Open-Source Software Opening HR Doors

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By Ed Frauenheim

Sujee Saparamadu
CEO of OrangeHRM

Just as the Linux penguin has infiltrated corporate computer systems, so too can a company with an orange as a logo bring a new flavor of software to HR departments.

At least that's the vision of OrangeHRM, a startup firm that began offering an open-source version of human resources management software this year.

Open-source software differs from proprietary applications sold by the likes of Oracle and SAP in that its "source code," or detailed instructions to the computer, can be viewed, redistributed and modified by users. Linux, the open-source computer operating system whose icon is a penguin, has emerged as a formidable rival to Microsoft's Windows and other proprietary operating systems in the corporate world. Organizations also are adopting other open-source products, which often are advanced through volunteer efforts by software coders and users around the world.

OrangeHRM currently has several hundred small and medium-size businesses as customers, says Himath Dissanayake, the firm's chief technology officer. But, he says, the product eventually could appeal to large corporations and challenge major vendors in the HR software arena.

"Why not?" Dissanayake asks. "There's a huge amount of power behind an open-source project once you get going."

In addition to OrangeHRM, a company called SynchSource plans to use open-source methods to upend the HR software industry. So far, these two firms have made little if any headway among big organizations. But the prospect that open-source software will emerge as a serious alternative to proprietary products is real, says Bernard Golden, a consultant who specializes in open-source technology. He expects that within five to 10 years, *Fortune* 500 companies will be adopting open-source HR software.

"Watch this space," he says. "There's nothing to prevent open source from coming into this market."

Not everyone is bullish about open-source software in HR systems. HR tech consultant Nov Omana says open-source products that are touted as free or cheap

can require expensive customizations. Omana, who chairs the International Association for Human Resource Information Management professional group, also says fledgling firms promising to deliver improvements to open-source products could go belly up. "They're a little bit ahead of the curve to make a dramatic impact at this time," he says.

The rise of open source

Open source has its roots in a culture of collaboration shared by many software professionals. The central idea is to build on one another's ideas to create useful products, often by sharing computer code over the Internet. About a decade ago, the open-source movement gained a particularly strong following among coders eager for an alternative to Microsoft's Windows operating system. With Linux and other open-source projects, the software and its source code are available for free. But some firms have built businesses around open-source software by providing support services such as fixing computer glitches.

Open-source software has created some unusual alliances in the tech world. Oracle, for example, offers support services for Linux, and its applications run on Linux. But it sells a proprietary database product that competes with an open-source database known as MySQL.

Oracle declined to comment for this story.

SAP applications are compatible with open-source software such as Linux. And the company's latest approach to creating software—dubbed "enterprise service-oriented architecture"—emphasizes easy collaboration in a manner similar to the open-source philosophy, says David Ludlow, SAP's vice president in charge of global product strategy for HR applications. That new approach, he says, is designed to make it simpler for SAP applications to work with other software products and for customers to build new features.

SAP declined to comment on specific open-source application companies.

Some open-source firms are creating a buzz. Among the best-known is SugarCRM, a company that develops an open-source "customer relationship management" application. The software, also dubbed SugarCRM, competes against proprietary products from vendors including Oracle and Salesforce.com.

What exactly constitutes open-source software is somewhat fuzzy. SugarCRM and other vendors focused on open-source software use different software license terms. And they have come up with a variety of business models. SugarCRM, for example, allows customers to download a basic version for free but charges a subscription fee for premium versions of the software. A company named OpenMFG charges for licenses to its software for managing manufacturing operations, and all customers get access to its source code.

A "software steward"

That's the model followed by SynchSource, which is building payroll software, a human resource management system for tracking employee data, and a benefits management product. Headquartered in Berkeley, California, SynchSource isn't making its source code available to the public at large or taking contributions from volunteer coders. It will, however, reveal the source code to customers, who are then free to modify it, CEO John Cuellar says.

With SynchSource closely managing the source code, large companies don't have to worry that an army of loosely organized programmers could create a faulty product, Cuellar says. "Customers still are asking for the ability to get to the source code, but they are not willing to turn over mission-critical functions to software created by the world community," he says. "They want a software steward."

SynchSource has not released products to the market yet, but it has signed a deal with payroll service provider PrimePay that will involve distributing its software to thousands of small customers, Cuellar says. The PrimePay deal is slated to begin taking effect next fall, he says.

Meanwhile, SynchSource is working on a test version of its software designed for *Fortune* 500 firms that is slated to be ready late next year. Cuellar has a background in installing HR systems at corporations, and his co-founder, Gary Durbin, was a founder of HR software firm TesserACT. SynchSource, now two years old, expects to raise several million dollars in venture funding early next year.

Cuellar is aiming high. He wants to become a viable alternative to big guns in HR tech, including SAP and Oracle. "We think we can achieve that position within the next 12 to 18 months," he says.

Cuellar concedes HR departments have not historically adopted new technologies at an early stage. But he believes companies will be willing to give open-source HR software serious consideration, in part because of strong demand for organization management tools.

