Standardization and business development: The global impact of the IOSA standards and the value of anticipation

By David Hodgkinson

The University of Western Australia, Australia
About the author

David Hodgkinson

David Hodgkinson, whose PhD thesis concerns the regulation of aviation in federal systems (the University of Western Australia), is a member of The Hodgkinson Group, Aviation Advisors. Although the Group has 11 advisors located around the world, it is based in Perth, Western Australia. Previously he was Director of Legal Services at the International Air Transport Association (IATA), the organization of the world’s international airlines, in Montreal. He was a Postgraduate Fellow at Columbia University in New York.

The author, co-author or editor of four books or monographs, David is also a member of the Editorial Board of the World Review of Intermodal Transportation Research and a contributor to Air & Space Law on aviation law developments in the Asia-Pacific region. He has been published in the Virginia Journal of International Law, Defence Force Journal, Air & Space Law, Loyola of Los Angeles International and Comparative Law Journal and Asia Law.

In 1997 David was a recipient of an Evans Grawemeyer Fellowship awarded by the Australian Government for research and activities aimed at improving global order. www.hodgkinsongroup.com/

The University of Western Australia, Australia

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Summary

The IATA Operational Safety Audit (IOSA) programme consists of standards against which the 
operational, management and control systems of an airline are assessed. Developed between 
2001 and 2003 as a result of collaboration between disparate aviation industry stakeholders, 
IOSA is having a global impact on airline safety standards.

In developing the IOSA standards and an audit programme for assessing conformity with those 
standards, the industry stakeholders responsible for IOSA anticipated change and regulatory 
action. They steered the process of change, shaped the standards and engaged with regulatory 
authorities. In so doing, the development and use of the IOSA standards has had a significant 
economic, business and social impact on the airline industry and the travelling public at a critical 
time. IOSA demonstrates what this paper refers to as the value of anticipation, and it has 
application beyond the airline industry.

The strategies utilized in the IOSA standards development process and its unique and innovative 
features, given the programme’s success in terms of addressing particular social concerns, 
reducing costs and facilitating business, also have implications for other industries and for 
standards development generally.

This case study of IOSA examines the impetus for the programme and its standards development 
process. It then analyses the economic, business and social impact of the development and use 
of the IOSA standards, with a focus on the linkages between standardization and business 
development. The paper concludes with some of the implications and applications of the IOSA 
standards, programme and process.

1 Introduction

Worldwide trade liberalization has resulted in business being exposed to many of the same 
technological, economic and social pressures and influences. Such liberalization and “the 
integration of economic activities across borders, through markets”[1] – economic globalization – 
has meant that the link between business development and standards is ever more significant.

Globalization, whether technological, economic or social, depends on aviation. Yet international 
aviation itself has long been one of the most highly regulated and protected industries. International 
air services, whether passenger or cargo, can only be operated, and traffic rights exchanged, 
through government-to-government air services agreements or treaties. These agreements are

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1 Figures in square brackets refer to the Bibliography.
increasingly being liberalized, however, with the removal of many restraints on the ability of airlines to run international air services.

From 2001 to 2003 a revolution took place in the development and use of international aviation safety standards and conformity assessment. With impetus coming from increasing liberalization of international air services and a proliferation of airline safety audits as airlines increasingly code-shared to take account of new business opportunities, a new, unique international audit standard, the IATA Operational Safety Audit (IOSA), was created.

Under the stewardship of the International Air Transport Association (IATA), disparate stakeholders, working within a collaborative and innovative framework, and in a short two-year period, produced IOSA standards and recommended practices. These groups produced a framework in which airline safety audits under the IOSA process could be performed world wide.

There is a clear link between the IOSA standards and development of airline business; indeed, part of the rationale for the development of IOSA was to reduce airline costs and facilitate code-sharing between airlines. The development process of the IOSA standards, the standards themselves and the framework within which conformity assessment against those standards takes place, however, all have wider implications for, and application to, business beyond the aviation industry. This is so in addition to an indirect implication: standards which affect the global airline business, given its nature, also affect the global economy.

