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**Strategic Analysis Report**
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# A Guide to Successful SLA Development and Management

## Management Summary

The use of service-level agreements (SLAs) for the sole purpose of measuring results will not pass muster in today's chaotic and competitive business environment. The SLA process must go beyond mere measurement to include a methodology for the ongoing management of service levels, and for the continuous improvement of service activities, functions and processes. This *Strategic Analysis Report* provides a detailed, step-by-step guide to the two main phases of a successful SLA process: SLA development and SLA management.

Key to the development phase is the definition of service-level requirements and metrics — a process jointly undertaken by the service provider, and the service recipient's IT staff and end-user community. Together, this team identifies the key indicators that are focused on the service recipients' business needs. In this report, we provide guidance on the critical aspects of this process, including identifying business needs and drivers, defining service-level objectives (SLOs), setting target metrics with clearly defined data points, and establishing accountability for the achievement of SLOs.

These elements serve as the foundation for effective SLA management, an iterative process that begins with the completion of the development phase and continues over the life of the service relationship. Phases in this process include measuring service activity results against defined SLOs, examining measured results for problem determination and root-cause analysis, taking appropriate corrective actions, and guiding service activities to preserve the gains achieved through these corrective actions.

The benefits of the SLA development and management approach detailed in this report go beyond providing the foundation for a productive, successful outsourcing relationship. The process results will provide service recipients with the means to gain the added business benefits of improved competitiveness, measurable productivity increases and reduced costs.

## Definitions

The following definitions apply to key concepts discussed in this report:

- **Service-Level Agreement:** The contracted measures the service recipient will use to accomplish its key business objectives. This agreement sets service provider and recipient expectations, describes the products or services to be delivered, identifies contacts for end-user problems, and specifies the metrics by which the effectiveness of service activities, functions and processes will measured, examined, changed and controlled.

- **Service-Level Objectives:** The objectives that must be achieved — for each service activity, function and process — to provide the best opportunity for service recipient success.
- **Service-Level Management:** An ongoing process to maintain high quality in the provision of services — and to ensure that service-level objectives and performance meet the changing needs of the recipient's business — through continuous improvement of service activities, functions and processes.

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## 1.0 SLA Development Methodology

One of the most critical factors in the success of any outsourcing relationship is the SLA portion of the contract. SLAs are the critical foundation that the service recipient uses to manage the service provider.

Service-level metrics and targets will vary by functional service category. To ensure that these metrics and targets are properly addressed in constructing SLAs, both service recipients and service providers must focus on four key considerations:

- The separate *perspectives* on service metrics (i.e., of the provider and of the recipient) must be understood.
- The *service maturity* must be considered.
- A set of *hierarchical requirements* must be present.
- A strict *development process* must be used in constructing the SLA.

### 1.1 Perspective

In developing SLAs, it is important to understand that the metrics can be viewed three ways — from the respective perspectives of:

- The service provider
- The service recipient enterprise
- The recipient enterprise's end-user community

The service *provider* must focus on *how* the service will be delivered. From this perspective, the provider's considerations include the human and system resources required, the performance of these resources, and the standards, policies, procedures and management practices that must be followed.

The service *recipient enterprise* must consider the *delivery* of the service, particularly as a means of managing the service provider based on the delivered results. Service delivery functions that the recipient enterprise must consider include operational and support services, service contingency planning and administrative support.

Both of these first two views are important in the management of service quality, and the two distinct perspectives must be in synchrony to be effective. However, a third party provides the ultimate perspective: the *end-user community*. To be meaningful, service-level requirements and definitions must be stated in terms of the actual people who will be receiving the service within the enterprise. Therefore, SLAs must be created to address the end-user perspective of service quality.

### 1.2 Service Maturity

Because service-level definitions depend, in part, on the maturity of the service being delivered, understanding this maturity is an important factor in developing SLAs. Service maturity refers to the point a particular type of service has reached in its life cycle.

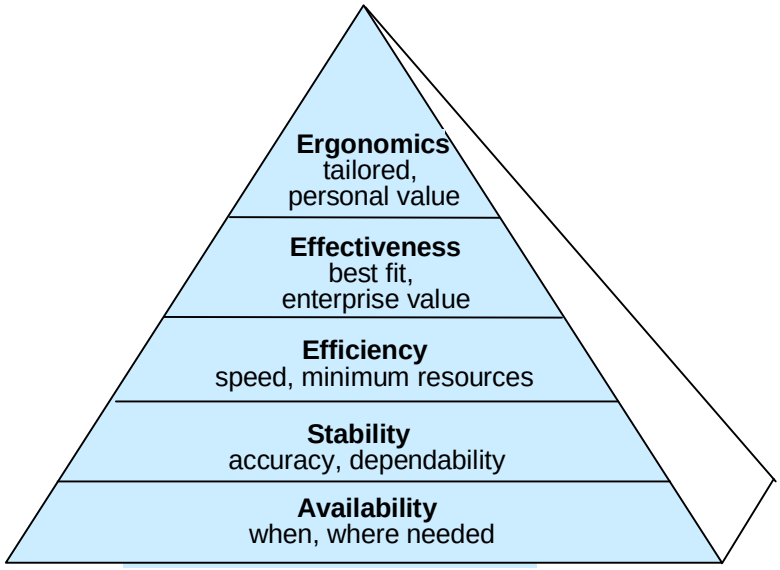
In general, service levels must be considered only for the types of service for which standard operating practices are likely to result in an unacceptable number of definable failures along key user-defined measurements. When a type of service has matured to the point where quality problems are no longer a limiting factor in its delivery or consumption, "service recipient view" service-level measurements are no

longer required — although "service provider view" analyses are probably still important to ensure high-quality service.

