When Does Learning Pay Off? The Relationship of Organizational Learning and ITO Vendor Profitability

Abstract:
We investigate the effect of exploitative and exploratory learning activities on ITO vendor profitability. We present a mixed-method strategy to iteratively inform our research with an unprecedented data set of both qualitative and quantitative data on projects of the ERP service vendor OMEGA. In this paper, we report on initial quantitative findings, which show that exploitative activities have a positive linear effect on vendor profitability, suggesting that OMEGA benefits from learning curve effects. In contrast, we show that exploratory activities have a negative non-linear effect on profitability, suggesting that OMEGA deliberately relaxes profitability objectives to invest into new capabilities. By combining these findings with qualitative data, we hope to describe and understand the relationship of organizational learning and vendor profitability in more detail. Advancing our understanding of this relationship is crucial to offer sound and relevant guidance to an increasingly competitive and
mature ITO industry.

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