IS OUTSOURCING THE ANSWER?

It’s no surprise that outsourcing is on the rise, especially in the finance sector that was hit so hard by last year’s economic meltdown. Financial organizations are tightening their belts by sending more work outside company walls. In the last quarter of 2008, the combined value of outsourcing contracts in the finance sector reached a whopping $3.6 billion. The lion’s share of those contracts went to IT projects, according to Information Age. Analyst firm IDC predicts that banks will continue to trim IT costs in 2009 by outsourcing more IT.

Is the finance sector’s renewed vigor for outsourcing just a temporary cost-cutting measure? Or will today’s tough economic climate initiate long-term financial and productivity gains? In this paper, we’ll investigate the benefits and disadvantages of outsourcing finance sector IT. We’ll raise key questions that can help you decide whether or not outsourcing IT is the right move for your organization, and will demonstrate why outsourcing open source software support and maintenance can be a good place to start. We’ll also provide more detailed examples of why outsourcing open source dynamic languages such as Perl, Python and Tcl can be beneficial from a cost and productivity perspective.

OUTSOURCING AS THE HOLY GRAIL

When budget cuts are on the table, outsourcing is often the first port of call. For good reason! From cost slashing to productivity gains, outsourcing IT functions is the answer for many companies. A web search will return hundreds of outsourcing success stories, like this one. In 2003, Zurich Financial Services’ sprawling IT department consisted of more than 7,500 employees and 30 CIOs. After posting a record loss of $3.4 billion the year before, Zurich decided to cut down on in-house staff and outsource nearly half of its IT work. Outsourcing has successfully slashed infrastructure costs by 45 percent and cut the number of in-house IT staff by 60 percent.

Here are some of the benefits that companies enjoy when they outsource IT functions to competent, reliable vendors:

**Slash Your Budget**

It can be too expensive to maintain your own IT, especially during a recession. Fortunately, many IT functions can be easily and efficiently outsourced, positively impacting your bottom line. Employee costs are much higher than just salary and benefits; keeping employees happy, productive and busy takes time, effort and money. Plus, significant cost savings can go hand-in-hand with lowering headcount. Moving an IT service out of house means financial organizations don’t have to worry about technology refresh costs in the future. It also cuts down on human resources requirements, hiring costs and management.

**Get Experts on Your Side**

Technology evolves at such a rapid pace that financial organizations are often forced—even in bullish times—to outsource to specialist IT providers if they’re going to stay on top of the newest technologies and deliver quality service. You’ll need to outsource this work because keeping a team of IT specialists on staff is unrealistic. For starters, the cost is prohibitive. Second, experts are most effective at key moments in development and implementation. You may need an expert when upgrading your software or launching on a new platform, but that expert’s time is wasted on day-to-day...
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duties. Finally, by outsourcing specialized tasks to trusted experts you can be confident that you’re following current best practices.

Focus on Core Competencies
IT functions are, paradoxically, both critical and monotonous. While it’s imperative that your technology works reliably, it can often be outsourced to a third-party without consternation. Outsourcing IT tasks—even critical ones—to vendors with the knowledge and expertise to deliver results frees up your time to focus squarely on core business objectives, like: implementing a new online banking feature; evaluating hardware security modules that will best protect your customers’ private data; or researching new compliance requirements that are coming down the pipeline. If your attention is best directed at the bigger IT picture, don’t split your focus by juggling IT tasks that can be effectively managed by third-party vendors who specialize in these tasks.

Outsourcing Contracts are More Flexible than Ever
An increase in IT outsourcing isn’t the only trend experts are monitoring. Even financial organizations with a history of outsourcing IT are moving from one-off outsourcing projects to longer-term relationships with IT vendors, says Everest Research Institute, an analyst group that focuses on the US outsourcing industry. That’s because buyers can get better pricing from service providers, better levels of service and can lock-in to longer-term cost savings relationships.

SOME SOBERING SECOND THOUGHTS
Outsourcing IT functions can seem like the Holy Grail for CIOs faced with the tough task of making immediate cost cuts. It’s an attractive alternative to paying high employee salaries and benefits. But, despite the rosy picture we’ve just painted, there are solid arguments for keeping IT in-house.

