

Can Operational Level Agreements be the Answer to Multi-sourcing Blues in the Area of Cross-vendor Co-operation?

By Navoneil Bhattacharyya

If implemented judiciously, this comprehensive methodology for promoting cross-vendor co-operation answers the call

Increasingly, businesses around the world are moving towards newer and novel approaches to sourcing IT services, exploring smart-sourcing options that offer a combination of best-in-class IT services as well as cost vantage in the form of increased contractual efficiencies. The option now chosen more often than not is that of Multi-Sourcing, a model where different areas of IT services are sourced from multiple best-in-class vendors, each a leading provider specializing in its specific area, be it Infrastructure services, or Application Development, Support or Maintenance services. However, this option throws up its own poser: the challenge of ensuring and promoting co-operation between the multiple vendors with the objective of maintaining and bettering end-to-end IT services to the business, while also minimizing vendor management overheads. Operational Level Agreements

(OLAs) - bilateral agreements between vendors involved in a multi-vendor sourcing engagement - provides a comprehensive resolution of this challenge. This article outlines the concept and recommendations relevant to Operational Level Agreements, emphasizing the following aspects of the same.

- Background and conceptual overview - the Why and the What
- The Essential Elements - What aspects should be covered in the OLAs?
- Implementing OLAs - How should OLA compliance and effectiveness be measured?
- The Process of Definition - How should one go about defining OLAs?
- Benefits - What are the tangible benefits of OLAs to a client's business?

OLA - THE BACKGROUND

THE NEED

The search for increased contractual efficiencies in the world of IT services outsourcing often throws up the attractive strategy of Multi Sourcing. This option, however, has its own complexities, chiefly:

- The individual contracts between the client and individual vendors are different, with each having its own set of Service Levels and other contractual commitments
- There are multiple interfacing points between the different outsourced IT services for most IT service areas and processes. This translates to multiple vendors, typically industry competitors, often being required to work together to provide a single service
- Each vendor is often dependent on one or more of the other vendors for the provision of its own contractual services to the client.

There is, therefore, a need for the establishment of some 'ground rules' upfront, in the form of a formal exercise that will:

- Identify and address cross-vendor dependencies across the areas and processes of the outsourced IT services;
- Identify and resolve contractual gaps, in the area of service provision and associated service levels, across vendors; and
- Identify and resolve tooling and process gaps, with respect to the holistic contractual obligations across vendors.

Operational Level Agreements, henceforth to be referred to as OLAs in this article, address the above need.

WHAT ARE OLAS?

Originally, the concept of OLAs - as envisaged by ITIL (IT Infrastructure Library) - was applied to address dependencies across internal sub-departments of the IT department of an organization, by defining agreements between the same.

The applicability of this concept, however, is now being further explored and extended, in this context, to refer to bilateral agreements between the vendors involved in providing the various IT services in a multi-vendor multi-sourcing engagement. These address cross-vendor dependencies across different areas of IT services contracted to be provided by the various vendors to the client, by means of a defined mechanism and related procedures. These areas, typically, span across Service Support, Application Development as well as Service Management areas.

These cross-vendor dependencies are typically addressed in the form of mapping the same to "services to partner vendors," also called as 'Underpinning Services.' Thus, for a given process / activity / service, if Vendor A is dependent on Vendor B for meeting any of its service levels or other contractual commitments, then the same would be mapped to Vendor B providing the relevant underpinning service(s) to Vendor A.

THE ESSENTIAL ELEMENTS OF AN OLA

INTRODUCTION

The following are the key elements recommended to be incorporated in any OLA:

- Responsibility (RACI) Matrix, detailing the dependencies and associated underpinning services for all areas / services sought to be included in the OLA

- Governance, including the following:
 - Management organization and communication
 - Cross-vendor communication, including multi-level escalation and contact points
 - Dispute resolution mechanism.
- Maintenance process
- OLA implementation, detailing the controls to ensure the effective implementation of the OLAs, including the following:
 - Measures and measurement mechanism
 - Reporting mechanism
 - Compliance reporting mechanism
 - Credit Distribution mechanism.

The above elements are discussed in further detail in the following sections of this article.

