

LHAG Insights

Technology, Media & Telecommunications



G. Vijay Kumar
Partner
TMT

E: vkg@lh-ag.com



Nicole Shieh E-Lyn
Associate
TMT

E: sel@lh-ag.com



Harvey Ng Yih Xiang
Associate
TMT

E: nyx@lh-ag.com



Wee Yun Zhen
Associate
TMT

E: wyz@lh-ag.com

30 MAY 2023

Mastering IT Agreements: Navigating Service Levels Agreements

In the fast-paced world of IT, Service Level Agreements (“SLA”) play a crucial role in fostering successful partnerships between customers and IT vendors. Think of SLAs as a roadmap that provides customers with clear and measurable performance indicators, ensuring that IT vendors deliver services that meet their standards and expectations.

However, just like a poorly written code, a poorly crafted SLA can fall short of its intended purpose. Whether it is a lack of documentary evidence to support claims of breaches, failure to accurately capture the customer’s unique needs in the SLA, or the lack of real-time monitoring capabilities, these pitfalls can render SLAs challenging to enforce, defeating their purpose.

This alert offers guidance on the best practices when navigating the intricacies of SLAs and optimising IT agreements.

Step 1: Define Clear Expectations

To establish effective SLAs, it is essential to involve the right people. Key stakeholders from IT, finance, legal, and other relevant departments can contribute valuable

insight to defining the customer's objectives and requirements.

Furthermore, the process of defining performance indicators and service level requirements should be a collaborative effort between the customer and IT vendor. A joint effort ensures that both parties identify and agree upon measurable metrics that accurately reflect the desired outcomes. Discussions should focus on factors such as: service availability; response times; error rates; methodology of monitoring service levels; and other relevant aspects.

Moreover, clarity is paramount when it comes to service level expectations. Vague language and ambiguity make it difficult to gauge whether the IT vendor is meeting the agreed-upon standards, leading to confusion and frustration. To address this, the SLA should provide crystal-clear terms in respect of the expected performance levels. These metrics should be specific, measurable, and closely aligned with the customer's business needs. For example, if an electronic payment system company places utmost importance on response time, this should be carefully and precisely defined in the SLA.

Step 2: Monitor With Precision

Customers should implement a robust system to monitor vendor performance and ensure adherence to service level requirements. This entails regular reporting, performance audits, and other evaluation mechanisms. By monitoring IT vendor performance, customers can swiftly identify any breaches and take appropriate action to mitigate potential damages.

Customers should leverage on technology to streamline service level management and enhance compliance. Automated monitoring tools, real-time reporting systems, and other software solutions enable customers to track and manage IT vendor performance effectively and proactively.

Monitoring IT vendor performance serves 2 important purposes: identifying breaches; and securing evidence.

Customers need solid evidence to support claims or disputes in cases of SLA breaches. The evidence may include performance reports, system logs, email communications, and any other data or documentation that showcases the IT vendor's failure to meet the agreed-upon service levels.

By meticulously gathering and organising the relevant evidence, customers can lay a strong foundation for enforcing the remedies outlined in the SLA.

Step 3: Regularly Review And Update

As the needs of customers and the IT industry undergo continuous evolution, it becomes imperative for SLAs to adapt accordingly. Regular SLA reviews and updates ensure their continued relevance and alignment with evolving business needs and legal obligations. These reviews present opportunities to assess IT vendor performance and make necessary adjustments to service level requirements.

One effective approach is to make a provision for an annual review in the SLA. This periodic evaluation allows parties to determine if any revisions or updates to the SLA are necessary. By keeping SLAs updated, customers ensure that their IT agreements consistently reflect their current needs and objectives.

Step 4: Choose Remedies Wisely

SLAs should be equipped with clear provisions that define the remedies for any breach of service levels. These remedies allow IT vendors to be held accountable and minimise legal risks for the customer.

Remedies for breach of SLA can include financial penalties, damages, termination of the agreement, or other appropriate relief. The choice of remedy depends on factors such as the nature and severity of the breach, the terms of the IT agreement, and other relevant considerations.

If the SLA provides for termination of the agreement after a period of continuous breach, the procedure should be



Head Office

Level 6, Menara 1 Dutamas
Solaris Dutamas
No. 1, Jalan Dutamas 1
50480 Kuala Lumpur
Malaysia
Tel: +603 6208 5888
Fax: +603 6201 0122

Johor Office

Suite 21.01
21st Floor, Public Bank Tower
No.19, Jalan Wong Ah Fook
80000 Johor Bahru, Johor
Tel: +607 278 3833
Fax: +607 278 2833

Penang Office

51-12-E, Menara BHL Bank,
Jalan Sultan Ahmad Shah,
10050
Penang
Tel: +604 299 9668
Fax: +604 299 9628

Email

enquiry@lh-ag.com

Website

www.lh-ag.com

clearly stipulated. It goes without saying that termination should only be considered as a last resort after all other available remedies have been exhausted. Customers should carefully assess the potential legal and financial consequences associated with termination, before proceeding to issue a notice of termination.

It would be advisable to engage legal counsel to assess the viability of the evidence supporting termination based on a breach of SLA. This avoids the risk of wrongful termination, which could result in significant penalties for the customer, including payment of damages and potential loss of profit.

Conclusion

Managing service levels in IT agreements is the key to ensuring the smooth operation of a customer's IT systems while also minimising the risk of costly litigation. These suggested measures may help customers and IT vendors to formulate a clearly defined SLA which will serve to protect the interests of both parties.

If you have any queries please contact associates **Nicole Shieh E-Lyn** (sel@lh-ag.com), **Harvey Ng Yih Xiang** (nyx@lh-ag.com), **Wee Yun Zhen** (wyz@lh-ag.com) or their team partner, **G. Vijay Kumar** (vkg@lh-ag.com).