A Disjointed Harmony: IT-Business Alignment with LOB-led IT Innovation

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A Disjointed Harmony: IT-Business Alignment with LOB-led IT Innovation

Short Paper

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Abstract

With the advent of cost efficient, easy-to-use, and easy-to-manage digital technologies, line-of-business (LOB) managers are presented with an opportunity to acquire and manage technologies for innovation. Such myopic innovations could lead to conflicts with the broader corporate IT strategy, creating a misalignment. Past literature argues that organizations must attain a high degree of business and IT alignment to enable firm performance. With a backdrop of growing prevalence of digital technologies, LOB managers initiating IT innovations and corporate compliance and security reaching highest levels of importance, this research investigates how organizations could encourage LOB-led IT innovations, while maintaining corporate business-IT alignment. Using data gathered from four cases and applying the economic theory of complementarity, this study provides early insights into complementary nature of the LOB-led IT innovations.

Keywords: IT innovation, IT Business Alignment, Complementarity, Qualitative Analysis

Introduction

In recent times, the advent of social media, mobile technologies, analytics, cloud computing and internet-of-things, also known as digital technologies, have augmented the role IT plays in innovation (Huang et al. 2017; Seder and Lokuge 2017; Walthier et al. 2018). The creative configurations enabled through digital technologies have fundamentally changed the way firms engage in business, business models and business processes (Ebel et al. 2016; Seder and Lokuge 2019). As per IDC, 51% of IT budgets will be focused on digital innovation by 2024. Moreover, digital technologies are available on subscription basis, with low initial costs, easy-to-use, easy-to-deploy easy-to-manage and encourage trialability (Lokuge et al. 2018a; Nylén and Holmström 2015). Thus, such characteristics of digital technologies encourage and inspire employees who traditionally did not participate in innovation to take an active role (Nambisan 2017). Especially, recent studies argue that digital technologies provide line-of-businesses (LOB), or middle-tier managers to contribute to innovation by devising technological solutions to respond to the stakeholder needs at their LOB (Brinker and McLellan 2014). Such digital technology empowered employee innovations oppose to the traditionally established pathway of top-down, IT department centralized innovation approach (Qian et al. 2013). While firms have always valued the participation of employees in ideating new possibilities and opportunities, factors such as complexity of the technology portfolio (Chae 2014; Seder 2006), IT knowledge of the employees (Ahmad et al. 2013; Ghazali et al. 2018; Seder et al. 2016) and misalignment of IT solutions with business requirements (Gerow et al. 2014; Lokuge et al. 2020) have prevented them taking an active contribution to organizational innovation.

Prior research highlights that innovation in a firm depends heavily on the senior manager’s ability to change and improve their business models (Andries and Debackere 2007; Parsaeemehr et al. 2013). However, this emerging phenomenon of the LOB-manager’s role in IT initiatives challenges the traditional view of firms taking directions only from the chief information officer (CIO) (or its equivalent) (Arnold et al. 2000;
Lokuge and Sedera 2019). According to Augier and Teece (2009, p. 411) “the new world we are in requires a different breed of managers, and highly skilled employees with capacities to combine and integrate” technologies. This specifically highlights the paradoxical innovation leadership of operational staff and middle managers (Lokuge and Sedera 2020). However, while the LOB managers acquire new IT and initiate innovations, they require to align with the business and strategic direction of the CIO. Considering this emerging phenomenon of LOBs initiating innovations and their responsibility to align LOB strategies with the firm level, known as corporate strategies, this research addresses the calls to investigate the emergence of changes to IT-business alignment (Hanelt et al. 2016).

While LOB-manager-led innovation is encouraging, it may yield a distinct set of issues associated with aligning their solutions with the overarching IT and business strategy of the organization. According to Luftman et al. (2013) the IT-business misalignment is one of the most vexing problems for IT executives, that precludes firms from optimizing the value of IT. The lack of close relationship between IT and business, inability of IT department to prioritize the needs, inability of IT to understand business and lack of leadership are main reasons for this misalignment. As such, the objective of this research is to understand the impact of LOB manager-led innovations on IT-business alignment of the firm. To investigate this phenomenon, we followed a qualitative approach and collected data from six projects in four case organizations.

