

Service Agreements



Service Agreements - A Management Guide

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A Management Guide

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The IT Service Management Forum

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Colophon

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Lead Authors: Robert Benyon and Robert Johnston

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Arjen de Jong (editor)

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Foreword

Ever seen an organization quarrel with their service provider? Me too, several times. And just as often I've seen these parties grabbing the same SLA to justify both their arguments. None of them understood why their business relationship ended up in a situation where they quarrel like competing politicians.

If you are looking at this Management Guide to get a nice template for an SLA then my advice would be that you are better off searching the Internet for it. The key message from this book is that it takes much more than a nice SLA to be successful in Service Management.

These days an IT manager does a bad job if he isn't able to demonstrate the quality of the services his organization is delivering. This isn't limited to having an SLA based on a nice template; equally important are the following: the whole structure of managing different services, reporting on services, managing expectations, complying with company or branch related standards, and having a framework to implement Service Management and setting up a Service Catalogue.

For the IT managers that are determined to accomplish the optimal relationship with customers and service providers this Management Guide could prove to be very valuable.

Arjen Droog
CEO itSMF Netherlands

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This book is the result of the Masters research conducted by Robert Benyon and Robert Johnston. The research was undertaken in the Distributed Multimedia Centre of Excellence at Rhodes University, South Africa, with financial support from Telkom, Business Connexion, Converse, Verso Technologies, THRIP and the National Research Foundation. The author's respective theses explored Service Management and Service Agreements.

The authors would like to extend their appreciation and gratitude to their supervisor, Professor David Sewry. The extent of his support and dedication is only surpassed by his meticulous attention to detail. For his encouragement, ideas, comments and criticisms we are most grateful.

The authors would also like to acknowledge the support and encouragement from their respective families who have made studying at Rhodes University possible.

A very important role was played by the review team. This team was composed of a wide variety of professionals from various countries:

- Ton Alofs - Steenbok Adviesgroep, Netherlands
- Peter Blom - Synergie in Uitvoering BV, Netherlands
- Oskar Brink - Shell Information Technology International, Malaysia
- Peter H.M. Brooks - Phmb Consulting, South Africa
- Jurian Burgers - Simac ICT Nederland, Netherlands
- Matthew Burrows – BSMimpact.com, United Kingdom
- David Clifford - Pro Attivo, United Kingdom
- Federico Corradi – Cogitek, Italy
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- Anouk Vromans – CZ Actief in Gezondheid, Netherlands
- Rob van der Waal – Nerefco B.V., Netherlands
- Wilfred Wah – PA Consulting Group, Hong Kong
- Gert Zondervan – Maintain, Netherlands

Together, they raised a good twelve hundred issues that were all taken into account by the editor and the authors team. In this way, we hope we have achieved best practice in the truest sense of the word, having lots of experts contributing their ‘private best practice’ experiences, and merging these into a consistent whole.

The overall editorial process was led by Jan van Bon, itSMF-NL’s chief editor. He guided the book through the thorough and formal endorsement procedure by itSMF’s International Publication Executive Sub-Committee (IPESC), resulting in confirmation that this publication was to be considered ‘global best practice’, supported by the international itSMF community.

Given the desire for a broad consensus in the IT Service Management field, new developments, additional material and other contributions from IT Service Management professionals are welcomed to extend and further improve this publication. Any forwarded material will be discussed by the editorial team and where appropriate incorporated into new editions. Any comments can be sent to the chief editor, email: jan.van.bon@itsmf.nl.

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Introduction

This book is founded on research conducted at Rhodes University into Service Management and Service Agreements. The initial prompting for this research came from one of the industry partners of the Distributed Multimedia Centre of Excellence. They expressed difficulty in the development and management of Service Level Agreements.

The initial explorations of the subject matter lead the researchers into a cauldron of misinformation, hype and vendor specific promotional literature. It was decided therefore to define the concepts, processes and terms involved in a Service Management (SM) initiative using as wide a range of sources as possible. The results of this are the working definitions that underpin this book.

It is important to realise that this is not an ITIL[®] book. The ITIL[®] framework is just one of many approaches that were used to develop the framework and model in this book that were then tested empirically in the research. Not every reader will be from an ITIL[®] background and although it is one of the better (and more comprehensive) frameworks at the moment, this book is designed specifically to be useful to all SM practitioners.

The authors encountered little consistency in the SM discipline as to the correct terminology and exactly what each term meant. The terms we use in the book, being Service Management (SM), Service Agreement (SA), Service Level Agreement (SLA) and Service Level Management (SLM) were chosen as they were the most common. Additionally, SM and SA were chosen above SLM and SLA as they downplay the importance of the “level” (the measure and hold accountable parts). While the authors recognise that “level” is important, but not nearly as important as the AGREEMENT part.

Service Management and Service Level Management are terms that are used interchangeably by practitioners. The same applies to Service Agreement and Service Level Agreement. For the purposes of this book, SM is seen to refer to a holistic strategy that covers all aspect of managing services. SLM therefore describes the management of a specific service to a specific level. The same distinction can be drawn between SA and SLA. An SA is seen as a single document that accommodates all that is relevant to an agreed business relationship. An SLA represents the documentation of that which is relevant to a level of service assigned to a particular business process or activity. An SA can therefore contain any number of individual SLAs.

An SA can be regarded as a Service Contract as it encapsulates all that which is relevant to the relationship between the service provider and the customer. For the sake of uniformity this book works from the view that there is a commercial business relationship between the service provider and the customer. Service Agreements can of course also be applied in non-commercial relationships. Internal service providers and their internal customers often prefer that. Whether such partners use formal or less formal agreements is depending upon the choice of the organisation. Whether the make-or-buy decision lead to formal outsourcing arrangements or not, in all cases the situation of a service provider, providing services to a customer, remains.

