1.0 INTRODUCTION

Governance mechanism is playing vital role in service performance. Previous research found governance mechanism positively related and highly impact to service performance [1], [2]. There are two types governance mechanism, which is contractual governance and relational governance. Contractual governance is stand for formal, legal and economic governance strategy, which is expressed as the degree to which the formal contract is currently established in outsourcing [3]. The other governance mechanism is relational governance refer broadly to mechanisms that enhance the building of trust and social identification [4].

Poppo & Zenger (2001)[5]view that formal contracting methods and relational issues complement each other and should be considered concurrently. Even these two governance mechanisms complement each other, the degree of relation and impact to the performance is differently act. Previous study by Ferguson et al., (2005)[3] discovered relational governance is the predominant governance mechanism compared to contractual governance associated with exchange performance. While the study by Lu et al., (2014)[1] discovered giving more impact to the performance. These condition was discussed in other study where the factor that effect the performance arises due to Knowledge-based assets or Property-based assets in outsourcing [4]

In the outsourcing of facility management, contract play important role to described outcomes from the business exchange. According to Transaction cost economic (TCE) a contract between a buyer and a seller means the specific transactions, agreements, and promises, and the terms of the exchange are defined by price, asset specificity, and safe-guards, under the assumption that quantity, quality, and duration are all specified [6]. Service level agreements are part of contractual governance, as they are written, formal agreements between the service

Abstract

Governance mechanism is playing vital role in service performance. Service level agreement is a governance mechanism to facilitate the performance management of the facility management services outsourced. Service level agreement is indispensable document to be referred to ensure that the facility management services delivery comply the quality standard stipulated in the agreement. The service level agreement elements represent the required service performance. Previous research indicates that one of the reasons for the agreement failure is due to unclear and confusing service level agreement elements. The aim of this study is to develop the service level agreement fundamental elements for facilities management services in outsourcing contract.

Keywords: Governance; service level agreement; performance; facility management; outsourcing

Figure 1.0: Conceptual Framework

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provider and the service recipient. By being linked to the formal contract, they often contribute to more contract detail and contract flexibility [7]

### 2.0 OUTSOURCING IN FACILITY MANAGEMENT

Facility management (FM) is a new grassland compared to others field of management in research perspective [8]. However, facility management has been more widely recognized as a component of the business value chain and it is an indicator of the performance directly with the core business of which it is the success of organizational performance [9]. According to Alexander [10] Facility management is a function that enables organizations to communicate and maintain a quality work environment for human resources and physical needs therefore managers can accomplish core business objectives.

It is not easy for an organization to manage all support activities, especially for organizations that have a thriving business and greatly competition. Management costs increase if the organization takes care of all support activities for business [11]. Therefore, outsourcing allows organizations to focus on function, given the scale of economic organization, minimizing investment and reducing the administrative burden [12].

However, FM is not only intended to reduce operating costs, but it also focuses on increasing the efficiency of the facility provided [13]. Outsourcing of FM is related to the coordination, management, monitoring and evaluation of the services provided [14]. FM outsourcing is the potential sourcing strategy to improve organizational efficiency and effectiveness of management [15].

Outsourcing has become a key in many area of business strategy in recent year and it also an approach to solve the business problems [16]. Organizations that execute various tasks of asset management have implemented the practice of outsourcing [17]. Non-core activities are usually carried out through outsourcing strategy in the organization including housekeeping, kitchen services, security and building setup, or interior and gardening services. It enables organizations to invigilator progresses in the increasingly competitive business. Focusing on all activities in the business indirectly giving anxious and costly to the management. Extremely in fluctuation economic reducing the operation cost is main agenda to maintain the profit.

Outsourcing FM services not only releases the problems but supports reduce costs in the operation of organizations [11]. However, outsourcing cannot be seen as a method of cost savings, but it is a strategy to improve the management of the business.

