

# A FRAMEWORK FOR THE CLASSIFICATION OF DATA QUALITY COSTS AND AN ANALYSIS OF THEIR PROGRESSION

(Research in Progress)

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**Abstract:** Many information quality initiatives and projects need to demonstrate the potential benefits of their IQ-related activities already in their planning stage. In doing so, practitioners rely on cost estimates based on current non-quality data effects (that are then compared to data quality improvement costs). In producing such estimates on costs caused by low quality data, it is difficult to identify all potential negative monetary effects that are the result of low quality data (as well as all possible costs associated with assuring high quality data and their progression). Because of this, this article reviews and categorizes the potential costs associated with low quality data and examines their progression. This can help practitioners to identify cost saving potentials and argue a more convincing business case of their data quality initiative. For researchers, the proposed classification framework and the cost progression analyses can be helpful to develop quantifiable measures of data quality costs and to prepare – subsequently – benchmarking studies, comparing different cost levels in different organizations. Thus, this paper contributes elements of a future cost-benefit analysis method for data quality investments.

**Key Words:** Data Quality, Data Quality Costs, Data Quality Benefits, Cost Measurement, Optimal Data Quality Costs, Data Quality Cost Benefit Analysis

## INTRODUCTION

What kind of return on investment can an organization expect from its data quality initiative? Many companies find this question difficult or even impossible to answer. The reason for this is the arduous task of quantifying the current costs of low quality data that will eventually be reduced because of deployed data quality activities (which again cause costs that need to be accounted for in an ROI calculation). Calculating the current costs caused by insufficient levels of data quality is particularly difficult because many of these costs are indirect costs, that is to say costs where there is no immediate link between the inadequate data quality and negative monetary effects. Consequently, it is difficult to identify these often hidden, indirect costs, let alone quantify them.

To facilitate the task of identifying and characterizing such costs, this article reviews existing non quality data costs and structures them with the help of classifications. This can enable practitioners to better argue their business case by more easily identifying current costs of low quality data. For researchers, the presented classification framework can be helpful to develop quantifiable measures of data quality costs and to prepare – subsequently – benchmarking studies, comparing different cost levels in different organizations in a coherent manner and based on consistent cost distinctions. Thus, this paper contributes

first elements of a cost-benefit analysis method for data quality investments. Such a future cost-benefit analysis should not only rely on static information about data quality costs. It must also take into account the subsequent progression of these costs. This is why the different cost progressions are analyzed in the discussion section of this paper.

## **BACKGROUND, RATIONALE, AND PURPOSE**

Although there is a plethora of literature that claims that the costs of missing data quality are substantial in many companies (e.g. [6], [21], [17], [13], [8]), there are still very few studies that actually demonstrate how to identify, categorize and measure such costs (and how to establish the causal links between data quality defects and monetary effects). [30] confirm this assessment in their analysis of data quality costs:

“There have been limited efforts to systematically understand the effects of low quality data. The efforts have been directed to investigating the effects of data errors on computer-based models such as neural networks, linear regression models, rule-based systems, etc. [2] [Kauffman et al 1993]. In practice, low quality data can bring monetary damages to an organization in a variety of ways. As observed earlier in [Kim 2002], the types of damage it can cause depend on the nature of data, nature of the uses of the data, the types of responses (by the customers or citizens) to the damages, etc.”

This lack of insight regarding the monetary effects of low quality data, however, is not only an open research problem, but also a pressing practitioner issue. Humbert and Elisabeth Lesca, two information management consultants and university professors, conclude similarly that it is very rare that a company analyzes the costs resulting from non-quality information [17, p. 116]. Although we agree with the fact that data quality costs are context-dependent [6], that is to say that the types of damage caused by low quality data depend on the nature of the managed data, its uses and responses, we believe that proven approaches from other cost domains (such as accounting or manufacturing) can be fruitfully applied to the data quality field. Specifically, cost classifications based on various criteria can be applied to the data quality field in order to make its business impact more visible. Generic classifications of data quality costs can offer various advantages, ranging from clearer terminology, changes in perspectives, to more consistent measurement metrics. A classification, according to [1] is the ordering of entities into groups or classes on the basis of their similarity. Classifications minimize within-group variance, and maximize between-group variance, thus facilitating analysis, organization and assessment (if the goal of within group homogeneity & between-group heterogeneity is met). Classification (according to [5]) can also be described as a spatial-temporal segmentation of the world (or one aspect of it). It exhibits the following properties: there are consistent, unique classificatory principles in operation; the categories are mutually exclusive; the system is complete. Taxonomies, as a special kind of classification, are tied to a *purpose*, in the context of this paper making sure that all relevant data-quality associated costs are taken into account when performing a cost-benefit analysis for a data quality program. [1] points out the crucial difference between taxonomy and typology: Whereas a typology is conceptual, deductive, and based on reasoning (e.g., a two by two matrix classification, see figure 1), a taxonomy is empirical, inductive, and based on large sets that are examined and grouped, e.g., through cluster analysis [1, p. v]. Figure 1 shows a simple data quality cost typology based on the criterion of direct or indirect relation to data quality taken from [16, p. 210] who has adapted it from guidelines of the US Department of Defense.

