



Is the World Really Flat, Tom?

This past August, I attended Stamford, Connecticut-based Gartner Inc.'s Gartner Financial Services Technology Summit at the Boston Marriott Copley Place. As is always the case, Gartner put on a jam-packed three-day exploration of the state of information technology (IT) use in the financial services industry.

I was struck by a number of things. The strongest impression I had was there was little (if any) time or space devoted to mortgage banking technology. I would have thought that as a card-carrying member of the financial services industry, mortgage banking would have been a high-light topic, if not a full-panel track, at the Gartner conference. Was the absence of mortgage banking technology an indicator of an industry slow to adapt to technology change?

In contrast to the silence on mortgage banking, the meeting seemed abuzz with discussions about creating value by outsourcing basic corporate functions. On the exhibit floor—now no conference is complete without an accompaniment of firms exhibiting their wares—was a bevy of companies offering business process outsourcing (BPO).

Most of these companies were headquartered outside the United States. And a number of the big-name, India-based companies were there, including i-flex Solutions, Infosys Technology Solutions, Kanbay Inc., Suntec and Syntel Inc.

To me, the heavy representation of India-based outsourcing companies was the hallmark of the conference.

The world is flattening

The talk of the Gartner meeting was about how the world once again is seen as being “flat.” Flat refers to the competitive imperative of companies harnessing skills anywhere in the world. Any company in any country can supply intellectual or operational services to any entity in any other part of the world.

As if to underline the pervasiveness of

worldly flatness, the suppliers of contract services were abundantly evident in the exhibit hall. In concert, the suppliers of outsourcing (and offshoring) chanted “the world is flat”—the mantra composed by Thomas L. Friedman, the popular *New York Times* writer.

Friedman's best-selling book, *The World Is Flat: A Brief History of the 21st Century*, was released in April 2005. Friedman has been the foreign-affairs columnist for the *Times* since 1995. In 2002, he won the Pulitzer Prize for commentary, his third Pulitzer for *The New York Times*.

In *The World Is Flat*, Friedman observed that the 21st century opened with a world-shaping confluence of factors: the Internet, global fiber-optic networks, trade deregulation and an explosion of software. The combination of these elements, he concluded, created a platform for delivering intellectual capital from anywhere in the world at any time. The effect was a “level playing field,” a flat world, giving companies and individuals new power to compete globally. The flattening of the world creates a plug-and-play capability to share knowledge and to parse out work as never before in the history of mankind, according to Friedman.

In a flat world, certain kinds of work will migrate to the country with the comparative advantage in performing that work. For the first time exported work is skilled, white-collar work—not just blue-collar manufacturing. A key ingredient is that the work can be performed competently and at a lower cost than in competing countries. Organizations have become networked to one another the world around.

The World Is Flat builds on ideas Friedman articulated in his original book exploring the effects of globalization, *The Lexus and the Olive Tree*, published in 2000.

Globalization, he posits, is the international system that replaced the Cold War system. Globalization is the integration of capital, technology and information across national borders in a way that is creating a single global market.

Value networks

The concept of a value-creating network is not new. What is different this time around is that the network goes beyond outsourcing. In a world of broadband communications, companies become linked into a “virtual” corporation. In some respect, companies become unbundled into a matrix of processes. Industry

structures can now be defined by networks of interdependent relationships. The job of managers is to integrate these processes and relationships into an overall system. Put together well, that system may lead to a strategic advantage not possible under more conventional structures anchored in place and time.

The classic example of networking to create a

new level of collaboration is the way Chicago-based Boeing Co. created its new 787 Dreamliner passenger airliner. Boeing put 80 percent of the plane's fabrication in the hands of outside suppliers. The ultimate task of Boeing management was coordinating the work of 43 suppliers on three continents.

The company's decision to redefine production into a web of processes resulted in the first commercial jet to be built of lightweight carbon composites, which burns 20 percent less fuel than other jets its size and gives passengers a quieter, more comfortable ride.

Boeing demonstrated that no one company needs to corner the market on innovative thinking. The market for creative thinking has become global. Talent does not have to be on the payroll in order for a company to take advantage of it.

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An extreme example of the global sourcing of innovative work may be InnoCentive Inc., a private company based in Andover, Massachusetts. The mission of InnoCentive is to build a virtual talent pool of more than 50,000 scientists in 150 countries.

InnoCentive was founded from the observation that major companies spend billions of dollars on research and development that may be outsourced more effectively. In what it calls its “virtual laboratory,” InnoCentive posts research and development (R&D) problems on its Web site. Any scientist, engineer or researcher anywhere in the world with the interest and skill is invited (“challenged”) to tackle the problem.

Companies pay to post R&D problems on the InnoCentive virtual-lab site. Postings are made anonymously, and numbered in an attempt to protect trade secrets. InnoCentive rewards the best problem-solvers with prodigious sums of money.

The featured problem currently posted on the InnoCentive Web site is No. 4257559. In this posting, InnoCentive challenges the scientific community to “develop an adhesive that can dampen vibrations in a 0°–90° C temperature range in a constrained layer construction.” InnoCentive posts a deadline for completion of the problem. The reward for a scientist who submits a workable solution is \$140,000. Why not give it a try?

One company, Indianapolis-based Eli Lilly & Co., an original financial backer, attests that using InnoCentive costs the company one-sixth of the cost for in-house R&D. It also finds that the success rate of solving problems is far higher.

The technology

The transition to the flat business model is enabled by a transition away from networks built around specific applications, such as databases or e-mail servers. The enabling technology is a service-oriented IT infrastructure.

Service-oriented architecture (SOA) is difficult to define in a word. SOA is an information architecture that encapsulates and models business functions and business processes. With adherence to SOA principles, an IT staff can make technology

changes without disrupting business flow. It is an approach to information technology that facilitates rapid adaptation to changing business requirements.

SOA allows a firm to make the transition from a static to a dynamic organizational form. Proper implementation of SOA takes information locked in “application silos” and opens information-sharing across the organization and to customers and business partners.

SOA is the *lingua franca* of business process outsourcing. It is the common language of a business world that is flat.

And is the mortgage industry flattening?

If sending business functions to India or to the Philippines (offshoring) manifests flattening of the industry, then the answer to the question of whether the mortgage industry is flattening is “definitely.” According to MORTECH 2006, our latest study of mortgage lender use of technology, 6 percent of mortgage lenders are offshoring.

It is difficult to know how the level of offshoring in the mortgage industry compares with other financial industries. One thing that is clear from our data is that whatever benefits are in offshoring, they are being claimed by the largest companies in the industry.

The merchants of a flattening world are bestowing their gifts on the top 20 mortgage companies. From the outsourcing vendor point of view, it makes perfect commercial sense to go where the money is.

In our work at MORTECH, we rail about how undemocratic the diffusion of technology innovation is. For years we have charted the mortgage industry’s “digital divide.” Offshoring technology development and process management exacerbates the division between the industry’s haves and have-nots. Two-thirds of the largest mortgage companies have sent some activity or business function offshore. Hardly any lender originating less than \$5 billion annually has.

Truly the world is flat for some. The others face the prospects of being absorbed or running a less-profitable business in the near future.

Jeff Lebowitz is founder and principal of MORTECH LLC, Guilford, Connecticut. He can be reached at jeff@mortech-llc.com.

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