When You Outsource, You Lose 100% Control of Your IT Project
If you’ve spent time, money and effort building software in-house, handing it over to a stranger can be like leaving your child with the babysitter for the first time. In less time than it takes to say, “code rebuild,” your toddler is downing chips and soda at an alarming rate! No matter how responsible your IT vendor is, when you outsource

Offshoring Best Practices
Top tips from Christine Ferrusi Ross, Forrester Vice President and Research Director, can help to ensure that your offshoring story has a happy ending:

• Be aware that you’ll need to communicate across cultural boundaries.
• Consider putting governance models in place for cross-cultural communication.
• Request additional audits of outsourcing and offshoring firms, even at additional costs.
• Provide context, or an understanding of precisely how you like work done.
• Be sure to ask the right questions to ensure that you and your outsouce partner’s expectations match.

FROM “OUTSOURCING AND OFFSHORING IN A RECESSION MORE FLEXIBLE, PANELISTS SAY”, RACHEL LEBEAUX, MAY 26, 2009, SEARCHCIO.COM.
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you must give up 100% control of your project.

You don’t have to look very hard to find outsourcing horror stories that can scare you away from the process forever. The good news is there are plenty of ways to mitigate outsourcing disasters—from keeping communication lines wide open to clearly articulating expectations and processes at the start of a contract. However, if keeping your IT project under tight supervision is a requirement, outsourcing may not be right for you.

**Beholden to Vendor Timelines**
If you've outsourced IT functions in the past, you know that getting a third party to fix, change or make additions to your code base can take weeks, even months. With other clients to serve, vendors sometimes push your requests down the 'to do' list.

Alternatively, when you manage IT in-house, you can shift development priorities on a daily, even hourly, basis. If timeliness is critically important, then being at the whim of your vendor’s schedule could be a showstopper.

**Reliance on Third-Party Software**
Things can get complicated when you begin incorporating third-party software solutions into your own software projects. Often, when third-party developers work with your code, their favorite systems begin to creep into your software. Once you're locked in to third-party commercial software, you're at the mercy of vendors for updates, improvements, even security fixes. Increasingly, third-party developers are using open source software, which eliminates vendor lock-in. But, that trend is not universal.

**Security and Privacy Can Take a Backseat**
Security and privacy are critical, especially in the finance sector where compliance requirements come into play. As regulated entities, financial institutions are typically responsible for third-party service provider conduct. As noted by the Office of the Comptroller of the Currency (OCC): “A financial institution’s use of third parties to achieve its strategic goals does not diminish the responsibility of the board of directors and managers to ensure that the third-party activity is conducted in a safe and sound manner and in compliance with applicable laws.” This implies that outsourcing may not be appropriate for a variety of IT functions.

**Miscommunication Can Eliminate Outsourcing Benefits**
Despite an increasing interest in domestic outsourcing, offshoring is still a popular outsourcing model. With rates in China and India at half what you’d pay a US-based third-party developer or service provider, many companies choose to send work abroad. Infosys Technologies Ltd. is a player in US banking, financial services and insurance. According to the US Bureau of Citizenship and Immigration Services, the company issued more than 4500 temporary work visas in 2007, which suggests offshoring is a key part of the company’s business model. Everest Group predicts that increasing pressure on financial services firms to cut costs will “probably result in an acceleration of financial services jobs going off-shore.”

However, there’s no denying that offshoring adds complexities to any outsourcing relationship. Whether you’re running projects in different time zones, navigating different communication styles or reconciling approaches to change management, managing an offshore project can be rife with challenges. Forrester analyst Christine Ferrusi Ross points out: “The vast majority of outsourcing and offshoring failures stem from
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mismatched expectations. This can happen if the customer does not provide context or an understanding of precisely how it likes work done, and the outsourcing firm does not ask the right questions.”

OPEN SOURCE MEETS FINANCE

With cost cutting top of mind in today’s economic climate, open source software is a promising alternative for reducing IT overhead. Investment banks, hedge funds and other financial institutions are changing their attitudes towards open source technology; even large, traditional institutions, including Commonwealth Financial, National Australia Bank, Royal Bank of Canada, and Sterling Savings Bank are using open source software. In a recent Wall Street and Technology article, experts suggest that financial services firms are adopting open source not just for cost savings, but to achieve “transparency in source code, flexibility to integrate with existing applications and access to the intellectual smarts of a worldwide developer community.” Plus, open source development offers financial institutions more flexibility by eliminating third-party vendor lock-in.

A barrier to open source adoption in financial services has been the misconception that proprietary software code must be shared with the open source community in order to comply with open source licensing agreements. Though open source licenses require developers to share code developments back to the community, license agreements don’t require participants to share proprietary code developed on top of open source technology if the proprietary application is used only internally. As financial institutions become more familiar with open source software and implementation processes, adoption will skyrocket. Mary Knox of r Research reported in a 2008 survey on the increasing use of open source in the finance sector: “The adoption of open source software continues to increase among banks and investment services firms. Among the investment services firms surveyed, approximately 84 percent expect to be using open source software by the end of 2008.” The 2008 Actuate Annual Open Source Survey shows widespread open source software adoption in financial services, particularly in Europe.