Costs	
Direct IQ Costs	Indirect IQ Costs
1. Controllable Costs - Prevention Costs - Appraisal Costs - Correction Costs	1. Customer Incurred Costs
2. Resultant Costs - Internal Error Costs - External Error Costs	2. Customer Dissatisfaction Costs
3. Equipment and Training Costs	3. Creditability Lost Costs

**Figure 1:** A sample data quality cost typology

Another important definition regards the concept of cost. We believe that in the data quality field, a narrow definition of the cost concept is counterproductive, excluding many important negative effects of data quality. Consequently, we define the term cost in this context as *a resource sacrificed or forgone to achieve a specific objective* or as the *monetary effects of certain actions* or a lack thereof. The specific objective mentioned in the previous definition of cost is, in our case, a certain level of data quality. The data quality costs are thus the actual negative monetary effects that result from not reaching the desired data quality level. How such costs can be compiled is described in the next section.

## METHODS

In order to develop a systematic classification of data quality costs that can be used for future cost-benefit analyses within companies, we have proceeded in the following sequence of steps:

1. First, we have identified specific cost examples from data quality literature (such as journal articles and MITIQ proceedings). They are listed in tables 1 and 2 of the results section.
2. Second, we have clustered these examples into cost groups based on shared criteria (e.g., where the costs originate, who bears the costs, how the costs can be measured, which IQ attributes they affect, etc)
3. Third, we have reduced the cost groups into major cost categories that are, as far as possible, mutually exclusive and collectively exhaustive.
4. As a next step, we have related the various cost categories to one another in an instructive way (e.g., through an information lifecycle perspective), in order to convert the findings into a useful management framework.
5. The developed classifications are then evaluated for different application purposes and their advantages and disadvantages are discussed.
6. As a last step, we have analyzed central cost categories in terms of their mutual influence and progression in order to move from a static taxonomy to a more dynamic understanding of data quality costs.

Through this process of refinement, the concept of data quality cost is iteratively sharpened, but also viewed from various perspectives.

## RESULTS

The process outlined in the previous section has resulted in six types of results: a low data quality cost example directory listed in table 1, a list of direct costs associated with assuring data quality, listed in table 2, various data quality cost classifications listed in table 3, a data quality taxonomy displayed in figure 3, and a data quality cost framework, shown in figure 4. Figures 5, 6, and 7 show the results from

the data quality cost progression analyses.

<ol style="list-style-type: none"><li>1. higher maintenance costs [3, 23, 9)</li><li>2. excess labor costs (15, p.32)</li><li>3. higher search costs [26]</li><li>4. assessment costs [19]</li><li>5. data re-input costs [22, p.87)</li><li>6. time costs of viewing irrelevant information [20]</li><li>7. loss of revenue [30]</li><li>8. cost of losing current customer [17]</li><li>9. cost of losing potential new customer. (ibid., p.205)</li><li>10. 'loss of orders' costs (ibid., p. 207)</li><li>11. higher retrieval costs (4, p. 316)</li><li>12. higher data administration costs [9]</li><li>13. general waste of money [30]</li><li>14. costs in terms of lost opportunity (ibid.)</li><li>15. costs due to tarnished image (or loss of goodwill) (ibid.)</li><li>16. costs related to invasion of privacy and civil liberties (ibid.)</li><li>17. costs in terms of personal injury and death of people (ibid.)</li><li>18. costs because of lawsuits (ibid.)</li><li>19. Process failure costs [8],</li><li>20. information scrap and rework costs (ibid.),</li><li>21. lost and missed opportunity costs (ibid.)</li><li>22. costs due to increased time of delivery [17]</li><li>23. costs of acceptance testing [8]</li></ol>
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**Table 1:** Costs resulting from low quality data: examples at various levels of abstraction:

