

Information Technology - Canada

Innovation and Outsourcing: Are the Two Compatible?

July 28 2009

In these hard economic times, companies are seeking ways to compete better. IT outsourcing arrangements have been, and continue to be, seen as a tool to address certain corporate goals. However, innovation seems to be lacking in such arrangements.

Such IT outsourcing contracts are deemed successful when services are rendered in line with the initially conceived pricing schedule and service levels are met. The notion of innovation is quite often ignored or not addressed properly.

The recently published *Report on Canada 2009 Opportunity in the turmoil* by the Institute for Competitiveness and Prosperity, an independent organization that serves as the research arm of Ontario's taskforce on competitiveness, productivity and economic progress, stated that "to thrive in the turbulent global recovery, we need to have market structures that encourage competition and stimulate innovation at home and abroad".

It goes on to state that:

"Innovation is the result of the ongoing interaction of three elements in an innovation system: the supply of innovation, the demand for innovation and the financing of innovation."

Thus, the question is how can an outsourcing relationship enable innovation?

Initially the contract must stipulate that innovation is a required service. The innovation service must be clearly defined so that both supplier and client understand what is expected from each other. The contract must also state how such service will be paid. Ultimately, the result of such service, or the innovation itself, may take the form of intellectual property. Therefore provisions relating to ownership of such intellectual property must also be considered.

Any request for proposals for IT outsourcing services should address such matter and provide potential suppliers with the opportunity to indicate how they anticipate fulfilling such requirement. Innovation means having the appropriate resources to supply innovative ideas and appropriate systems to track their progress. Clients seriously considering innovation as a tool to differentiate their position in the marketplace would benefit from challenging potential suppliers in their approach to providing innovation, so that resources and systems are in place to make such offering. In addition, service level agreements should be conceived around the delivery of innovation.

Existing IT outsourcing agreements may be reviewed to ascertain whether innovation had been considered and whether it is delivered by the supplier. If not, a change request for an innovation service may be considered.

Innovation and IT outsourcing may coexist; however, such coexistence requires:

- a concerted effort to establish its underpinning;
- both parties' appreciation of the cost of innovation and its funding; and
- a contract that spells out these issues.

For further information on this topic please contact [Daniel Paul](#) at BCF by telephone (+1 514 397 8500), fax (+1 514 397 8515) or email (daniel.paul@bcf.ca).

The materials contained on this website are for general information purposes only and are subject to the [disclaimer](#).

ILO is a premium online legal update service for major companies and law firms worldwide. In-house corporate counsel and other users of legal services, as well as law firm partners, qualify for a free subscription. Register at www.iloinfo.com.

Author

Daniel Paul





Official Online Media Partner to the International Bar Association
An International Online Media Partner to the Association of Corporate Counsel
European Online Media Partner to the European Company Lawyers Association

© Copyright 1997-2009 Globe Business Publishing Ltd