

INFORMATION TECHNOLOGY

Tips on outsourcing software development

In today's global economy, the outsourcing of software development work to offshore jurisdictions is a strategic tool that can provide a competitive advantage for many Canadian companies. In addition to the potential cost savings, outsourcing can also provide access to world class expertise and development technologies and allow a corporation to focus on its core competencies and business activities. With this opportunity, however, comes certain difficulties and challenges.

The 2008 Deloitte Consulting Outsourcing Report, "Why Settle for Less," surveyed 300 senior executives at companies in the U.S., U.K., Germany and Canada that spend at least \$50 million annually on IT outsourcing initiatives. Eighty-three percent of all respondents reported their outsourcing projects had met their return-on-investment goals of slightly above 25 percent.

However, 39 percent reported terminating at least one outsourcing contract and transferring it to a different provider. Though most customers appear to be achieving a perceived



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return on investment, there are definitely some unique challenges inherent within IT outsourcing. Some of these challenges can be mitigated through due diligence, selecting the right developer and maximizing intellectual property (IP) and contractual protection.

In the Deloitte report, 35 percent of those surveyed said they should have spent more time on the service provider selection process. If a customer is unfamiliar with the foreign market, it may wish to retain a business advisor who is familiar with the applicable market. The advisor can prepare a list of potential qualified software developers and

review each potential developer's overall reputation, financial stability, place in the market and ability to provide the required services. References from past and current engagements can also be requested from the developer. Legal counsel can be invaluable in directing the due diligence process and reviewing the resulting information and searches. Canadian counsel may need to liaise with counsel in the foreign jurisdiction.

The customer may also consider preparing a request for proposal (RFP) describing specific requirements and inviting responses from suitable developers. Including key agreements as part of the RFP enables the customer to control the documentation and incorporate the legal terms as part of the service provider evaluation process. The RFP should remain non-binding in nature and not obligate the customer to accept any proposal. The final agreement should still remain open to further negotiations

between the customer and the selected developer.

In selecting a software developer, customers should conduct a comprehensive review of the security and IP protection program of the developer to evaluate its ability to safeguard the customer's confidential information, software source code and trade

secrets against misappropriation, misuse, loss or damage. The customer may wish to have on-site involvement during the early and late development stages to ensure that suitable security measures are in place.

Before drafting an outsourcing contract, legal counsel needs to understand the client's outsourcing goals and priorities. As out-

sourcing often involves a long-term relationship, the contract needs to accommodate changes in circumstances during the term. Important terms to address include the detailed scope of services to be performed, acceptance testing criteria of the customer, fee reductions if the developer fails to meet prescribed milestone dates, change processes and a continuing warranty from the developer following acceptance by the customer. The agreement must also require regular reporting by the developer to the customer.

Since most development

work involves early-stage ideas and designs, the customer will wish to broadly define "confidential information" to include all proprietary IP, software, specifications, designs, plans or other technical or business information and trade secrets. However, disclosure should be limited to confidential information that is

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Most clients don't want the further publicity of going to court

Privacy

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nological developments such as the Internet. In Canada, the response was the enactment of the federal *Personal Information Protection and Electronic Documents Act* (PIPEDA) and substantially similar provincial privacy laws. Today, these private sector privacy laws regulate commercial activities involving personal information and, in doing so, set out obligations respecting the management of personal information by private sector organizations.

Expanding the tort of privacy

The "first wave" and "second wave" of privacy laws protect the privacy of individuals in respect of government bodies and commercial activities in the private

sector. Arguably, the only missing link in this chain of privacy protection, and what could be the focus of a "third wave" of privacy laws, is to protect individuals from violations of privacy by other individuals in the non-commercial sphere.

Technological advances such as e-mail, instant messaging, online forums, blogs and social networking websites (such as Facebook and Twitter) have forever changed the way that individuals share personal information. These technological advances are also the driving force for increasing calls for a "third wave" of privacy laws.

The status quo in some jurisdictions allow for individuals to rely on the tort of privacy to seek remedies for violations of privacy by other individuals. Some jurisdictions, such as Manitoba,

have codified the common-law tort of privacy.

