

Open Standards: it's the network effect, stupid

A new policy procurement note has just been issued as part of the process of reforming government ICT procurement, and it includes references to open standards (when they work out what that means) and open source software.

As before they are to be used it all hinges on what you mean by "whenever possible" not forgetting that "wherever possible" includes "nowhere".

In passing we note that in future, contracts are to be capped at £100 million except when they aren't but what we really want to discuss is the advice in paragraph 11.4:

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The use of open source and open standards should be used whenever possible and where it represents a value for money solution, allowing department to re-use code, designs, templates and ensuring that work is not duplicated.

because we're not sure it offers any advice at all and not because of "wherever possible"

In December 2011, the Department of Business Innovation and Skills (BIS) published an economic study on innovation and growth (pdf) with specific attention to Information and Communication Technologies (ICT) explaining, among other things:

- Competitive markets are important for innovation to thrive and deliver growth. Competitive conditions [enable] allocation of resources from less to more efficient firms, [and] the freedom of consumers to choose new suppliers, often on the basis of new products and services. [...]
- The relationships between competition and innovation are all the more complex as they are likely to differ across industries and sectors, and in some industries collaboration must be encouraged.
- With network externalities, for instance, the more users join a particular telephone network, the more valuable the network becomes to those users, as they are able to contact more people as the size of the user base increases. This can lead to very large market shares for leading firms and products and high barriers of entry.
- ICT-enabled forms of collaboration [...] exhibit scale economies. As virtual networks grow, the control of interface and compatibility standards amongst other issues, also increase in importance.

BIS goes on to say quite a lot about standards, pointing out that:

- standardization is a key part of the microeconomic infrastructure(pdf) enabling innovation and acting as a barrier to undesirable outcomes.

Earlier BIS economic studies highlight the role of open standards for competition:

- Open standards are essential to maximise network effects (pdf)
 - Proprietary standards (i.e., those controlled by a particular supplier) as we can read elsewhere raise barriers to entry.
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So the problem as we see it is this:

- No individual Department can work out the true cost of an individual decision on whether open standards offer "best value for money". If they are already locked-in it is almost certainly "best value for money" to stay locked-in unless there are structural reasons to do otherwise

- In the absence of an overarching structural response to being trapped in an oligopoly and so address the barriers to network effects, Departments are free to design online services that only work with specific software without regard to wider economic deadweight costs and other negative externalities.

- Even if a Department was so inept that it was obvious they could have chosen to use open standards but didn't, there are no sanctions proposed for infraction or, more importantly any overriding mechanism for remedying the problem.

Or in other words, this is a massive failure to pass the So What? test in yet another example of a government back pedalling on earlier commitments.

We don't know why this has happened though we've certainly been tracking it all here, but we're not alone others are noticing too and blaming the usual suspects.

[Download a study on the importance of royalty free open standards](#)

We have just published a report on the wider importance of royalty free open standards and you can download it here (65 pages, pdf, approx 1.8MByte).

-- Gerry Gavigan, Chair, 3 April 2012

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