Unconvinced that open source is safe for finance? The Linux Foundation lists these trading exchanges now running Linux:

- New York Stock Exchange
- Chicago Mercantile Exchange
- Tokyo Stock Exchange
- NYSE Euronext
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Q: To what extent is open source software (OSS) considered an option when procuring software for your organization?

<table>
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<th>Country</th>
<th>OSS is explicitly considered as an option</th>
<th>OSS is the preferred option</th>
<th>OSS is not mentioned</th>
<th>We have a policy of not using OSS</th>
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<td>4.9%</td>
<td>2.4%</td>
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<td>26.0%</td>
<td>3.9%</td>
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<td>45.9%</td>
<td>8.6%</td>
<td>10.3%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>30.0%</td>
<td>41.7%</td>
<td>8.3%</td>
<td>20.0%</td>
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</tbody>
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Open source software is gaining traction in the finance sector, according to the Actuate Annual Open Source Survey, conducted on behalf of Actuate by Survey Interactive.

OUTSOURCING OPEN SOURCE SUPPORT AND MAINTENANCE

Open source is just one IT puzzle piece. However, as it becomes more common in finance sector software systems, outsourcing support and maintenance of open source software can go a long way to bring down your IT costs, especially during an economic downturn.

Swift adoption of open source in the finance sector has created a demand for stable open source language distributions and comprehensive support and maintenance for open source deployments. So, when the open source community does not provide answers to common developer pains, companies like ActiveState fill the gap with an enterprise-grade, third-party solution for managing and supporting open source software. ActiveState is a North American-based specialist in Perl, Python and Tcl dynamic languages.

ActiveState recognized early on that businesses with commercial implementations of open source were taking big risks when it came to code stability, unreliable technical support, and potential license infringement. The company developed enterprise-level open source language distributions that have become renowned for quality and are now the de-facto standards for millions of developers around the world. Like all open source code, ActiveState language distributions are provided free to the community. Hundreds of organizations, like top global banks, trust ActiveState’s enterprise support and maintenance for open source language distributions for Perl, Python and Tcl. Here’s how ActiveState reduces in-house IT costs, relieves the burden of managing open source software, and protects your IT systems from possible risks:
Make Sure Open Source Pays Off
Loosening your grip on complete project control can be unnerving. Knowing all your bases are covered by adding outsourced expertise can actually build confidence in your team and technology. Without the right in-house expertise, open source dynamic languages maintenance and labor can spiral out of control. Complex integration issues are commonplace with open source and can lead in-house engineers down the rabbit hole. Even if they become familiar with the language cores, they’ll soon discover that working with open source modules demands a much higher level of expertise. Don’t let your engineers waste development time building dynamic languages from the ground up, adding modules and keeping it all current when they can focus on core IT issues that affect your company’s bottom line. ActiveState’s support subscriptions are priced considerably lower than the cost of hiring one qualified engineer and much lower than the cost of a full time open source dynamic languages expert.

On-Demand Technical Support
If you’re not an open source dynamic languages expert, solving problems that sometimes occur when you use open source software can be difficult. Documentation is not always available, or helpful. Plus, you may need to wait days or weeks for the open source community to answer your queries. Studies show that only a handful of developers are active on open source mailing lists. Typically, two percent of developers are responsible for 50 percent of the answers to questions posted on help systems. The same few developers tend to discuss their favorite topics and don’t often answer newbie questions. As a result, many participants—up to 36% of them—don’t get responses to their questions. This can become a significant problem when your team is trying to debug an enterprise application with the help of developer mailing lists.

Alternatively, from development troubleshooting to emergency in-production coverage, ActiveState’s support promises priority access to language experts, which guarantees you won’t be left high and dry when you need help the most. On-demand support includes unlimited incidents, fast response times, and fixes quickly delivered to you electronically. Your IT team can focus on its core competencies and lean on dedicated language experts for design and development advice for Perl, Python and Tcl requirements.

Up-to-Date Open Source
Maintaining open source code in-house can be a slippery slope towards wasted time and outdated code. ActiveState ensures that you’re always working with the latest and most stable and secure release of Perl, Python or Tcl. By handing maintenance and updates over to the ActiveState professionals, you eliminate the work and time it takes to maintain a healthy open source distribution.