<ol style="list-style-type: none"><li>1. Information quality assessment or inspection costs [8]</li><li>2. Information quality process improvement and defect prevention costs (ibid.)</li><li>3. Preventing low quality data [30]</li><li>4. Detecting low quality data (ibid.)</li><li>5. Repairing low quality data (ibid.)</li><li>6. Costs of improving data format [9]</li><li>7. investment costs of improving data infrastructures (ibid.)</li><li>8. investment costs of improving data processes (ibid.)</li><li>9. Training costs of improving data quality know-how (ibid.)</li><li>10. Management and administrative costs associated with ensuring data quality (ibid.)</li></ol>
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**Table 2:** Cost examples of assuring data quality:

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#### **A. DATA QUALITY (DQ) COSTS BY ORIGIN / DATA QUALITY LIFE CYCLE COSTS**

Costs are categorized in terms of their origination (where the costs are caused along the information life cycle):

- Costs due to incorrect capture or entry (time & effort to identify incorrect entries, repairing wrong entries, informing about capture modifications)
- Costs due to incorrect processing
- Costs due to incorrect distribution or communication
- Costs due to incorrect re-capture/re-entries
- Costs due to inadequate aggregation (e.g., inconsistent aggregations)
- Costs due to inadequate deletion (e.g., data loss)

## **B. DQ COSTS BY EFFECT**

Costs categorized in terms of their effects (where the costs are actually covered):

- Costs of lost customers for marketing
- Costs of scrap and re-work in production
- Costs of identifying bad data in operations
- Costs of re-entry at data capture point
- Costs of screening at data use points
- Costs of tracking mistakes
- Costs of processing customer data complaints

## **C. DQ COSTS BY INFORMATION QUALITY ATTRIBUTE**

Criterion: what missing IQ attributes are driving costs.

- Costs due to untimely arrival of information (e.g., missed opportunity)
- Costs due to inaccurate information (correction costs)
- Costs due to inaccessible information (higher information gathering costs)
- Costs due to inconsistent information (higher checking and comparing costs)
- Costs due to unreliable information (checking costs)

## **D DQ COSTS BY PROGRESSION**

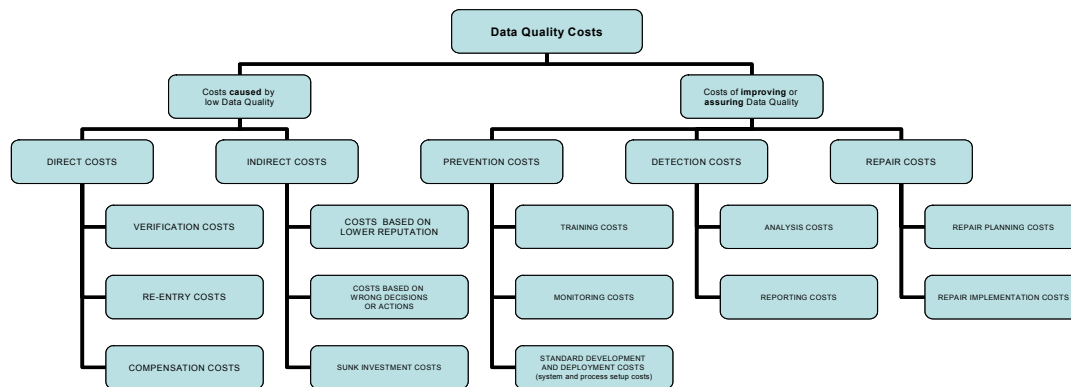
Criterion: the evolution of the cost as data quality is increased.

