Panel 13 Service Level Agreements at Texas Instruments: Theory Meets Practice

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Service level agreements (SLAs) have been touted as the solution to a bevy of IT woes: the difficulty of building IT-business partnerships, the inability to achieve strategic alignment, the lack of clear IT requirements, the discord associated with IT chargeback, and the elusiveness of metrics for IT performance. Despite this publicity, there are relatively few examples of sustained success in deploying SLAs in organizations. This panel will examine from both theoretical and practical perspectives the recent implementation of service level agreements at Texas Instruments, Inc. (TI), a large global manufacturer of semiconductors and related products. The format for doing so is a “cross-fire” discussion similar to that used in Harvard Business Review case studies, in which a situation is introduced and then analyzed by several people, each from his or her particular point of view.

The objective of the panel is twofold. First, it will demonstrate how multiple theoretical and practical perspectives can inform managerial action and provide a rich understanding of organizational phenomena. Second, it will apply two specific theories (partnership and transfer pricing) to a particular management initiative (the implementation of service level agreements) in order to explain observed outcomes in a specific case and to draw lessons for similar efforts at other firms.

The panel will proceed as follows. First, Jeanne Ross will introduce the panel and provide a brief overview of Texas Instruments’ service level agreement initiative. Cynthia Beath will then describe partnership theory, based primarily on Henderson’s (1990) model of partnership and the marketing literature on building relationships. Her presentation will explore the extent to which partnership conditions pre-existed at TI and suggest factors that will be key to the success of SLAs as a partnership initiative. Michael Vitale will then describe transfer pricing theory, based primarily on Eccles’ (1985) model of transfer pricing. SLAs elaborate on a firm’s transfer pricing practices and, as such, risk diminishing support for enterprise-wide IT services. This presentation will examine the extent of this risk at TI and how it might be minimized. Finally, Deneese Gipson, IT Controller at Texas Instruments, will reflect on the theories and identify the more salient points of TI’s one-year experience with service level agreements. She will emphasize what TI management saw as critical success factors when they started the initiative and what they have found to be the most significant challenges in their first year of formal use of SLAs. The panelists will then ask the audience to participate in a discussion of how the two theories and TI’s experience inform one another.

References


Panels

Service Level Agreements at Texas Instruments: Theory Meets Practice Addendum

In late 1996, Texas Instruments was a $13 billion (US) manufacturer of high-technology products employing over 59,000 people in 33 countries. Semiconductors comprised two-thirds of TI’s revenues, but the firm had five other key business groups.

TI’s Information Systems and Services (IS&S) unit had traditionally been a highly centralized organization with a reputation for building high quality, state-of-the-art systems. The unit was respected within the corporation for its technical competence, but at least some of its internal customers felt that IS&S did not understand their needs. In the mid-1980s, IS&S started moving high-level liaisons to the business units and, by late 1996, only one-third of IS&S staff were in the central unit.

In late 1993, IS&S management organized committees of business and central IS&S staff to review IS&S charges. Prior to that time, IS&S charges were presented in great detail with as many as 2,200 line items on statements sent to each of 6,000 cost centers. The committees recommended a new chargeback process, implemented in January 1995, which distinguished fixed and variable charges and generated monthly statements with fewer than 50 line items. The new chargeback process generated interest in giving business units greater control over their costs and led to service level agreements (SLAs).

The first step in developing SLAs was for business unit IS&S managers to identify the services that core IS&S should offer. From the 108 existing services, division CIOs decided that 32 should be enterprise-wide, 58 should be optional services offered by core IT, and 18 should be the responsibility of the businesses. Thirty-five service owners were assigned responsibility for IS&S services. They were expected to meet with customers (who could be either business unit IS&S managers or other service owners) to learn their needs, explain services, and benchmark against external providers to determine whether to source internally or externally. Each service had a budget and one to three metrics that were essentially service guarantees. For the optional services, which comprised 40% of the IS&S budget, business units could merely accept or reject the service. IS&S did not know enough about either its cost drivers or its customers’ needs to be able to package and price alternative service levels.

Top IS&S management felt that the process of designing the SLAs greatly increased mutual understanding between IS&S and business unit CIOs, but there were several concerns. First, business unit managers had strict IT spending limits, so service owners might have few opportunities to introduce new, potentially useful technological solutions. Second, the focus on business needs rather than technical excellence could negatively impact the morale of those employees who were motivated by the opportunity to work with state of the art technologies. Third, although most service owners were excited about their new role, they noted concerns about “the drudgery of watching costs” and about whether business unit management understood IT well enough to make the best investment decisions. Despite these concerns, as the implementation date drew near, IS&S management was confident that ultimately the SLAs would lead to a strong IS&S-business partnership and wise IT investments.

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1This addendum summarizes the service level agreement initiative at TI as described in “Service Level Agreements and Cultural Change at Texas Instruments,” a teaching case by Jeanne W. Ross. An electronic version of the case (in Word for Windows) is available to faculty who request CISR Working Paper No. 299 by e-mail from CISR@mit.edu. Hard copy is distributed by MIT Document Services (DOCS@mit.edu). There is a charge for hard copy but faculty may make free copies for students.