Outsourcing strategies may also lead to higher costs but can improve organizational performance and enhance the company image in which management can focus on core activities [18]. Previous studies have indicated that outsourcing has its pros and cons [19]. Among the advantages of outsourcing is to improve service quality, reduce the cost of services for a long term, acquire expertise not available within the organization, and managers have more time to focus on important things in the organization. While the disadvantages of outsourcing can be seen from the aspect of losing control, transaction costs, supervision costs, security risks and the loss of know-how in-house. To overcome this problem in outsourcing, Service Level Agreement (SLA) is an important component in which it can be seen from the use of SLA in outsourcing. Empirical studies show that the growth in the use of the SLA is in line with the development of outsourcing [20]. It also a study proven that SLA being effective tools for managing outsourcing [21].

SLA has been considered as sufficient benefit to the company for its outsourcing failure in service delivery to complete performance benchmarks [22]. SLA is also recognized as a practical and appropriate tool to achieve the quality of outsourcing [23]. SLA is not only used for outsourcing, it is also used in-house sourcing. Use SLA for in-house sourcing as a document of understanding [20], [23]. While the SLA is used in the outsourcing contract is treated as legally binding contract [23]. Larson, (1998) identify the understanding of differences in using of SLA based on their task shown in Table 1.0.

### 3.0 SERVICE LEVEL AGREEMENTS

After reflecting the success of SLA in information technology (IT), SLA extended applications in other fields such as asset management, food services and security management [25]. Service Level Agreements (SLAs) are not only restricted to IT services but can also be used to specify other types of services because the practice of SLA has a positive influence in an organization both on the services provided and on the administration of those services [26]. However, different parameters used to achieve the objectives of the use of the SLA to get superlative results and quality of service [27].

SLA is an important document used to refer to an agreement between the two parties, namely the service provider (SP) and the service recipient (SR) by explaining the need for the services required [28], [29]. Numerous scholars refer to Hiles (1993) [25] to define SLA as a minimum service level to be provided by the SP and agreed by SR. Developments in the practice of the SLA led to the definition where it is an agreement that describes the services to be provided [20]. Moreover, SLA expended to ensure standards of quality, performance and time can be judged an acceptable level on a regular basis with the agreement known as performance-based [30]. Goo (2010)[28] portrays the SLA is a document that specifies the roles and responsibilities of the SR and the SP in the agreements, procedures, penalties and rewards. It is also used as a management tool to assess the quality, performance and value of the services provided [31]. Although various descriptions given to explain about the SLA, it can be concluded that SLA is an agreement to facilitate communication and governance between the SP and the SR to explain the scope of services, the quantity and quality of services required to meet the business needs of the organization.

SLA should be developed in detail since it is a mechanism for performance measurement in service delivery. Matrix used in the SLA, such as quality, speed and accuracy of the service should be clearly stated that the monitoring of the performance did not reach the required standard will be penalized [18]. This monitoring method is used to maintain the performance and delivery of services. The SLA used to manage contractor’s performance in maintenance and warranty management based on the real performance to avoid it dwindling below an objective. The performance of services preferred by SR is quantified in terms of service level objective to be accomplished over a number of time period [32].

<table>
<thead>
<tr>
<th><strong>Table 1.0</strong> Difference of SLA function [24]</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Insourcing</strong></td>
</tr>
<tr>
<td>Terminology is understood</td>
</tr>
<tr>
<td>Not legalized</td>
</tr>
<tr>
<td>Responsibility defined</td>
</tr>
<tr>
<td>Service definition not precise</td>
</tr>
<tr>
<td>Processes understood</td>
</tr>
<tr>
<td>Cost rather than price, if at all</td>
</tr>
</tbody>
</table>
Implementation of SLA in FM outsourcing enables the facility manager identify responsibilities that need to be carried out [10]. Establishment of SLA ensures that SR and SP understanding the level of services required and conditions of financial performance [33]. By way of a mechanism for governance, SLA can reduce misunderstandings and conflicts in which the duties and responsibilities of the SR and SP are clearly stated [7]. Other than that, SLA can use as performance measurement mechanism in evaluating performance of services [34]

4.0 PURPOSE OF SERVICE LEVEL AGREEMENT

The purpose of developing and using the SLA is to manage and analyzing the requirements of SR to a reasonable level of services delivered as well as the SLA has a positive influence on maintaining long-term relationships with service recipients [7].