- Decreasing data costs
- Marginal data costs
- Increasing data costs
- Fixed data costs
- Variable data costs
- Exponential data costs

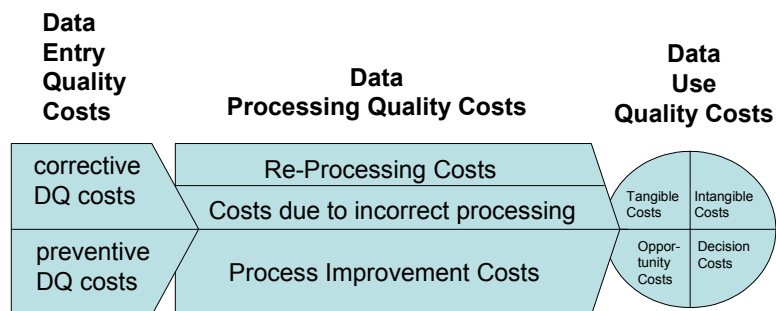
**Other possible DQ cost categorizations include those based on the following criteria:**

- Direct costs vs. indirect costs
- Avoidable costs vs. unavoidable costs
- By impact: major, minor, neglectable, etc.
- One-time vs. ongoing costs
- Variable costs and fixed costs
- Visible costs vs. invisible costs
- Occurring (actual) costs vs. dormant (latent) costs
- Proportional costs and non-proportional costs
- Short term costs vs. long run costs, current vs. past costs (out of pocket costs, historic costs, etc.)
- Real costs vs. opportunity costs
- Human inferred vs. machine-based costs
- Controllable vs. uncontrollable costs
- quantifiable vs. non quantifiable costs

**Table 3:** Non-quality data cost classifications



**Figure 2:** A Data Quality Taxonomy



**Figure 3:** A Framework for a macro classification of data quality costs

The tables 1 through 3 have been used to generate the initial data quality taxonomy that is based on the core distinction of costs due to low data quality versus costs caused by data quality assurance measures. In the low quality data cost section the key distinction is the one among direct costs and indirect costs. Direct costs are those negative monetary effects that arise immediately out of low data quality, namely the costs of verifying data because it is of questionable credibility, the costs of re-entering data because it is wrong or incomplete, and the costs of compensation for damages to others based on bad data. Indirect costs are those negative monetary effects that arise, through intermediate effects, from low quality data. Such indirect costs are loss of a price premium because of a deteriorating reputation, the costs incurred by sub-optimal decisions based on bad data, or the investment costs that have to be written of because of low quality data. In terms of costs that arise in order to improve data quality (that is to say to lower the costs of low data quality), we distinguish [30] among prevention, detection, and repair costs. The derived conceptual framework depicted in figure 3 then uses a life cycle approach to distinguish between preventive and corrective costs at the data entry level (more preventive costs typically result in lower corrective costs). In the data processing phase, the framework distinguishes between process improvement costs and re-processing or incorrect processing costs. Again the same rationale is applied: the higher the process improvement costs, the lower the re-processing costs or the costs based on incorrect processing. For the final phase, data use, we distinguish among four cost types: tangible, intangible, opportunity and decision costs. Tangible costs relate to physical damages, i.e. to goods, people or material. Intangible costs relate to immaterial values, such as reputation. Opportunity costs are the monetary effects of lost possibilities due to low quality data. Decision costs are negative monetary effects of sub-optimal decisions based on low quality data.

## DISCUSSION

The framework presented in the previous section can be used in a variety of business and research situations. Such scenarios are explored in this section. Specifically, we suggest for scenarios in which a data quality classification can be useful.

The first scenario is *Data Quality Risk Assessment*. Before investing in a data quality project or initiative (even before putting together a business case), a company may want to examine the potential risks associated with low quality data in order to better position the issue within its corporate context. Instead of an undirected, heuristic search for possible data quality mine fields (e.g., based on past experiences and events), the presented taxonomy and framework outlines examples of what to look for. The direct and indirect data quality costs can be examined in terms of their likelihood and effect, thus contributing to an overall risk assessment of low data quality in a company.

The second application scenario for the framework is, as stated initially, the *Data Quality Business Case*. New IT initiatives typically have to prove their feasibility by outlining how the invested money will yield benefits for a company in terms of time-optimization, higher quality levels, or lower costs. An IT analyst or prospective data quality project manager can use the framework to list such potential costs that are going to be reduced because of the data quality project.

A third application possibility for the data quality cost classification is *Data Quality Program Assessment*. Whereas business cases are ex-ante estimates of the cost benefits of a project, assessments are after action reviews that show where and how costs have been lowered because of an initiative. In this context, the framework can be used to outline all possible cost reduction effects that haven't taken place as a direct or indirect result of a data quality initiative.