The provision of electricity, for example, is a type of service that has reached this level of maturity. In most developed nations, the quality and "cleanliness" of the power supplied is not a major problem and, for the most part, is not given a second thought by the service recipients.

### 1.3 Hierarchical Requirements

Service maturity is a result of satisfying various tiers of the service-level hierarchy of needs (see Figure 1). For example, unless a system is available when and where it is needed, the issue of response time is irrelevant. *Availability*, therefore, must be the primary tier at the foundation of the needs hierarchy.




Source: Gartner Research

***Figure 1. Service-Level Hierarchy of Needs***

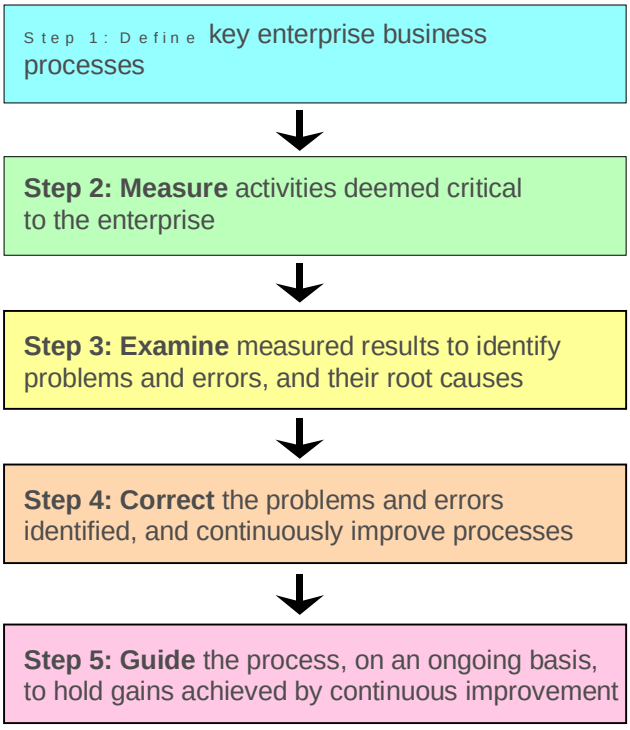
Having satisfied the basic need of availability, the next step is *stability*. Needs at this level are addressed by the quality of the service (i.e., whether it accurate and dependable). From there, needs move to the level of *efficiency,* where speed and resource requirements (e.g., response times) are considered.

The next level, *effectiveness,* is a category of needs for which "best fit" and service recipient values are the major drivers. This is the ideal level to which most service recipients would like to evolve their SLAs. However, setting metrics that are directly related to business values is a complicated task due to the lack of tools and processes available to measure and track quantitative results.

*Ergonomics*, at the peak of the needs hierarchy, represent the level at which service is tailored to individual and personal needs. In general, SLAs would not reach this level unless they were tailored to the individual requirements of top executives or specific "superusers" (at which point, anything may be possible if the client is willing to pay).

### 1.4 Development Process

The SLA process must go beyond measurement to ensure success. Therefore, a five-step development process will help service recipients select their best SLAs (see Figure 2). Note that the latter steps in this process — measure, examine, correct and guide — mirror the four phases of the SLA management process discussed later in this report (see Section 5.2 for detailed descriptions of these phases).




Source: Gartner Research

***Figure 2. SLA Development Process***

Gartner recommends that SLAs be reviewed on at least an annual basis to ensure that the content is still valid for the business and consistent with technical capabilities. Such periodic reviews should be specified in the outsourcing contract.

## 2.0 Defining Service Levels

The definition of service levels in an SLA poses a number of challenges — particularly when these definitions address the quality attributes of services consumed by a large, diverse and distributed service recipient base. Critical factors that service recipients and providers must review and consider during the definition process include:

- The overall support view
- Availability
- Responsiveness
- Quality
- Communication
- Commoditization