RESPONSIBILITY (RACI) MATRIX

The Responsibility Matrix, or 'RACI' Matrix, is the heart of the OLA, since this is the element that captures, at the lowest level of detail required in the OLAs, the cross-vendor dependencies, and the related underpinning services.

In essence, this part of the OLA is intended to, at an individual activity / step level, define upfront the mutual responsibilities of the vendors involved, by allocating – either in singular or combination form, as applicable – the following values:

- **R: Responsible** – this indicates the party required to execute the activity / step.
- **A: Accountable** – this indicates the party having the “bottom-line” for the activity /step, hence is also the party with decision (“Yes/No”) authority for the activity/step.

- **C: Consulted** – this indicates the party involved in providing inputs prior to the decision / action related to the activity / step.
- **I: Informed** – this indicates the party that needs to be informed of the outcome of the activity / step.

The above values, in conjunction, lend their name to the matrix, hence referred to as 'RACI' matrix.

Salient points and recommendations

- The basis of the RACI values is firmly entrenched in the individual contracts between the vendors and the client. Accordingly, the RACI values differ from engagement to engagement
- Each activity / step may have multiple parties allocated with the 'R', 'C' or 'I' responsibilities.
- However, it is recommended that the activities / steps in the RACI matrix are broken down so as to ensure that no row has more than one party with the 'A' responsibility. This improves clarity, thus reducing the risk for cross-vendor disputes later in the engagement
- It is also possible that the same party may have more than one type of responsibility for the same activity / step. In all such cases, all of the applicable responsibilities should be documented for the relevant party
- It is recommended that, if the nature of the vendor contracts allows it, one consolidated RACI matrix is defined, based on vendor roles rather than organization names. This improves consistency of service and dependency definition, in addition to facilitating ease of maintenance
- The discussions on the RACI matrix,

typically, consume 30% to 40% of the overall effort spend in the definition of OLAs.

Illustration of Raci Matrix

Table 1 provides an indicative illustration of a RACI Matrix.

For the purpose of this illustration, limited to the Incident Management area, a multi-sourcing scenario where Service Support functions are sourced from 3 vendors, with the following responsibilities, has been assumed:

- Vendor A: Service Desk Provider (to provide Service Desk and Level 1 Support functions)
- Vendor B: Level 2 Provider
- Vendor C: Level 3 Provider

GOVERNANCE

This aspect of the OLA focuses on addressing the following aspects:

- When, how and why should the vendor organizations talk to each other?
- What are the governance mechanisms and forums associated with OLA compliance check and effectiveness?
- What is the level, scope and scale of the client's participation in cross-vendor forums?

Accordingly, this section of the OLA provides a governance framework around the OLA implementation, and defines operational - functional / hierarchical escalation and relationship / engagement contacts - as well as tactical communication between the vendors. In addition, this section also details the governance approach for OLA reporting and report validation. In case the scope of some OLA forums warrants it, client involvement in the same may

Description	Service Desk Provider	L2 Provider	L3 Provider
Incident Logging	I	I	A/R
Incident Classification	I	I	A/R
Incident Assignment – L1 to L2	-	C/I	A/R
Incident Assignment – L2 to L3	C/I	R	A
Incident Re-assignment by L2	C/I	R	A
Incident Re-assignment by L3	R	C/I	A
Monitoring incident progress during lifecycle	C/I	C/I	A/R
Coordinating cross-vendor investigation	C/I	C/I	A/R
Incident Closure	I	I	A/R
Providing recovery scripts & data by L2	-	A/R	C/I
Providing recovery scripts & data by L3	A/R	C/I	C/I
Providing code fix and installation instruction by L2	-	A/R	C/I
Providing code fix and installation instruction by L3	A/R	C/I	C/I
Installation of fix and workaround	C/I	C/I	A/R

Table 1: RACI Matrix for incident management (indicative)
Source: Infosys Experience

also be indicated, with prior agreement.

This element also tackles the process of resolution of cross-vendor disputes, and the escalation framework involved.

The definition of this element typically consumes 5% to 10% of the total effort spend in the OLA definition process.

