



Understanding the Value of Service Level Agreements

Operating a business smoothly is vital to its success. In such a competitive market place, no matter which industry you work in, it is more important than ever that your brand not only projects an image of efficiency, but that it runs efficiently as well. All businesses have consumers of some sort and their opinion of your performance will drastically impact your financial success. That is why it is so crucial to have a relevant and comprehensive strategy, appropriate and functioning processes, measures to track and adapt progress **and** well defined Service Level Agreements.

Whether your organisation has intricately linked departments whose integrated functionality is essential or relies on a range of suppliers to achieve the demands of their end user, service level agreements, or SLAs, are the key to which each element understands what is required of them. When used internally or externally SLAs will define the relationship between the parties, their individual responsibilities and the methods by which to achieve the overall objectives.

That sounds a lot like KPIs?

Whilst SLAs do appear to share many of the same traits with the key performance indicators (KPIs) given to employees or departments, they are actually much broader and often far more enforceable. SLAs are documents that specifically outline the wider service agreement between two departments, activities or with an external supplier; while KPIs are the tools we use to measure the performance of a process. Whilst elements of your KPIs might be incorporated to measure the delivery of the defined service standards, the SLA is a two way agreement to ensure an outcome is achieved and that all parties involved live up to their obligations. Even as individuals we enter into service level agreements all the time; for instance, when you click 'accept' on those lengthy online terms and conditions (often without reading them) or when you choose a delivery window with [Amazon](#) or [Kibsons](#), you are signalling your agreement to be available during that time.

Okay, so what should an SLA look like?

Whilst your SLA may or may not cover an area that is measured against your strategic goals, it certainly contributes to your overall operational efficiency. It provides a contractual obligation for performance which inserts a greater level of reliability and consequence into your day to day functionality. At its core, an SLA should clearly outline what the recipient will receive and what should be expected of the provider. An SLA should include:

- A description of what is required
- The quality and timing of the service
- How performance will be monitored
- How problems should be addressed
- Penalties for non-compliance
- Under what situations the SLA might be waived

Why are service level agreements important?

Essentially SLAs are most important in their capacity to transparently record, and detail, the obligatory requirements of linked parties who rely on each other and provide a fair platform to both parties. Successful SLAs need to be realistic in their proposed parameters, fair in their distribution of responsibilities and include a built in flexibility, when necessary, to accommodate business evolution. For instance, if your business requires a supplier to deliver a set number of products per day, this would require a set number of trucks or motorcycles to be available from the supplier. If the demand for your product increases significantly, your SLA needs to accommodate the potential for your supplier to provide extra support in order for you to keep your customers happy. In the same example, you need to be able to rely on that supplier to guarantee the required transportation every day in order to achieve your objectives. Without an SLA or an SLA without built in penalties for non-compliance, you have no protections against the supplier not fulfilling their responsibilities. On the other side of the coin, if your SLA doesn't have protections for the supplier, they could incur issues if you suddenly dropped or increased the number of delivery trucks required without warning. That is why it is so important for both parties to ensure they have accommodated appropriate elements in the SLA and included rebates or penalties to encourage compliance.

What about internal SLAs?

In companies that include a high level of processes, people and departments, SLAs can be vital to ensuring internal synergy and productivity; especially in the service and logistics industries when the link between volume and timing is critical to performance. Imagine you are a publisher with a deadline for producing a magazine or newspaper. You need a service level agreement between your editorial department and your printing department that the editorial team will complete their work by a specific time and that if they do, your printing team will produce the end product by a specific time.

Clarity and protection for your interlinked business elements, whether internally or externally, will go a long way to mitigating potential issues and fostering a smoother working relationship. Far too many mistakes are made because people or departments don't understand their responsibilities or how they affect the overall functionality. With transparent agreements in place, everyone knows what they need to do, how to do it and what the consequences are if they can't. If the outcome of the SLA isn't achieved, you can quickly determine what went wrong, how to fix it and how to prevent it happening again.

If you would like to get expert advice on aligning your company's strategy to business processes and performance that will continually drive improvements and profitability, get in touch with Identify Action at <https://identifyaction.com/> or via email on action@identifyaction.com.

Identify Action is a strong, talented team, whose members have been part of the UAE's explosive economic development since 1991. We are of different nationalities and backgrounds, and together have experience of a wide range of regional and multinational industries, at both shop floor and management level.

