

Service with a smile

A service level agreement or SLA is an agreement between the provider of a service and its users which quantifies the minimum quality of service which meets business needs. It is an important tool for procurement professionals if developed and used effectively. This knowledge byte explores the advantages and disadvantages of using SLA's and also suggests an approach to developing SLA's

“the next process should add value to the one that went before” - Kaoru Ishikawa

One of the hardest decisions for end-users and procurement professionals alike is to decide what they mean by the word quality. This is particularly difficult when considering a service. The affect of over-specifying or under-specifying could lead to additional costs, delays in service provision and relationship breakdowns to name a few consequences of getting it wrong.

With this in mind, the development of a service level agreement (SLA) became a critical tool when engaging with a service provider. The first SLAs were developed to meet the criticism that Electronic Data Processing systems were often developed by centrally based specialist who gave insufficient consideration to the needs of the users. The aim of such early SLAs was to make EDP provision 'user friendly'. A common message given as a criticism towards buyers in a centralised structure.

The Japanese developed this concept further as part of their drive for quality, but they used it whilst talking about the internal market. Their concept was an easy one; the benefits of a service received by an internal customer from an internal supplier as well as the costs of delivering the service should be capable of being quantified in monetary terms. Many private and public sector organisations have adopted the approach of internal cross charging particularly support services such as IT services, legal services, human resources and purchasing.

One definition for an SLA is that of Hiles'
'An agreement between the provider of a service and its users which quantifies the minimum quality of service which meets business needs.

An alternative definition is:
A negotiated agreement, agreed between the parties which quantifies the minimum level of service and sets out costs and criteria for deliver².

Pantry and Griffiths³ point out that this definition sets out the essence of an SLA in four statements

- *The SLA is a negotiated agreement.* The customer(s) have set out their requirements and in return the supplier has said what is on offer. This reverses the usual situation in which the service provider has stated what is available and the customer has been encouraged to accept it.
- *The agreement is for a minimum level of service.* Different levels of service (and costs) may apply to different customers and different levels for different services to the same customer are not precluded.
- *The SLA states what the provider will supply* (or what, if necessary, can be supplied) and what the customer has agreed to accept from a range of offers.
- *SLAs normally include a schedule of costs and resource requirements.*

The whole premise of mutually agreeing service standards between the buyer and supplier allows the buyer to monitor and control the service received by the supplier. It also enables the supplier to monitor buyer satisfaction. The SLA becomes a great relationship management tool.

To ensure that the service levels are acceptable by both the buyer and the supplier, service levels must be:

- Reasonable, since unnecessarily high service levels may entail higher charges and focus the attention of service providers on those aspects of service that they are being monitored with possible reduced attention to those that are not.
- Prioritised by the buyer, i.e. buyers should identify the aspects of a required service that are important and prioritise them in order along an agreed scale. For example, (1) "critical"; (2) "major"; (3) "urgent"; (4) "important" and (5) "minor". A three point scale might be criteria that are (1) "most important"; (2) "important"; (3) "less important".
- Easily monitored, this means avoiding the specification of levels that are subjective, intangible or incapable of quantification; e.g. statements such as "the provider will furnish a high level of service" are meaningless.
- Readily understood by the staffs of both customers and providers.

In summary, an SLA is a negotiated agreement designed to create a common understanding about services, priorities and responsibilities

Parasuraman, Zeithaml and Berry originally specified ten dimensions of service quality⁴.

- Tangibles – Physical facilities, equipment, staff etc
- Reliability – Ability to perform the service dependably and accurately
- Responsiveness – Willingness to help and provide service
- Competence – Possession of skills to perform
- Courtesy – Politeness, respect, consideration etc

¹ Institute of Management Checklist 007 Implementing a Service Level Agreement

² Office of Government Purchasing, Services Level Agreements, CUP Guidance Note No 44 H. M. Treasury (out of print)

³ Pantry S. and Griffiths P., The Complete Guide to Preparing and Implementing of Service Level Agreements

⁴ Quoted in Dickens P. as [3] above Ch.1 p. 22 (adapted)

- Creditability – Trustworthiness, honesty,
- Security – Freedom from danger and risk
- Access – approachability and ease of contact
- Communication – keeping customers informed in language they understand
- Understanding the customer – Making the effort to get to know the customer and their needs

The following lists provide the advantages and disadvantages of using SLA's:

Advantages

- The customers for and providers of specific services are clearly identified.
- Attention is focussed on what a particular service or services actually does as distinct from what it is believed they do.
- Customers are more aware of what services they receive and what additional services and levels of service a provider can offer.
- The real needs and levels of service required by the customer are identified and whether these can be modified at a possibly reduced cost.
- Services and service levels adding value can be distinguished from those that do not.
- Customers have a heightened awareness of what a service or level of service costs and can then evaluate the service or level on a cost/benefit basis.
- Monitoring of services and service levels is facilitated.
- Customer reporting of failure to meet service levels enables providers to eliminate the causes and effect improvements.
- Understanding and trust is fostered between customers and providers.

Disadvantages

- The joint drafting of SLAs, installation of measurement procedures and negotiation of SLAs is costly to both customers and providers.
- A potential increase in bureaucracy and paperwork.
- Internal providers of services may be treated as external suppliers rather than as colleagues within the same organisation.
- Staff training may be needed in the working of SLAs and to overcome possible initial resistance to their introduction.

Developing a SLA.

The following steps for developing an SLA were originally developed by Kenneth Lysons in the CIPS 'White Paper'

How to develop Service Level Agreements:

1. Obtain top management approval
This should only be given if it can be shown that the advantages and benefits accruing from SLAs outweigh the disadvantages and costs.
2. Establish the project team
By definition, a SLA has to be negotiated by the customer and service provider together. The project team should therefore comprise representatives of both parties together with appropriate experts
3. Identify services to which SLAs are to apply
It is advisable to introduce SLAs slowly and pilot one area of service or activity at a time.
4. Preparation of a draft SLA specification
This is the first aspect of SLAs which is likely to add value since the preparation of the specification compels customers to determine what services they really need.

The main aspects to consider when drafting SLA specifications can be classified under:

- a. Services and service levels
 - b. Monitoring
 - c. Charging
 - d. Duration and termination
 - e. Miscellaneous such as training, insurance liability, sub-contracting, health and safety
5. Determination of the basis of charging
Charges should be:
 - seen to be consistent and certain
 - understood by customers and open to negotiation
 - where possible, offer the customer a choice of options
 - easy to invoice
 - capable of comparison with charges made by other providers and costs for similar services in other organisations
 6. Finalise and adopt the SLA - This involves the preparation of the SLA a proforma
 7. Designate SLA managers
These are named persons designated by the customer and the provider who are responsible for the day-to-day management of the SLA and through whom all matters relating to implementation should be channelled.
 8. Implement and manage the SLA
Review meetings should be held at regular intervals to discuss how the SLA is working and what improvements might be made.

This Knowledge Byte has been written by Ian Schollar, Head of Practice development at CIPS and has been adapted from a 'White Paper' developed by Kenneth Lysons called 'How to develop Service Level Agreements'. Kenneth Lysons' book 'Purchasing and Supply Chain Management' is considered to be a core text for those studying the CIPS qualifications

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