Any additional contracts that are negotiated between the service provider and the customer, with additional providers and/or vendors, are regarded as Underpinning Contracts (UCs). These UCs therefore bear reference on the relationship between the service provider and the customer.

Using this terminology this book lays out the fundamentals of an SM strategy. It describes in more detail, the contents of, and how to develop, the major parts of this strategy. Follow these guidelines and your SM initiative is far more likely to be successful.

A Service Management Overview

The Information and Communication Technology (ICT) sector continues to experience evolutionary change, as it redefines itself after the well publicised stock market crash of the late 1990's. This crash occurred at a time when ICT initiatives were characterised by 'over-promise and under-deliver'. Many organisations lost a great deal of money, having invested heavily in ICT services that were unable to meet or satisfy their requirements. Consequently, organisations are now demanding improvements in the quality of the services delivered by ICT service providers, and decrease of cost. This demand for improvements in services applies to both outsourced and in-sourced (internal provided) ICT services.

In an attempt to improve service levels, service providers and customers are entering into Service Agreements (SAs). In some cases, organisations are drafting agreements with their own internal ICT departments. In other cases, organisations are outsourcing their ICT service provision to third parties. Either way, the management of service levels is of pivotal importance.

Unfortunately, many of these service provision initiatives either fail, or do not result in improvements in service levels. Service Management (SM) helps deliver improvements by providing an integrated approach to the management of ICT service requirements and levels.

1.1 Managing Service Levels

Business relationships involving the trading of services require mechanisms that manage the levels of service. While acceptable service levels promote further business interactions, poor service levels are likely to have a negative influence on the relationships between service provider and customer. This could result in the termination of the affected relationship. If the provided services do not meet the customer's expectations, further transactions between the two parties are unlikely to occur. Ensuring that services meet, and perhaps exceed, the customer's expectations, requires accurate and constant management. Further trading of services is negatively affected if the management of those service levels is deficient or absent. In today's ICT environments the offering of services with agreed service levels has become essential.

Before service levels can be managed, they have to be set. In order to establish service levels, the customer's expectations and the provider's capabilities need to be aligned. This process also requires the acknowledgement of the provider's capacity to provide services, the identification of the customer's requirements and then the marrying of these in an environment that promotes the development of a sustainable business relationship.

Additionally, in order to manage service levels, a mutual undertaking to develop the foundations of a partnership between service provider and customer, that meets the needs of both parties, is required. This undertaking serves to develop the foundations upon which an initial service provision can develop into a sustainable business relationship. The effective management of service levels is therefore of fundamental importance in any business relationship that is based on the sustained trading of services.

1.2 Definitions of Service Management

There are a number of definitions of SM. These many definitions show how broad the area of SM is. These definitions originate from a focus on the services, the customer or the provider.

With the focus on services, SM is seen as the process of negotiation, SA articulation and development, provision of checks and balances, and reviews between provider and customer regarding the services and service levels that support the customer's business process. In light of this, an SA is seen as a contract between a provider and a customer that documents the business processes as well as the supporting services, service parameters, acceptable/unacceptable service levels and liabilities on the part of the provider and the customer, and actions to be taken in specified circumstances. SM is therefore seen as the process of identifying, defining, negotiating, agreeing, implementing, monitoring, reporting and managing the levels of customer service, with the targets being documented in SAs.

With a customer focus, SM involves the definition of customer expectations, the satisfying of those expectations and the perpetual refining of the business agreement. SM is therefore seen as the process of setting, measuring and ensuring the maintenance of service goals. SM helps organisations make sure that their key targets for service success are being met. SM is a process for delivering services that constantly meet the customer's requirements. Performance management is a key function of SM and this includes the definition, measurement and assessment of services, as well as the setting and monitoring of service objectives and service levels. Allied to these function

are the associated activities of reporting, customer interaction, Customer Relationship Management (CRM) and negotiating SAs. Good SM leads to the refinement and improvement of services. A further benefit of managing service levels involves gaining customer loyalty and trust. In order to do so, the managing of relationships with customers is an integral part of SM.

From a service provider's perspective, SM can be seen as a set of people and systems that allow the organisation to ensure that agreed service levels are being met and that the necessary resources are being provided efficiently. This relationship exists between people and systems, but systems further separates into technology or tools and processes.

SM is therefore seen by the provider as a disciplined, proactive methodology used to ensure that required levels of service are delivered to customers in accordance with business priorities and at acceptable cost.

In practice the focus on services, customer or provider, depends on the actual business strategy. For instance, a corporate focus on maximum customer satisfaction may result in a service management focus on the customer, whereas a corporate focus on cost saving may result in a service management focus on measurable and matching services.

For the purposes of this book, SM is defined as follows:

SM is a cyclical and collaborative process. It is initiated by the verification of the service provider's capacity to deliver and manage services according to identified service levels. This is followed by a process of the understanding and defining a customer's requirements, the negotiating, creating, deploying and refining SAs and the real-time monitoring and reporting of service levels. This is done within a framework of accountable costs, continual service level improvements and perpetual development of the business relationship.

1.3 Elements of Service Management

The primary goal of every ICT service provider should be to provide services that are aligned with and support an organisation's business strategy and objectives. Since many of today's businesses operate in a dynamic environment, this goal has become increasingly elusive. The only way ICT service providers can continue to hit the moving target of supporting business needs is by having an SM strategy in place.

While SM is an overriding process, it has six key elements:

- Service Agreements (SAs)
- Operational Level Agreements (OLAs)
- Underpinning Contracts (UCs)
- Reporting
- Service Catalogue
- Technology and toolsets.

