

# A snapshot on Outsourcing and Service Level Agreements

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**Abstract:** The statistical data reveal that trend of outsourcing of services in government is increasing. Despite of the fact that Government is a potential consumer of IT Services, the majority of service providers keep a safe distance from Government. Perhaps, one of the reasons is one sided agreement being drafted by the Government. Drafting of an agreement requires a through vision for the life-cycle of the entire project. Drafting a Service Level Agreement (SLA) requires knowledge of ground realities and technicalities involved in the project, etc. Uses of open-ended words or phrases like “*Any other Work*” or “*Every work*” or “*All*” should be avoided as much as possible to have a win-win SLA.

In most of Request for Proposals (RFPs) for obtaining services, the SLA part is missing or not defined clearly. Due to this reason, the tender process has potential re-tendering and unexpected financial implications thus taking more time to complete the activities.

Drafting SLA and Monitoring them is two sides of same coin. Preparing a SLA is a painful process; however a good, comprehensive and effective SLA is a foundation to a successful outsourcing relationship.

This paper aims on highlighting briefly on precautions to be taken while attempting to outsource service(s), drafting SLAs and monitoring mechanism.

**Index Terms – SLA, RFP, Vendor Governance, Relationship Management, Standards.**

“Preparing a SLA is a painful process; however a good, comprehensive and effective SLA is a foundation to a successful outsourcing relationship” – Deckelman 1997

## WHAT IS SERVICE LEVEL AGREEMENT

As per the definition of Service Level Agreement by Kathleen, 2001, “A *Service Level Agreement (SLA)* is an official document included in master contract for an outsourcing agreement which includes detail description of services required, level of performance needed and where applicable: credits received by us and bonus given to the provider depending on their performance level.”

This is the only method to legally bind the agreement between us as a customer and them as service providers

## WHAT SHOULD BE OUTSOURCED

Before going into the nut and bolts of SLA, let us have a look on what should be outsourced and what should not. The International Association of Outsourcing Professionals has identified following six best practices in identifying the activities for outsourcing –

- Select Non-Core Competencies
- Select work processes where the resistance to change is low, and the need for change is the greatest
- Select work processes where the chances of success are high
- Select Work Processes where change is already afoot
- Select work processes that will transform the organization
- Select work processes that are discrete and separable

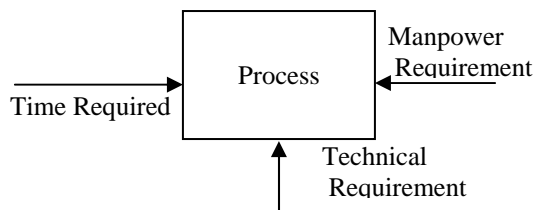
As a matter of fact, the core activities of the organization should not be outsourced. There should be a clear demarcation in Capacity Building and Outsourcing. Building in-house capacity may be beneficial for repetitive activities even if they are not core activities. E.g. Having in-house capacity of printing documents in a training institution may be money saving in long run as there is lots of printing work involved in regular basis. Therefore, decision of outsourcing is a big decision. While outsourcing peripheral activities, one should ensure following –

1. Cost benefit analysis should be done in totality before going for outsourcing the activities. This should include base cost of equipments, place, maintenance of equipments, manpower, etc.
2. Data in any form is property of the organization and the same should not be used / shared in any mode by the outsourcing agency without permission of the organization. There must be a Non-Disclosure Agreement (NDA) between the agency and the organization.

3. Service Level Agreement should be drafted by the organization and must be part of Request for Proposal of out sourcing activities.

#### WHO SHOULD PREPARE THE SLA

The preparation of SLA for a outsource service involving a component of Information Technology is not a sole job of IT managers. It is a comprehensive work requires involvement of entire execution team. People who understand the ground realities and have through knowledge of steps and processes involved should be involved in identifying the parameters and times involved in each process.



