Commentary

Developing SLAs to Demonstrate the Business Value of IT

The pressure on IS organizations to demonstrate their value creates the need for business-driven service-level agreements. The key is recasting technically oriented SLAs as business goals easily understood by the business units.

The financial pressure to reduce costs and the need for IS organizations to demonstrate business value demand new approaches to the service-level management of enterprise relationships. Enterprises are transforming their businesses at speeds and in ways that require more from their IS organizations than ever before.

Your IS department will need to work with business units to demonstrate that IT is agile, responsive and effective. This requires that you identify business value keys and craft metrics to demonstrate its worth. The key is to focus on changing business unit relationships and developing useful business-related metrics that illustrate the value of the service being provided by your IS organization. By recasting technically oriented service-level agreements (SLAs) as business goals that are easily understood by the business units and in terms that make the value of IT to the business clear, CIOs can position IT as an essential element that directly contributes to the success of the business.

In the "big picture," the enterprise increases its revenue, profit and shareholder value by providing competitive products and services to its customers. To fulfill promises made to customers and build customer satisfaction, all business units in the enterprise must work together. This is also true of the IS organization, which must convey the value of the services that it delivers to business units. IS organizations often set resource-specific (for example, network or server) availability goals by which IS personnel are measured.

With IT so infused in their processes, business units are requesting SLAs that are meaningful and that reflect relevant business measurements. The IS organization often enables the business processes (with an integrated set of applications on top of the IT infrastructure) and provides the quality of service necessary to reach the overall business objectives. Quality-of-service goals are defined by SLAs between business units and IS organizations. Implementing these SLAs fosters greater business/IT alignment by setting expectations and directing each business unit and IS organization toward meeting those expectations. SLAs help direct the contributions of each business unit, department, vendor or employee to the enterprise's business goals. Thus, business goals are broken down and become people goals.

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IS organizations often fail to review established SLAs with the business units and neglect to adjust the SLAs into meaningful metrics that the enterprise can understand to appreciate the IT services being provided. The IS organization is responsible for meeting with the business units and listening to their concerns as they jointly agree to the SLAs. A best-practice process for developing successful business-value SLAs follows.

**Establish executive acceptance of SLA concept:** The IS executive must take the lead in this step and explain to his or her peers the value and benefits to the enterprise that result from adopting SLAs. The key point is to gain the business unit agreement to jointly participate in this effort, which will benefit the business unit and the IS department. This requires a commitment by each business unit to provide appropriate managers and end users to meet with the IS organization to discuss and finalize the SLAs.

**Start with established SLAs, understanding what's being done and what should be done:** The IS organization should not meet with the various business units until they have developed an initial set of SLAs with which to start the discussion. Your best approach is to begin with established internal IT SLAs. Although these are probably technical, and may not be relevant to the business units, they can provide a basis for future discussions.

**Schedule "town hall" meetings with business units:** One approach that's been successful is to schedule town hall meetings with each of the business units to encourage a free flow of information between both parties. These meetings help the IS organization to gain the confidence of the business units and demonstrate your commitment to open communication.

**Listen to attendees:** It's not enough to just introduce the SLAs, you must also be willing to listen to the business units to understand their issues. In fact, in this first meeting, you may hear complaints about some problems that occurred months in the past. Listen, take notes and remember to address the issues involved in these past complaints.

**Explain the IS organization's commitment to the SLAs:** The implementation of SLAs must include the commitment of the IS organization to stand behind each of the SLAs to ensure success. This means that there should be a penalty or recourse if you fail to meet your service-level targets. With outsourcing agreements, these penalties take the form of a monetary fee that is paid to the business unit. With internal IS departments, this option is not financially feasible and does not provide value to the enterprise. An internal service approach involves having all of the IS staff involved in the delivery of the service level make a firm commitment to meet the service-level targets. These targets are then written into each of the employees' and managers' personal objectives for the year. With this approach, each employee is evaluated on the service levels, which may directly affect their pay and bonus opportunities. This approach demonstrates a true commitment by the IS organization to meeting the service levels.

**Review the SLAs and revise them to business goals:** Once the concept of the SLAs is understood, you need to review the established SLAs to determine if they meet your business goals. Whenever possible, try to modify the SLAs from technical targets to business-related service levels.

For example, if there's a server that's supporting transaction processing for a specific business unit, and its uptime availability is 99 percent, but you also know that, when the system is available 99 percent of the time, 100,000 transactions can be processed, change the SLA target to "the system will be up to enable 100,000 orders to be processed." This is the type of metric a business unit will be able to identify, and it will be able to quantify its value. You probably will not be able to change all technical SLAs, but a few will make a real difference in establishing the value of IT.
Pilot SLAs for six months: In the meeting, you should also agree that your IS organization will pilot these SLAs for six months to see if they're accurate and reasonable. During this pilot phase, penalties or recourse will not be enforced. This is a common approach, which is even used by outsourcing service providers. The next step is to begin the six-month pilot and measure and track the results.

Meet quarterly to review: During the pilot and beyond, another commitment is to meet quarterly to review the results and to ensure that the SLAs are meeting the business unit's requirements. In the second town hall meeting, you again need to listen to the business unit participants. However, if they try to complain about problems that occurred prior to the last three months, you can stop them and remind them that you're there to address recent issues and concentrate on the SLAs' results.

Implement the SLAs: After the SLAs have been piloted for six months, and the business unit agrees to the targets, they should be fully implemented with the penalties in place.

Continue to review and revise: The SLAs should continue to be reviewed and reported on to the business unit. In time, the quarterly meetings may not be required, but there should be a minimum commitment to meet annually to review the targets and adjust them, as needed, to meet changing business requirements.

Bottom Line: By adopting this process to establish service-level agreements, you can improve the credibility of your IS organization by changing the perceptions of the end users. By implementing processes to evolve to business-based SLAs, you can develop an appropriate relationship, based on current realities and the concept that IT provides business value to the enterprise.