This paper - a case study - considers the economic, business and social impact of the development and use of the IOSA standards for two sets of end-users: the airline industry and airline passengers. In so doing it examines the connection between standards and business development, with specific reference to electronic standardization.

2 The IATA operational safety audit

Under the IOSA programme IATA accredits Audit Organizations (AOs) to provide audit services pursuant to an accreditation agreement. AOs and their teams of auditors then conduct audits to determine the level of conformity with IOSA standards and recommended practices (ISARPs). Such audits are conducted pursuant to an audit agreement made between the relevant AO, the auditee airline, and IATA. After audit closure, the AO submits the audit report to IATA. The audit report is entered in an IOSA database so that an interested party can utilize the audit of the relevant airline, conducted by a third party under IOSA, to satisfy its own requirement for an audit of that same airline. IATA then enters the name of the airline on the online IOSA registry; the IOSA registry displays the airline as an “IOSA Operator.” Registration as an IOSA operator is valid for a period of 24 months.

3 Impetus for IOSA

The impetus for development of the IOSA programme came from an increase in the number and cost of safety audits. In 2001 it was noted that “over 70,000 audits are performed, costing in excess of $3 billion world wide,” and that such audits overlapped in terms of content and intent. As liberalization of air services and opportunities for growth increased, so too did the practice of code-sharing, whereby the designator code of one airline is included on flights operated by another airline.

Indeed, exacerbating matters were US Department of Transportation (DOT) and Federal Aviation Administration (FAA) code-share audit guidelines that called for US carriers to undertake periodic safety audits of their foreign code-share partners. The Air Transport Association (ATA) and the US Department of Defence (DOD) also announced safety and operational reviews of certain non-US airlines, the costs of the reviews to be borne by the airlines.
This proliferation of audits was impliedly recognised by the FAA when it announced in 2004 that US airlines would not have to undertake an audit of each prospective code-share partners if such partner airline had been audited under the IOSA programme.[5]

Other problems attended airline audits in addition to their number and cost. These included redundant and overlapping audits, no common audit standards, no defined auditor qualifications, uneven audit results and no audit sharing. The IOSA Advisory Group (IAG), established to provide oversight of the development and implementation of IOSA, was of the view that benefits accruing to industry as a result of the programme would include the establishment of an international operational audit standard, accredited and certified auditors, elimination of audit redundancy, a reduction of audit costs and an improvement in safety through performance standards.[6]

4 IOSA standards development process

With a mandate from the IATA Board of Governors to “identify opportunities to standardize, harmonize and rationalize existing airline audits and auditing standards,”[7] IATA, its advisory group of airlines, regulatory authorities, industry organizations and task forces commenced a work schedule in 2001 which involved drafting a set of audit standards and recommended practices. The IAG provided oversight of this work schedule and implementation of the IOSA programme.

The terms of reference of the IAG provided that, in addition to IATA member airline membership, membership of the IAG should “involve all main airline global alliance groups, the main national and regional airline associations, representative international and national regulatory authorities and include a wide range of safety management, quality assurance and other specialist auditing skills.”[8] The IAG’s airline membership was geographically balanced; no airline or airline alliance was dominant, either regionally or otherwise. Membership also comprised individuals from IATA management and the IOSA project manager.

In terms of representative regulatory authorities, membership of the IAG included the International Civil Aviation Organization (the specialized UN aviation agency), the FAA, the Australian Civil Aviation Safety Authority and Transport Canada. The US DOD was also a member. Non-member participants included the new European Aviation Safety Agency. A number of invited industry groups also participated, such as the Flight Safety Foundation, with whom IATA consulted prior to the development of the IOSA programme. It consulted additionally with ICAO and major safety regulators.

