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Newsletter

SLAs and Service Levels—A New Dimension

Its generally acknowledged that Service Level Agreements (SLAs) are one of the most important aspects of any agreement between two organisations for the delivery of services. The most important item in an SLA is the service definition, which must clearly outline what each service is, what will be delivered, what are the benefits to the customer, etc. As we have highlighted in previous newsletters, the major reason for failure in outsourcing agreements is the lack of clear, concise and comprehensive service definitions, and the clearly enunciated responsibilities of both parties to the agreement (see the article on page 2).

Over the last few years we have been noticing a new dimension of service levels emerging in the marketplace. As organisations review their outsourcing agreements and move to a multi-supplier, selective sourcing model (a phenomenon we coined as the New Wave of Outsourcing in 2002), many IT outsourcing suppliers have changed their modes of operation in response. IT outsourcing suppliers have been trying to stem the tide of organisations re-insourcing their IT services by introducing a new term, managed services, into the market. The idea is to let the IT outsourcing supplier take over the IT services for the organisation by providing a set of "managed" services.

This concept of managed services is the basis of what we are seeing as a new dimension of service delivery levels. In essence, the services can be provided by the outsourcing supplier at three levels of delivery: Contracted, Administered and Managed.

At the lowest level of service delivery, Contracted, the organisation manages the service delivery through a project manager or similar role, providing specific instructions to the outsourcing supplier for the delivery of the required service. The organisation is also responsible for all change management. An example of a contracted service would be where the organisation needs a new server installed and provides a specific set of instructions as to the installation of the operating system, server software, etc.

At the highest level of service delivery, Managed, it is the outsourcing supplier who provides all the project and change management responsibility. The organisation submits a request for service to the outsourcing supplier, and the outsourcing supplier's designated project manager manages the request through to completion. Responsibility for the management of the change process also lies with the outsourcing supplier. For example, an organisation may want a new server installed. In this case, the outsourcing supplier clarifies and confirms the request, then takes on the responsibility of ensuring the new server is installed according to the required or standard configuration, with all the required software, and connected to the organisation's WAN ready for use.

In the middle level of service delivery, Administered, the responsibilities are shared depending on circumstances. In some instances, the organisation may assume responsibility for service delivery while in other circumstances it is the outsourcing supplier's responsibility. These areas of responsibility should be clearly enunciated in the relevant service definition.

Some organisations prefer this middle level for certain services, as they can mix and match the level of responsibility they require, allowing the outsourcing supplier to have responsibility in the areas they have an acknowledged expertise, while retaining responsibility in those areas the organisation feels they need to manage themselves. For example, the outsourcing supplier could have project management responsibility for a service while the organisation retains change management responsibility.

The benefit to an organisation of the three levels is that they can choose the degree of responsibility they wish to have for service delivery, or not as the case may be. With each level of responsibility of course is the cost of service delivery charged by the outsourcing supplier, which will differ with each level. If the organisation wants to reduce the cost of service delivery, it can choose to have Contracted services, the cost being offset by the fact that the organisation will need to have their own staff to provide the project and change management. If the organisation wants a lower level of responsibility, and thus fewer staff and internal costs, it can opt for Managed services. The choice really comes down to the level of management and control the organisation wants to have over its IT and delivery of IT services, and how much it wants to outsource to the chosen IT outsourcing supplier.

In This Issue . . .

Improvement Management or Change Management?

At a recent conference we attended there was considerable discussion regarding the large amount of change that was occurring in the particular profession in question. The debate turned to discussion as to whether there was in fact too much change going on. One of the participants made a very sound statement when he commented that it shouldn't be called change management, but improvement management. After all, if the change is not bringing about some form of improvement, then why is it being done at all?

This statement has particular relevance in the IT industry. How many times have we seen changes occurring in an organisation's IT where there appears to be very little improvement for the organisation, if any? For example, why must an organisation replace its desktop PCs every three years when the majority of desktop usage is word processing, email, Internet and spreadsheet usage? These applications were running quite happily four to five years ago on the latest desktops of the day. Regardless of the increase in processing power from around 1GHz five years ago to 3GHz today, disk speeds, LAN throughput and Internet speeds have not increased anywhere near the same extent.

The real question is: just how are changes justified, or how should they be justified? What are the improvements that can be expected when the change has been completed? For example, do the changes support the achievement of a business objective? If so, does that achievement provide a return on investment that is greater than the cost of the change? Is there an improvement in employee productivity? If so, can it be measured in dollar terms and does it outweigh the change cost? (According to most industry surveys, there has actually been very little increase in employee productivity over the last twenty-five years, apart from one spurt in the mid 1990s. As such, any promises to increase employee productivity should be backed by very sound evidence.)

Focusing on the fact that there is supposed to be an improvement in the area in question rather than just a change from an existing situation should change the way that the change process is undertaken. It keeps the rationale of "improvement" at the forefront of people's minds, so that, at every step of the change process the question can be asked: "Is this improving what was in place before?"

Responsibilities in Outsourcing —A Two Way Street

Recently we were talking with some operational managers about their experiences with their outsourced technical services supplier. We weren't surprised when we got the usual complaints about the help desk. Nor were we surprised that the complaints seemed to centre not around technical competency but around what we call the "soft services". These are those aspects of service delivery that everyone expects to get – like proactivity, responsiveness and a general sense that the supplier's staff are thinking about your organisation as if it were their own. It seemed as if the issue of responsiveness was becoming a major problem – the supplier just wasn't doing things quickly enough. We asked if the supplier was complying with the provisions of the service level agreement and were totally gobsmacked when the managers said that they didn't know what they were!

