

White paper



Relational contracting as a model for enduring sovereign capability

Governing defence capability in an era of uncertainty

Executive summary

Canada's defence ecosystem is operating in an environment defined by uncertainty, complexity and long time horizons. Threats evolve faster than traditional acquisition cycles. Technology advances continuously rather than discretely. Interoperability, sovereignty and resilience are no longer secondary considerations but core outcomes.

In this context, the challenge facing defence leaders is not simply one of strategy or funding. It is increasingly one of governance. How defence capability is governed over time, including how it is contracted, managed and evolved, has a direct impact on outcomes, industry behaviour and long-term national capacity.

This paper explores relational contracting as one governance model that has emerged in response to complex, enduring challenges in defence and other sectors. It examines why traditional contracting approaches often struggle in these environments, what distinguishes relational contracting in practice and how such models can support sovereign defence capability over time. The intent is not to prescribe a single solution but to contribute to an informed discussion about how Canada governs defence capability in an era of uncertainty.

The system-of-systems reality

Modern defence capability no longer exists as a sequence of discrete projects or platforms. It operates as a system-of-systems that spans technology, data, people, industrial partners, allies and time.

Capabilities are sustained and evolved continuously. New technologies are inserted over decades. Interoperability must be designed and maintained across domains and partners. Operational relevance depends as much on integration and adaptability as on initial performance.

In this environment, success is not determined solely by the quality of a strategy or the precision of a specification. It is shaped by how well governance structures align behaviours, incentives and decision-making with long-term objectives.

Why governance matters as much as strategy

Strategy establishes direction. Governance determines behaviour.

In stable environments, misalignment between strategy and governance can often be absorbed. In environments defined by uncertainty and rapid change, misalignment becomes a primary source of friction and underperformance.

Defence leaders increasingly face challenges where outcomes depend on learning, adaptation and collaboration over time. Yet governance mechanisms, including contracting models, are often designed around predictability, control and static assumptions. This tension can undermine even well-conceived strategies.

Effective governance in such contexts must create a container within which collaboration, adaptation and accountability can coexist.



The limits of traditional contracting for enduring capability

Traditional contracting models have served defence well in environments where requirements are stable, risks are well understood and outcomes can be specified in advance.

These models typically assume that:

- Requirements can be defined comprehensively at the outset
- Change is exceptional rather than expected
- Value is protected through control and compliance
- Risk is managed through detailed specification and remedies

However, enduring defence capabilities increasingly defy these assumptions. Threats evolve, technologies mature unevenly and integration challenges emerge over time. Under such conditions, rigid contracts can unintentionally discourage innovation, delay adaptation and lock in obsolescence.

The result is not failure, but friction. Systems deliver what was specified, even as operational needs shift.

Relational contracting in context

Relational contracting has emerged as one response to the governance challenges posed by complex, long-duration endeavours.