The remainder of this paper proceeds in the following manner. Next section provides the background of the research. Then, the methodology is provided including the analysis conducted in this study. Subsequently, the study highlights the preliminary findings in the discussion section. The academic and practical contributions of this study, limitations and future work are discussed in the conclusion section.

Background

Many scholars have argued the importance of IT-business alignment (Gerow et al. 2015). As per Gerow et al. (2014, p. 1159) “cultivating alignment between business and IT strategies could increase profitability and generate a sustainable competitive advantage” in a firm. In IT-business alignment, the ‘alignment’ refers to the degree to which the needs, demands, goals, objectives, and/or structures of IT are consistent with the business (Gerow et al. 2014; Gerow et al. 2015). According to Henderson and Venkatraman (1993), firms should align ‘business strategy,’ ‘IT strategy,’ ‘business infrastructure and processes,’ and ‘IT infrastructure and processes’ to harvest the full potential of IT innovations. Further, the strategic alignment model (SAM), highlights that a firm requires to integrate these components at intellectual (external), operational (internal) and cross-domain levels to improve firm performance (Gerow et al. 2015). However, according to alignment paradox discussion, the need to align the business and IT creates inflexibility, rigidity and this leads to inability to be agile under changing environments (Lokuge and Sedera 2014a; Lokuge and Sedera 2016; Tallon 2007). For a firm to maintain IT business alignment in their initiatives, they require additional time, financial resources, formal processes, and procedures in place, which have the potential to provide a positive association between alignment and firm performance (Chen et al. 2010; Lokuge and Sedera 2014c).

In the contemporary business landscape, with the advent of digital technologies the LOB managers are also provided with the opportunity to innovate (Brinker and McLellan 2014; Lokuge and Sedera 2018). Contrary to the tradition where the CIO and the IT department initiate technological innovations, IT innovations can be initiated at the grassroots, functional, departmental level. In accordance with the IT business alignment literature, the success of IT innovations must concur with the IT business alignment (Lokuge et al. 2016). Similarly, IT innovations initiated at the LOB level must concur with this philosophy. Prior researchers have investigated alignment between business strategy and IT strategy (Chan et al. 2006; Lokuge and Sedera 2014b), business strategy and IT capabilities (Lokuge and Sedera 2017; McLaren et al. 2011) etc. Queiroz et al. (2018) discuss how the IT business alignment of multi-business organizations affect strategic business units. According to Gaba and Joseph (2013) strategic business units can be separate units and they are initiated as a diversification plan or due to globalization of business. However, LOBs are separate units such as marketing, sales, and finance which prior research consider only as supporting business units. Further, with the advent of digital technologies, LOBs also have access to a budget that allows them to acquire IT resources, manage their own IT portfolio and initiate IT innovations (Lokuge et al. 2018b). As such, it is interesting to explore how LOB-led IT innovations align with the firm level strategies and policies. To investigate the LOB initiatives and their impact on the whole firm, we introduce two key terms (derived through literature): (i) corporate alignment and (ii) LOB alignment. Following Queiroz et al. (2018), we
define corporate alignment as the fit between corporate strategy and the corporate IT portfolio. A firm is concerned with managing the shared IT portfolio among all LOBs. However, LOBs within their budget limits can also manage a separate IT portfolio which is not shared with any other unit. When they initiate IT innovations, LOBs also need to consider IT business alignment. We define the LOB alignment as the fit between the LOB strategy and the LOB IT portfolio. When LOBs initiate IT innovations, it is important for the firm/IT department to ensure that there are minimal effects to the overall business processes, which have an impact on the firm. In this context, there is a constant conflict between LOBs and the firm/IT department over IT innovations which need to be constantly managed to ensure overall IT business alignment between the firm and the LOB.