These people should work on various activities involved in a process and following questions should be answered for each activity –

1. Input required from previous activity (identify form of input like paper, electronic, etc)
2. Required manpower and skills required for job. (if possible, take a transaction as one unit). Use historic data to measure the time taken in completing the activity). This is also right time for re-defining the activities if felt so in the light of changed technological support. (Business Process Re-Engineering)
3. Technical requirement in terms of equipments and manpower
4. Measuring required service levels for each activity. For example, un-interrupted power supply for a normal office may be required only for 8 hours; therefore there is no need for asking 24 hour power supply.

#### MARKET SURVEY

Before coming to preparation of SLA, one must spend some time for looking at others in similar situations. Try to get the rates and service levels from other organizations. Learning from others is very important so that same errors are not committed. However, local conditions and environment, volume of work and type of service level will decide on the rates.

#### WHAT SHOULD BE ASKED IN SLA

Not be very ambitious:

We are always very ambitious when it comes for asking from a service providing company. Same time, it is also equally important to device techniques by which the asked performance could be measured regularly. For each performance level, we need to device a monitoring action plan. Take a case of a bank, where, we may desire that there is acceptable delay of 5 minutes in handling query of each customer. How to monitor this activity? We need to place several entry time machine at each entry door where a client first punch his/her entry time with type of request and when his/her turns comes, the slip is given to operator for needful entry. By doing do, we can monitor the delay.

#### Clearly draft performance level:

In above example, defining performance level to 5 minutes is not enough. It is also required to define clearly that tolerance limit is average tolerance measured on daily basis / monthly basis / yearly basis. May be during a day, early morning and evening disposal may be of 8-9 minutes, but due to reduced load in after noon, the disposal time may be 1-2 minutes and therefore the service level of 5 minutes is achieved in daily case. But many people will not be served during peak ours despite of claim of five minutes service. Therefore overall monitoring mechanism is very important in finalizing the service levels.

The metrics of measurement is also integrated with how you calculate the results, using formulae that are universally accepted, or mutually defined. In a bandwidth scenario, 1.5 Mbps means that the leased circuit should allow upstream and downstream data transfers of 1.5Mbps. This is easily observed by the peak in an analysis chart for traffic that goes in, and goes out of the gateway.

What if service levels are not achieved?

Penalty and Rewards are two side of one coin. What if the performance levels are not met? Depending on the gravity of levels, there may be two possibilities

1. Impose Extension Penalty: One way of imposing penalty is to extend the service duration for proportionate or multiplier of proportionate duration as the case may be. By doing so, there is no direct financial loss to service provider but the agency has to bear the cost of extended support. This is useful in hiring manpower services.
2. Impose Financial Penalty: Imposing financial penalty gives direct impact to the service provider. It is effective in various cases where, possibility of direct financial arise due to not satisfactory services of outsourced agency.

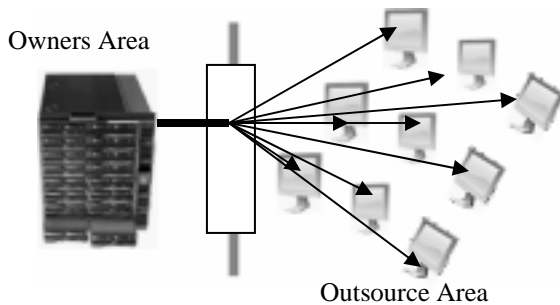
In both of the cases, it is very important to build the data to establish inefficiency in providing satisfactory services by the outsourcing agency. The monitoring of the outsourced work should be automated as much as possible.

Same time, there should be system of reward in terms of financial benefit or other benefit to the outsourcing agency. However, it is still at premature stage in the government as there is not much provision in the General Financial Rules (GFR) to provide financial benefits to the supplier.

There is direct proportionate financial impact on strict service level conditions. Therefore, there should be breakeven point somewhere to balance the critical requirements of organization and financial impacts.

