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Managing service level agreements realistically (Jun/07/2007)

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Nearly everyone is familiar with Service Level Agreement (SLA). This is a covenant between two parties for the delivery of service to a certain standard and at pre-defined and agreed upon periods. Historically, SLAs were executed between a company and a service provider. There is basically no end to what can be passed through an SLA contract.

SLAs are typically executed between senior managers of both parties, or people usually delegate responsibility to someone else.

The problem with SLAs is that once the ink has dried, the provision, monitoring and management of these agreements can become the bone of contention between the people who are left to execute, monitor and manage the contract.

The need to manage SLAs is becoming a necessity if SLAs are to achieve any semblance of success. Without management, SLAs are like cars that go wildly off a highway. You need checks and balances to make sure that all concerned are running in the same direction and hopefully meeting all the obligations set forth in the contract.

Raymond Pacquet, managing vice president of infrastructure and operations at Gartner, defines SLM as an IT function that starts by defining the services that IT delivers and measuring them. IT is a service provider and SLM is about defining and measuring those services.

Leo Colborne, senior vice president of Global Customer Service at EMC makes an even more simple definition as ensuring that IT meets the service levels that the business requires to function efficiently and effectively.

From a business perspective, "SLM is a defined process that enables the IT department to deliver clear goals to support the business operations. These goals are measurable and reviewed on a regular basis to ensure the IT deliverables are aligned to business goals while supporting the business operations," says Anthony Arundell, director for delivery management for Southeast Asia at Avanade.

Core elements

Consultants like Arundell enumerate five elements that make up SLM.

1. Defining the business processes that require IT support, providing a detailed description of the business processes and functions and the IT systems that support these.
2. Defining and agreeing on the SLAs, documenting the service levels agreed upon between the business and IT departments to support the business.
3. Monitoring the service levels and measuring these against agreed base-line levels.
4. Reviewing and re-aligning the service levels with the business. The end goal is to improve the operations, lower the costs and enhance the effectiveness of IT to the business.

Looking at this from a business perspective Pacquet believes there are three basic elements that comprise SLM.

You first need to identify a service that is to be delivered. That service must then be differentiated, i.e., Gold, Silver, Bronze. Third there has to be a differentiated price for each level service.

Manufacturing analogy

IT is in the manufacturing business, it is manufacturing a set of IT services. We can then apply more than a hundred years of manufacturing management expertise to manage those services and service levels just as a real manufacturer would apply quality of service to its various levels of operations.

Failure to communicate

From a business perspective, businessmen want to deal with business partners and not with technology people. The more IT is able to behave like a business partner, delivering services at the appropriate costs and quality of service to the business, they are now able to engage in a business conversation between IT and business units where we can have those differentiated levels of service at differentiated price points.

According to Pacquet the problem today is that businesses are not able to understand the differentiated levels of service because IT is not articulating it. At the same time, IT's costs are going up because IT is assuming too many things about the business.

Senior business and IT executives need to understand the impact they have on each other in order to deliver business value. "We have come across many occasions where business leaders felt that IT was "failing them", while the IT leaders were struggling to understand how to meet the challenges faced by the business with limited IT resources," says Arundell.

"By having SLM and SLA in place we are setting a language in place for the two to communicate together and help manage levels of expectation on both sides," says Pacquet.

Ajit Nair, Director for Technology Solutions at EMC South Asia adds, "If implemented well, SLM can deliver business value in terms of achieving consistent service levels, improved client relationships and profitability."

Pacquet voices his concern that there are more fundamental problems at hand. "The core problem with service level management is the definition of service. Too often, IT people define service in the context of their organization -- a justification of their existence or how good they are -- not in the language of the user. Service must be defined in a language that the user understands not as a means to justify the existence of IT."

Tower of Babel

This is easier said than done. Today's business processes are a complex amalgamation of compartmentalized departments that run distinct services. This is matched only (and in some cases exceeded) by technology that is as dynamic as the business processes it purports to serve.

What is worst as the technology for providing the service grows in complexity so, too, does the challenge of assessing service results and performance.

"With highly complex environments, senior managers may run the risk of wasting resources on tools that may not effectively satisfy the client needs. It takes time to define a service, set metrics for benchmarking its success, and monitor those metrics to ensure compliance," said Nair.

Challenge beyond understanding

The good news is that a new breed of business managers and decision makers are coming in force. They understand what IT is trying to sell and are thus able to agree in principle with IT as to what constitutes service levels and are able to agree on the end objectives.

Pacquet says the problem actually lies in the implementation. SLMs are still implemented from the perspective of making IT look good, at the expense of the end user.

"The end user pays the bills and yet IT continues to ignore the needs of the very people it is meant to serve, IT itself needs to become more service oriented," admonishes Pacquet.

Bottom-line impact

Experts like Arundell agree that SLM is key to improving bottom line performance and productivity of the company as a whole. Many organizations depend on innovation to gain competitive advantage, reduce costs, and develop new products and services. Crucial to delivering innovation is IT enablement and focus. SLM aligns and prioritizes IT needs to the business strategy and operations.

"Successful SLM needs time not only from the business and IT units but also from the end users to define expectations, measure and maintain performance. Hence SLM might be perceived as holding back progress instead of driving better services," says Nair.

If done correctly and successfully, Gartner calculates on average a 20-35 percent improvement from an operational perspective. "This can come in the form of improvements in quality of service, lowering costs and agility. However, the mileage will vary depending on the conditions of service delivery before SLM gets implemented," say Pacquet.

Benefits versus costs

A CIO once quipped that lowering the cost of ownership itself costs a fortune because it takes an investment cycle to drive these costs down. "However, if you don't drive these costs down, you end up in this vicious cycle where quality of service is constantly going down and costs constantly going up," he says..

Pacquet cites the example of the IT organization whose response to orders to cut cost is to implement standards for its infrastructure and the services it delivers. Then the business may want to implement a non-standard solution in order for a specific project.

When IT complies and uses the non-standard equipment costs go up and complexity go up. When the business complains about the rise in cost IT can then explain that by choosing a non-standard solution the business is responsible for the higher costs.

By having SLM in place, associated costs will be clearly defined for exceptions such as non-standard solution. This gives the business unit the ability to decide whether they want to go ahead and implement the non-standard solution and incur the higher costs, or stick with standards already in place.

Without SLM such a conversation does not exist and creates the wrong assumption within the business that the non-standard costs the same. An error that can cost the company more than it bargained for.

Essential steps to a successful SLM program

Pacquet lists five essentials for a successful SLM program as follows:

1. Define a service in the language that the user understands. This is the service. This is what it means. This is what is supported and what is not supported. This is how it will be reported, communicated, charged.
2. Understand the costs at a granular level, identifying all the different cost elements involved in the delivery of a service. This will give IT the ability to also execute improvement programs aimed at reducing further these costs.
3. Price the service delivery accordingly. There will be projects in the future where the business may not see immediately value for it. So price some of the services to allow for some buffer to pay for these yet-to-be-accepted services.
4. Implement differentiated charge backs to reflect the differentiated levels of service you have on offer. Avoid offering gold service at the price of bronze. Everyone will want to get gold service at the price of bronze. So be firm on the price but never sacrifice on the quality.
5. Have regular service reviews. Reviews are a communication and marketing mechanism for IT to show to business how it is improving and helping the business. Identify through this dialogue with the business on what else is needed by the business.

A feedback loop is thus created where both business and IT are able to help each other improve.