As such, in this research we investigate the alignment between corporate and LOB initiatives and its impact on firm performance. Especially, in LOB-led IT innovations it is interesting to investigate the IT business alignment of the firm (in our case, corporate alignment). The investigation of this phenomenon considers the nature of digital technologies, how such technologies could lead LOB managers to initiate IT innovations and whether there is any impact on corporate alignment. While the extant studies provide a wealth of knowledge on the prominent role of the LOB manager and the IT business alignment, less attention has been given in investigating the complementarity nature between corporate and LOB alignment.

Research Method

The objective of this study is to investigate the association between corporate and LOB alignment when LOBs are initiating IT innovations. The explorative nature of this research deemed a qualitative approach. To get an in-depth understanding of the phenomenon, a case study method was applied (Walsham 1993). The researchers engaged with various organizations for a period of 12 months investigating 1-2 IT projects in each case organization from their inception to delivery. Out of these organizations, six projects that belong to four organizations were selected as these projects were initiating IT innovation to achieve competitive advantage. To generalize the finding of the study, multiple cases that represent diverse industry sectors and ownership structures (i.e., publicly listed, and multi-national organizations) were selected. Furthermore, all the organizations fulfilled the following criteria: (i) the organization had a dedicated CIO position and a team of IT staff that managed the organization’s IT portfolio, (ii) the organization’s LOBs had access to their own technology portfolio as well as a shared IT portfolio among the other LOBs, and (iii) the case organization had initiated an IT-centric project using one or more digital technologies within the past 12 months. Each project used a mix of digital technologies for IT innovations. All projects used mobile technologies and analytics in their IT innovations. In addition, A1, B1, C1 used enterprise systems to integrate with their technology solutions. Table 1 provides details of the case participants.

<table>
<thead>
<tr>
<th>Pseudo Name</th>
<th>Industry Sector</th>
<th>National context</th>
<th>Project</th>
<th>Interview Hours</th>
<th>Designation</th>
<th># interviews</th>
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<td>CIO</td>
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<td>BI Dept. Head</td>
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<td>BI Analyst</td>
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<tr>
<td>B</td>
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<td>A2</td>
<td>3</td>
<td>CIO</td>
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<td>2</td>
<td>Sales &amp; Claims Processing Mgr.</td>
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<td>Assessing Manager</td>
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<td>3</td>
<td>Sales &amp; Claims Processing Mgr.</td>
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<tr>
<td>C</td>
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<td>Asia</td>
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<td>2</td>
<td>CIO</td>
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<td></td>
<td>3</td>
<td>Customer Analytics Lead</td>
<td>3</td>
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<tr>
<td>D</td>
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<td>Europe</td>
<td>C1</td>
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<td>6</td>
<td>Director of Logistics</td>
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</table>

Table 1: Participants’ Details
The study recruited two types of informants from each organization: (i) the CIO and (ii) the LOB managers. The data collection was conducted through 31 semi-structured interviews, totaling 45 person-hours. All the interviews followed the same case protocol. Several new probing interview questions were added based on the interviews which allowed the emergence of new themes. All the interviews were conducted face-to-face, in the English language, and were recorded and transcribed. Further, to obtain an appropriate degree of reliability, two sources of evidence such as internal documentation and general web search were used. During the interviews, when the interviewees mentioned internal documentation such as design documents, concept papers, we requested access to these documents as well. Data gathered from all these sources was used to corroborate, validate, and complement the interview data. The four organizations involved in the study were A, B, C and D. The cases selected here are referred with pseudo-names due to the confidentiality agreements signed between the organization and the researchers.

