Chapter 4
The Standards War between ODF and OOXML: Does Competition between Overlapping ISO Standards Lead to Innovation?

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ABSTRACT

A strong belief exists that competition between de facto standards stimulates innovation and benefits consumers because it drives down the costs of products. The tenability of this belief, and its preconditions and limits, has been widely scrutinized. However, little has been written about competition between negotiated, de jure (i.e., committee) standards. Are competing de jure standards a good thing? Blind (2008) equals de jure to de facto standards and concludes that competition between de jure standards increases social welfare. In this paper we argue that it is important to distinguish between de jure and de facto standards; therefore, that Blind’s basic assumption is incorrect. We illustrate our argument with the same example as Blind, that is, the standards war between the document formats of ODF and OOXML. In our view, the implications of condoning—and even encouraging—competition between de jure standards will have far-reaching consequences for public IT-procurement. It will hinder innovation and counteract supplier-independent information exchange between government and citizens.

INTRODUCTION

In the neo-classic economic line of reasoning competition is held to benefit consumers because it lowers the price of products, increases product supply and stimulates innovation. That is, it improves the price/performance ratio of products. Furthermore, through the workings of the free market the most innovative and competitively priced products will automatically drive out lesser products. The market has a self-regulatory capac-

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ity: by means of competition it will purge itself and stimulate innovation.

The neo-classic line of reasoning is temptingly clear. Its implications are relatively easy to handle by policy makers faced with non-transparent and complex processes. Moreover, in many situations this line of argument may hold. But in some important other situations it does not. As the current economic crisis shows, in the financial sector competition also leads to fraudulent financial innovations. The self-regulatory capacity of the financial market has failed for it does not address the quality of products and services, and currently cannot cope with long term societal values and interests.

At present much more is known about the conditions under which competition between products and de facto standards has a positive effect on innovation. For example, a market with many small competing parties is not necessarily innovative; an oligopoly generally appears to be more so (Scherer, 1992). Many case studies exists about extremely competitive situations and in particular about wars between de facto standards (Stango, 2004). But little is known about whether these insights also apply to de jure standards. Recently Knut Blind (2008), a German economist, addressed the topic in a EURAS paper called ‘A welfare analysis of standards competition: The example of the ECMA OpenXML Standard and the ISO ODF Standard’. There, he concludes that market competition is a good thing and no less so for de jure standards: competition between de jure standards leads to technology innovation.

Looking at a classic example in standardization, the variety of national standards for electrical plugs and the impediments which this causes, Blind’s conclusion is hard to grasp. The implications of his conclusion are too far-reaching and the example he uses, that of two overlapping ISO-standards for document formats, is of too much consequence to gloss over our difference of view. The two ISO-standards are ODF, the Open Document Format, which was formalised in 2006, and a second competing standard, Microsoft’s OOXML, which was approved in November 2008. Because document formats play a key role in, for example, the way governments exchange information with their citizens, the consequences of having two overlapping ISO standards will be felt by citizens globally. Moreover, the development of two overlapping ISO standards draws into question the fundamental purpose of de jure standardisation.

In this article we will argue that competition between overlapping de jure standards leads to unnecessary confusion. It adds to social and economical costs without offering anything in return—least of all innovation.

An Ill-Founded Assumption

Blind’s key question is how competing standards should be theoretically evaluated in particular in respect to their effect on innovation. He identifies eight parameters that are relevant to determine whether one should immediately choose between standards or prolong the period of competition before making a choice.

Our objections to Blind’s view do not so much concern the arguments he uses, but rather the underlying assumptions and implicit shift in research question. Blind claims that it makes no difference whether we are dealing with de facto standards like Blu-Ray or formal de jure and consortium standards like ETSI’s GSM standard and W3C’s XML standard. In developing his argument he extensively uses the Anglo-Saxon body of economic literature on standardisation, which centres on de facto standards (Blind, 2004). In doing so, he confines his discussion to situations and problems which are typical for de facto standards and obscures answering the initial research question.

For example, a recurrent problem addressed by economic literature is the risk that consumers prematurely get locked into a certain technology whereas its quality is not yet evident. According
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