There are four (4) main reasons in using SLA [20]:

a. Learning process, where in the negotiations stage SR builds a cost comparisons and to ensure that no hidden costs that can result in additional costs.

b. Proposal to outsource the services decided after existing operations assessed wisely. The function of a normal services that can be implemented solitary may be changed due to the changes in business requirements or technologies.

c. SLA affect the organization to identify the limited resources needed and overall results of organization to distribute the resources.

d. Specific definition of service requirements and methods of performance evaluation of service providers will be measured.

SLA is also important in the context of the current trend to the outsourcing of facility, where an SLA is often an assistant to the legal contract [35]. Even SLA used in insourcing, the practice in outsourcing looks more rigorous [7]. Main objectives of implementation SLA in outsourcing shown in Table 2.0

Table 2.0 Objectives of service Level Agreement [36]

<table>
<thead>
<tr>
<th>Primary Objectives</th>
<th>Secondary Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determining customer needs</td>
<td>Controlling customer expectations</td>
</tr>
<tr>
<td></td>
<td>Satisfying the customer</td>
</tr>
<tr>
<td>Defining the necessary processes</td>
<td>Efficiently allocating available resources</td>
</tr>
<tr>
<td></td>
<td>Controlling costs</td>
</tr>
<tr>
<td>Implementing a performance measurement system</td>
<td>Measuring customer satisfaction</td>
</tr>
<tr>
<td></td>
<td>Comparing performance with competitors</td>
</tr>
<tr>
<td></td>
<td>Implementing employee rewarding system</td>
</tr>
<tr>
<td></td>
<td>Justifying the budget of a department</td>
</tr>
<tr>
<td>Managing the relationship between customer and service provider</td>
<td>Avoiding conflict</td>
</tr>
<tr>
<td></td>
<td>Increasing customer retention</td>
</tr>
</tbody>
</table>

In early discussion, SLA has been identified as a rigorous document to control outsourcing after the parties agreed to the contract [37]. This document not only for control the service performance but also as governance mechanism [7]. The previous study revealed that structured SLA has positive relationship in governance relationship [38]. Even though many advantages in usability and significance, SLA does not provide an assurance to success in outsourcing where it also has weakness in practice [33]. Problems in terms of relationship, communication, organizational, resources and know-how may be occur when SLA not establish in outsourcing the services [39].

5.0 PROBLEMS IN THE DEVELOPMENT OF SERVICE LEVEL AGREEMENT

Issues related to governance are often left in the development of SLA elements [28]. The aim of an SLA is to correlate the gap between SR and SP. However, there exist many problems and unsolved questions regarding the specification and the quantification of SLA [40].

Although there is much evidence about the role and importance of SLA in the context of service management, SLA shows many shortcomings in practice. Previous research reveals major problems have been identified in SLA implementation [33], [41]. There are common problems in developing and managing SLA:

a. The specification in SLA indicates the effort compared to the results of the service performance [41]. Most agreements focus on efforts to solve the problem. It does not emphasize the results of the efforts can have an impact on business performance SR.

b. Unclear and incomplete service specification [33], [41]. Things are not clear in the SLA is usually in the availability of services to be provided by the SP. Where availability is specified in the SLA cannot be measured clearly. While the specifications were left incomplete elements that do not take into account the needs of the services required which can lead to misunderstanding responsibilities of the SR and SP.

c. Cost management [33], [41]. It is difficult to identify specific cost with unclear service specification. The complexity of the offered services also has a results the difficulty in defining an optimum price for each particular services.

d. “Dead-end SLA” document [33], [41]. SLA is a document consisting of technical terms that are not understood by all employees in the organization. Therefore, evaluation and improvement of the document does not take place for the future resolution.

e. SLA management for on-demand services [33]. Most of the SLA is a uniform document that monitors the level of service with specific sources. The problems arise when the SLA cannot meet the requirements of different services needed.

Developing a successful SLA is a heavy responsibility and it is not a solution to every problem. If the SLA established in the wrong way or for the wrong reasons, it may generate greater difficulties than those it is trying to solve [39]. However, most of the problems that arise in the SLA are due to the development of SLA not comprehensive [28].