Given heightened attention to the importance of employee engagement and the value of top performers, companies have been busy shopping for software to help them manage workers. According to market research firm AMR Research, human capital management is one of the fastest-growing areas of business software, with revenue rising 10 percent annually through 2010, to $8.7 billion.

Economical substitute

Key to open-source software's appeal, says consultant Golden, is that it typically does a decent job of filling in for proprietary products that are expensive and evolve to be complicated. "In almost every aspect of the economy, cheap, good-enough products win out over more expensive, finicky, 'perfect' products," he says.

Golden's firm, Navica, provides advice both to open-source software providers as well as end-user organizations. Neither OrangeHRM nor SynchSource is a client.

Golden says an obstacle to the creation of sound open-source HR software up to now has been that open-source coders typically do not have experience in the human resources field. That deficiency, though, does not apply to either SynchSource or OrangeHRM.

OrangeHRM was founded last year by two brothers who previously launched hSenid Software International, a Sri Lanka-based company that specializes in HR applications. Dinesh Saparamadu has served as CEO of hSenid since 1997. Sujee Saparamadu, CEO of OrangeHRM, co-founded hSenid but has spent the past decade working in information technology at Morgan Stanley and Merrill Lynch.

Sujee Saparamadu says he and his brother decided to start an open-source HR software firm to build on the momentum of the open-source movement and break into the U.S., European and Middle Eastern markets without having to invest a great deal in promoting their product. OrangeHRM hasn't spent a dime on sales or marketing, but it has tapped into the open-source community by locating the software project at SourceForge.net, a site that allows open-source projects to store their code and keep track of improvements. OrangeHRM also offers its software for free.

The upshot is a lot downloads. OrangeHRM already has been downloaded more than 12,000 times. Even though hSenid employs some 150 people and has enjoyed 100 percent revenue growth each of the past three years, Saparamadu believes OrangeHRM—with fewer than 10 employees and zero revenue to date—will prove to be the stronger company. He says OrangeHRM already has surpassed hSenid when it comes to daily Web site visitors, with more than 1,000 a day.

Saparamadu and crew plan to make money at OrangeHRM by providing tech support services. Under OrangeHRM's "gold" support plan, a company with 100 employees would pay $680 a year for services including e-mailed responses within 24 hours and free phone support for handling version upgrades.

Dissanayake, OrangeHRM's chief technology officer, admits the software wasn't very user-friendly for its first several months. But the company released an upgrade in June, and later added the ability to manage a variety of employee leaves, such as medical leaves. For the past few months, there has been a release with bug fixes every week. That's partly because a growing number of users are making suggestions to Dissanayake and his team through an Internet forum. "The open-source model lets you evolve the software very fast," he says.

Refining the software

Among the people playing an active role in OrangeHRM's development is Andy Robertson, information technology manager at Derma E, a 25-person skin care company based in Southern California. Robertson took an interest in the software

partly because comparable HR software products were beyond his firm's price range—at $5,000 or more. He not only expects to begin using OrangeHRM within the next few months, but has offered to help create the specifications for an attendance module to be added.

Robertson knows that OrangeHRM, as a startup, could go bust and leave him with a product that does not evolve or have a tech support service. But he argues that open-source failures at least leave IT professionals with the ability to tinker with the underlying software code. "If they do disappear overnight, as long as it works at the moment, it's not a big deal," he says.

So far, OrangeHRM does not allow Robertson and others outside the company to contribute actual software code. But the firm plans to do so after it straightens out some legal issues related to coding copyrights. The company is seeking venture capital money partly to pay for such legal advice, as well as to speed up the product's development.

Lacking at this point are features such as recruiting and performance management functionality, as well as the ability to provide the software as a service over the Internet. The software-as-a-service model is proving to be popular with organizations because it can allow for quicker implementations and improvements.

"There are many things that are missing," Saparamadu says. "But these things will come."

HR technology consultant Jason Averbook says open-source HR software has opportunities to break into organizations. HR departments typically have several kinds of software products running at once, and there's the prospect that open-source applications could incorporate better technology than existing products, he says. Averbook, CEO of consultancy Knowledge Infusion, also predicts that today's proprietary HR software vendors may borrow a page from the open-source playbook by opening up their code to partners or customers.

But he doubts the HR open-source movement will prove as active or fertile as some of the more strictly technical open-source projects, such as Linux, given the lack of techie chops among most HR professionals. "There definitely is a future" in open-source software, Averbook says. "I just don't know when it will hit the mainstream."

Sujee Saparamadu is confident that moment will come. As a college student at the University of New Haven in Connecticut, he once heard Bill Gates profess to worry not about tech industry giants but rather about a potential startup that could grow rapidly to challenge Microsoft's immense kingdom. Although Saparamadu found Gates' comment puzzling at the time, he has seen it prove accurate with the rise of such firms as Internet search specialist Google and Linux provider Red Hat. Saparamadu sees himself as a similar software revolutionary in the HR realm.

"The Windows market is being taken little by little," Saparamadu says. "It's going to be the same thing with OrangeHRM."

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