1.3.1 Service Agreements

An SA is a legally binding document between the service provider and the customer that specifies the expectations and obligations that exist in a business relationship between them. SAs are therefore contracts between service providers and customers that define:

- The services to be provided
- The metrics associated with these services
- The acceptable and unacceptable service levels
- The liabilities and obligations on the part of the service provider and customer
- The actions to be taken in specific circumstances.

The term ‘Service Level Agreement’ is used variably, including referring to the whole SA. This could be somewhat confusing and misleading. The expression ‘Service Level Agreement’ places the emphasis on the level at which the services are to be provided. It often happens that other important contractual and commercial/business issues (and their legal ramifications) are overlooked.

Roles of a Service Agreement

Although an SA is an excellent expectations-management mechanism, it is important to manage the expectations of what the SA can realistically accomplish. An SA is frequently incorrectly viewed as a complaint-stifling mechanism or a quick fix to a troubled relationship; however, using it for such purpose creates more problems than it solves. Instead, an SA should be viewed as:

- *A communications tool* - The value of an agreement is not just in the final product; the very process of establishing an SA helps to open up communications.
- *A conflict-prevention tool* - An agreement helps to avoid or alleviate disputes by providing a shared understanding of needs and priorities. If conflicts do occur, they tend to be resolved more readily and with less damage to the relationship.
- *A living document* - An SA is not a dead-end document meant to be filed and forgotten. At a pre-determined frequency, the parties to the SA review the agreement to assess service adequacy and negotiate adjustments. This is one of its most important benefits.

- *An objective basis for gauging service effectiveness* - An SA ensures that both parties use the same criteria to evaluate service quality.

An SA is an agreement between the customer and the service provider that quantifies the minimum acceptable levels of services required by the customer. An SA is probably the most important document in a service provider/customer relationship. An SA, when properly written, is distinguished by clear, simple language and focuses on the needs of the customer's organisation. Creating a sound, mutually agreeable SA is a matter of appropriate diligence by both parties.

Content of a Service Agreement

SAs include the following:

- A description of the services that shall to be provided
- The expected performance from those services
- A detailed procedure for handling service degradations
- A procedure for monitoring and reporting the service levels to the customer
- The pricing of the services
- The consequences of the service provider not meeting the agreed service levels and of the customer not fulfilling their obligations
- A description of under which circumstances the SA does not apply.

The parties involved in the development of an SA should be concerned with at least the following points:

- A description of the services that are to be provided
 - What is included and what is excluded
 - When the SA comes into effect
 - The validity period of the SA.
 - Frequency of review/amendments
 - Scheduled (operational, tactical and strategic) meetings between service provider and customer
 - Is there need for an installation timetable
- The expected performance of the services
 - Does this include routine maintenance and customer induced outages
 - Network-based availability or site-based availability
 - How is performance measured (throughput, loss, downtime, etc)
 - Who monitors the hardware (customer or service provider)
 - When does a service degradation start counting? When it is reported, confirmed, or detected
 - Confidentiality clauses

- A detailed procedure for handling services degradations
 - Feedback
 - Contact people - who to call about what
 - Mean time to respond
 - Mean time to repair
 - Remember - compensation is not the reason for service agreements
- A procedure for monitoring and reporting the service levels to the customer
 - How will the services be monitored
 - How useful is the reporting
 - Interpretation of the reports and statistics
 - Detail the process for the gathering of data as well as any gaps in the data
 - Suggestions for optimisation (capital investment, bandwidth, heavy users or applications)
 - Warning indication of degradation before it becomes a service degradation
- The consequences of the service provider diverging from the agreed service levels
 - Rewards and/or penalties
 - Can a financial penalty compensate for lost customers
 - Termination conditions
 - Repeated breaches of target service levels - implement a chronic service failure termination right
- A description of under which circumstances the SLAs in an SA do not apply
 - Earthquakes, floods or terrorism for example.

Structure of a Service Agreement

To be effective, an SA must incorporate two sets of elements, namely, management elements and service elements. Management elements are issues such as reporting, regular meetings, conflict alleviation and delivery monitoring. Service elements include items such as precise Service Level Agreements (SLAs) about specific services. These two elements can be included in two ways:

1. The management elements for the relevant services are contained in the Master Services Agreement and the quantification of the service is contained in an Operational SA or
2. Both are contained in a single SA.

The management and service elements are sometimes classified as Agreement clauses and Schedules respectively. This classification is very similar, as described below.

Ideally, the Agreement clauses serve a number of very useful functions:

- They set out the framework or structure of the Agreement, and the core issues, in a comprehensive, logical and easily understandable manner.
- They set out the management structures and arrangements that are put in place by the parties to oversee the service provision activities and which provide a focal point for issues such as change control and dispute resolution.
- They contain the interpretation provision which collects all the defined terms that are used throughout the SA.
- They contain a summary of the major obligations of both parties.
- They describe the financial arrangements that are to apply for the duration of the contract.
- They set out the warranties that will be applicable.
- They deal with the liability regime that is to apply across the entire SA.
- They set out the dispute resolution process or procedures that are to apply.
- They address in detail the intellectual property issues that are relevant to the transaction.
- They describe the termination and disengagement arrangements that are such an important feature of outsourcing arrangements.

The Schedules are traditionally used to include high level detail about particular aspects of, or arrangements under, the SA. Schedules therefore usually contain:

- Details of the services to be provided
- Details of the levels at which the services are to be provided
- Lists of equipment that exists, that which is to be sold, that which is to be leased and that which is to be provided to the service provider
- Lists of the software owned by the customer and owned by third parties that is to be used in the provision of the services
- List of rates that will be applicable to the provision of specified services (usually by reference to a particular classification of employee of the service provider)
- Details of the service fees to be paid, the dates on which these are to be paid and other details associated with the price and payment arrangements
- Relevant plans (for example, plans for transition, quality, management and disaster recovery)
- Deed of guarantee
- And many others - depending on the nature and size of the transaction.