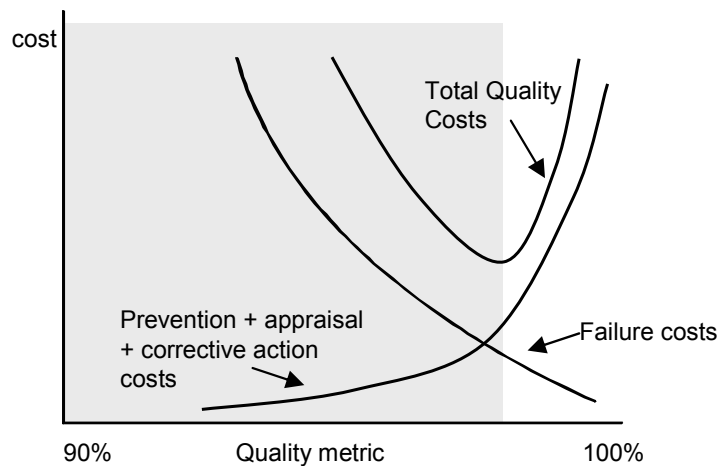
A last important application scenario for a data quality cost classification is *Benchmarking*. Whether in research or in practice, comparing data quality cost levels among organizations is an important objective. Based on benchmarking figures, companies can set more realistic (and competitive) goals for their data quality levels. Based on consistent benchmarking information, researchers can find correlations and causalities that show what the drivers for data quality costs really are. For both target groups, however, a consistent taxonomy or terminology is essential.

## ANALYZING THE COST OF DATA QUALITY

Even if this article does not aim to provide a comprehensive data quality cost theory, in the following we intend to illustrate the application of our proposed taxonomy in one scenario and contribute first elements of a data quality cost model, which thus provides the conceptual starting point for data quality cost benefit considerations. However, as we discussed, although the many claims of the importance of data quality costs in general and cost benefit analysis in particular there is no validated economic theory of data quality costs currently that could be used as a basis for data quality cost analysis. Nevertheless, the concept of quality costing is not new. There are many approaches, however most of these at present are solely used in the context of manufacturing. For this reason, to build a data quality cost model, we now review major quality cost approaches in the context of manufacturing. This provides the basis for linking our cost classification to current quality cost theory and consequently helps to develop first elements for a data quality cost model.

One of the first quality cost models was developed by [10]. Its basis is the classification of quality costs into three main categories: prevention, appraisal and failure costs. [7] developed the concept of a process

oriented quality cost model, which determines the total cost of quality as the sum of costs of achieving quality (costs of conformance) and the costs due to lack of quality (costs of non-conformance). For illustrating the contribution of each of the quality cost elements, costs of quality models are used as a conceptual basis. Costs of conformance and costs of non-conformance have typically an inverse relationship to one another: As investments in achieving quality increases, the costs due to lack of quality decreases. This relationship and its effects on the total costs of quality are normally shown as curves related to the quality level (expressed as value of a quality metric). In the traditional cost of quality model, the total cost of quality has a point of diminishing returns, a minimum prior to achieving the maximum quality. Figure 4 illustrates this scenario of a cost of quality model, which has a total cost minimum prior achieving 100% of quality. However, manufacturing experience has shown that increased attention to defect prevention leads to large reduction in appraisal costs. This experience is reflected in modern total quality management philosophies with a focus on continuous improvement and the aim of highest quality. The corresponding cost of quality model typically corresponds to the curves in the gray area in Figure 4. As illustrated, this idealistic model (which does not consider diminishing returns) concludes that the optimum total costs can be shifted toward 100% of the quality metric [11,12]. The observation of these two seemingly conflicting propositions led to study of dynamics in the cost model, in which [29] proposed to consider time as third dimension in the model.



**Figure 4:** Conceptual relation between quality costs and quality [29]

At present most of these quality cost models are solely used in the context of manufacturing and service industry, which are compared to data quality well understood and analyzed. For these models, there exist many assumptions and realistic cost estimations. However, the key question of quality cost models in the context of data quality still remains: Are the assumptions made and the cost curve progressions observed in manufacturing similar for data quality management? In particular, does the concept of diminishing returns also apply to data quality?

