In this paper, we investigate the effects of four determinants of vendor profitability in enterprise resource planning (ERP) outsourcing projects under two contractual regimes: fixed price (FP) contracts and time and material (TM) contracts. We hypothesize that effect sizes are larger under FP contracts than under TM contracts. From a transaction cost economics perspective, we hypothesize that project uncertainty and project size are negatively associated with vendor profitability. From a knowledge-based view of the firm perspective, we hypothesize that industry knowledge and client knowledge are positively associated with vendor profitability. We tested these hypotheses on a comprehensive archival data set comprising 33,908 projects from a major vendor in the ERP software market. Our results confirm and extend previous research. Our results support the existence of two contractual regimes: effect sizes on vendor profitability are indeed much larger in FP contracts than in TM contracts.
Also in line with prior research, our results suggest negative effects of project uncertainty and project size in terms of project budget on vendor profitability and positive effects of industry knowledge on vendor profitability. Contrary to prior knowledge, we find that project size in terms of project duration is significantly positively associated with vendor profitability in FP contracts. Also contrary to what is known, we find a significant negative effect of client knowledge on vendor profitability in both contractual regimes.

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