The SLA is that part of the SA that defines the services to be provided and the levels at which the services are to be provided. Not only are there different models for SAs, there are also different models used for constructing an SLA. An SLA comprises the following components:

- **Statement of work** - This part of the SA defines the types of services that are to be performed by the service provider.
- **Service level details** - This part of the SA quantifies the services that are to be provided (service levels) and the measures used to assess how the services are being provided.
- **Description of roles and responsibilities** - This part of the SA sets out the roles and the responsibilities of the customer and the service provider and makes it clear who is accountable for ensuring that the statement of work and the service levels are maintained.
- **Reporting procedures** - This part of the SA defines the reporting arrangements and reporting deliverables that are required from the service provider.

SLAs are one of the most important aspects of an SA. SLAs define the level of service that is to be provided, as agreed to by the parties involved. These are explained in the context of business goals and contain one or more service level indicators (Slips).

If an SA is going to be valuable, it must contain SLAs, which should:

- Identify what aspects of service are covered by the agreement
- Define the target level for each aspect of service
- Identify Slips for each aspect of service
- Relate to specific business objectives.

Each aspect of an SLA, such as service availability, must have a target level of achievement. However the agreement might include two measures for each aspect: a minimum acceptable level of service to achieve, and a desired level of service that the service provider should aim to achieve and for which a reward can be given. Planners should aim for between 5 and 10 SLAs per SA, with the goal of keeping it simple.

Slips are at the heart of an SA. They allow the service provision to be measured and quantified. Typical metrics are a percentage of time available, or level of performance for a single aspect of a single type of technology also soft aspects as customer satisfaction might be measured' in between the words. Ideally, Slips should:

- Allow quality to be quantified
- Reflect users' pain points/priorities
- Include availability, performance, and accuracy metrics

- Take into account security features and systems
- Be affordable.

The best way to measure service levels is from the customer's perspective. Aspects to measure include how available and how responsive the services were. Whichever way this is measured, the SA needs to document each SLI used to measure the objectives, and to specify the data source for each. Customers need to determine the most critical aspects of a service and then to ensure that SLAs are defined and negotiated to address them. Critical aspects include service security, service levels, service response times, infrastructure uptime/downtime, network performance, backup and disaster recovery, scalability, reporting, customer and customer satisfaction, overall end-to-end performance of service features, and escalation processes.

Service Agreement Life Cycle

The life cycle of an SA is delineated into the following stages:

- Creation Phase
- Operation Phase
- Removal Phase

Depending on the business scenario, each phase may consist of many sub phases. Additionally, some provisioning activity (putting processes and assets in place to offer the service) may take place prior to creation of an SA, and/or deferred until runtime invocation of a service.

Creation Phase

An SA is first created when a customer subscribes to, or seeks to purchase, a service that is offered by a service provider. A (possibly complex) chain of events leads to the point where the customer wants to subscribe to the service. The customer would first have found out about the existence of the service offering, and gathered enough detailed information about this offering to judge if it is a service that the customer wants. The customer might have been actively searching for a service offering to support an already identified business need.

SA creation involves two activities:

- **Development of the SA** - This reflects that the customer has actually subscribed to the service and is aware of the detailed legally binding extent of what is comprised in the service delivery. The customer has copies of all relevant information about the service. In this step the customer signs a service delivery contract.

- **Preparing the service provision** - All required service subsystems need to be configured to accommodate this new service subscription. This includes access authorisation systems for the service, entries into billing systems, entries into the service logic of the service, reservations of required and per-customer service resources, for example.

The SA creation phase is usually also an input into longer term resource planning activities for the service provider.

Operational Phase

During the provision of a service, a service provider monitors the service level as per the associated SA with the customer and actively manages resources to avoid any violation of identified, defined and agreed levels of service. This includes prioritisation of requests, based on service level assessment, and/or dynamic allocation of resources by assigning a thread priority. The service provider also controls customer access to a service so that it does not exceed the guaranteed throughput level.

A customer may also monitor the levels of received services to avoid any blind trust on a service provider. In some scenarios, the two parties may agree to use an independent third-party for monitoring service levels. Obviously, this is possible if the third-party can independently measure the service levels either via special probe transactions, or by receiving raw performance data from multiple sources (customer and service provider for example).

Any violation of guarantees are noted for future penalty assessment and/or dynamically notified to the parties to the agreement. Upon identifying a violation, the customer may choose to terminate its SA with the service provider. The service provider may use this violation (as well as alerts on potential future violations) to dynamically provide new resources. When a service provider is not able to meet all its commitments, it may prioritise its business commitments using various business objectives (for example, profit maximisation, preferential treatment of loyal customers) and in the worst scenarios terminate certain SAs.

Removal Phase

An SA specifies a validity period, after which the service provision detailed in the SA is terminated. The SA may also be terminated explicitly either by the customer or the service provider (due to the change in requirements of a customer and/or capability of the service provider). The business and legal implications of such a termination is outside the scope of this book. The termination may also be initiated as a result of

multiple/excessive violations of guaranteed service levels specified in the SA. Finally, an SA may be renegotiated to extend the validity period, and/or agree on a new service levels and price.

1.3.2 Operational Level Agreements

SAs are not enough to ensure the timely delivery of service as needed by the business. Operational Level Agreements (OLAs) need to be put in place between related ICT departments in order to unify ICT service delivery throughout an organisation prior to executing customer SAs.

OLAs establish specific technical, informational, and timeframe requirements needed for each ICT department to provide the services that will be delivered to the customer. For example, the email administrator might require specific information, as well as a 48-hour span of time to create an email box for a new employee. This needs to be documented and approved by all impacted ICT departments before the Service Desk establishes an email provisioning SA with the customer.