MAINTENANCE PROCESS

This element of OLA documentation details the process of further maintenance of the OLA, in terms of the following:

- Ownership of the OLA

- Review frequency (recommended to be six-monthly)
- Change Management mechanism, including trigger, execution, approval and baseline procedures.

The definition of this element typically consumes 5% to 10% of the total effort spend in the OLA definition process.

IMPLEMENTING OLA: MEASUREMENT AND REPORTING

In order to measure the effectiveness of OLAs, it is essential for the client to be able to monitor and measure the actual compliance, at the ground level, of each vendor against their OLA - underpinning services - commitments. It is equally important for the vendors themselves to be able to measure and report their own and their partners' compliance to their respective OLA commitments, so as to enable them to perform an accurate root cause analysis in case of any service or service level failure.

The need for an OLA measurement - and, consequently, reporting - mechanism is, therefore, paramount and critical to all parties concerned.

OLA COMPLIANCE SLA

In order to facilitate vendor OLA compliance measurement and reporting without unduly increasing vendor management or service management overheads of the client, it is recommended that the same is measured and reported in the form of a Service Level reporting the performance of a vendor with respect to its OLA commitments. The administration and management of the same can, hence, be treated in conjunction with and as part of normal service level management.

OLA MEASUREMENT APPROACH - COMPLEXITY FACTORS

However, the adoption of the underlying OLA measurement mechanism / approach - to be used to measure and report against the above-mentioned OLA Compliance SLA, requires an exercise in optimization, given the various complexity factors involved, as elucidated below.

- The relationship between the underpinning (OLA) service(s) and the underpinned SLA(s) may be one-to-one, one-to-many as well as many-to-one
- Potentially, the effect of non-performance of different underpinning services within the same OLA area on the receiving vendor's ability to provide its related contractual service may be different. The impact of this aspect is, however, limited to cases where multiple underpinning services are related to the same underpinned SLA
- In practice, it is expected that there will be multiple (potentially a large number of) instances of occurrence of each OLA underpinning service as well as underpinned service
- Potentially, the impact of non-performance of different responsibilities for a given underpinning service on the ability of the receiving vendor to provide its contractual service may be different. In other words, the impact of non-performance of the 'Accountable' responsibility may be different from that of the 'Consulted' responsibility for the same underpinned service
- It may not be feasible to objectively quantify the performance of all underpinning services, as some may be qualitative in nature

- OLAs, by nature, can be viewed as a negative incentive for vendor co-operation. It is essential, therefore, for the OLA measurement mechanism to be explicitly fair to all parties concerned, and provide sufficient positive incentive to promote vendor collaboration.

Hence, it is recommended that an optimal measurement solution be adopted, in the interest of ensuring practicality without compromising on the critical OLA commitments.

OLA MEASUREMENT APPROACH - ALTERNATIVES

Keeping in mind the complexities discussed above, this article introduces the following three possible OLA measurement solutions:

- Low OLA Volume Efficient (LOVE)
- Medium OLA Volume Efficient (MOVE)
- High OLA Volume Efficient (HOVE)

Research on defining specific optimal thresholds, in terms of both OLA transaction and OLA measure volumes, for the three OLA measurement approaches defined above, is currently ongoing.

OLA MEASUREMENT - CREDIT DISTRIBUTION APPROACH

In consonance with the concept of the OLA services of Vendor B underpinning the contractual SLAs of Vendor A, it is recommended that the OLA measurement approach incorporates an agreed mechanism for the distribution of service credit in the case of a receiving vendor (Vendor A) failing to meet its service level owing to the failure on the part of Vendor B (OLA failure) to provide the relevant OLA underpinning service(s) to Vendor A.