**Data Analysis**

Following the guidelines of Klein and Myers (1999), an interpretive data analysis approach was applied. As the sensitizing device for the analysis, IT business alignment model and the vast amount of literature on this topic was applied. After transcription and examination of the data, two researchers developed a comprehensive case description detailing each project and summarized the narratives in a table (Walsham 1993). The initial analysis of data involved identifying different IT that were utilized in the projects, their role, and the characteristics. Further, the researchers paid close attention to the twelve components of the IT business alignment model (Henderson and Venkatraman 1993), while remaining open to emerging ideas. The categorized data was then further examined through alignment literature and the emerging themes were then organized to describe the alignment to the overall organization processes, procedures, and strategy. During this stage, the researchers referred to further details such as company documents, websites, news and referred to literature as themes emerged. In comparing the emerging themes to existing literature, the researchers adopt existing labels, concepts, or explanations when there were commonalities. Similarly, new labels, concepts, or explanations were developed when there were opportunities to extend the existing literature. For example, as we continued our analysis, we identified complementary nature between the two alignment types through our emerged themes. Prior studies on IT business alignment discuss the alignment in the firm, however, missing from the existing literature was an understanding of how LOBs contribute to IT innovation and how they maintain IT business alignment. Further through the analysis, it was observed that the cases used different IT in different contexts and in initiating some of the IT innovations they did not seek permission from the IT department. This iterative process of analysis continued until we reached the state of theoretical saturation. Once we had the core concepts identified, we interpreted them in the context of existing literature, and we demonstrated these empirical patterns into a conceptual framework.

**Preliminary Findings**

**LOBs Initiating IT Innovations**

According to the data collected from all case organizations, when the external steering is handled by a LOB manager, LOB-led IT innovation occurs. Here the LOB manager has the latitude to acquire and manage IT resources as per the requirements of their department. The technologies selected for LOB-led IT innovations are relatively inexpensive and the return on investment is immediate. In general, the LOB-led IT innovation is limited to the physical and management boundaries of the LOB manager’s department. “We [customer mgt. dept] wanted a solution that maps accidents with weather, road maintenance, demographics mapped on to Google Maps.” Customer Mgt. Dept. Head of A1.

The case study data suggests that LOB-led IT innovation is valuable for tailoring specific IT solutions to enable innovation in a narrow, functional scope within a department. In initiating such IT innovations, the LOB manager sources IT resources from their department, rather than through the IT department. Thus, LOB-led IT innovation is less concerned about the ‘fit’ between the corporate and LOB goals. A major concern in LOB-led IT innovations is that it could lead to excessive and discretionary acquisition of many IT resources, and thus, damage the corporate IT portfolio: “Our sales department manages the mobile app they [sales & claims department] came up with, they [sales & claims department] add new functions and manages it [the mobile app]” CIO of B.
It was observed that LOBs were aggressively promoting their business needs and interests to the CIO (and more broadly to the ‘board’) through compelling business ideas that involves a combination of digital technologies. Their suggestions pertained only to their departmental considerations and boundaries. On one hand, the LOBs made specific observations of the bottlenecks and inefficiencies of the current business processes, while other suggestions marked clear ‘leaps’ of thinking, boundaries, and efficiencies. Moreover, there was a general tendency to assume that it was “okay” to develop and deploy an application within a department to improve departmental performance, “as long as they are within the departmental budget.” [LOB B2 Sales & Claims Manager]. The assumption provided the LOBs with a sense of liberation and ownership of their departmental performances. “a procurement manager had deployed a mobile app to improve our track sequencing...I got a call while I was playing soccer with my son. I had no idea about this...and of course, I never commissioned it. But, when I saw the app, it was really good.” – CIO of D.

The CIOs Trying to Take Control of IT Again

The CIOs / IT managers of the four case organizations play a substantial role in managing their growing IT portfolio. The IT leadership recognized the opportunities and risks associated with this new involvement of the LOBs in contributing to the technology decisions and made several adjustments in their management approach. In Case D, the CIO decided to include the logistics manager in the IT executive team, creating a direct conduit with the logistics department. “We have to change the way we operate. We used to give instructions from the top...we had good reasons for that. For example, IT was complicated, expensive...and sort of exclusive...not anymore, things have changed... and trust me, things will change even more in the future” – CIO of D.