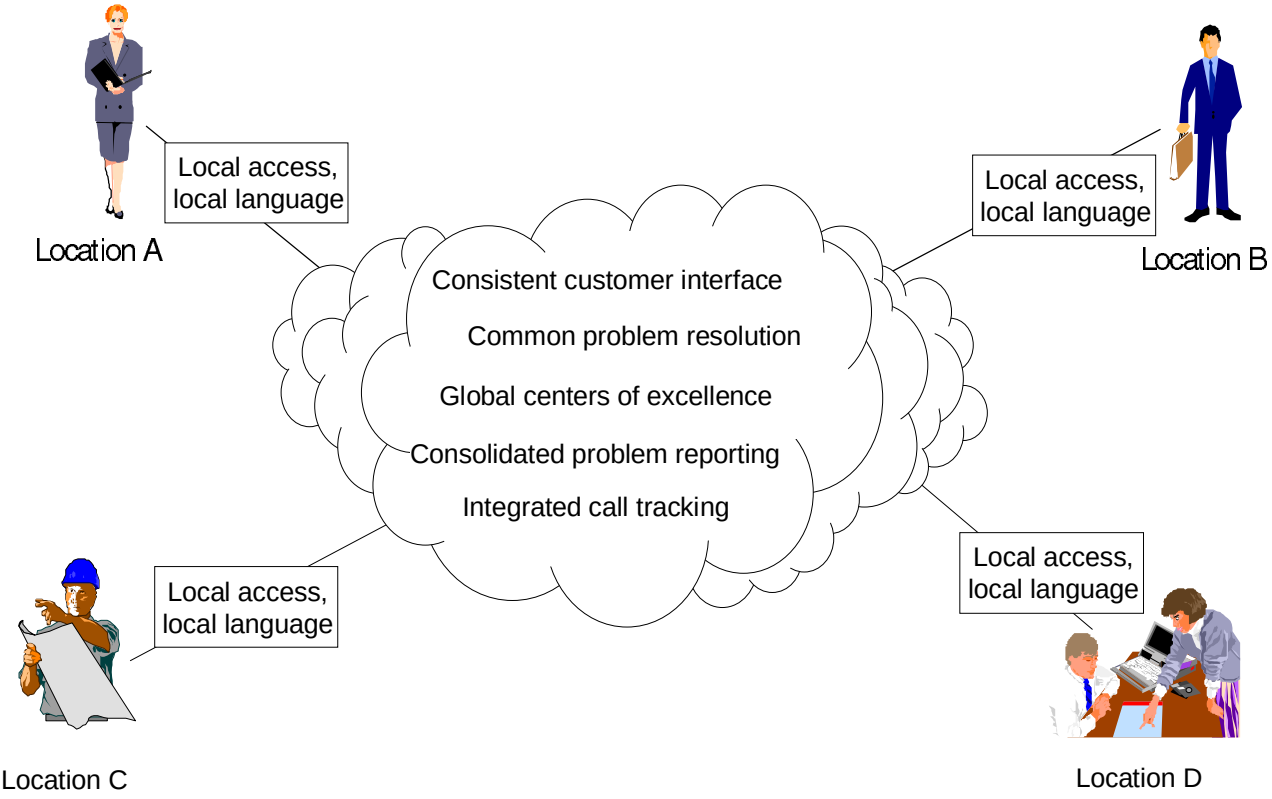
### 2.1 Overall Support View

Determining the degree to which support will be locally customized — as opposed to globally standardized — is a key requirement. This is a particularly important issue for global service recipients that face concerns related to local languages and customs, as well as scheduling and other operational differences.

For example, service recipients may have multiple international locations that the provider must serve, in which case, a number of common concerns must be addressed beyond the local language. These issues include:

- A consistent customer interface
- Problem resolution procedures
- Global centers of excellence
- Consolidated problem reporting
- Site access
- Integrated call-tracking requirements

These issues must be reviewed and considered when structuring global SLAs to support multiple locations (see Figure 3).




Source: Gartner Research

***Figure 3. Providing Service to Multiple Locations***

## 2.2 Availability

On the surface, availability appears to be relatively straightforward— either something is available or it is not, so how could this be hard to define? The reality, however, is not that simple. Key challenges posed in defining availability include:

- **Locality:** Availability metrics are typically stated in purely temporal terms (addressing "when"), leaving the locality ("where") to be assumed. If a system is available when it is required, but not *where* it is

required (e.g., to a traveling employee using a mobile device), should it be considered to be "available" by definition?

- **Partial Availability:** Many availability failures are partial in nature (e.g., when a system is unavailable to some users due to a limited network outage). In such cases, should the system be rated as unavailable or partially unavailable? If the latter is the case, what will be the basis for proration — the number of devices affected, of users potentially affected, of active users affected during the disruption, or of network gateways affected?
- **Multiplicity:** Sophisticated applications are often made up of several component applications, which may run on different platforms. If one of these component applications is unavailable, is the overall grouped application considered to be unavailable or partially unavailable? If the answer is "partially available," is proration based on the number of component applications, the value-based rating of each component application, or the number of times each component application is invoked by the grouped application?
- **Transfiguration:** At some point, a failure along one quality dimension will be perceived as a failure along another quality dimension. For example, if response time becomes unacceptably slow, this may be perceived as a lack of availability. Should such a failure be rated based on empirical measurements (i.e., as a response time problem) or user perception (i.e., as an availability problem)?

### 2.3 Responsiveness

Compared to availability, responsiveness is fairly simple to define, with fewer factors to consider. By definition, the term "responsiveness" commonly refers to the amount of time it takes to complete an activity, function or process (e.g., "less than one second" for "end-to-end response time"), or the percentage of the time the activity, function or process is completed within a defined period (e.g., "99 percent of the time").

