Service Level Agreements

In a Service Level Agreement (SLA), a supplier agrees to achieve defined levels of performance and a customer obtains rights and remedies if the supplier fails to achieve those levels of performance. A good SLA also defines the customer's contribution and any conditions or dependencies that relate to the service in question. For example a supplier may agree to respond to fault reports in a certain time period but only if the customer provides the request in a certain format with a defined level of detail.

SLA's can be used in any customer/supplier relationship including internal service provision between in-house departments as well as in contracted out service arrangements. Whether the SLA is a stand-alone document or a part of a larger outsourcing agreement, it can be an effective tool for aligning the incentives of a supplier with the objectives of a customer.

SLA's are different to the Service Level Requirements often included in tender documents in that they are an agreement between two or more parties rather than a stipulation by the client of the standards of service required. This subtle difference is often misunderstood which can lead to disputes at a later date. An SLA is a powerful performance management tool precisely because it is a joint agreement outlining the responsibilities of both parties.

SLA's are usually subject to measurement, often by the use of Key Performance Indicators, which are quantifiable measurements of the critical success factors involved in the desired outcome of the service under review. SLA measures may consider the quality, speed, availability, capacity, reliability, user-friendliness, timeliness, conformity, efficiency or effectiveness of services. For example, an SLA for a back-up power system might be the percentage of time when the system is fully functional.

A good SLA is both within the supplier's influence or control and an important measure of the success of the agreement. SLA's can also be designed to align the incentives of the supplier and the customer. For example, because a fixed price contract gives a supplier an incentive to cut costs (and quality) to increase margin, the SLA for a fixed price contract should focus on quality and timeliness.

SLA's are, by their nature based on outputs. The result of the service as received by the customer is the subject of the Agreement. The supplier adds value by using their expertise, capability, and knowledge to deliver the service required. This differs from input based specifications where SLA's are inappropriate.

The Chartered Institute of Purchasing and Supply (CIPS) has a number of useful guidance notes on supplier monitoring and SLA's on their website at www.cips.org