Parameter Description	LOVE	MOVE	HOVE
Comparison of Approach Philosophy:			
Percentage attainment target defined for all individual OLA measures.	N	Y	N
All OLA failures are counted, irrespective of whether the same results in SLA failure or not.	Y	Y	N
Only OLA failures resulting in SLA failure are counted.	N	N	Y
All instances of OLA underpinning services (i.e. OLA transactions) are taken into consideration.	Y	Y	Y
Comparison of Benefits:			
Focuses vendor attention on end-to-end service delivery	N	N	Y
Protects over-performing vendor	Y	Y	N
Accounts for varying criticality of OLA measures	N	Y	N
Offers positive incentive to vendors	N	N	Y
Complexity of implementation	Medium	High	High
Suitability for low volume of OLA transactions	High	Medium	Low
Suitability for low number of OLA measures	High	Medium	Low
Suitability for medium volume of OLA transactions	Low	High	Low
Suitability for medium number of OLA measures	Low	High	Low
Suitability for high volume of OLA transactions	Low	Medium	High
Suitability for high number of OLA measures	Low	Medium	High

Table 2: Comparison of OLA measurement approach alternatives

Source: Infosys Research

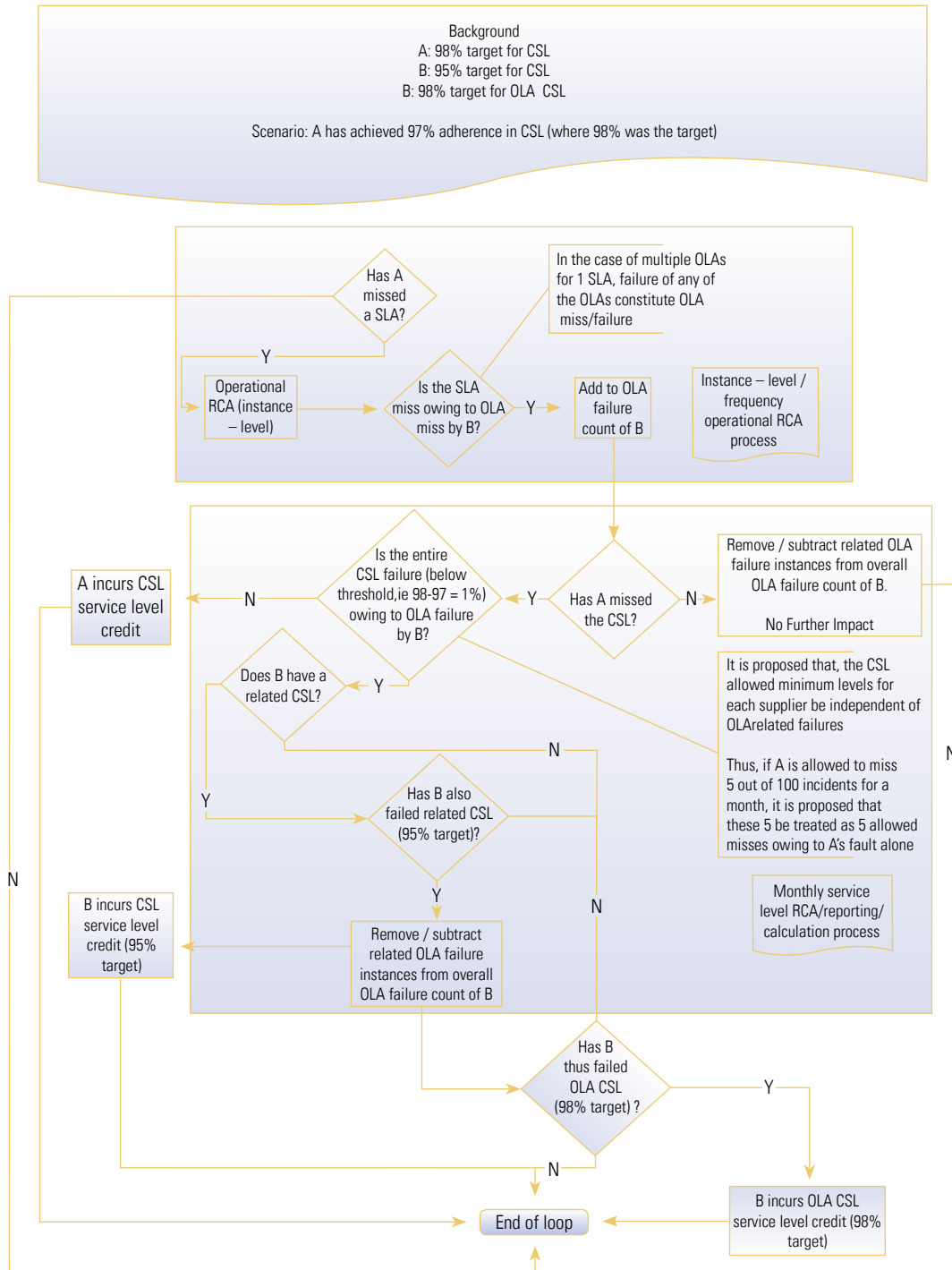


Figure 1: Service credit distribution - a suggested approach

Source: Infosys Research

Figure 1 illustrates a recommended approach for service credit distribution. This process should be executed only when the causality of the SLA failure can be directly linked with the OLA failure on the basis of evidence and without disagreement between the vendors involved.

For the purpose of this illustration, it is assumed that:

- Vendor A is the vendor receiving the OLA underpinning service(s)
- Vendor B is the vendor providing the OLA underpinning service(s)

The discussions on the finalization of the detailed OLA measurement and reporting approach, as well as the related aspects like the Credit Distribution approach and finalization of the actual OLA Measures adopted, typically, consume 30% to 50% of the overall effort spend in the definition of OLAs.

DEFINING THE OLA - THE RECOMMENDED PROCESS

In order to manage the complexities involved in the creation of the OLAs, it is recommended that a time-boxed project approach be adopted for optimal efficiency and productivity. The following details the recommended process.

PROCESS INPUTS:

- Process documentation (for all service areas to be covered)
- Vendor contracts (not expected to be shared across vendors, except for relevant operational / service details).

ACTORS:

- Vendor representatives, from each vendor, conversant with their respective