Without OLAs in place, SAs will frequently promise services that are impractical at best or impossible at worst. Clearly defined OLAs prevent un-kept promises to customers. Additionally, OLAs present a more united ICT service provider to the customer. On many occasions, the exercise of building thorough OLAs can iron out long-standing feuds that have been based on misunderstandings. Ultimately, OLAs hold each group accountable for their service, and also build understanding of each group's contribution to the overall delivery of service.

Key performance objectives and internal incentives need to directly relate to OLA compliance. Since the entire goal of an ICT service provider is to service the customer, well-defined OLAs should provide a template of objectives that show managers those activities that are most appropriate to monitor, report, and reward.

Lastly, OLAs need to serve as a benchmark any time SAs need to flex to meet business requirements. If a specific service is required faster or differently by a business unit, the OLAs show exactly which groups need to be consulted, and which services provided by those groups ultimately affect the delivery of the desired service. If the providing group can agree to change how their service is delivered, then the SA can be changed, and the OLA can be altered accordingly.

1.3.3 Underpinning Contracts

For any services provided by third-party vendors or service providers, Underpinning Contracts (UCs) need to be put in place. UCs are similar to OLAs in that they complete the chain of accountability and control for seamless service delivery. ICT service organisations may put contractual agreements in place with their third-party vendors, and convert the pertinent data into a UC that complements their entire SM process. As service needs change with the business units, ICT Service providers negotiate any changes with third-party vendors as needed, and modify the UC accordingly.

1.3.4 Reporting

Reporting efforts need to complement the key measurements in SAs, OLAs, and UCs. Reports that show the overall SM performance must be communicated upward to ICT management, as well as to the customer's management. Effective SM reporting demonstrates the value of ICT and business alignment. A thorough understanding of ICT service capabilities can help guide business planning. Conversely, ICT can scale back or enhance services to meet business needs in future. Additionally, effective performance reporting is an excellent management tool, as well as providing performance incentives to staff. When you are measuring and reporting the right things, performance reporting can efficiently modify service behaviour, provide incentive, and reward the achievers in a consistent fashion throughout ICT. The net result is a more satisfied and effective workforce.

1.3.5 Service Catalogue

In the same way a restaurant menu sets initial expectations for a customer and provides the basis for personalised service, the Service Catalogue enables ICT organisations to market and commit to achievable levels of service at a predictable cost or planned price. A Service Catalogue clearly defines what services are available from the ICT service provider and aligns those services with business goals and needs. The Service Catalogue focuses specifically on documenting and articulating all the ICT services provided by the organisation. This includes the necessary service requirements that are usually detailed in an SA. However, at its simplest level, a Service Catalogue is a record of all the services offered within the organisation that will contribute to the success of SM. With this focus in mind, a Service Catalogue is developed in order to do or support the following:

- Define and publish all available ICT services and SAs provided by the service provider that align with business needs
- Standardise service fulfilment processes
- Establish achievable service levels
- Determine the associated costs
- Manage performance.

From a high level perspective, the objective of SM is to lead ICT service providers through the design of a Service Catalogue, the development of detailed service descriptions for their services, and the development of an SA for their major, mission-critical services that are well-defined, measurable, and in a negotiable state. These services are then documented in a Service Catalogue.

From an ICTSM maturity perspective, the goals of an organization using a Service Catalogue are to:

- Detail an inventory of all ICT services that are provided by the service provider
- Enable an optimised, service focused organisation
- Describe and document a well-defined and effective set of tailored processes and methods that are supported organisation-wide and are continuously improved
- Provide an integrated set of people, process, and technology that is well-established, can be integrated into the organisation, organisation-wide, and continuously improved as needed.

Specifically, one area that denotes SM maturity within ICTSM is the development and maintenance of a Service Catalogue that includes identifying and qualifying the types of services being provided and integrating Service Level Objectives (SLOs) and agreements information that employs a business and customer service focus.

1.3.6 Technology and Toolsets

Since SM is almost entirely based upon processes, many ICT service managers make the mistake of assuming that SM can be done manually and through effective communications alone. This is a mistake and a common reason why SM initiatives fail. SM is an ICT organisation-wide initiative that is much too complex to monitor and maintain manually. The flow of data alone is much more than can be handled manually. Appropriate SM creates a stream of data that shows the flow of every service transaction through the SM process. The levels of service are then compared with the SA, OLA, and UC, where appropriate, and the pertinent data of the event is logged for reporting.

An SM tool provides analytical data to analyze the environment on a real-time basis and raise alerts when service levels are in danger of slipping lower than the agreed-upon levels both for incidents measured individually and multiple incidents measured cumulatively over time. The benefits of SM are virtually amputated if it is implemented manually. Inferior enabling technology is a key delaying point for a successful implementation of SM. A robust toolset (including those for reporting), however, paves the way for the provider organisation to manage services.

1.4 The Importance of Service Management

For the improvement of ICT services, effective SM is a matter of survival. SM benefits the customer, the ICT service provider and the corporations in which they each work. SM can temper the customer's demands for a higher level of service, as well as hold ICT service providers accountable for delivering agreed levels of service. Recognising that outsourcing continues to be popular, SM can be a defensive strategy, against which, the customer dissatisfaction that leads to outsourcing, can be negated. The following are six reasons why SM is important:

1.4.1 Customer Satisfaction

Customer satisfaction is the foremost reason for implementing SM as it:

- Necessitates dialogue between ICT managers and their customers
- Forces customers to state clearly their requirements and expectations
- Sets benchmarks when customer and provider agree on acceptable service levels
- Establishes dialogue channels which lead to improved reporting.