#### SECURITY CONCERNS

In all circumstances the ownership of data should remain with the owner. In absence of trained manpower in managing large data, the concept of having datacenters came in existence. Thanks to increased high capacity bandwidth availability, such data centers become reality. National Informatics Center (NIC) has state of art datacenters with appropriate security. In most of the situations, NIC should be given the responsibility and holding the data. However, in rare cases, outsourcing of data should be limited to only co-location of servers at data centers with all control of managing of data with owner.



#### IMPLEMENTING STRATEGIES

Implementation of SLA is most critical part as entire relationship depends on way, the implementation process is handled. Latest devices like Radio Frequency based Identification (RFID), bar coding; etc should be used to record the movement and time to ensure the automation and accuracy of critical data. Some of the methods to implement and implementing SLA are –

Exception Reports: This is first base to know what is missing. The contents of exception reports should be crisp, clear and measurable in absolute numbers.

Feedback system: Exception report normally generates within the organization. It is also important to device

feedback system from the people directly affected by the services.

Data Analysis: This is mainly electronic way to process the exceptions like down time, absent employees, number of records processed per hour, etc. This provides a firm base for imposing penalties or giving reward for a good job.

Dash Board: This is very effective way to monitor all activities of the organization on a screen of computer. All kind of exceptions are color coded and shown on display attached to the functionaries of organization like Director, Secretaries, etc. But it requires a through connectivity and automation of all activities.

E-Monitoring: If the data is available electronically and minimal efforts are made to keep the data then it is most feasible to get software developed for monitoring and calculating rewards or penalties. The agency, engaged to provide services should not be authorized to prepare that application.

The SLA should be clearly define the payment mode in such a way that the outsourcing agency should get its payment on a set frequency (weekly / fortnightly / monthly) without undergoing typical process for payment. The deliverable defined in SLA as prerequisite should be clear and there should be no ambiguity in references.

Most of the payments should be made directly to the bank (Electronic Clearance Service) without involving any manual transaction to ensure the timely payment to the agency.

#### REVENUE GENERATING OUTSOURCING

Again coming to the basics, the outsourcing is mainly done for performing hassle free non-core activities so that the organization may focus on its core business. However, there may be some outsourcing services that may generate revenue also for the organizations. Identification of such services is beneficial for running overall functions of an organization. For example – In health sector, outsourcing of Cafeteria, Ambulance Services, Parking, Pharmacy (In some cases) may generate good revenue also for the hospital in addition to increasing the effectiveness of the hospital.

Again service level agreements for such revenue generating services should be made with utter care to protect the right of customer and quality control of the service.

#### EXIT MANAGEMENT

This is very important aspect of an agreement to clearly define procedure for exiting from a service contract. The major aspect is that the work continuity should not break. The service provider should give enough time for changeover even in the case of disagreement. Knowledge Transfer is another big issue in exit management as this

aspect is purely subjective and cannot be abstracted. Especially in Build Own and Operate (BOO) model where the entire show is managed by outsourcing and at the end of day, there is no knowledge available in the organization.

Whereas Build Own Operate and Transfer (BOOT) model may leave outdated, obsolete, equipments as leftover got the organization to deal with. A proper disposal of such equipments must be a clause in the exit management.

Data is always owned by the organization and not by the service provider. However, the role based permissions to access / modify are provided to service provider. Exit clause must be prepared in such a way that data and its access remains with the owner in all circumstances.

Appointment of arbitrator: In most of the cases in government contract, the arbitrator is appointed from its top functionaries. This does not ensure a fair arbitration. The SLA should provide equal opportunity in selecting the arbitrator. One should be selected by the owner and another should be selected by the service providing agency and both of the arbitrators thus selected, should identify the third arbitrator for a fair deal.

#### CONCLUSION

The trend of outsourcing various services in the federal and state governments is increasing. In absence of clear cut guidelines and capacity to identify the services levels and security concerns, the outsource services have high risk of failure and high security risk. There is need to have the central pool of experts in outsourcing and security issues to assist and develop capacity within departments to take up outsourcing tasks effectively.

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