

MASS HIGH TECH

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Protecting offshore-outsourced development requires close scrutiny

EYE ON IP

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SPECIAL TO MASS HIGH TECH

Worldwide IT outsourcing expenditures are projected to rise from \$193 billion in 2004 to \$260 billion by 2009, according to a recent report by Gartner Inc. The Latin American market is predicted to experience almost 50 percent growth from 2004 levels by 2009, while IT outsourcing revenue in Europe, the Middle East and Africa is forecast to increase by almost 40 percent from 2003 levels three years from now.

Those robust figures do not mean, however, that beastly obstacles to safeguarding intellectual property have been tamed in the technology development world. Software-design companies that undertake core development in other parts of the world remain jumpy about the security and privacy standards of outsourcing providers.

At issue is the ability of foreign legal systems to protect a domestic company's IP. If agreed-upon practices and patents are ignored, no domestic legal entity can effectively intercede, even if trade-secret confidentiality or IP ownership terms are being breached.

"Even if you have the contract terms you want, they might not be enforceable," explains attorney Gib Hennessey, a Boston office principal for the IP specialty firm Fish & Richardson PC.

RUBERTO ISRAEL'S

Gene Landy advises keeping a close eye on offshore IP.

SANDIE ALLEN



IP concerns grow with offshoring

Since the first prosecutorial filing for outsourcing-related IP theft in India four years ago — the result of a joint operation by the FBI's Boston Cybercrime Unit and Indian law enforcement — there have been multiple high-profile IP theft cases in India. Tellingly, that's a country considered to have a favorable cultural and legal climate for IP protection.

"Once a problem arises, a firm's only recourse is in that country, through its own legal system," says attorney Jason Mirabito, a founding partner at the Boston firm of Mintz Levin Cohn Ferris Glovsky and Popeo PC, and co-chair of its IP law section. "If a firm suffers from stolen technology and products abroad, it can only use the courts there. In China, for example, that's been a mixed bag. Though there have been some successes, I wouldn't be that comfortable with the prospects in such a scenario."

Cautionary tales aside, offshore outsourcing is a long-term growth business. And companies seeking to outsource software development activity offshore can minimize risks associated with proprietary technologies.

Attorney Gene Landy, who heads the technology group at the Boston firm of **Ruberto, Israel & Weiner PC**, cautions that companies must exercise due diligence in at least three basic aspects of potential software-development agreements with any offshore supplier.

First, there must be strict definitions and limitations regarding who has access to data. Secondly, Landy advises that domestic corporations seek guarantees that "the programmer who sold you the job is the programmer actually doing the job." Finally, Landy urges that buyers contract clear agreements about how thoroughly a vendor restricts access to developer's code.

"You want to know who has their hands on the code every night," says Landy, author of "The Software Developer's and Marketer's Legal Companion." "When you go offshore for the development of a core technology, you no longer have intimate knowledge of the technology's destiny. Control and security issues are even bigger when you're dealing with a vendor you haven't worked with before inside a different culture that's far away."

An increasing number of domestic



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TECH LAWYER Gene Landy in the law library of Ruberto Israel & Weiner PC.

designers are hiring a U.S.-based liaison to oversee development projects outside the United States.

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individual offshore vendors.

Companies must also remain mindful, in a geopolitical sense, of exactly whom they are dealing with. For various reasons, China, Brazil, Russia, parts of Eastern Europe and the Philippines boast tremendous upside in the realm of offshore outsourcing. But each harbors a

certain elevated measure of risk, both real and perceived.

Of the top 10 offshore leaders in specialty-software application development, as rated by The Global Services this year, six were based in India.

"India is a modernized, developing, democratic nation," says Landy. "Its patent acts were recently revised. Its court system isn't as scary as it was. The risk in India is perhaps less because the protections allow for a judgment against a vendor violating an agreement."

Even so, the growth potential of the offshore outsourced technology industry is likely to be accompanied by an evolution in the protections offered by the primary sources involved.

"I think the threat to business posed by the uncertainties of some legal systems' ability to protect IP will ultimately reform those systems in the IP law arena," says Fish and Richardson's Hennessey. "I think we'll see foreign governments implementing stronger laws protecting confidentiality, enforcing agreements and facilitating IP ownership by the people who are paying for it."

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