were picked. The 27 items were subjected to item-total correlation and the items had coefficient that ranged between 0.37 and 0.94. The reliability for the whole scale is coefficient alpha of 0.97. Following this, a factor analysis was carried out using the varimax rotation leading to three factors accounting for 71.9% of the total variance. Based on literature review, the three factors were named external justification, ego defense and biased belief update. The coefficient alphas for the respective factors were: 0.97, 0.96 and 0.84.

Section B of the questionnaire measured transformational leadership style.

The 28-item scale was developed by Podsakoff, Mackenzie, Moorman and Fetter (1990). Olaseinde (2005) used the scale on Nigerian subjects and reported coefficient alpha of 0.79. The scale comprised seven dimensions. The higher the score on the first six

dimensions, the higher the participants transformational leader behaviour. The higher the score on the seventh dimension the higher the participants' transactional leader behaviour. The reliability coefficient for the respective dimensions as reported by the authors were: articulate vision 0.90, provide appropriate model 0.97, foster acceptance of goals 0.83, high performance expectations 0.78, individual support 0.90, intellectual stimulation 0.91 and the seventh leadership dimension that measures transactional leadership 0.92. The result in the present study showed that the reliability coefficients for the respective dimensions were: 0.88, 0.87, 0.88, 0.76, 0.80, 0.87 and 0.74.

Section C of the questionnaire contained a 10-item self efficacy scale developed by Bandura (1997) measuring the respondents' belief in their ability to complete a task successfully. The higher the score on the scale the higher the participant's self efficacy. The author reported a coefficient alpha of 0.76. This study reported a coefficient alpha of 0.83. Section D of the questionnaire consisted 9-item need for achievement scale developed by Oyefeso (1988) which is the modified version of Edward's (1954) 15-item scale. The scale measures respondents' drive to excel, to achieve and to strive to succeed in whatever they do. Oyefeso (1988) reported a split-half reliability coefficient of 0.85 among Nigerian samples. The higher the score on the scale the higher the participant's need for achievement. This study indicated coefficient alpha of 0.92.

Section E of the questionnaire consisted of items measuring the personal demographic data of the respondents such as age, sex and job tenure. The systematic sampling procedure was used by picking the 3rd name from the class list and the students were selected for the study. A pilot study was conducted using 190 bankers for the purpose of establishing reliability. During the

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main study, the instructions were duly explained to the participants. The questionnaire was given to the participants in the auditorium. A total of 348 copies of the questionnaires were administered to the participants

RESULTS

Data collected were analysed using zero order correlation summarised in Table 1 below, and hierarchical regression analysis with demographic variables, serving as control variables. The analysis was run on overall score on intent to escalate commitment as well as the score on the 3 subscales. The result in Table 2 below showed that the demographic variables which were entered in model 1 jointly accounted for variance on intent to escalate commitment ($R^2 = 0.04$; $F(3, 340) = 4.90$; $p < .01$). Only sex independently significantly predicted intent to escalate commitment ($\beta = 0.16$; $p < .01$), indicating that female participants are higher than male participants on intent to escalate commitment.

The inclusion of leadership style entered in model 2 jointly accounted for variance ($R^2 = 0.33$; $F(10, 333) = 16.30$; $p < .01$). The result specifically revealed 29% change in variance ($R^2 = 0.29$; $p < .01$). Only transactional leader behaviour independently significantly predicted intent to escalate commitment ($\beta = 0.37$; $p < .01$). Further

inclusion of personality variables entered in model 3 jointly accounted for variance ($R^2 = 0.36$; $F(12, 331) = 15.07$; $p < .01$). Only self efficacy ($\beta = -0.14$; $p < .01$) independently significantly predicted intent to escalate commitment. For the 3 subscales, result in Table 3 below revealed that the demographic variables jointly accounted for variance in the first subscale, external justification for escalation of commitment ($R^2 = 0.03$; $F(3, 340) = 3.09$; $p < .05$). Only sex independently significantly predicted external justification for escalation of commitment ($\beta = 0.11$; $p < .05$). The inclusion of leadership style entered in model 2 jointly accounted for variance ($R^2 = 0.26$; $F(10, 333) = 11.65$; $p < .01$), resulting in 23% change in variance ($R^2 = 0.23$; $p < .01$).