SM cannot produce happy customers when service level commitments are not met. However SM does significantly raise the overall levels of customer satisfaction when commitments are met, and helps to improve the situation when targets are missed.

1.4.2 Managing Expectations

The use of best practice SM can reduce or avoid mismatched expectations and scope creep. Effective documentation of customer requirements in the SA helps to manage customer expectations, and provides clear statements of situations when the SA would require re-negotiation.

1.4.3 Resource Regulation

SM provides a form of governance over ICT resources, recognising that monitoring of services, by both customer and service provider, to maintain the SAs, ensures early warning for any change in capacity that might be required.

1.4.4 Internal Marketing of ICT Services

When used correctly, SM not only helps ICT departments to deploy resources fairly, but can also be a great marketing tool. By ensuring ongoing, consistent levels of response time and availability, SAs provide a powerful way for ICT service providers to inform customers of their good service levels. In doing so, they suggest that SM takes ICT out of the category of liability and puts it amongst the company's assets.

1.4.5 Cost Control

In terms of cost control, SM can be a double-edged sword. SM can help service providers more accurately determine the true costs of service provision, removing the guesswork which often leads to excess and unjustified costs. It can also help the customer and service provider to understand the true cost of the required service levels, and facilitates informed business decision making to allow the appropriate balance of cost and quality.

1.4.6 Defensive Strategy

ICT managers, like everyone, are motivated by self-interest, suggesting that it is clearly in the interests of ICT managers to implement an SM process. With SM in place, ICT service providers have a tool to use in defending themselves from customer attacks. Clear documentation, well written SAs and metrics for measuring service levels remove any doubt as to whether or not objectives have been met.

SM is the continuous process of measuring, reporting, and improving the quality of service provided by ICT to the business. In order to do this, the ICT service provider is required to understand each service it provides, including relative priorities, business importance, and which lines of business and individual users consume which service. The primary consideration is to ensure that the service levels to be managed are measured and evaluated from a perspective that matches the business goals of the organisation.

1.5 The Benefits of Service Management

Improvements in service quality and reductions in service degradations as a result of effective SM can ultimately lead to significant financial savings. Less time and effort is spent by ICT staff in resolving fewer failures and ICT customers are able to perform their business functions without adverse impact. The following are key benefits of SM:

- ICT services are designed to meet service level requirements.
- Improved relationships are fostered with satisfied customers.
- Both parties to the agreement have a clearer view of roles and responsibilities, avoiding potential misunderstandings or omissions.
- Specific targets are noted, against which service quality can be measured, monitored and reported.
- ICT effort is focused on business priorities.
- ICT and customers have a clear and consistent expectation of the level of service required.
- Service monitoring allows weak areas to be identified, so that remedial action can be taken, thus improving future service quality.

- Service monitoring also shows where customer actions are causing the fault and so identify where working efficiency and/or training can be improved.
- SM underpins provider management.
- In some cases where services are outsourced, the SAs are a key part of managing the relationship with the third-party. In other cases, service monitoring allows the performance of providers to be evaluated and managed.
- An SA is used as a basis for charging and helps demonstrate what value customers are receiving for their money.

The cumulative effect of the benefits listed above leads to a gradual improvement in service quality and an overall reduction in the cost of service provision. In addition, SM establishes, and keeps open, regular lines of communication between service providers and customers. The beneficial impact of this should not be underestimated.

There are five groups of SM benefits; business, financial, employee, innovation and internal.

1.5.1 Business Benefits

The business benefits centre on the improvements in the quality, reliability and predictability of business operations. This leads to better working relationships and satisfaction between customer and provider.

1.5.2 Financial Benefits

Long term financial benefits are associated with a cost-justified ICT infrastructure. These include improved reaction time, preventative measures and service continuity expenditure.

1.5.3 Employee Benefits

Employees have clearer role definitions. They experience increased motivation, job satisfaction and increased productivity. The ICT provider's reputation can also improve.

1.5.4 Innovation Benefits

The clearer understanding of ICT requirements and service levels provides for greater flexibility and adaptability within services. Improvements are noticeable in the ability to recognise changing trends and to adapt quickly to new requirements and market developments.

1.5.5 Internal Benefits

Associated with the improved metrics and management reporting are the improvements in information and its communication to decision makers. Clearer role definition and view of current ICT capabilities lead to process maturity, providing repeatable, consistent and self-improving benefits.

1.5.6 Quantifying the Benefits of Service Management

In quantifying the effects when ICT resources fail or are inaccessible, a corresponding loss of business revenue usually occurs. The associated lost opportunity costs are also accompanied by other losses due to regulatory penalties and market share loss to competitors. It is also important to consider that the cost of downtime varies significantly by industry, acknowledging that financial services companies have extremely high costs associated with even the smallest disruption in service.

In quantifying the impact on business revenue, an understanding of the critical business systems and the associated revenue gained by those systems on an annual basis is required. This information can then be extrapolated to an hourly rate, and by assessing the increased service availability due to proactive SM, a corresponding benefit can be calculated.

SM benefits can also be demonstrated by showing the direct impact of outages and service degradations on end users, demonstrations of which also include the additional time that users are productive based on the increased availability. These improved productivity calculations and forecasts can further strengthen the case for proactive SM.

Potential SM implementers can also use their newly acquired data on future business applications, workloads and service levels to forecast the necessary ICT architecture and assets needed to deliver on those requirements. This guarantees that adequate capacity will be available and also supports a policy of just-in-time upgrades. This approach helps deliver better return on capital employed, recognising that the net present value of deferring hardware purchases can be calculated along with any associated costs for maintenance charges for upgrading software licenses.

Proactive SM also leads to higher utilisation levels of ICT components because of more accurate service quality measurement and the ability to balance workloads more efficiently across available resources. These improved levels of utilisation permit ICT service providers to defer the need for upgrading hardware and software. Being

proactive can also encompass monitoring the service to anticipate and prevent service degradations.