### 2.4 Quality

Like responsiveness, quality is straightforward and therefore relatively easy to define. Quality refers to the number of times an activity, function or process is completed correctly vs. incorrectly, and completed within the responsiveness requirements. Quality can be, and often is, considered in tandem with responsiveness in defining service levels (e.g., "hardware break fix was completed correctly on first visit, with no revisit required within 30 days, 95 percent of the time").

### 2.5 Communication

Communication is critical to each service-level requirement. In defining service levels, this term generally refers to the operational communication that takes place during regularly scheduled activity, function and process review meetings. It also refers to the communication that takes place as part of defined processes such as escalation, as illustrated in the following example:

- "*Escalation Activity:* To program manager, or his designee, within 30 minutes of failure, and to regional manager within four hours if failure remains unresolved or no work-around has been identified. *Escalation Management:* To program manager after one reporting month out of compliance, and to regional manager after two months out of compliance."

### 2.6 Commoditization

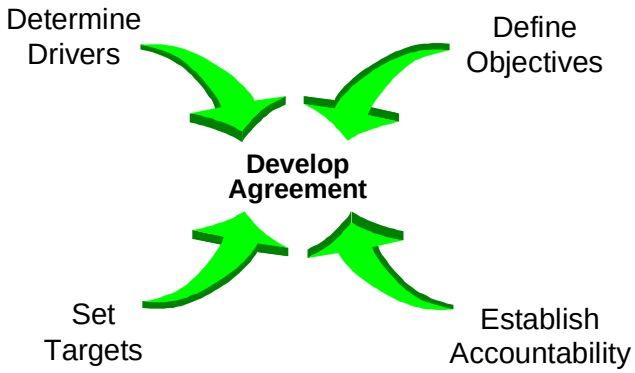
Service commoditization is forcing a move toward standardized SLAs for certain service activities — especially high-volume, mundane activities that require relatively low technical skills (e.g., routine break

fixes and "moves, adds and changes"). This commoditization will not apply to all business needs, of course, as enterprises will continue to require differentiation. However, service recipients and service providers will be forced by business and market pressures to abandon customization or differentiation that is not clearly driven and justified by a business advantage.

### 3.0 Developing SLAs: Four Factors

Many factors play an important role in determining how the service recipient and service provider will agree to jointly manage the quality of service. A number of these influences can be examined independently of the others.

Four factors in particular — determining drivers, defining objectives, setting target metrics and establishing accountability — are key elements that must be examined and considered in the development of successful SLAs (see Figure 4).




Source: Gartner Research

***Figure 4. Key Factors in SLA Development***

### 3.1 Determine Drivers

The major *drivers* motivating the service recipient's need for specific levels of service must be defined, reviewed and approved by the recipient. In the process, three general areas should be considered: *internal business drivers, external industry drivers* and the *general expectations* of the service recipient.

- **Internal Business Drivers:** Today, best practice dictates establishing SLAs that meet business requirements. To determine business needs, a service recipient can either examine core business functions or identify the key applications. These business functions and applications should be selected on the basis of whether they are mission- or process-critical, and their relative importance to the success of the business. Another way to isolate business drivers is to examine and prioritize key business processes. This can be done by examining the business impact — and the impact of failure — associated with each process (often referred to as a "cost of quality analysis"). Another prioritization approach is to study the significant costs associated with each process, and to use that criterion to isolate business drivers.

- **External Industry Drivers:** External drivers within the recipient's industry often dictate the need for competitive services. Such drivers can be determined by examining industry best-of-breed metrics. These can be established either from true peer comparisons (which require benchmark analysis) or through "reasonability checks" (generally derived from industry averages).

- **General Expectations:** The recipient's general expectations of the service offering represent another important driver category. Such expectations may arise, for example, from the need to meet standard

operating procedures, or from personal standards (e.g., the recipient wishes to have state-of-the-art services). Such expectations play an important role in driving service-level requirements, and must be factored into the development of the SLA.

### 3.2 Define Objectives

As defined earlier in this report, SLOs are the objectives that must be achieved — for each activity, function and process — to provide the best opportunity for service recipient success. To determine their key SLOs, recipients must begin by defining what they want to measure, and why.

In determining *what* to measure, service recipients must consider their key business drivers, the processes necessary to ensure that key business driver goals are met, and how the success in meeting these goals can be measured. Examining *why* to measure involves determining whether the measurement activity selected achieves results that help to improve productivity, and to control or reduce costs. Passing "the why test" requires checking "what to measure" against service recipient goals, and determining whether process changes can help reach these goals.

The following three-step process should be used to provide a clearly defined set of SLOs:

**Step 1 — What to Look For:** The service recipient establishes SLOs by asking the following questions:

- Who are the internal customers? Identify business units within the recipient enterprise that could or should have SLO requirements.
- Where do they fit within the recipient enterprise? Prioritize business units in a hierarchical fashion. Key indicators for this part of the process are the relative level of importance of each business unit within the enterprise.
- What are their requirements? Determine requirements for each business unit. Be sure to use any data collected from the business units in making this determination.