Twelve IOSA task forces were created, again operating under IATA terms of reference, directed and supervised by the IAG. Each task force consisted primarily of suitably qualified airline representatives and regulatory authorities. The task forces contributed to the establishment of the IOSA standards, associated auditor checklists and guidance material, with the goal being “a mutually accepted uniform audit standard, which will enable airlines to share audit results in order to achieve maximum efficiency, whilst maintaining high safety standards.”[9] The IAG integrated the work output of the IOSA task forces into a comprehensive IOSA Standards Manual.

ICAO standards and recommended practices were used as a basis for those of IOSA. It should be noted that the Chicago Convention, which includes the constitution of ICAO, provides that ICAO “shall adopt and amend from time to time … international standards and recommended practices and procedures …”[10] However, since contracting states are not obliged to adhere to or implement such standards and recommended practices,[11] the non-mandatory nature of the Chicago Convention’s standards has been criticized by a number of writers.[12] While the ICAO standards and recommended practices were used as a basis for those of IOSA, an awareness of some of the issues attending the ICAO standards and recommended practices, then, informed the development of the IOSA programme, particularly in terms of consistency and standardization. In the event, the IOSA standards meet or exceed both those of ICAO and the minimum standards required by the most demanding aviation safety programmes.
The starting point for the development of the IOSA standards and recommended practices was
the ATA’s “Codeshare Operational Review Standards.”[13] However, other relevant government
and more demanding regulatory authority requirements were considered, together with standards
and processes from other industries and disciplines. In addition to ICAO, the ATA and the DOD,
material and ideas gleaned from the ISO, the US National Institute of Automotive Service
Excellence (standards for the certification of providers of continuing automotive service education
(CASE)), the Society of Automotive Engineers International (SAE), the American National
Standards Institute (ANSI) and the American Society for Quality, amongst others, were also
considered. Where necessary, copyright permissions were obtained.

A total of eight IAG meetings were held between 2001 and the inauguration of the IOSA
programme in 2003. During that same time 8 “operations” task forces met at dates determined by
each task force, and each task force duly reported progress at each IAG meeting. Much of the work
of the IAG and of the task forces was undertaken electronically. In the order in which they appear in
the IOSA Standards Manual (ISM)[14], the task forces created IOSA standards and recommended
practices in the following categories:

a) Corporate Organization and Management System;
b) Flight Operations;
c) Operational Control – Flight Dispatch;
d) Aircraft Engineering and Maintenance;
e) Cabin Operations;
f) Aircraft Ground Handling;
g) Cargo Operations; and
h) Operational Security.

Additionally, four other task forces convened during the above period. One of these, the Data
Management Task Force, designed a data management system “to support and facilitate audit
sharing, and to ensure the security and confidentiality of the information that results from audits
conducted under IOSA.” As section 6.0 of the IOSA Programme Manual (IPM) states, “sharing of
audits is a fundamental element of IOSA and effective data management is essential for achieving
successful audit sharing.”[15]

The IOSA documentation consists of the IPM, the ISM and the IOSA Auditor Handbook (IAH). The
IPM contains standards [16] that govern all aspects of the IOSA programme for the purpose of
ensuring “that each audit is conducted in a standardized manner to achieve consistent results”.[17]
The standards contained in the IPM apply to AOs, Operators and IATA. Sections of the IPM
provide standards in relation to accreditation of AOs, IOSA registration, auditor qualification, auditor
training, the audit programme (the conduct of an audit), data management (including on-going
standards change management and standards review), audit sharing, IOSA programme
administration and dispute resolution.

The ISM contains all of the IOSA ISARPs. As the ISM makes clear, during an audit, an Operator
is assessed against the ISARPs as set out in the ISM. Compliance is determined by the extent to
which specifications are documented and implemented by the Operator. Part 2 of the ISM contains
the IOSA Guidance Material (IGM). The purpose of the IGM is to promote uniformity in
interpretation of the ISARPs for both Operators and auditors. While standards and conformity
assessment are separate matters, they are, of course, integral to each other. While the focus here
is on standards, conformity assessment is key.