Among the six dimensions of the transformational leader behaviour only “provide appropriate model” independently significantly predicted external justification for escalation of commitment ($\beta = 0.19$; $p < .05$). Also, transactional leader behaviour significantly predicted external justification for escalation of commitment ($\beta = 0.38$; $p < .01$). This means that transactional leader behaviour contributes more than “provide appropriate model” in the explained variation in external justification for escalation of commitment but both contributed positively. Further inclusion of personality factors in model 3 jointly accounted for variance in external justification for escalation of commitment ($R^2 = 0.28$; $F(12/331) = 10.82$; $p < .01$). Only self- efficacy significantly predicted external justification for escalation of commitment ($\beta = -0.14$; $p < .01$). This means that the higher the self efficacy the lower the external justification for escalation of commitment.

For the second sub scale, which is ego defense for escalation of commitment, Table 3 revealed in model 1 that only sex significantly predicted ego defense for escalation of commitment ($\beta = 0.12$; $p < .05$). The inclusion of leadership style in model 2 jointly accounted for variance ($R^2 = 0.21$; $F(10/333) = 8.63$; $p < .01$). The result also revealed 19% change in variance ($R^2 = 0.19$; $p < .01$). Only transactional leader behaviour independently significantly predicted ego defense for escalation of commitment ($\beta = 0.31$; $p < .01$). Further inclusion of personality variables entered in model 3 accounted for variance ($R^2 = 0.21$; $F(12, 331) = 7.32$; $p < .01$). However, the personality variables did not independently predict ego defense for escalation of commitment.

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For the third subscale, biased belief update for escalation of commitment, Table 3 revealed that the inclusion of leadership style entered in model 2 jointly accounted for variance ($R^2 = 0.22$; $F(10, 333) = 9.29$; $p < .01$) resulting in 20% change in variance ($R^2 = 0.20$; $p < .01$). Only transactional leadership behaviour independently significantly predicted biased belief update for escalation of commitment ($\beta = 0.33$; $p < .01$). Further inclusion of personality factors entered in model 3 significantly accounted for variance ($R^2 = 0.23$; $F(12/331) = 8.09$; $p < .01$). However, only self efficacy independently significantly predicted biased belief update for escalation of commitment ($\beta = -0.10$; $p < .05$). This indicated that the higher the self efficacy the lower the biased belief update for escalation of commitment.

DISCUSSION

From the result, it could be seen that sex, transactional leader behaviour and low self efficacy significantly predicted intent to escalate commitment. Female participants exhibited intent to escalate commitment higher than male participants. The findings from the present study confirmed earlier findings by Datta and Rajagopalan (1988), who found that demographic factors played major role in persistent behaviour, escalation of commitment is a type of persistent behaviour. Other researchers like Barnes (1984) Schwenk (1988) also reported that being a male or a female influenced escalation commitment. Empirical explanations for this outcome could be found in the results on the subscales of intent to escalate commitment. Research revealed that females are more ego defensive than males because of stereotype. Stereotypes define people by the demographic and organisational groups they belong. Theoretically, according to Babalola and Olapegba (2005) and Katz (1960), ego defense makes the individual to hold back self knowledge, seeks only to express and acknowledge his/her commitments. The individual protects himself/herself from acknowledging his/her deficiencies and defends his/her self concept. These may explain why a female will escalate commitment higher than a male. Miller and Toulouse (1998) suggested that leadership style of managers could be a source of inappropriate persistence within an organisation. The study revealed that leadership style significantly accounted for variance in intent to escalate commitment. However, among the six transformational leadership behaviour dimensions examined, only one dimension, "provide appropriate model" contributed significantly in the joint influence. "Provide appropriate model" contributed significantly in a subscale of intent to escalate commitment, which is external justification. The more inclined a leader is in providing appropriate model for subordinates the higher his or her intent to escalate commitment. Conger and Kanungo (1994) have described leaders who provide appropriate model as high risk takers. Such leaders would believe that one of the ways subordinate could respect a leader is if a leader takes a decision and is able to stand by the decision without change. This might also be responsible for the result of such persistence in decision made for risky actions and Wong (2005) reported that risk taking behaviour is associated with escalation of commitment. Moreover, in the prospect theory, Kahneman and Tversky (1979) explained that people who escalate are risk takers. This confirms the description of leaders who provide appropriate model as risk takers.