**Step 2 — What to Ask:** The next step is to validate that the collected requirements are critical the recipient enterprise, and thereby merit measurement as SLOs. In reviewing the requirements, the following questions should be asked:

- Is the requirement compelling to the business?
- Is the requirement addressing the right question?
- Is the problem addressed by the requirement pervasive or a "one time" issue?
- Do processes exist that attempt to control or fix the problem, and have these processes been successful?
- Does the requirement cross business unit boundaries?
- What will the service recipient do with the results?
- Does the service recipient have a goal, and is this goal attainable?
- What are the factors or milestones that determine success?

**Step 3 — What to Do With the Results:** Once the functions to be measured as SLOs are determined by asking and answering the questions in Step 2, service recipients should implement an action plan. This entails:

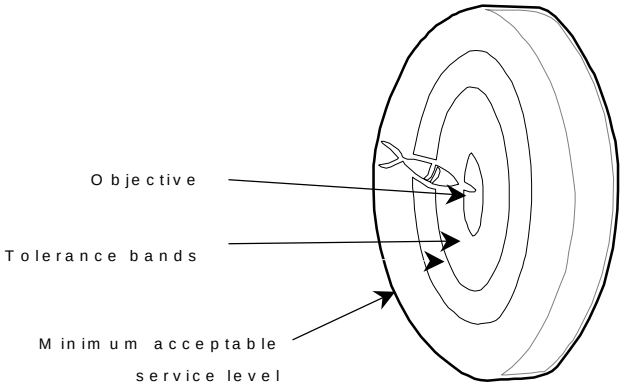
- Creating a flowchart that defines the process
- Validating the flowchart through business unit interviews
- Determining whether the process is being followed
- Identifying alternate process routes, if required

It is important to communicate — to all business units in the recipient enterprise — which SLOs will be used in the SLA process, which will not be used, and why.

Finally, the SLOs that are most important to the service recipient should be agreed on across the recipient enterprise. The result will be a clearly defined and effective set of SLOs, the first and most important building block of a successful SLA.

### 3.3 Set Target Metrics

Target metrics must be objective, which means that they must be customer-driven to meet business requirements. They should be set based on specific bands of tolerance (see Figure 5).




Source: Gartner Research

***Figure 5. Service-Level Targets***

The service-level targets can be envisioned as an objective for “standard” expected service quality, with bands of accepted deviation that are associated with increasing penalties. A minimum acceptable service level must also be set to define the point of significant failure.

### 3.4 Define Accountability

In defining accountability, the overall goals must be examined. This can be accomplished by answering three questions:

- Does the service provider consistently adhere to high quality standards?
- Is the provider motivated to fix quality problems as they arise?
- Is the recipient compensated for the business impact of service problems?

Incentives may be offered as a key aspect of accountability. These should be paid only for extraordinary performance, with the amounts driven by the value added to the business by the service provider. These amounts must be high enough to motivate the provider, but lower than the actual financial value provided by the service.

Penalties — the inverse and balancing factor to incentives — are also a key aspect of accountability. Penalty clauses must be included in all agreements. The service recipient should have the right to exercise these penalties for any defined failures; however, the goal of both parties should be that this will not become necessary, as the collection of penalties is a sign of unsatisfactory performance.

### 4.0 SLA Content

Consistent content in SLAs is critical in making outsourcing relationships work. The SLA must also include data points that ensure the SLA can later be used to follow the four steps the SLA management process (see Section 5.2):

- Measure activity results against defined SLAs
- Examine the measured results for problem determination and root-cause analysis
- Take appropriate corrective action
- Continuously guide service activities to maintain the gains achieved by the corrective actions, and to link these activities to the strategic and tactical concerns of the recipient enterprise

### 4.1 Service-Level Data Points

Service recipients that enter outsourcing relationships with SLAs that do not include consistent, clearly defined data points will have trouble managing their service levels. This lack of data points is likely to lead to poor customer satisfaction levels which, in turn, will lead to renegotiation or cancellation of the contract. Gartner recommends that service recipients to avoid risk by ensuring that the SLA includes a clear and concise statement for each of its data points. Gartner research shows that the benefits of this approach include better management of the service provider, measurable productivity increases and reduced costs.

The following data points define each service level measured within the SLA:

- **Category Definition:** The key business function, process or procedure that is being measured, reported and continuously improved.
- **Time Frame (Availability):** The dates and times during which the defined service level is to be measured, usually indicating the inclusion or exclusion of recognized national holidays.
- **Assumptions/Responsibilities:** Statement of specific requirements that must be met by the provider and recipient to remain in compliance with the SLA.
- **Service-Level Metric:** Measurement of required work performed by the service provider, commonly expressed in percentage terms.
- **Measurement Formula:** Description of the mathematical formula used to measure service.
- **Measurement Interval/Reporting Period:** Period of measurement that determines whether target service levels have been exceeded, met or not met.
- **Data Sources:** Description of the type and origin of data that will be collected, where and how it will be stored, and who will be responsible for it.
- **Communication:** Specifies who is notified, and when, if provider is out of compliance. This includes “Escalation Activity” for day-to-day out-of-compliance situations, and “Escalation Management” for cases where compliance was not achieved over the course of the defined measurement period.