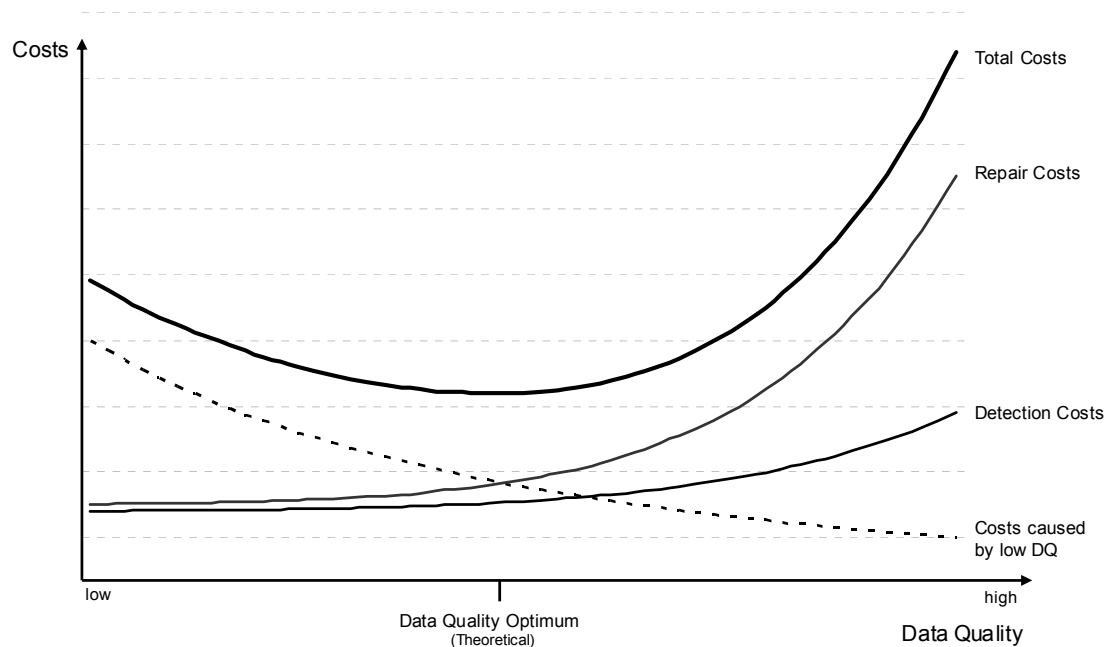
First, let us independently characterize the (static) progression in relation to the level of data quality (e.g. from low data quality to high data quality) of the data quality cost categories with omitting initially prevention measures. Unfortunately at present there are not many credible data regarding data quality costs available, which makes a cost characterization difficult. In addition, the actual cost curve progression is highly application dependent and in practice exceptional complicated to estimate. Much depends on the implemented information system and subjective estimation of data consumers. But from experiences made in data quality projects following observation seems reasonable:

- Costs caused by low data quality: These costs depend highly on the subjective estimation of data

consumers and its context. But realistically the costs caused by low data quality should be expected to decrease with increasing quality (monotonically decreasing). It might be realistic for many contexts to assume that this cost curve is convex. For instance, in a customer database an increase in accuracy of customer records from 85% to 90% might contribute to the company's reputation more than an increase from 90% to 95% respectively (thus monotonically decreasing gradient). However this might not be true for other contexts like healthcare, where due to the severe consequences a linear (monotonically decreasing!) relationship between costs caused by low quality and quality level could be possible.

- Repair costs: These costs are zero at minimum quality and rise to its maximum at maximum quality. In manufacturing typically a convex curve is assumed. For data quality the predominant role of humans in the data creation process in addition to the rather limited capabilities of automatic data cleansing methods support this assumption furthermore for data quality (at least for a relatively high data quality level).
- Detection costs: For these costs similar consideration as for repair costs can be assumed. However it seems reasonable that at a relatively high data quality level lower detection costs than repair costs arise. This is due to the reason that tool-based detection of data defects is further possible even if data defect corrections have to be carried out manually (e.g. detection of inconsistencies)

Total data quality costs are determined from the summarization of all involved costs. Initially, let us illustrate a situation, in which prevention measures are not implemented. Figure 5 illustrates the total costs as sum of costs caused by low data quality, detection costs and repair costs. As shown, depending on the particular cost characteristics an optimum of total data quality is reached at a point before maximum quality. This is the point costs caused by low data quality and costs for assuring data quality (without prevention!) are balanced.