contracts and experienced in the operational aspects of the delivery of services

- Client anchor, preferably from the Vendor Management function.

MAJOR ACTIVITIES:

- Kick Off, including project planning (using time-boxed approach)
- Adoption of OLA measurement and reporting approaches / mechanisms
- Identification and documentation of cross-vendor dependencies
- Identification and documentation of relevant underpinning services, in the form of Responsibility Matrix (or matrices), for all activities requiring multi-vendor collaboration (correlated to the above-mentioned dependencies and the vendors' service levels)
- Identification of OLA measures, based on the above-mentioned underpinning services and the measurement mechanism adopted
- Identification of any contractual gaps between the various vendor contracts that adversely affect the ability of any vendor to provide the end-to-end services to the client – it is recommended that the identified gaps or issues are then resolved between the affected vendors and the client as a separate activity and the resolution fed back to the OLA definition process
- Adoption of OLA implementation methodology, in terms of related data capturing and reporting tooling and processes
- Documentation of additional collateral defining the cross-vendor relationships, including the following:

- Contact and escalation points and mechanism
- Management organization and communication
- Dispute resolution mechanism
- OLA maintenance process.
- Any additional process documentation, that may be required to further elucidate the contents of the OLAs
- Final cross-vendor sign off and client approval of the OLAs.

PROCESS OUTPUTS:

- Defined OLAs (including additional collateral) that are signed off between the vendors (on a bilateral basis) and approved by the client
- Resolution of contractual gaps that may have been identified during the OLA definition process
- Refinements of individual vendor contracts, that may be required as part of the above-mentioned resolution.

Table 3 provides indicative effort spend for the major activities, expressed as a percentage range of the total effort spent in the OLA definition process.

Figure 2 illustrates the process flow for this recommended approach.

BEST PRACTICES

- Although OLAs are bilateral vendor agreements, it is recommended that, where possible, multi-party OLA negotiations are held so as to ensure common agreement on essential elements of service delivery. This will further improve the harmony and consistency of end-to-end service delivery to the client.