- **Contractual Exceptions, Penalties and Rewards:** Describes any contractual exceptions, rewards and penalties included in the contract.
- **Reward/Penalty Formula:** Description of the mathematical formula used for rewards and penalties.
- **Desired Behavior:** The desired service provider behavior that will result from meeting the defined service levels. This should be established by the service recipient in its review of which service levels are appropriate.

### 4.2 Clear Data Points: An SLA Example

The data point example below comes from Gartner's "SLA 100," a compilation of the most common SLAs that Gartner clients have identified to us through measurement and consulting engagements, and through discussions with Gartner analysts. Service recipients and providers are cautioned that the data below is provided as an example only, and that the actual data included in their own SLAs should be unique to reflect the specific requirements of each engagement.

**Data Point Example**

- **Category Definition:** End-to-end response time
- **Time Frame (Availability):** Server and network services are to be available 24 hours per day, Sunday through Saturday, excluding client-defined national holidays.
- **Quality:** Response errors in less than 1 percent of connections.
- **Responsiveness:** Less than one second.
- **Communication:** *Escalation Activity* — To program manager, or his designee, within 30 minutes of failure; to regional manager within four hours if failure remains unresolved or no work-around had been identified. *Escalation Management* — To program manager after one reporting month out of compliance; to regional manager after two months out of compliance.
- **Assumptions/Responsibilities:** The server is owned by the service recipient, and located on recipient's site. The recipient will provide access to server systems per service provider requirements. The service provider will meet all enterprise security requirements for access to server systems. *Intranet* — Maintain response time of less than one second. *Internet* — Maintain response time of less than three seconds.
- **Measurement Formula**: Response time = < 1 second (with "response time" defined as the time it takes for all characters to appear on an end-user's screen following the initial inquiry).
- **Measurement Interval and Reporting Period:** *Measurement Interval* — Daily. *Reporting Period* — Weekly (cumulative).
- **Data Sources:** A tool supplied by the vendor will automatically record "date and time stamp" information for each activity within a process.
- **Escalation Activity:** See *Communication*.
- **Escalation Management:** See *Communication.*
- **Contractual Exceptions, Penalties and Rewards:** The service level is not applicable if the recipient enterprise does not implement and continue a 90-day rolling forecast of all standard products, or if the manufacturer of such products cannot deliver them to the service provider. A penalty will be assessed

after the second consecutive reporting month that does not equal or exceed the required service-level objective. This penalty will equal 10 percent of service charges for the next measured period in which the required service level was not equaled or exceeded. No rewards are offered.

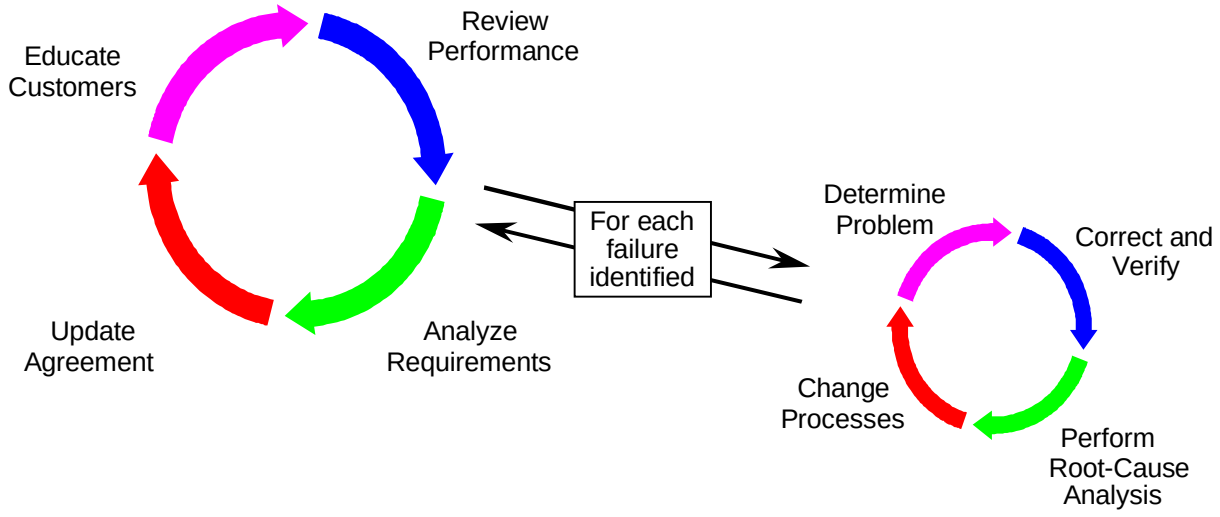
- **Penalty Formula:** Penalty = 10 percent of amount due.
- **Desired Behavior:** The service provider is to maintain the required personnel and replacement hardware to effect required fixes, thereby maintaining a high level of availability and system responsiveness.

### 5.0 SLA Management

SLA management must be viewed as an integral component of the service recipient/provider relationship management process. As defined earlier in this report, SLA management is an ongoing process to maintain high quality in the provision of services — and to ensure that service-level goals and performance meet the changing needs of the recipient's business — through the continuous improvement of service activities, functions and processes.