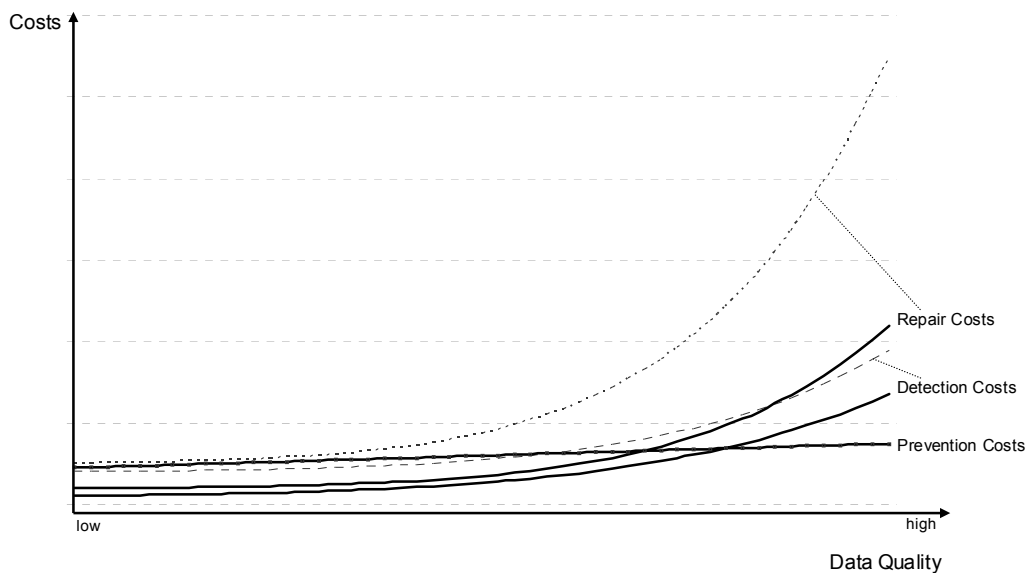


**Figure 5:** Model for optimum data quality (Initial situation without prevention)

Now, is it possible to improve this situation and get beyond the initial data quality optimum? What effect

have prevention measures? In manufacturing it is argued that preventing quality defects results in significant reduced repair and detection costs (e.g. [12, 25]). This is due the assumption, that the sooner a defect is detected or prevented, the more savings can be made during subsequent processes. Experiences in software engineering observed similar effects. For instance [18] could show that the cost of defect fixing grow dramatically when the defects are found in a later development stage, i.e. when the defects have already influenced the next phase. Therefore they concluded that a substantial amount of costs will be saved by introducing systematic defect detection early in a software project. Similar effects are also observed in data quality improvement projects, like for instance described in [8] or [21]. Unfortunately, considering the limited research in data quality costs, currently it is (still) unfeasible to quantify the effects of data quality prevention measures on repair and detection costs. But as the experience in manufacturing, software engineering and data quality projects suggest, we can assume that increased prevention costs result in significant savings of repair and detection costs. Further this is certainly justified considering the increasing complexity of nowadays informational environments, with numerous data duplications and interlinking of data chains.

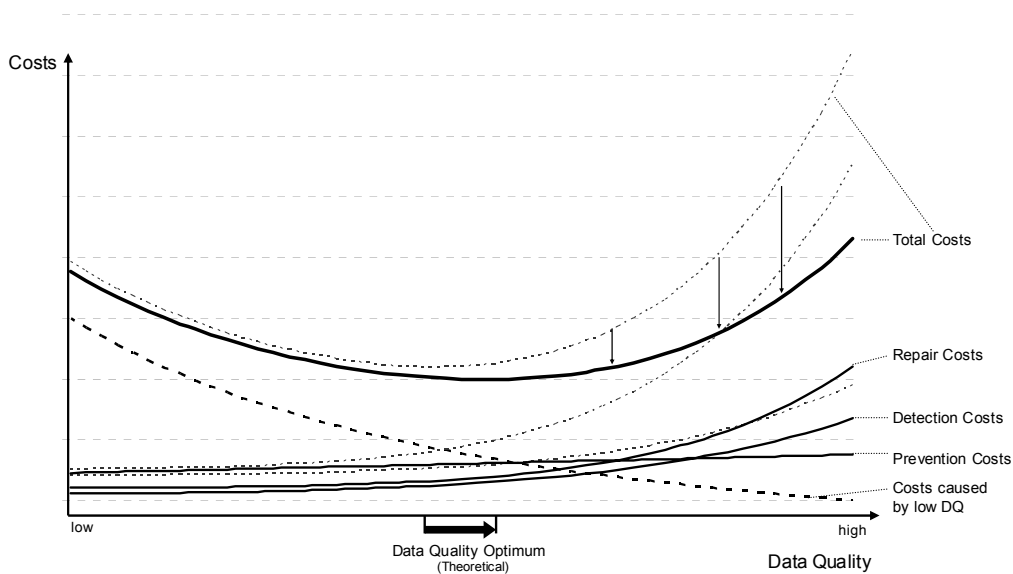
A second effect can be observed by differ between proactive prevention measures and the rather different reactive repair actions. To prevent data defect repetition prevention measures need the implementation of permanent system changes (improved processes, software systems, organizational structures, learning). Typically these measures require substantial long-term investments in the quality system with the effect of an overall data quality improvement. In our model we can represent this with a very low increasing prevention cost curve (e.g. gradient close to zero for a relatively high data quality level). In addition, similar to prevention measures many of the repair and detection measures are associated with permanent costs savings due to the permanent reduction in data quality defects. Consequently these costs are prevention costs, which should be represented in the prevention cost curve. This observation directs us to the second effect of introducing prevention measures. Once the quality improvement through prevention measures is sustained, expenses to maintain the system (e.g. repair and detection costs) should be reduced in following periods [29]. As illustrated in Figure 6, these cost savings of introducing prevention measures are reflected in a reduced gradient (shift to the right) of both curves over time.