Moreover, the organizations attempted to derive policy or guidelines that encourage re-use of corporate-wide technologies and platforms. This was observed as an attempt to consolidate a ‘single corporate image’ across the operational areas of marketing, sales and advertising, and IT. Similarly, purchasing of new on-demand systems and infrastructure for departmental use were curtailed to a ‘preferred vendor list’ that gets renewed periodically. “For example, we used to have multiple Facebook sites, started by different departments for various campaigns...I am sure they were all good initiatives – but, we have to have one image of the company. So, we created guidelines. They [departments] are still encouraged to actively participate in IT initiatives...but it has to be within the guidelines” – CIO of C.

The Disjointed Harmony

While there were some reservations from the IT leadership in relation to security and compliance perspectives on the involvement of the LOB managers developing LOB-specific applications, the IT leadership appreciated the operational viability of such apps. “The app for maintenance was very specific to their issues. We [IT department] would not have ever done that kind of a product...They knew the issue that they wanted to resolve, and it was perfect from its operational standpoint.” – BI Analyst of A2.

Moreover, IT management was coming to terms with the advent of this new culture, where LOB-managers are eager to contribute to the corporate IT portfolio. Such a recognition marks the departure from a highly centralized model of managing IT to a model that takes the attributes of a federated IT portfolio management model. “I have no doubt that this is the future...where we all [LOBs and IT department] develop apps, use services on-demand, and perhaps even use multiple applications for the same purpose in our organization. We are at a period of transition...and in such a period, we [IT department] have to develop ways to facilitate such distributed work amongst our departments.” – BI Dept Head of A.

Furthermore, a general displeasure was observed, initiated as an aversion towards risk, among the corporate IT regarding the initiatives of the LOBs. The IT leadership of the cases were cautious about all LOB IT initiatives, worried about IT governance, compliance, and security risks. “For them [LOBs], it is just a small gig...they do not see the larger picture. With every new application, we have to seriously think about cyber-security...hacks and security breaches are getting so sophisticated.” – CIO of C.

Discussion

The findings illustrate that LOB managers are actively seeking opportunities to increase business value for their respective departments by exploiting digital technologies. Since the IT initiatives at the LOB level are
Complementarity of LOB-led IT Innovation

derived by those with high domain knowledge, using infrastructure and technologies ‘tailor-made’ for the
department, these LOBs achieve a high degree of business – IT alignment. We also observed a strong push
from the IT departments to introduce some level of discipline within the organizations by introducing
policies and procedures that required the departments to align their IT initiatives with the corporate
strategy. So...what is the best way to foster value from IT initiatives? Is it best to allow this creativity to be
observed in the cases where the LOBs freely innovate using their localized alignment approach? Or do we
require the LOBs to align their activities fully with the corporate level? Or do we derive at a compromise
between the two extremes? In other words, how do we further characterize the ‘disjointed harmony’ that
we described earlier. Based on the economic theory of complementarity (Milgrom and Roberts 1995),
operationalized by the super-modularity function (Choi et al. 2008), we derived the following
complementary alignment types for LOB-led IT innovations. In complementarity theory, complementarity
is explained as “doing more of one thing increases the returns to doing more of another” (Milgrom and
Roberts 1995, p. 181). As such, with respect to alignment of LOB initiatives and corporate initiatives, super-
modularity states that “the sum of the increases in the value of a function, when the levels of the
complements are changed one at a time would be less than the increase in the function’s value when the
levels are changed simultaneously” (Choi et al. 2008, p. 239). In other words, the synergies between the
two conditions (i.e., LOB alignment and corporate alignment) will facilitate firm performance larger than
the increases of the sum of the increases attained through individual alignments.

Asymmetric Complementary Alignment

Asymmetric complementarity describes a condition that only one strategy has a positive incremental impact
on firm performance when it is implemented independently. In this context, if the LOB-alignment (LOB) is
attained independently to corporate IT alignment (CORP), it implies that only the LOB alignment can
impact firm performance independently, and that CORP plays only an assisting role to further enhance the
impact of LOB on firm performance. Figure 1(a) illustrates the asymmetric complementarity condition,
when LOB alignment has direct impact on firm performance and corporate business-IT alignment as a
moderator.

