

The Benefits of Open Standards for European SMEs

WHY? SMEs are important for Europe

Small and Medium Enterprises (SMEs) employ about 81 million people in Europe. This equals 66 percent of Europe's total employment. Micro-enterprises with less than 10 employees represent 93 percent of SMEs. There are more than 19 million micro-companies in Europe. In various ways, SMEs contribute to innovation and strengthen the competitiveness of European industry. This includes the large number of SMEs which leverage the open source development model for their business. Especially in Europe they play a significant role in the dynamic, growing ICT market place.

WHAT? SMEs need Standards

Open Standards provide the common interoperability that allows users, customers, organisations and governments to communicate and work freely across borders. For SMEs, this lowers the cost of market entry and allows them to bid for smaller bits of larger cross-border tenders. In turn this advances the Internal Market for software goods and services to the benefit of EU industry and citizens. Open Standards create the opportunity to integrate solutions at lowest cost, providing local innovation and niche high value services to their customers. Open Standards encourage growth and innovation without the step function increase in costs paid to external licence holders.

WHAT? SMEs fit the concept of Open Standards

Software interoperability standards are open when they are developed in an open, transparent and collaborative process and are freely available and implementable within any business model. Open standards are typically managed in global standards setting organizations which practice due process and rough consensus. Global reach is key to wide implementation. In fact, open standards should not only be developed in a transparent process, but that process should ideally be open to all interested parties worldwide. Moreover, open standards must be supported and maintained over time by an organisation which enjoys trust among a wide set of relevant stakeholders. Open standards, understood this way, are platform independent and vendor neutral. Whereas openness itself is in some sense a spectrum rather than an absolute criterion, calling a standard "open" makes a clear distinction against so-called "closed", "de facto" or "proprietary" standards which may favour a single vendor or a small group of vendors only. Open standards must be subject to full public assessment and use without constraints in a manner equally available to all parties.

WHERE? The European Interoperability Framework stimulates SMEs

The European Commission's plans to issue a revised European Interoperability Framework (EIF 2.0) is good news for SMEs. It solidifies the principle of open standards, describes an approach for pan-European e-government services which favours SMEs, and improves the influence of SMEs in government procurement generally. OFE is highly in favour of its adoption—because it will spread market share, stimulate innovation and invigorate SME supply chains.

OFE Brief No.2 (09.02.09.)

Government is an important customer and adopts open standards policies and practices for the same reasons: flexibility, choice and efficiency. The European Commission is a long standing supporter of open standards. Denmark and the Netherlands are two Member States that strongly endorse them through preference mandates. Actors who endorse globally developed, open standards, begin building the open ecosystem that industry, governments, and users need – and thereby foster fair competition and facilitate innovation for the future.

WHY? Standards making v. Standards taking

European SMEs play an active role in standardisation. Depending on their business model, SMEs either act as *standards makers* taking part in the development of standards or as *standards takers* benefiting from the use and implementation of standards for their market access and success. In fact, the latter is of much more importance to the vast majority of SMEs than the contribution to the development of standards. SMEs get multiple benefits by implementing and using standards, including above all an agreed technical base for fast and trusted market access and an agreed base for innovating on top of the standard.

An open standard, as the European Commission recognized already in their Communication on Innovation Policy of 11 March 2003: “reduces costs, simplifies processes and is a key factor in dissemination of technical, managerial and organisational innovations in areas such as product development, manufacturing, [and] marketing.” In the same way, SMEs leverage open standards as *standards makers*. For a standard to accelerate fast market entry and growth of firms, the standard needs to have quick uptake and wide implementation. Open standards do not have any barriers for their implementation; they do not require lengthy bi-lateral negotiations on terms and conditions but are available for the marketplace right away. In the software area, open standards enable industry to provide software and services that meet customer requirements today and in the future. In a networked ecosystem there is the need for end-to-end solutions with pieces of software from different vendors working seamlessly together.

Hence, the concept of open standards is widely accepted in industry and by SMEs in particular. SMEs tend to have close and direct customer relationships. Even so, open standards guarantee a high degree of flexibility and choice for those same customers. Open standards prevent single vendor lock-in by facilitating interoperability. Open standards truly level the playing field. As the internet and its growth effects on SMEs has shown, open standards provide a critical stimulus for the uptake of standards as such. Also, they enable easy entry into new markets because SMEs, in particular, can leverage the benefits of standards.

WHEN? Europe is benefiting already

Every day, SMEs are winning tenders because of standards compliance. There are already many open standards out there, such as CSS, TCP/IP, HTTP, HTML, DNS, SMTP, POP3, PDF, IMAP, IPSec, SSH, SSL, C, C++, and ODF. SMEs take part in their development, or use and implement them in their product and service offerings. The traditional standards organizations both internationally (ISO, IEC, ITU), European (CEN, CENELEC, ETSI), and nationally (e.g ANSI, BSI, AFNOR, DIN), roughly confirm to an open standards development process (although there are challenges regarding access to the process as well as the availability and pricing of standards). Leading fora/consortia in the ICT domain like W3C, IETF and OASIS have chosen open standards as their model for developing and providing specifications. All these three have a large amount of SMEs among their members and many SMEs implement their standards and innovate on top of them.

HOW? SME barriers to entry can be overcome

Needless to say, all is not perfect. There is room for improvement—in particular concerning the awareness about open standards and how SMEs benefit from them—both among SMEs and among other stakeholders. In 2003, the Commission's study on SME and standardisation revealed there were numerous barriers to entry for SMEs, including cost and competence, but also awareness. Standards participation requires time investment and entails travel and membership costs. Moreover, each organization has their own particular policies. Furthermore, there are thousands of standards—knowing where the opportunities exist is a strategic game in itself.

HOW? Standards organisations are improving access

A 2006 Commission study found simplicity to be the avenue forward to increase access. However, while much has been done in recent years to facilitate standards participation by SMEs—such as establishing tiered membership and lowering fees, allowing free online participation, and EU-stimulus programs—more can be done. In an open standards process, all stakeholders benefit if standards participation increases since both the quality and the dissemination depends on the participants.

HOW? IPR is not the obstacle if rules are simplified

Some say that IPR protection is problematic with open standards. Indeed, the cost of IP counsel, as well as patent licensing and royalties may create barriers for SMEs. A French VoIP company had to go to the bank in order to ask for a credit line in order to pay the entry ticket to legally make use of a relevant standard. In some areas of IT, patented technology can be justified and accepted, but this needs to be proceeded with care. Normapme, the European Office of Crafts, Trades and Small and Medium-Sized Enterprises for Standardisation, argues that there should be royalty exemptions for SMEs if a new technology has been developed which requires access to the standard for commercialization and the technology is in society's interest. Excessive royalties is a problem for all players in the software market—from SMEs to multinationals. As a start, we must simplify the rules of standards engagement for all players.

For open standards in the area of interoperability the EIF is very clear—any intellectual property present in that standard should be made irrevocably available on a royalty free basis. This allows all business models and all users freedom to choose and allows innovation where it is required. For the SME such access becomes especially important. Elsewhere, it is true that if patented technology is included in a standard one needs to proceed with care with consideration on royalty free clauses, or a clear up-front ex ante declaration of maximum royalty rates.

IN CONCLUSION Choosing open standards is highly strategic to SMEs. Fostering SME participation is a worthy objective of the Commission. Their benefits and positive impact on innovation are debated and seen at the highest decision making levels. Open standards built on the principles of openness, transparency and consensus lay the grounds for innovation and growth, for flexibility and choice, for global market success and fair competition. Open standards make SMEs competitive—as well as desirable partners. Who does not want that?