Chapter XIV

An Overview of Service Level Agreements

Nicholas B. Beaumont
Monash University, Australia

Abstract

This chapter notes and explains the increasing use of outsourcing and service level agreements (SLAs); proposes and describes an outsourcing methodology emphasising the role of SLAs; stresses SLAs’ importance to insourcing and outsourcing relationships; proposes a taxonomy of service attributes, and recommends a hierarchical methodology for constructing SLAs. Evidence from interviews and examination of extant SLAs suggests that well-designed SLAs contribute to fruitful relationships between business partners. The proposed methodology and taxonomy will simplify and shorten the time-consuming tasks of writing and negotiating SLAs that are complete, consistent and satisfy business objectives. SLAs have not received academic attention proportionate to their commercial importance. Recommendations to practitioners and for further research are given. In particular, research ascertaining whether SLAs are used effectively and seeking better expression of business requirements in an SLA is appropriate.
An Overview of Service Level Agreements

A service level agreement (SLA) is a contract defining services that a vendor will provide to a client. Service level management (SLM) pertains to managing and monitoring a business relationship defined by an SLA. The SLA is best perceived as a hierarchy of service level clauses (SLC) supplemented by other information (see *The Contract*). Each SLC defines an element of the services provided by a vendor for a client, performance targets, the way in which the vendor’s performance will be measured, penalties or bonuses for under or over-performance, and the client’s obligations.

An SLA is fundamental to an outsourcing relationship. When a business process such as an information technology application, payroll, catering, security, provision of labour, call centre services, delivery, or a professional service such as accounting or legal advice is outsourced (i.e., provided by a separate business entity), the parties should formalise the arrangement by signing a contract for the supply of services (Sturm, Morris, & Jander, 2000, pp. 53-56).

When one department of a firm (e.g., information technology, the mail room, or human resources) provides services for another, there is often no written agreement. Many organisations have instituted “insourcing”: the formalisation of a supplier-customer relationship between two departments. SLAs are used to define the services provided and performance criteria but have no legal status in this context (Sturm, Morris, & Jander, 2000, pp. 56-57).

A primary data source for this chapter was five interviews with senior managers of outsourcing vendors operating in Australia and three interviews with senior client executives responsible for outsourced services. Secondary sources were numerous informal conversations with vendor executives, client executives and consultants involved in outsourcing and a survey of outsourcing practice in Australia (Beaumont & Sohal, 2004). Evidence for the size and growth of the global outsourcing market and the use of SLAs was obtained from industry reports.

The most frequently outsourced processes are information technology (IT) applications and this chapter uses many examples from IT. However, the principles espoused apply to all forms of outsourcing. In this chapter we define terms pertaining to outsourcing and service level agreements (SLAs); summarise the scanty literature; give reasons for using outsourcing and SLAs and summarise evidence of their increasing use. We define outsourcing and the outsourcing cycle while emphasizing the role of SLA in outsourcing; describe the structure of an SLA and give a taxonomy of services attributes. We give a non-trivial example of an SLA illustrating the practical problems of writing and negotiating an SLA; summarise the current state of play; describe some outstanding research problems; make some recommendations to practitioners; and venture some forecasts of likely use of outsourcing and SLAs.
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