Finally, in terms of documentation, the IAH provides guidance to auditors carrying out audits so
as to ensure a high level of standardization and consistency during the conduct of such audits,
“to achieve the highest level of standardization in terms of auditor competency and the application
of IOSA Standards”.[18]

The development of the IOSA project consisted of four phases: establishment of standards,
together with associated guidance material; development of the IOSA programme and procedures;
transition of the IOSA project to the IOSA programme and trial implementation; and industry recognition and acceptance.

The first AO was accredited in August 2003 and eight AOs have been accredited thus far. There are currently 111 IATA Operators listed on the IOSA registry. [19] At the beginning of June 2006, 246 airlines, 80% of scheduled international air traffic, were in the IOSA process. [20] IATA’s Board of Governors has resolved to make an IOSA audit mandatory for current IATA members and a condition for IATA membership. [21] Thus, by 2007, all current IATA members will need to have successfully undergone an IOSA audit. [22]

5 The economic, business and social impact of the development and use of the IOSA standards for end-users

There are two sets of end-users with regard to the IOSA standards: airlines, who are assessed against the standards and who benefit from increased business development and opportunities through IOSA programme implementation, and passengers, who benefit from enhanced safety and who may come to rely on the standards.

5.1 Business development

Impetus for the development of the IOSA standards came from increasing financial costs associated with a proliferation of safety audits, specifically audits of proposed airline code share partners. Prior to the implementation of IOSA such audit standards were often inconsistent and variable, and the results uneven. Audits were redundant and overlapped. The costs to the airline industry were high not only because of the number of such audits but also because of the inefficiencies associated with the standards themselves and conformity assessment.

In collaborating on the development of the IOSA standards and a framework for conformity assessment, international airlines together with regulatory authorities and industry organizations created standards (and an audit programme) that enabled airline business opportunities to be taken up. Through use and application of the IOSA standards and audit sharing, costs were significantly reduced and, through facilitation of code sharing and the opening up of new markets as a result of air services liberalization, business was and is created and developed. Standards and business development are linked. [22]

Indeed, international traffic data for May 2006 released by IATA on 30 June 2006 shows 7% growth in passenger demand and 5.1% growth for freight over the same period in 2005. [24] Airbus’ most recent assessment is that global air passenger traffic will average growth of 5.3% per year over the period 2004-2023; [25] other forecasts predict twice as much air traffic in 2020 as exists today. [26] Boeing states that just over 27,000 new aircraft will be delivered over the next 20 years (more than doubling the current worldwide fleet of aircraft) for a total value of USD 2.6 trillion. [27]

Changing regulatory regimes are facilitating this growth; competition increases in response to liberalization. Increasing liberalization of international air services is taking place in key global markets. Such liberalization will accelerate given the clear causal link between liberalization, traffic growth and economic development. [28]

This leads to a more obvious point: the improvement in safety through performance standards which the IOSA standards represents leads to a safer and more secure flying environment which, in turn, encourages people to fly. Indeed, the aviation industry accident rate in 2005 was 0.76 per million flights, the best rate ever achieved. Among IATA members the rate was 0.35. [29] This point is taken up again later in the paper.

5.2 Anticipation

In developing the IOSA standards and an audit for assessing conformity with those standards, and in addressing the myriad of problems which attended airline safety audits, the coalition of airlines referred to above took a proactive stance. Ahead of inevitable collective state regulatory action at
some point to address these problems (almost certainly through ICAO, itself attended by previously identified problems), a wide coalition of airlines, co-opting and engaging with regulatory authorities, itself anticipated such action. It steered the process of change, shaped the standards and engaged with regulatory authorities; it self-regulated. In so doing, significant business advantages accrued to the airlines: predictability, certainty rather than uncertainty, and focus – thus, what is called here the value of anticipation.