Around the same time we were talking to a completely different supplier and got an inverse image of the previous problem. It turns out the customer's staff were continually complaining about response times and were demanding service delivery features that had not been negotiated or costed. We asked if the customer's staff were aware of what had been agreed in the SLA. Again we were completely dumbfounded when the supplier told us that the customer had expressly forbidden the internal IT department (what was left of it) to inform the business users of the negotiated service terms. Apparently, that the customer thought that by deliberately withholding this information the supplier would get so sick of copping complaints that they would deliver a better service – even though the customer wasn't paying for it.

It seems to us that these two conversations are highlighting a similar problem – poor communication. Just about every outsourcing agreement we have seen in recent years contains some sort of schedule that outlines the responsibilities of both parties. One of the customer's responsibilities is to ensure that the business users are fully aware of the services and service levels that have been negotiated on their behalf. Keeping the business uninformed is tantamount to deliberately setting the deal up to fail. Even worse, encouraging business users to think that they will or should get a better service than that negotiated is just asking for trouble for both sides.

There's a very simple way to overcome this problem - start out the right way. The first step is to develop <u>and distribute to all users</u> a user handbook that explains how users can obtain services they are likely to need and what sort of response and resolution times they can expect. If the customer has negotiated wisely there will be some provisions in the SLA for variations in service delivery if the circumstances warrant them. These should be carefully explained to the users along with any additional cost implications of asking for extra service. If this level of communication is done properly at the commencement of any outsourcing the number of uninformed complaints should be minimal thus allowing any real problems to be identified and focused on sooner rather than getting lost in the "complaints fog".

This also highlights further the underlying problem that we see all too frequently in outsourcing deals – the lack of clearly and concisely defined services. Its one of the major reasons why outsourcing deals turn sour, made even worse when the communications channels are blocked as we've described above. It all comes down to the three "C"s – clear, concise and complete communication.

The Lure of Technology

It seems that every week there's a new piece of technology and / or methodology that will increase ROI, reduce TCO, provide improved TTM, etc. Industry pundits latch onto this new technology and confidently predict double and triple digit growths of acceptance and use of the new technology, with a forecast of a megabuck industry by 20?? *.

Over the last few decades we have seen 4GLs, CASE tools RAD, JAD, WAP, BPO, SAAS, etc. in fact a veritable alphabet soup of new technologies, and during the same timeframe organisations have spent millions of dollars for, in many cases, questionable returns on their investment.

We have seen (unfortunately) numerous examples of organisations being convinced that they have to migrate to / upgrade to / install the latest piece of technology, only to find that their organisation is being used as a learning centre for the vendor's staff. In many cases, the IT department is focused purely on the technology and forgets to ask the most fundamental question – how will the new technology assist the organisation in achieving its goals and objectives.

Many of these migrations / upgrades are presented to boards & top management in the form of an IT project with superb PowerPoint presentations showing colourful timelines, milestones & Gantt charts. In addition, there are detailed Excel spreadsheets showing the costs and expected cost savings. And of course there's a wealth of technical information about the new technology and the vendor's assurances that it will: lower costs, increase productivity, align IT with the organisation's objectives, etc. All that's needed is board approval for the project to proceed and the savings to be realised. Boards and top management, who usually have very little IT expertise, approve the project, trusting IT management and their presentation.

The project gets underway with lots of enthusiasm and support however many months later it's bogged down. The original objectives are forgotten, there have been numerous changes to the original specifications (usually "de-featuring" the project), and the timeline has extended well beyond the original completion date. The project cost is now far greater than originally budgeted and the expected cost savings are getting fuzzier and fuzzier. Boards are asked to approve further expenditure ("we just need a few more dollars").

How do boards and top management overcome this, and ideally not let it happen in the first instance? There are two basic rules that should be enforced: Firstly, good project management coupled with good change management is the key to any successful project (see the articles in our previous newsletters this year), with a special emphasis on managing technical projects. In essence this means "loose – tight" management where the milestones are tightly managed (i.e. they must be met) but the activities within those milestones can flex to allow for technical and other issues that will always arise in any technical project.

Secondly, we reiterate what we have said in the past—technology is an enabler of strategy not a strategy in itself. If an organisation does not have the fundamentals of its business strategy in place, no technology will help it succeed. In other words, a technology project must have business outcomes not technology outcomes, and the sole purpose of technology is to support the business – not vice versa.

*usually with a 60% probability proviso in very small type somewhere on the page.

About us

Over the last 26 years we have been working with numerous organisations in a variety of industries, particularly banking, finance, mortgage broking and insurance, as well as mining & manufacturing. At the strategic, tactical and operational levels we have carried out a wide range of assignments with the top management & boards of organisations in Australia & New Zealand, as well as throughout Asia and the US.

Typical assignments have been in the areas of strategic planning, services management (including SLAs), outsourcing (for both organizations and IT vendors), project management and information technology. The assignment may be a simple review of existing strategy, structure and systems, an investigation of a specific problem (e.g. a project that appears to be in trouble), or could be pre-litigation forensic analysis of a failed project.

Our review & advisory assignments usually take no more than two to three weeks, and the primary outcome of the assignment is a report detailing the results of our review with a series of recommendations for resolving the situation at hand and / or recommendations for further action.

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Comments / Feedback

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