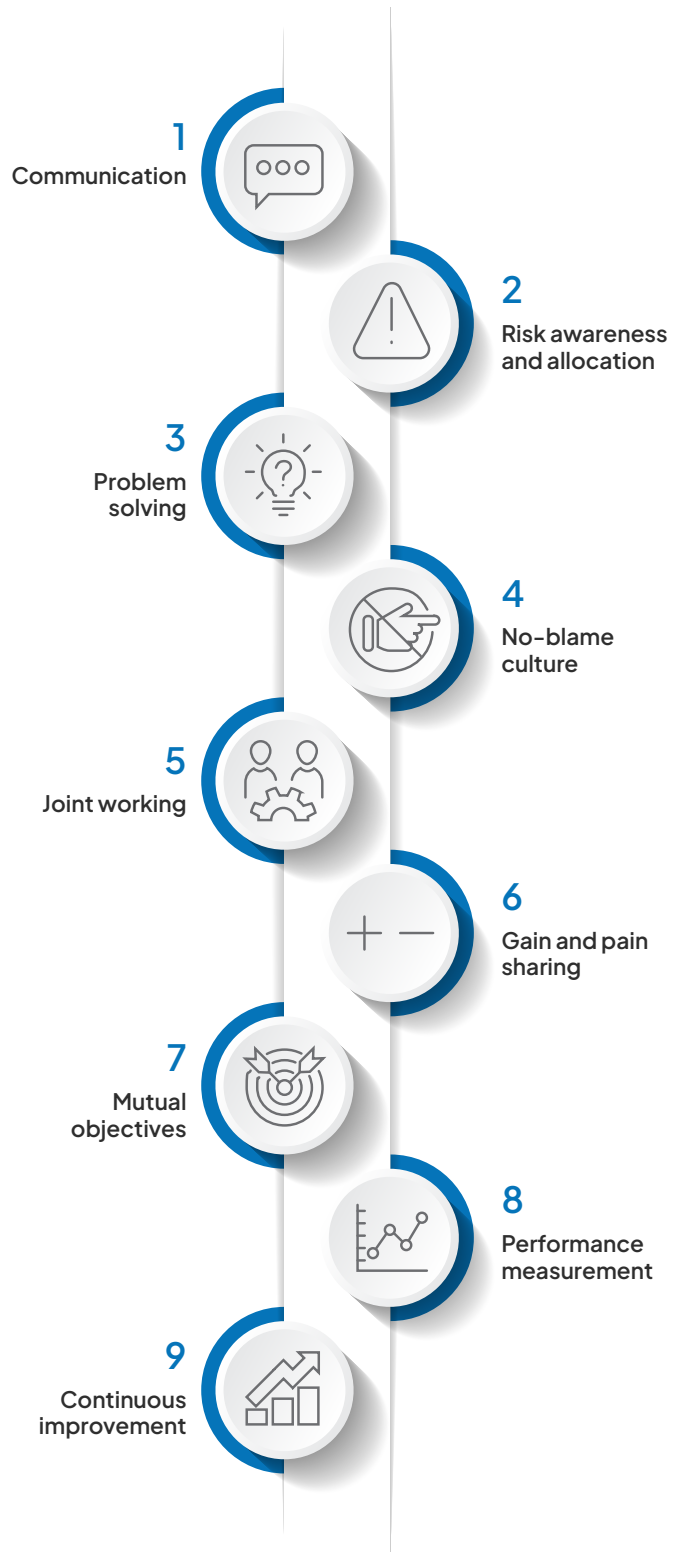
Rather than focusing solely on a transactional exchange, relational contracting emphasizes the ongoing relationship required to deliver outcomes in uncertain environments. It prioritizes shared objectives, transparency and adaptive governance over rigid enforcement of static terms.

Key characteristics commonly associated with relational contracting include:

- A clear articulation of shared outcomes
- Mutual accountability and shared risk
- Governance structures that support adaptation and learning
- High levels of transparency and communication
- An emphasis on value creation over time

Importantly, relational contracting is not informal contracting. It does not replace rigour with trust alone. Instead, it seeks to align formal structures with the realities of complexity and change

The nine principles of relational contracting



Why relational contracting aligns with defence reality

Defence capability development and sustainment share several characteristics that make relational governance models relevant.

Capabilities are expected to endure for decades while remaining operationally relevant. Technology insertion, training evolution and interoperability demands require continuous adjustment. Industrial partners must make long-term investments in skills, infrastructure and intellectual property.

Relational contracting aligns with these realities by:

- Supporting continuous capability sustainment and evolution
- Enabling adaptation without constant contract renegotiation
- Encouraging long-term industrial investment and learning
- Facilitating integration across systems and partners

Rather than treating change as a deviation, relational models are designed to manage change deliberately.

Implications for sovereign capability and industry

Governance models shape industry behaviour.

When contracts prioritize inputs and compliance, industry optimizes accordingly. When contracts support outcomes, adaptation and long-term value, industry is better positioned to invest, innovate and build enduring capability.

For sovereign defence objectives, this distinction matters. Long-term national capability depends not only on what is acquired but on the conditions created for domestic industry to grow, integrate and compete. Relational contracting can help align defence spending with broader goals related to industrial capacity, skills development and economic resilience.

Governance requirements and leadership

Relational contracting is governance intensive. Its effectiveness depends on leadership commitment, clear objectives and disciplined oversight.

Successful relational models typically include:

- Well-defined shared outcomes
- Executive-level governance and decision forums
- Transparent performance frameworks
- Agreed mechanisms for managing change

These elements do not reduce accountability. They reshape it, shifting the focus from enforcing static terms to stewarding outcomes over time.

What changes in practice

Adopting relational contracting as a governance model alters how success is defined and managed.

Performance is assessed against outcomes rather than activity alone. Innovation is introduced through structured mechanisms rather than ad-hoc change. Risk is shared and managed collectively. Value is considered across the lifecycle of a capability, not just at contract award.

These changes require effort and learning. They also offer a way to better align governance with the realities of modern defence delivery.

Looking forward

Canada's defence challenges will be shaped by uncertainty, integration and the need for sovereign capability.

Governance models built on stability will face increasing strain. Relational contracting offers a way to better align governance, incentives and behaviour with the realities of evolving defence capability, providing a useful lens for managing complex outcomes.



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