A proactive policy is more likely to focus the managerial capacity of corporations on constructive policy initiatives, as IOSA illustrates. Other advantages of a proactive policy stance, taking action and being seen to take action, include enhanced profitability and positive public relations implications. This applies particularly with regard to safety and security matters in the current aviation environment.

Anticipation of changes in regulatory policy, taking action before being required to do so and anticipating future risks and opportunities makes good business sense.

In anticipating regulatory change and in developing the IOSA standards, airlines moved ahead of governments with attendant business and social impact. The value for airlines of such anticipation is now reinforced when one considers that states in 2006 are either changing or considering changing their regulations so as to make IOSA a requirement for Air Operator Certificate (AOC) applications – that is, IOSA would be a requirement for airline operators. Chile and Egypt have so changed their regulations;[30] states such as Jordan, Turkey and Mexico are working with IATA to incorporate IOSA into their respective certification processes,[31] and the FAA also recognizes IOSA.

5.3 Social impact

The IOSA programme is affecting the development of States’ airline safety standards. It represents a set of standardized and consistent airline safety audit standards which draws upon, and either meets or exceeds, ICAO standards and recommended practices and ATA standards, together with airline “best practices” and requirements of regulatory authorities around the world. Taken together, these elements result in a unique set of standards. Because of its scope and effectiveness, it provides a model and substance against which state airline safety standards can be measured, and those standards subsequently amended as a result at the national and international levels.

States and state agencies have approached IATA “on using the IOSA as a tool in improving the standards of airlines in their countries.”[32] Further, most signs indicate that what state regulators can do to improve safety in developed economies is limited, and higher standards will be driven more by industry self-regulation – like IATA’s IOSA – and technological improvements that have always been a major factor in raising the safety and reliability bar (emphasis added).[33]

There have always been social concerns about airline safety. In the current political and security environments they are greater than ever. As McKinsey notes, “the most successful companies see beyond competitive rivalries and look for collaborative ways to both meet social concerns and to find new ways for industries to create value. The difficulty is knowing when to work with others and when to go it alone”.[34]

The IOSA collaborative framework has been outlined above, and implementation of the IOSA standards has been global; 80% of international air traffic is in the IOSA process. The impact of the IOSA programme has also been global in terms of safety and addressing passenger safety concerns. For example, in Africa the risk to passengers flying on African airlines is 17% greater than on North American carriers.[35] As a result, IATA’s Partnership for Safety initiative, which consists of seminars conducted on a regional basis, primarily in developing areas of the world, was first rolled out in Africa. It provides “a baseline assessment of operational capabilities that will lead to the identification of measures needed to reach the IOSA standard”.[36]

One new way to create value and address safety concerns is the manner in which the IOSA safety regime is transparent to the travelling public. Standards are accessible online,[37] as are those
organisations accredited as AOs.[38] Also accessible online is the IOSA Registry, which lists those airlines that have achieved the status of “IATA Operator,”[39] in part as a “resource for travellers to help evaluate airlines.”[40] Passengers, then, as end users, can choose to rely on IOSA.

5.4 Technology

The short, two-year IOSA standards development cycle was possible in part because much of the work of the IAG and the IOSA task forces, including meetings, was undertaken electronically. The development process was not a paper-based one; drafts, for example, were shared electronically. Moreover, there was often coordination of drafts and establishment of consensus in real-time.

Reflecting its development, the core elements of the IOSA programme – audit sharing, maintenance of the IOSA database (the system repository for IOSA audit reports) and access by an interested party to an IOSA audit report – are facilitated by electronic means. Moreover, again, IOSA standards and IOSA registry and operator details are available on line.