True SM means going beyond the historical and reactive aspects of the process, suggesting that it requires becoming proactive and focusing on continuous service improvements. Being proactive means that an ICT service provider:

- Has developed a thorough, tested, comprehensive program for backup and recovery, including complete and tested disaster recovery
- Monitors the service to anticipate and prevent service degradations
- Thoroughly controls the flow of demands for the service.

The benefits of a successfully implemented SM strategy are clearly evident for both the customer and the provider. These benefits relate to the improvements in communication between customers and providers, increased levels of service and the refining of business practices. Employees of both the provider and customer organisations experience increased productivity and motivation. These benefits of SM can be grouped into two broad categories:

- **Improved Customer Relationship Management** - SM leads to improvements in managing and satisfaction of the customer's expectations. An effective SM strategy includes the relevant planning, procedures and practices that focus on the customer and the satisfaction of their expectations.
- **Improved Business Practices** - SM provides a framework for improving service quality and reducing costs. The process also empowers ICT staff, as the focus on SM improves the marketing of the ICT services. It further facilitates an organisation's ability to respond resourcefully to the dynamic ICT environment.

It is clear that the reasons to implement an SM framework are substantial. The case for SM is convincing for both the provider and the customer. The benefits of a successful SM program will ultimately impact on the bottom lines of the companies who implement it successfully. The improvements in customer relationships, the reduced costs and the improved business practices have significant financial benefits.

1.6 Return on Investments in Service Management Solutions

ICT service providers face multiple challenges in ensuring the delivery of services across the networked infrastructure. In order to recognise the return on an investment in managing service levels, consider the following key issues:

- Customer satisfaction and loyalty
- Productivity
- Proactive planning
- Costs associated with Service Management implementation.

1.6.1 Customer Satisfaction and Loyalty

Given the increased levels of competition facilitated by the internet, the focus within ICT has shifted from improving the effectiveness within the corporation to improving the efficiencies as they apply to the corporation's supply chain. Customer satisfaction and loyalty are areas that are increasingly more important for many organisations and service providers. Many providers are attempting to build relationships with their key customers that are more than just a provider and customer relationship.

It is recognised that these newly found partnerships bring new challenges. A shift has occurred from improving the effectiveness within the corporation to improving efficiencies and effectiveness of a corporation's supply chain, sale channels and marketing efforts. This shift provides the service provider with the daunting task of ensuring that their solutions deliver against the requirements of all the businesses involved, as opposed to an application, server or group with the organisation.

1.6.2 Productivity

Service degradation or outage influences the amount of time end users can work as well as their ability of a user to perform their tasks efficiently and productively. Work outages are both costly and time consuming. It takes an average of 20 minutes for an end user to get to where they were before the application failed. Such degradations in service, commonly referred to as brownouts, occur more frequently than total service outages, and range from slowdowns to unacceptable response times. Quantifying the impact of brownouts drives home the importance of properly implemented service management. This results in significant savings being realised if degradations and outages are minimised or eliminated all together.

1.6.3 Proactive Planning

Planning is needed, in terms of capacity and future business applications, to ensure that the demands of the customer community are met.

Many providers in the marketplace tout their proactive approach towards service management, which involves bringing visibility to the future needs or future problems of an organisation. Future needs can be identified and defined by understanding prospective business applications and workloads, as well as the services required to deliver these to

the end user. The result of this proactive approach enables end users to ensure that adequate capacity is available when the need arises. Service providers are also aware that being proactive in understanding when services will breach thresholds, allows end users to correct issues before they impact productivity and ultimately revenue. In doing so, this approach will allow for a more efficient use of capital and resources and can result in a planned approach to investing in ICT.

A proactive SM strategy offers a number of benefits to consider when calculating the return on investment and investment versus benefits. With SM, organisations will better understand the quality of the service it provides to end users and to the various lines of business. In addition, SM can help ICT service providers to optimise the service it provides to customers by automating and centralising the control of business-critical applications and the underlying components, such as databases, server operating systems, middleware, networks and server hardware.

SM enables ICT service providers to show increased business revenue, as a function of reducing outages and improving ICT service providers performance that directly affect business operations. Recognising that SM methods require ICT service providers to collect user and departmental requirements with appropriate diligence, SM assists ICT service providers forecasting and planning. This in order to meet future workload volumes and required service levels for seasonal, geographic or application-related variations in overall traffic loads. These same measured loads can also be better balanced and distributed amongst existing resources, getting the maximum use of existing components while still meeting service level requirements.

For carriers and service providers, SM can reduce or eliminate the penalties associated with broken contractual commitments, achieving and sustaining better availability and performance. SM leads to increases in shareholder value, and helps eliminate headline grabbing outages that erode investor confidence. Recognising that improved reliability can also translate into a competitive advantage, service providers should approach SM with rigor.

With SM, organisations can reduce the incidence of lost revenue, either because internal transactions could not be completed, or because external customers could not access electronic catalogues or shopping carts. SM ensures that business units or departments with more time-intensive ICT requirements pay accordingly, without relegating more strategic areas or functions to second-class status or endangering a smooth flow of business operation.

1.6.4 The Costs Associated with Service Management Implementation

There are four main areas where costs are incurred in implementing Service Management. These relate to ICT Personnel, Software, Hardware and Management.

ICT Personnel

The costs of ICT personnel to plan, implement, monitor and report against agreed SAs.

Software Costs

The software costs incurred by developing the necessary tools to monitor, diagnose, manage, and report service quality, including the notification of service issues.

Additional Hardware

The costs related to any additional hardware, whether for more servers, workstations and/or specialised equipment for supporting SM.