The asymmetrical relationship between a LOB and the corporate demonstrates that there is an imbalance
in the relationship and that one entity dominates the relationship (Johnsen and Ford 2008). Moreover, by
depicting the asymmetrical relationship between LOB and CORP alignment, we present this problem in
dyadic relationship, where the adjustments and responding lie largely with one entity, in this case, with the
corporate. As described in all cases, the CIO initially expressed his/her disappointment with the
adjustments required to facilitate the solutions invented by the LOBs. Consistent with the literature (e.g.,
Håkansson and Ford 2002; Håkansson and Snehota 1998), the CIO-led IT departments identified and
considered alternative ways of managing their current relationships with the LOBs and developed new
partnerships.

<table>
<thead>
<tr>
<th>a) Asymmetric complementary alignment</th>
<th>b) Non-Critical symmetric complementary alignment</th>
<th>c) Critical symmetric complementary alignment</th>
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</table>

Figure 1. Complementary Alignment Types

Non-critical and Critical Symmetric Complementary Alignment

In symmetrical relationships, skills and knowledge capabilities have been developed proactively by the firm,
drawing on its understanding of the requirements of all parties engaged in the relationship (Leonard-Barton
1992; Lieberman and Montgomery 1988). These capabilities will be evidenced by the firm’s commitment to
developing its contribution to ‘scientific understanding’ in its relationships (Ford 1980; Lokuge et al. 2019). As such, LOBs and corporate IT demonstrated equal emphasis on innovation, developing innovative ideas and challenging the status quo, rather than on routine and order. See Figure 1(b).

The critical symmetric complementarity alignment is attained by implementing both LOB and CORP alignment *simultaneous* to attain firm performance (see Figure 1(b)). The non-critical symmetric complementarity describes a condition in which both LOB and CORP alignment strategies contribute to firm performance when they are implemented independently. The scenario is depicted in Figure 1(c).

**Conclusion**

In the contemporary business landscape, with the advent of digital technologies, LOBs can initiate innovations. This study explored the new role of LOB managers in initiating IT innovations. LOB-led IT innovations require aligning with the corporate processes, procedures, and strategy. The fit between the LOB strategy and the LOB IT portfolio (LOB alignment) is a contribution of this paper. Using the economic theory of complementarity (Milgrom and Roberts 1995), operationalized by the super-modularity function (Choi et al. 2008), the analysis revealed that there are three types of LOB and corporate complementary alignment types that firms can consider. As such, this study extends the application of complementarity theory to IT business alignment literature and introduces three new complementary types for IT business alignment literature. Further, we identified that rather than focusing on the overall business process, firms attempted to innovate at the functional level. As such, this study introduces the functional focused nature of the IT innovations in modern firms as well.

There are several implications for practitioners. The study findings highlighted the emerging role of the LOB managers in initiating, deploying, and managing IT innovation process for sustaining competitive advantage. Furthermore, the notions of LOB alignment provide an evidence-based approach to allow companies to follow the customer’s journey, rather than focusing on business processes. This study highlights that the focus on inward-looking business processes, while necessary to receive a single view of the firm (‘keeping the lights on’), does not help firms to survive in competitive business environments. Further, the discussion on complementary alignment types highlights the IT department’s need to provide more autonomy and freedom to the LOBs in IT innovations. It further highlights the collaborative role of both CIOs and LOB managers in successfully initiating IT innovations. It is evident through the findings that the conventional leadership approach of CIO leading IT related decision making has changed, and LOB manager’s role has evolved to a more agile and responsive role.

There are several limitations that exist. First, a quantitative approach is deemed appropriate to confirm the findings. Studies that allow further variation through industry sectors and other contextual characteristics can further improve the robustness and generalizability of these findings. Second, future study can add further granularity to the complementary alignment types, i.e., conditions for certain alignment types as well as factors that could influence their successful alignment to the corporate alignment. Further research is required to see how firms balance their IT strategies between different LOBs and how harmony is achieved with corporate IT strategy.

**References**


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