S. No.	Major Activity Description	Indicative Effort % (of total effort)
01	Kick Off / Initiation	5 – 10
02	Finalization of OLA measurement, reporting and credit distribution mechanisms to be adopted	15 – 25
03	Finalization of RACI matrices (including identification of cross-vendor dependencies and underpinning services)	30 – 40
04	Finalization of OLA measures	15 – 25
05	Finalization of OLA implementation methodology (with respect to related data capturing and reporting tooling / processes)	10 – 20
06	Documentation	10 – 20

Table 3: OLA definition process activities - indicative effort break-up

Source: Infosys Experience

- A conscious effort on the part of the vendors, as well as the client – in an oversight capacity, is recommended to ensure that the level of detail included in the OLAs is optimal, so that the OLAs retain their usefulness (by having enough detail) without losing its practicality (by having too much)
- It is recommended that the services are prioritized upfront, on the basis of mutual agreement between the client and the vendors, so that adequate focus can be given to the more critical areas during the OLA definition process. This is also a useful input in achieving an optimal level of content in the OLAs, as well as an efficient usage of effort all round in the OLA definition process
- Client involvement, in an oversight capacity, is an important factor in improving the efficiency and productivity of the OLA definition process. The effort spent

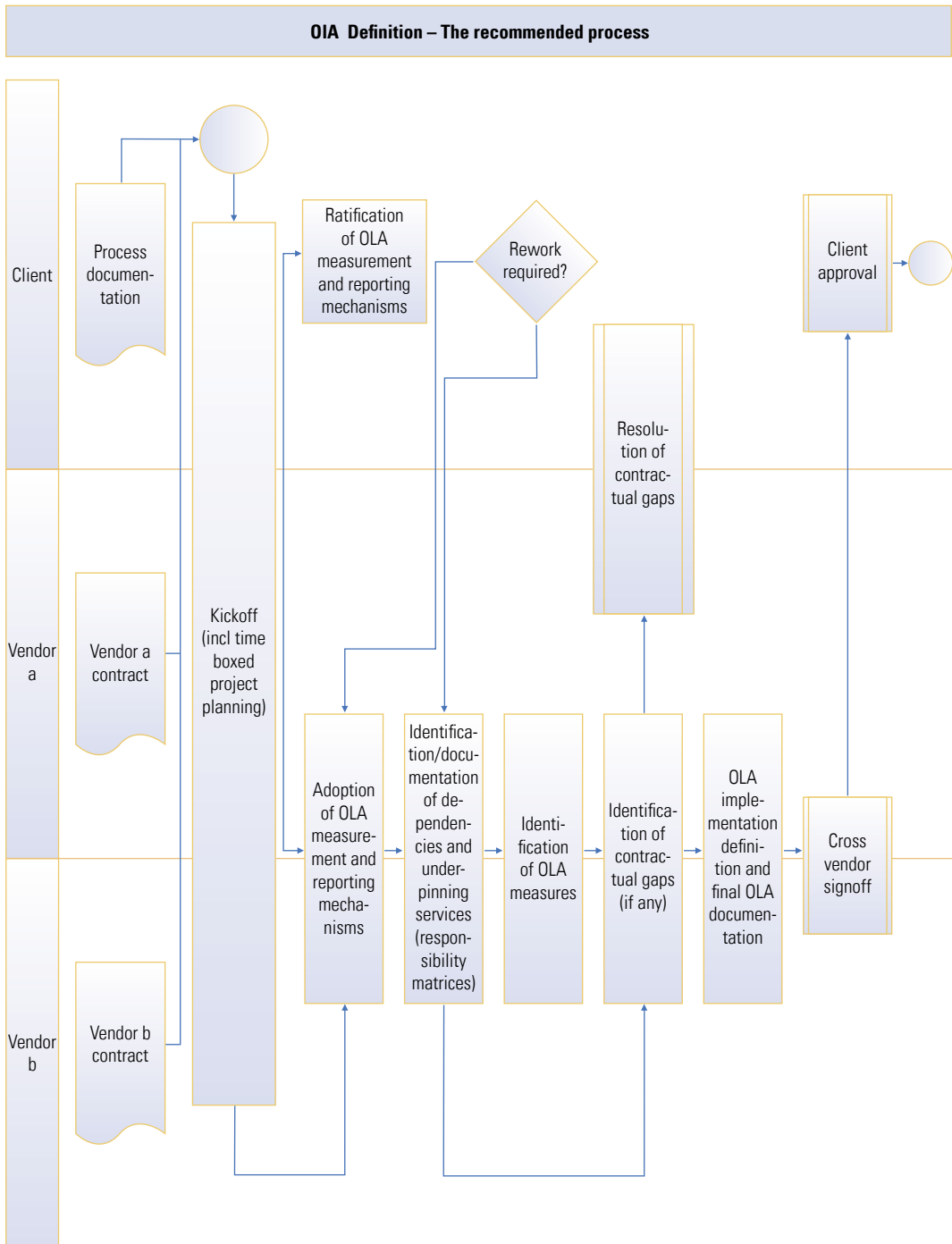


Figure 2: OIA Definition process - a recommended approach

Source: Infosys Experience

in such oversight activities – typically 10% of the total effort spend in the OLA definition process – should reap manifold benefits, once the OLAs are in place

- For the provision of some of the end-to-end services, a vendor may be dependent on the client for some activities. In such cases, it is recommended that the client is also included as a party to the OLAs.

BENEFITS

Definition and implementation of OLAs offers the following significant advantages to the IT and, ultimately, to the Business organization of the client.

- Increased operational efficiencies for end-to-end service delivery, and the resultant cost benefits
- By comprehensively addressing the core risk associated with the Multi Sourcing model, this makes it possible for client organizations to embrace this sourcing model and, thus, reap the inherent contractual efficiencies associated with
- Contributes significantly to increasing contract efficiencies in terms of ensuring tighter and more seamless operations, by proactively identifying gaps across vendor contracts and initiating resolution
- Reduces the vendor management overheads of the client as well as potential process bottlenecks, by encouraging direct and effective cross-vendor co-operation