The result revealed that transactional leader behaviour also contributed significantly to intent to escalate commitment and the three subscales which are external justification, ego defense and biased belief update. This might not be unconnected to transformational leadership theory by Bass (1990) that the transactional leader sustains status quo thereby maintaining persistent behavior of escalation of commitment. The result in the hypothesis further revealed that self-

efficacy independently predicted intent to escalate commitment. Specifically, it was found that the higher the self efficacy the lower the intent to escalate commitment. This is contrary to the findings of other researchers such as Whyte, Saks and Hooks (1997); Seijts, Latham and Whyte (2000) that high self-efficacy subjects have a

tendency to persist especially in economic task and therefore escalate commitment. Kisfalvi (2000) found that self-efficacy is a predictor of escalation decisions.

IMPLICATION AND RECOMMENDATION

For effective reforms in the financial institutions' perennial distress, the following shall be considered as implications of the present finding. There should be involvement of managers with transformational leader behaviour and preference for managers with high self-efficacy in decision making, to prevent and to curb intent to escalate commitment budding into escalation of commitment behaviour. Management should recruit leaders and members of staff with heterogeneous personal demography to attain broad strategic alternatives in financial decision making and disbursement of funds such as credit cooperative financing, microfinancing, mortgage loan financing and bank loan financing. It is important that psychological perspective of financial distress be taken seriously. It is recommended that government should start to use the services of psychology experts if they are sincere in the realisation and implementation of the financial reforms, interventions and MDGs. Psychological determinants of escalation are used in the present study, future research should include social and project determinants.

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Table 1: Zero-order correlation matrix showing the relationship between the independent variables and the dependent variables specifying dimensions

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Age														
2. Job Tenure	.72**													
3. Articulate Vision	-.93	-.15**												
4. Provide Appropriate Model	-.13*	-.16**	.68**											
5. Foster Acceptance of Goals	-.14**	-.13*	.65**	.77**										
6. High performance Expectation	-.09	-.11*	.58**	.69**	.74**									
7. Individual Support	-.10	-.10	.29**	.44**	.43**	.37**								
8. Intellectual Stimulation	-.13*	-.13*	.61**	.71**	.73**	.69**	.45**							
9. Transactional leadership Behaviour	-.09	-.11*	.45**	.66**	.67**	.64**	.53**	.69**						
10. Self efficacy	.10	.09	-.14**	-.32**	-.30**	-.25**	-.20**	-.32**	-.27**					
11. Need for Achievement	.02	.09	-.23**	-.25**	-.27**	-.22**	-.14**	-.23**	-.26**	.22**				
12. Biased Belief Update	-.10	-.08	.26**	.39**	.39**	.40**	.36**	.38**	.49**	-.23**	-.11*			
13. Ego Defense	-.08	-.03	.26**	.39**	.38**	.37**	.33**	.40**	.47**	-.20**	-.15**	.80**		
14. External Justification	-.10	-.11	.27**	.44**	.41**	.39**	.31**	.42**	.53**	-.29**	-.22**	.74**	.84**	
15. Intent to Escalate Commitment	-.12*	-.08	.20**	.40**	.39**	.35**	.27**	.37**	.49**	-.32**	-.23**	.60**	.61**	.67**