6.0 DEVELOPMENT OF ELEMENT SERVICE LEVEL AGREEMENT

There are various elements of SLA proposed by previous researchers. To obtain more comprehensive SLA elements, this study takes into account the elements discussed from previous researchers. Guidelines for the development of SLA elements
based on research done Goo (2010) [28]. However, in his research focusing on information technology but this research concentrating in facility management area and focusing to building service.

At first stage, the researcher adopt the concept of Transaction Cost Economic Theory (TCE) [42]. In the theory debate the importance of agreement in the transaction, which is, it will influence the cost of the transaction and the quality of services or goods. Figure 1.0 show the conceptual framework of research where relation of SLA as contractual governance to service performance.

Figure 1.0 Conceptual framework

Agreement is needed to ensure that the transaction is profitable and beneficial to the organization. Benefits in outsourcing the facilities management measured in terms of time, cost and quality as service performance. Time, cost and quality are basic requirement in performance measurement that called as Key Performance Indicator (KPI) [43]. The majority of FM practitioners and organizations accepts performance measurement as a management strategy because they have realized the importance of performance measurement to their business success [43].

At second stages, from the theory of contract development, which is combination of Classical theory, Neo-classical theory and Relational contractual theory [44], the researcher expend the conceptual framework of research. Detailing of the contractual element based on previous items discussed by scholar and practitioner. Which is the development of the SLA elements grouped based on the function of the items.

Table 3.0 Elements of service level agreement

<table>
<thead>
<tr>
<th>ELEMENT OF SLA</th>
<th>ITEM</th>
<th>REFERENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Description of Agreements</td>
<td>Purpose of SLA, Parties in the agreement, period of agreement, and area to be covered, Signature of contract.</td>
<td>[20], [25], [30], [45]–[51]</td>
</tr>
<tr>
<td>1. Description of Agreements</td>
<td>Type and service description, specification of services, objectives of services, Service level, availability of services and service warranty</td>
<td>[20], [22], [24], [25], [28], [30], [45]–[51]</td>
</tr>
<tr>
<td>2. Scope and Availability of Services</td>
<td>Service Level Measurement, Key Performance Indicator Performance Target and Evaluation of Services Service Level Reporting, Management Review, Helpdesk and Problem Management</td>
<td>[20], [22], [24], [25], [28], [45], [46], [49]–[51]</td>
</tr>
<tr>
<td>3. Performance, Measurement and Evaluation of services</td>
<td>Change Monitoring and Control, Process and Procedure of Renegotiation</td>
<td>[20], [24], [25], [45], [48], [49]</td>
</tr>
<tr>
<td>4. Feedback and Reporting</td>
<td>Pricing and Schedule of Contract and Payment Procedure</td>
<td>[20], [24], [25], [45], [48]</td>
</tr>
<tr>
<td>5. Payment</td>
<td>Evaluation of penalty and Calculation of Penalty</td>
<td>[20], [22], [25], [46], [47], [51]</td>
</tr>
<tr>
<td>6. Change management and Renegotiation</td>
<td>Responsibilities and Rights of SR and SP</td>
<td>[20], [28], [45], [49]–[51]</td>
</tr>
<tr>
<td>7. Penalties</td>
<td>Arbitration, Termination Procedure and Dispute Resolution</td>
<td>[20], [28], [45], [48], [50], [51]</td>
</tr>
</tbody>
</table>

Table 3.0 shows the summary of SLA elements. The developed element is used as constructs used in this study. Which is the construct may affect the service performance in facilities management outsourcing.
This paper describes the development of SLA elements. Ten fundamental elements of SLA are identified. SLA affecting outsourcing facilities management whether in a relationship or delivery of services [52]. The precise SLA facilitate effective service partnerships, whereas the incorrect SLA or SLA without the appropriate support infrastructure can be as detrimental as a lack of SLA [53]. As a result, the resources were not available for detailed analysis of the persistent problems or the identification and implementation of significant process improvements.

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