- Provides an effective mechanism for evaluating vendor performance and

trends focused on end-to-end service delivery rather than on individual services, thus improving the quality of service offered to the business

- The focus on end-to-end service delivery, underlined by the OLAs, significantly enhances the alignment of IT with the business needs and expectations.

REFERENCES

1. Multi-sourcing Governance through Operational Level Agreements, Navoneil Bhattacharyya and B. Atri, www.infosys.com, Infosys Technologies Limited, India, June 2006.
2. Sections on Underpinning Services and Operational Level Agreements, ITIL process documentation, February 2006.

ACKNOWLEDGEMENTS

The author acknowledges the following key contributors to the development of the different approaches and recommendations related to the definition of the different elements of an OLA, described in this article.

- Neeladri Mitra, Infosys Technologies Limited
- Gururaj Kashyapa, Infosys Technologies Limited
- Abhijeet Phadnis, Infosys Technologies Limited
- Pradeep Kadam, Infosys Technologies Limited
- Mritunjay Singh, Infosys Technologies Limited
- Thothathri V., Infosys Technologies Limited 

Author in this issue

NAVONEIL BHATTACHARYYA

Navoneil Bhattacharyya is a Project Manager with the Europe, Middle East and Africa (EMEA) business unit, Infosys. He is involved in developing the concept of Operational Level Agreements, as applied to multi-vendor outsourcing scenarios, and the practical implementation of the same. He can be reached at navoneil_b@infosys.com.

For information on obtaining additional copies, reprinting or translating articles, and all other correspondence, please contact:

Telephone : 91-80-41173878

Email: SetlabsBriefings@infosys.com

© SETLabs 2006, Infosys Technologies Limited.

Infosys acknowledges the proprietary rights of the trademarks and product names of the other companies mentioned in this issue of SETLabs Briefings. The information provided in this document is intended for the sole use of the recipient and for educational purposes only. Infosys makes no express or implied warranties relating to the information contained in this document or to any derived results obtained by the recipient from the use of the information in the document. Infosys further does not guarantee the sequence, timeliness, accuracy or completeness of the information and will not be liable in any way to the recipient for any delays, inaccuracies, errors in, or omissions of, any of the information or in the transmission thereof, or for any damages arising there from. Opinions and forecasts constitute our judgment at the time of release and are subject to change without notice. This document does not contain information provided to us in confidence by our clients.

Infosys[®]

POWERED BY INTELLECT
DRIVEN BY VALUES