ICT Management Overhead

The costs incurred by ICT management in justifying SM to executive management, the procurement of software and hardware, recruiting and training ICT personnel and overseeing the SM function.

1.7 Current Service Management Problems

Unfortunately, many SM initiatives fail. Failure can be attributed to a number of factors, most prominent of which is the lack of knowledge and understanding that plagues SM. A number of problem areas impact negatively on SM, mostly concentrated around the confusion surrounding the use and value of SM, the inappropriate application of SM, the manner in which services are measured and managed and the lack of skilled practitioners in the field.

1.7.1 Misinformation and Misunderstanding

While the benefits of integrated management of service levels are significant, the foundations on which they are built are increasingly fractured and lacking in standards support. While SM, including Quality of Service (QoS), SAs and service assurance, are currently topical in ICT circles, a great deal of misinformation surrounds the topic. The cause of this misinformation and misunderstanding stem from five SM myths:

Myth 1: SA equals SM

Managers often mistakenly assume that SM is the same as SA. SM can be successful without SAs, yet, on the other hand, SAs in the absence of SM are meaningless.

Myth 2: SAs will make users happy

SAs are not a magic potion, an SA is a way to set expectations and communicate about the services that are being delivered.

Myth 3: SAs will result in higher service levels

By itself, an SA can not directly produce any changes in the levels of service delivery. However, improvements in service levels sometimes coincide with the establishment of SAs. This is due to the paying of closer attention to services and the improvements in customer/service provider communication during the negotiation phase. An SM program is the reason for any resulting increases in levels of service.

Myth 4: Penalty clauses in an SA will guarantee service levels

Penalty clauses act as incentives to service providers as well as define appropriate compensation when service levels are not met. However, it is very difficult to negotiate penalty clauses that meet these two objectives. Difficulty exists in extracting these penalties without the assistance of costly legal action.

Myth 5: SAs are not necessary when outsourcing ICT functions

Many companies do not have SAs with their outsourcing partners. This level of trust is both naïve and could be considered as negligence on the part of the managers.

1.7.2 Developing Service Agreements

Developing SAs is a most difficult problem and must be addressed. SAs must be consistently and accurately defined, documented and monitored, with regular reviews. If not, then potential service improvements are not realised and SAs may fall into disuse. It is more difficult to resurrect them or to re-launch SM. Consequently, it is far better to recognise the potential difficulties in advance by putting correct development procedures in place.

SAs establish a negotiated and agreed upon two-way accountability for service. They build credibility for the service organisation by indicating how serious they are about providing support. Yet while many organisations understand the vital role played by SAs, many are unaware or unwilling to dedicate the amount of resources required to maintain them.

1.7.3 Reporting

Reporting efforts need to complement the important measurements in SAs. Reports that show the overall SM performance must be communicated to ICT management and ICT middle management, as well as to the customer's management structures. Effective SM reporting is the medium of communication that demonstrates the value of ICT and business alignment, serving as a management tool.

Reporting to customers about performance is a key monitoring aspect of SM. Unfortunately, much of today's ICT reporting is of limited worth as the associated reports are usually filled with technical data that has little, or no, value to the customer. Reporting can be done periodically or in real-time, the latter enjoying first priority. A critical aspect of SM failures is a lack of attention given to the development of reporting structures.

1.7.4 Semantic Disparity Problem

There are methods and challenges regarding SM, however, the crux of SM involves two competing strains, referred to as the semantic disparity problem:

- Parameters that are easy to measure for ICT specialists do not translate well into parameters that are readily understood by customers.
- Parameters that are easily understood by customers are not easy to measure for ICT specialists.

There is little new in this distinction, as Albert Einstein's originally observed that 'not everything that can be counted counts and not everything that counts can be counted'.

1.7.5 People Issues

People issues are a big challenge to implementing and improving SM. People issues include training, workflow and role definition, and management of change.

1.7.6 Fluid Business / Static Service

The business processes that are supported by services are in a state of constant flux. Yet the provider continues to offer the same services in the same way. The services offered previously may have become ill adjusted to the business needs, and/or have not kept pace with the change. The business, on the other hand, may have embarked on changes to stay competitive. The result has been a widening gap between the services offered and their usefulness to the business units.

1.7.7 Inefficient or Non-Existent Change Management

Change requests that come to ICT from the business units should be managed through a formal, customer-facing change management process. Often, however, internal ICT groups circumvented this formal process.

1.7.8 Disunity

A problem with change management is that it is often a symptom of a deeper cultural problem. Because there is no unified vision for ICT service and support, each group forms its own vision and ends up stepping on the vision and goals of the other groups. The result is that, over time, political barriers form that can lead to cumbersome procedures that are often burdened with a protective hidden agenda. As ICT groups hoard their knowledge, support often takes longer, and as a result, the true, united capabilities and service value of ICT are unknown to ICT or its customers.

1.7.9 The Deception of Customer Satisfaction

It is important to measure customer satisfaction at the service transaction level. This does not necessarily measure how well ICT services are aligned with business needs. Many ICT support managers have been deluded by good customer satisfaction scores that dismiss them from the hard work of forming true business alignment by engaging in continuous dialogue with their customers.

1.7.10 The Legacy of Failure

Many organisations can attest to failed ICT Service Agreements. In these organisations, SAs often took months to create. The customers are most cooperative in telling ICT service providers what they need, and the service provider creates the SAs. The results are documents that are somewhat complex, requiring work to monitor and maintain. Additionally, these agreements called for a system of measurements that are meaningful for the business units, but require data from the ICT service provider that is time consuming to assemble. Eventually these SAs are tossed in a drawer and became dead documents. They are not monitored, and no continuous feedback process, to stakeholders, is in place. The result is a lack of accountability between all those involved. ICT service providers must establish a link between service performance and business performance.