Abstract

According to some electrical contractors who are members of the Federated Electrical Contractors, electrical contractor firms may experience a lack of profitability as the firm grows in size. Under these conditions, statistical models were developed to study the firm's size-profitability relationship. Economic data were obtained from the National Bureau of Economic Research, Bureau of Economic Analysis, and Mortgage Information Service. Financial data for 1985–1996 were obtained from the FEC group. Statistical analysis reveals that small, medium, and large firms are significantly different from each other in terms of their profit rate; profitability drops as firms grow larger than $50 million in sales. An indicator variables model with a first-order autoregressive model built into the error term was developed using backward elimination regression. Data from the year 1996 were used to validate the model, which predicted 76% of the year 1996 response variable, profitability, correctly.

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