Most importantly, in terms of electronic standardization, the next generation of IOSA standards will contain a requirement that an IOSA operator have monitoring and control processes that are applicable to all external organizations that a) conduct outsourced operational functions; and b) are suppliers of products that have the potential to affect operational safety or security outcomes. This latter category includes products such as navigation data bases, flight planning software and other similar operational electronic programmes. The IOSA standards will be consistent with Chicago Convention Annex 6, 7.4.1, directed at electronic navigation products, whereby contracting states must ensure that operators have “procedures for ensuring that the process applied (for application of the product in the air and on the ground) and the products delivered have met acceptable standards of integrity and that the products are compatible with the intended function of the equipment that will use them”. Ultimately, these standards should lead to accreditation of suppliers of critical operational electronic data products and, equally as important, ensuring that operators only purchase such products from such suppliers as are accredited.

6 The value of anticipation and economic growth

The IOSA standards – borne of a coalition that moved ahead of governments, took a proactive stance and steered the process of standards development – may well do more to improve safety, particularly in developing countries, than government regulations. Indeed, governments are incorporating IOSA into their certification processes and using IATA as a tool to raise airline safety standards. Put another way, governments have followed.

The development of global aviation safety audit standards[41] has been facilitated by the IOSA programme; “global standards and regulations are critical to the efficient operation of the global aviation system and international markets”. [42]

The business and social impact of the development and use of the IOSA standards for two sets of end-users, airlines and their passengers, has been significant. IOSA has enabled airline business growth and opportunities to be taken up; global international air services liberalization has led to traffic growth and economic development. IOSA has also met industry and social concerns about international airline safety (and security), concerns exacerbated by terror attacks and aviation accidents since 2001, and at a time of international air services liberalization.

Given this, development of the IOSA standards may be instructive for other industries which, like that of aviation, are global in scope and critical to global economic growth, and for standards development generally. In particular, the success of IOSA demonstrates the value of anticipation, of taking action before being required to do so and of looking ahead to future risks and opportunities. It makes good business sense.
Further, the IOSA standards development process utilised a number of strategies and contained a number of unique and innovative features which, when taken together, may also be instructive. These include

a) a bold decision to create a new international standards system, and to provide a single forum for its development and for post implementation matters such that standards can continue to evolve and be refined;
b) a transparent development process with standards, programme documentation and the registration status of those airlines audited under IOSA freely available online;
c) input from disparate categories of industry stakeholders, many of them competitors;
d) a short standards development cycle, characterised by an often electronic development process and fast response times; and
e) creation of a collaborative framework involving teams (task forces) to facilitate the standards development process, such teams often linked and with cross-membership.

Finally, taken together, these aspects of the IOSA standards process may be of assistance for industries seeking to address current issues of global economic and other concern – climate change, for example –. Diamond has asked whether business "has the courage to practice long-term thinking, and to make bold … anticipatory decisions at a time when problems have become perceptible but before they have reached crisis proportions". [43] IOSA demonstrates that long-term, anticipatory and innovative thinking, practiced by coalitions made up of disparate parties and moving quickly, can have a significant economic, business and social impact; and in developing solutions – in developing standards – business can move ahead of and push governments.
Bibliography and notes


[16] The use of “standards” here in the context of the IOSA programme should not be confused with the “standards” which form part of IOSA standards and recommended practices (ISARPs). Standards in this latter context are those that are considered an operational necessity and with which a potential IOSA Operator will be expected to be in conformity at the end of an audit in order to be registered as an Operator.


[31] IATA, supra, note 29.


[33] Supra.


[41] A “global standard” can be defined as one that is globally recognised (“all stakeholders around the world acknowledge its technical accuracy and relevance”), globally accepted (“regulatory agencies and customers around the world recognize the standard as meeting the applicable requirements”) and globally used (“all stakeholders use the standard”): The Future of Aerospace Standardization Working Group, Aerospace Industries Association of America, Inc, The Future of Aerospace Standardization, January 2005: http://www.aaaerospace.org/library/reports/aerospace_standardization0105.pdf#search=%22future%20of%20aerospace%20standardization%22 (last accessed 30 August 2006).