### 5.1 Account Management

A robust account management process (see Figure 5) contributes to successful service level management. Account management responsibilities are handled at various levels within the service provider and recipient organizations. At the highest level are the service recipient's technical steering committee and the service provider's board of directors, whose primary responsibility is guiding the overall technology and business strategy. The service provider's CIO and business unit leaders are concerned with account strategy. The service recipient's vendor manager and the service provider's account manager are responsible for relationship management, and for service operations as they apply to the user community and the service recipient staff. All of these functions must work together to manage service levels.




Source: Gartner Research

***Figure 6. Account Management Process***

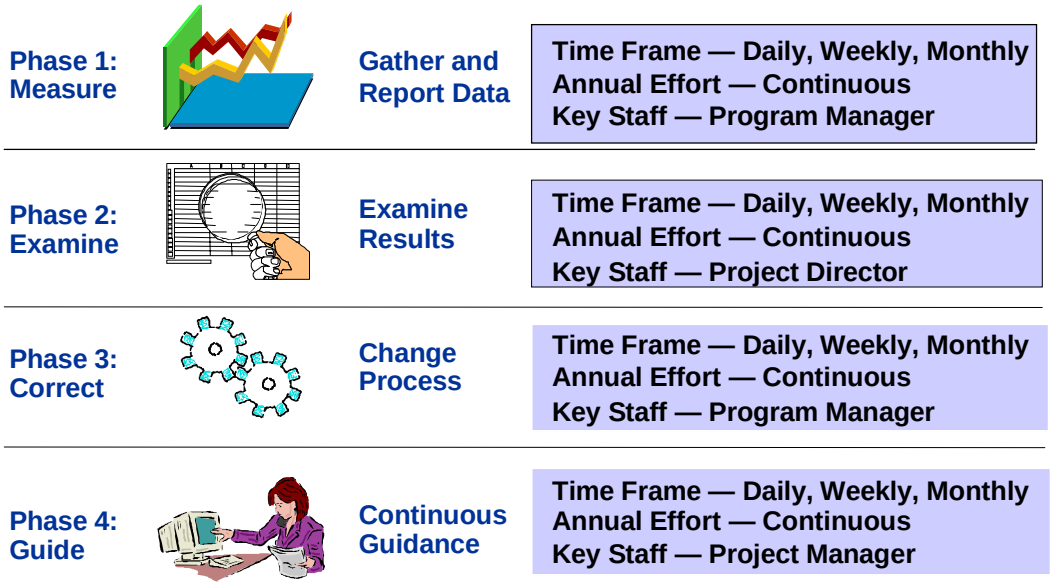
In today's increasingly networked world, it is almost impossible for service recipients to manage multiple providers, and multiple SLAs, within a given function. For a service recipient providing online shopping, for example, the management of availability and response time is a critical task, and requires active monitoring, continual prediction and rapid problem resolution. When more than one service provider is

involved, a key question arises: Who will take responsibility for this management across the multiple providers? One answer is provided by an emerging category service providers that will assume overall responsibility for managing service levels among multiple providers. Service recipients must recognize this trend, and be prepared to assign responsibility and authority to a single provider that is capable of handling such multi-service-provider environments.

### 5.2 The SLA Management Process

The SLA process must go beyond measurement to ensure success. The following four-phase methodology will help ensure that service recipients manage SLAs effectively:

- *Measure* service activity results against defined service levels
- *Examine* measured results for problem determination and root-cause analysis
- Take appropriate action to *correct* failed activities, functions or processes
- Continuously *guide* service activities to maintain the gains achieved through corrective actions




Source: Gartner Research

***Figure 7. The SLA Management Process***

#### 5.2.1 Phase 1: Measure

This phase in the SLA management process eliminates guesswork and assumptions, and focuses on the how the process is working. Steps in this phase include:

- Gathering relative statistical information, including:
  - Collected data
  - Input and process measurements
  - Output results
- Evaluating this information for results that determine:
  - Effectiveness
  - Efficiency

- Reporting results:
  - Using graphs, charts and scorecards
  - Including detail and summary information
  - Distributing to appropriate service recipient and provider personnel

Variations should be viewed as potential problem areas. Common and unique causes will become apparent and will be used in the "examine" phase.

### 5.2.2 Phase 2: Examine

In this phase, service providers and recipients examine the measured results to identify problems and opportunities for improvement. The vendor generally leads this examination, with users participating in the process. Service recipients should independently audit and examine the results to ensure process integrity. Displaying measured results in various forms, such as charts, graphs and diagrams, will aid in the process by enabling visualization of variations in actual results vs. stated goals.

Steps in this phase include:

- Examining data by:
  - Analyzing and interpreting data
  - Communicating results using charts, graphs and scorecards
  - Focusing on the common or "critical few" problems
- Reviewing results to identify:
  - Root causes
  - Cause-and-effect relationships
- Using root-cause analysis results to:
  - Quantify the opportunity for improvement
  - Identify potential process improvements

Successful completion of this process will yield high-quality measured results, root-cause identification, and a path forward to process improvement and enhanced SLA compliance. The results of this phase — together with those of the "define" step of the SLA development process (see Section 2.0) and the "measure" phase described above — provide the first three building blocks of a successful SLA.