It is now almost a weekly occurrence within my practice — and I expect the same to be true with other Canadian privacy lawyers — to receive a phone call from an individual seeking legal advice about what to do about highly disparaging and damaging personal information that a former "friend" has posted on Facebook or other social networking websites. Often, the posted personal information has caused the client significant embarrassment, stress and sometimes financial loss.

Civil actions

Typically, I inform clients of their right to launch a civil action, where appropriate. However, initiating a civil action may be cost-prohibitive, and most

clients do not want to further publicize privacy matters by seeking relief in court.

Virtually all of these clients express surprise when advised that there is no information or privacy commissioner available to assist them, as there is when a public body or commercial entity has violated their privacy. A great number of these clients also ask why there are not laws similar to the *Privacy Act* or PIPEDA to protect against violations of privacy from other individuals.

It is only a matter of time before Canadians begin calling for a "third wave" of privacy laws, as comprehensive as PIPEDA, to regulate the protection of an individual's right to privacy in respect of other individuals. How and what shape a "third wave" of privacy laws may take is not known. Issues sur-

rounding the protection of an individual's right to freedom of speech, as well as jurisdictional issues, only make the issue more complex. Add to the mix the practicality of enforcement and oversight, and the issue gets even murkier.

It would be a shame if such laws were introduced in haste. Hence, the time has come for a serious debate among lawyers and lawmakers on whether the status quo is sufficient or whether, in fact, a "third wave" of privacy laws is required. ■

Brian Bowman is a partner with Pitblado LLP in Winnipeg. He practises as a business lawyer with a specialization in privacy, access to information, online reputation management, intellectual property and technology matters.

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Users may now want to take the time to read the terms

Terms

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presented on behalf of the users was that there was no clean break if a user decided to end their relationship with Facebook by deleting their profile or content on the site because some of the content (due to the way the Facebook service operates) would remain available for use by Facebook under the license granted

under its terms of use.

Within days of the change being made public, Facebook responded to user concerns by reverting to its former terms of use (which included the deleted language). In defending its original change, Facebook acknowledged that its users own their content and that it was simply ensuring that it had the necessary license rights to continue to use the content, because some of that con-

tent would continue to reside on Facebook's servers, or in the case of messages sent to another user, on that user's account and remain available to be displayed to that user.

While the unilateral revision to the terms of use seems to have been within Facebook's contractual right, it was an embarrassing public relations episode as users rebelled via the social network itself and actually effected change. Currently, it is

the norm that a user has no choice but to agree to the terms of use of a website if they want access. In a novel and progressive approach, Facebook has now implemented a solution by creating a user group where users are given the opportunity to comment and vote on proposed terms and the general principles that will govern the Facebook universe. Perhaps other sites will follow a similar approach in an

attempt to balance the rights of the site owners and the users.

The other benefit of the Facebook flap is that it has helped open the eyes of users, some of whom may even take the time to read the terms of use the next time they register for an online service. ■

Patrick Fitzgerald is a partner with Cox & Palmer's Technology and IP group in Halifax.

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Confidential information should be returned

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required for the developer to perform the services. The developer's employees should also be bound by strict confidentiality obligations, and there should be no sub-contracting to any independent contractors. At the end of the relationship, all confidential information should be returned to the customer.

To avoid the creation of new IP being governed by foreign laws, the customer should have its home jurisdiction as the governing law. The customer should ideally own all improvements to its proprietary IP, as well as any new IP developed by the developer during the outsourcing. Assignments of IP relating to the new IP and improvements should be obtained from the developer, as well as the developer's employees. Joint ownership of IP rights should be avoided to enable the customer to freely use and commercialize its own IP, improvements and any new IP.

The legal and practical challenges of outsourcing need to be managed and understood within the customer's overall strategic objectives. Strong communication throughout the project is essential to a successful outsourcing arrangement. With appropriate planning, resources and documentation, outsourcing of software development can provide an effective tool for Canadian software companies. ■

Sze-Mei Yeung and Jeff Lowe are lawyers in the technology and intellectual property law practice at Richards Buell Sutton LLP in Vancouver. Jeff Lowe is also the managing partner of the firm.