**P<.01

*P<.05

key: Zero-order correlation matrix in Table 1

1 = Age	9 = Transactional leadership behaviour
2 = Job tenure	10 = Self efficacy
3 = Articulate vision	11 = Need for achievement
4 = Provide appropriate model	12 = Biased belief update
5 = Foster acceptance of goals	13 = Ego defense
6 = High performance expectations	14 = External justification
7 = Individual support	15 = Intent to escalate commitment
8 = Intellectual stimulation	

Table 2: Hierarchical regression of intent to escalate Commitment on leadership style and personality factors

Variables	Model I	Model II	Model III
	Beta	Beta	Beta
Step 1:			
Control Variables			
Age	-0.12	-0.11	-0.11
Sex	0.16**	0.15**	0.14**
Job Tenure	0.01	0.08	0.09
Step 2:			
Leadership Style			
Articulate Vision		-0.09	-0.08
Provide Appropriate Model		0.14	0.11
Foster Acceptance of Goals		0.06	0.06
High Performance Expectatio		0.02	0.03
Individual Support		0.05	0.04
Intellectual Stimulation		0.04	0.02
Transactional Leader Behavior		0.37**	0.36**
Step 3:			
Personality Variables			
Self-Efficacy			-0.14**
Need for Achievement			-0.07
F	4.90**	16.30**	15.07**
R	0.20	0.57	0.59
R (square)	0.04	0.33	0.36
Change in R (Square)			
Adjusted R (Square)	0.04**	0.29**	0.03**
Df	0.03	0.31	0.33
SE	3/340	10/333	12/331
	22.91	19.38	19.08

**P<.01 *P<.05

Table 3: Hierarchical regression of 3 subscales external justification [A] ego defense [B] and biased belief update[C] on leadership style and personality factors

	A			B			C		
Variables	Model I Beta	Model II Beta	Model III Beta	Model I Beta	Model II Beta	Model III Beta	Model I Beta	Model II Beta	Model III Beta
Step 1:									
Control Variables									
Age	-0.01	-0.00	-0.01	-0.10	-0.09	-0.09	-0.06	-0.06	-0.05
Sex	0.11*	0.92	0.08	0.12*	0.11*	0.10*	0.09	0.08	0.08
Job Tenure	-0.11	0.05	-0.04	0.04	0.10	0.10	-0.05	0.01	0.01
Step 2:									
Leadership Style									
Articulate Vision		-0.10	-0.09		-0.07	-0.07		-0.08	-0.06
Provide Appropriate Model		0.19*	0.15*		0.14	0.12		0.08	0.06
Foster Acceptance of goal		0.01	-0.02		-0.01	0.02		-0.03	0.02
High Performance Expectat		-0.01	-0.00		0.04	.03			
Individual Support		-0.03	-0.04		0.04	0.03		0.10	0.10
Intellect. Stimulation		0.04	0.01		0.04	0.03		0.08	0.07
Transaction Leader Behavior		0.38**	.37**		.31**	.31**		-0.05	-0.07
								0.33**	0.36**
Step 3:									
Personality Variables									
Self-Efficacy			-.14**			-0.05			-0.10*
Need for Achievement			-0.07			-0.03			0.03
F	3.09*	11.65**	10.82**	2.39	8.63**	7.32**	2.31	9.29**	8.09**
R	0.16	0.51	0.53	0.14	0.45	0.46	0.14	0.47	0.48
R (square)	0.03	0.26	0.28	0.02	0.21	0.21	0.02	0.22	0.23
Change in R (Square)	0.03*	0.23**	0.02**	0.02	0.19**	0.00	0.02	0.20**	0.01
Adjusted R (Square)	0.02	0.24	0.26	0.01	0.18	0.18	0.01	0.20	0.20
Df	3/340	10/333	12/331	3/340	10/333	12/331	3/340	10/333	12/331
SE	14.16	12.49	12.33	8.98	8.98	8.17	5.99	5.41	5.40

**P <.01 *P<.05