### 5.2.3 Phase 3: Correct

In this phase, the results of the "measure" and "examine" phases are used as the basis to correct flawed activities, functions and processes. This is accomplished by generating, selecting, designing, testing and implementing improvements.

This improvement is the responsibility of both service recipients and service providers. *Recipients* should take corrective actions to ensure that the provider has ample opportunity to meet the required service levels (e.g., by having a system readily available for the vendor's customer engineer), or to improve an internal process or procedure. *Providers* should take corrective action when any transaction is out of SLA

compliance (e.g., the vendor did not return a broken unit to working order within the defined service-level time period), or to improve a vendor process or procedure. The service provider generally documents and implements the corrective action, and reports the correction to all participating parties.

Correcting an activity, function or process involves the following steps:

- Creating a solution:
  - Identify alternatives
  - Develop solution criteria and separate by “musts” and “wants”
  - Evaluate and validate the solution
  - Complete a cost/benefit summary
  - Develop a solution statement that defines how best to achieve the objective
- Documenting the solution:
  - Update processes and procedures
  - Review other processes and procedures for unintended impacts
  - Develop, test and document new processes and procedures
- Implementing the solution:
  - Develop a technical implementation plan
  - Develop a solution communication plan
  - Implement corrective actions

### 5.2.4 Phase 4: Guide

Following the implementation of corrective actions, the service provider and recipient must work together to continuously guide the activity, function or process. This helps to ensure compliance and maintain the gains achieved through the correction process. The “guide” phase includes the following steps:

- Monitor process changes at least every 90 days to:
  - Ensure that the process is stable and that anticipated results have been achieved
  - Identify opportunities for future improvement
- Document process changes, ensuring that this documentation is:
  - Formal and written
  - Distributed to the appropriate parties
  - Marketed to the end-user community (e.g., to demonstrate that the enterprise has “listened to the voice of the customer”)

## 5.3 A Continuous Process and Mind Set

The four-step process described above should be “institutionalized” through a problem-solving organizational structure that encourages a pervasive mind set of continuous improvement. Maintaining

gains is critical to controlling, and ultimately reducing, costs over time. The entire process should be repeated in a continuous, iterative cycle, which may generate new service activity requirements or changes to existing ones.

Service-level management is a process wherein both providers and recipients must continually educate themselves, review performance, analyze requirements and update SLAs. Key to the process is continuous problem resolution, wherein providers and recipients work together to identify problems, verify and correct them, perform root-cause analysis, and make process modifications to prevent them from recurring. Recipients and providers that build this flexibility and change into their agreements will have the best opportunity for successful relationships.

### 6.0 Summary

Enterprises that engage in outsourcing relationships with SLAs that do not include key data points and associated definitions will have trouble managing the levels of service they receive — particularly when service fails to meet minimum requirements. In addition, without following an effective process methodology for ongoing SLA management, recipients will have trouble determining the success or failure of the overall outsourcing engagement. The result, in both cases, will be poor customer satisfaction levels, which will ultimately lead to renegotiation or cancellation of the contract.

Before signing an outsourcing contract, service recipients must ensure that each service level is precisely defined, including a clear and concise statement for each data point. This will provide the foundation for effectively managing service levels throughout the four phases of the SLA management process. In addition to a long-lasting, satisfying relationship with the service provider, recipients stand to gain the benefits of improved business competitiveness, measurable productivity increases and reduced costs.

### 6.1 Critical Success Factors

The lessons learned from failed outsourcing deals highlight the following key factors that are critical to successful service relationships:

- Failed SLAs are generally based on what is *easily* measured, rather than on what *should* be measured.
- SLAs that lack buy-in from end users — either due to lack of their involvement, or lack of relevance to their needs — are likely to fail.
- The ultimate measure of service-level performance is customer perception and satisfaction.
- The traditional operational quality metrics (e.g., availability and response time) are still the most important quality characteristics to measure.
- Changing and increasingly complex technology interfaces pose challenges to defining service-level metrics (e.g., response time), and these challenges must be recognized and addressed early in the definition process.

### 6.2 Best Practices

- Use service-level definitions that:
  - Are business based.
  - Can be defined, measured, examined, corrected and continuously guided to maintain gains achieved.
  - Are both meaningful to end users and relevant to their needs.

- Ensure that provider-side definitions and metrics — which both define the roles and responsibilities of the various parties and aid in managing overall service delivery — support end-to-end service-level measurement.
- Completely and unambiguously define all the ways in which service-level metrics will be calculated and penalties or incentives will be applied. Include the data sources and calculation formulas to be used, and precise definitions of terms. (Note that even a “commonly understood” term like “business day” may vary in its meaning from one location to another.)
- Keep metrics to the minimum needed to accurately monitor and manage each unique IT service.
- Align pricing with service-level priority differentials, and with the service provider’s achievement of service-level targets.
- Use exception reporting on a daily basis to trigger problem resolution practices, and use summary (i.e., “dashboard”) reporting on a monthly basis to report overall performance. Supporting detail should be made available on an as-needed basis.
- Service-level problem reports should include:
  - A description of the problem as reported.
  - Steps taken in response to the initial problem report.
  - Identification of the underlying problem, if known, and the steps to be taken to resolve it.