Soothe Legal Headaches and Mitigate Risk with Cost Effective, Out of the Box Licensing
At first glance, managing open-source licensing on your own seems straightforward. But, in reality, open source licensing can be complex and can get your organization into legal trouble if it’s not done correctly. This excerpt from an article by lawyer Cynthia L. Stewart clearly articulates the issue:

It’s a good idea for all companies using third party and/or open source code to ensure that they are in compliance with all applicable software related licenses and agreements. This could avoid a problem in
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the future in an acquisition context and might avoid a failure in a representation or warranty if the company happens to be a licensor of software. In any case, we all want to avoid thinking about Sarbanes-Oxley to the greatest extent possible, and rigorous compliance is the way to achieve this goal.³

ActiveState takes the guesswork out of licensing and protects your organization from legal exposure with optional indemnification coverage for intellectual property. ActiveState’s Enterprise OEM for Perl, Python and Tcl provides an easy, out-of-the-box, fixed licensing solution that guarantees you’ve got the right licenses in place and takes licensing administration off your plate. ActiveState stands behind the compliance of their enterprise distributions, offering customers the assurance they need to deploy software with confidence.

Quality Open Source Distributions
Adding an ActiveState open source expert to your team can make the difference between good and great software, especially when unreliable in-house maintenance can negatively impact code quality. Lean on Perl, Python and Tcl language experts for design and development advice. ActiveState engineers contribute to Perl, Python and Tcl and maintain good relationships with the open source community. They quality test these language distributions continually and rigorously to ensure that any code provided by ActiveState boosts overall software quality.

Satisfy Security, Compliance and Governance Requirements
For organizations worried about security issues associated with outsourcing, open source maintenance is an ideal first step. By using ActiveState support, you outsource the complicated “grunt work” required to implement Perl, Python and Tcl. This lightweight outsourcing model is less risky than completely outsourcing software development. Some financial organizations are required to implement a supported open source software solution to satisfy compliance and governance requirements. Supported open source solutions, like ActiveState’s, reduce the risks that go hand-in-hand with relying on an unpaid developer community for technical support. ActiveState support meets security and privacy compliance standards for financial services institutions.

CHECKLIST: ARE YOU READY TO OUTSOURCE PERL, PYTHON AND TCL SUPPORT AND MAINTENANCE?

Despite the risks associated with outsourcing, thousands of companies—even those in the risk-averse finance sector—are inviting IT vendors to become part of their valued team. In a Forrester Research survey of 947 North American and European companies on how the slowdown in the economy is driving IT spending, 40% of respondents said they’d be increasing outsourcing efforts.

So, is outsourcing for you? Before jumping headfirst into an outsourcing relationship, consider these questions:

1. Do you need to reduce IT costs?
2. Do you need to improve overall quality and productivity in your IT department?
3. Are your team’s core competencies taking a back seat to day-to-day routine maintenance, like implementing software updates and bug fixes?
4. Do you currently have the right people in-house to complete open source maintenance and support tasks?
5. Do you have someone on your team who can manage outsourcing relationships?

6. Do you need to implement enterprise-level support for open source software in order to meet compliance and governance requirements?

7. Are you willing to take reasonable risks associated with outsourcing?

8. Can you find a trustworthy vendor with good references and a solid reputation?

9. Does that vendor have systems in place? Can they demonstrate quality, consistency and accountability?

10. Will outsourcing give your staff more time to focus on activities more closely related to your business’s core mission?

Still not sure if outsourcing open source dynamic languages maintenance and support is for you? ActiveState open source experts can provide you with a complete understanding of how outsourcing open source dynamic languages can make a positive impact on your bottom line and still meet the rigorous requirements of financial sector software.

Contact ActiveState at 778.786.1101, or business-solutions@activestate.com for a complimentary consultation with ActiveState’s language experts.

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ABOUT ACTIVESTATE

ActiveState believes that enterprises gain a competitive advantage when they are able to quickly create, deploy and efficiently manage software solutions that immediately create business value, but they face many challenges that prevent them from doing so. The company is uniquely positioned to help address these challenges through our experience with enterprises, people and technology.

ActiveState is proven for the enterprise: more than two million developers and 97 percent of Fortune 1000 companies use ActiveState’s end-to-end solutions to develop, distribute, and manage their software applications written in Java, Perl, Python, Node.js, PHP, Tcl and other dynamic languages. Global customers like Cisco, CA, HP, Bank of America, Siemens and Lockheed Martin trust ActiveState to save time, save money, minimize risk, ensure compliance and reduce time to market.

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