**Figure 6:** The effect of prevention on repair and detection costs

The overall picture is illustrated in Figure 7, which includes the costs caused by low data quality and

summarizes the effect of prevention costs on the total costs. Due to the typical cost progression of prevention costs (low gradient) and its effect on repair and detection costs (shift to right with reduced gradient) the total costs curves shifts to the right (thus results in a reduced gradient). Consequently the optimum data quality moves to the right, resulting in a higher overall data quality. Clearly this effect depends on the particular cost structure and dependency of prevention, detection and repair costs, but the dynamic model (originally developed for manufacturing by [29]) illustrates that the optimum data quality level could move in the direction towards improvement over time.



**Figure 7:** A model for optimum data quality (considering prevention costs)

In summary, this first element of a data quality cost model illustrates the dynamics of different data quality cost categories. As we discussed, the predominant role of humans in the data creation process and the limited capability of data quality tools results in exponentially increasing costs for improving and assuring data quality. This results in a situation, in which data quality is at a point below its maximum (achievable) quality. However, by introducing prevention measures the initial situation can be significantly improved and the quality level can be dynamically increased towards maximum data quality.

## LIMITATIONS

The framework and data quality cost analysis presented in the previous sections has several advantages, but also different drawbacks; both are described in this section. In terms of advantages, our discussion of cost increases the scope for data quality costs that have not always been considered when constructing a data quality business case. It also allows to switch perspectives, examining costs through different categorization criteria. However, the presented framework is not a testable model. Clearly, the present distinctions are only prolegomena for the development of indicators, scorecards and the like. A major barrier towards the creation of such measurement systems are the missing causal links that are still a subject for further research.

Our first elements of a data quality cost model (the analysis section) illustrated how data quality can be dynamically improved by implementing prevention measures. However, as our first model at present is

based on experiences made in data quality projects, further empirical studies are necessary to evaluate and possibly qualitative the effects of introducing prevention measures on detection and repair costs. Carrying out this further research an interesting question about the “optimal” mix between reactive repair and proactive prevention measures could be addressed. Our conceptual model of data quality costs also provides the basis for explaining other effects, like for instance that underestimated costs caused by low data quality result in a data quality optimum at a lower level (than actually from an economical point expected). This is often observed in data quality projects in practice. So far, our first data quality cost model omitted that quality expectations from data quality consumers often dynamically increase, which would led to a further increase in data quality. Further research should integrate this effect in the data quality cost model.

## CONCLUSION

If the data quality field is to make significant progress in terms of its acceptance in the business world, the costs associated with low data quality must be made more explicit, prominent, and measurable. They must be compared to the cost of assuring data quality, so that an optimal investment point for data quality can be approximated. A systematic method for data quality *cost benefit analysis* can help companies to determine such an optimal level of investment in data quality. Today, however, we are very far from such a methodology to calculate the optimal level of data quality. One reason for this is the lack of overview of all relevant data quality costs, either the costs of assuring data quality or the costs of low quality data. By classifying data quality costs, we can open a diagnostic perspective that is both systematic and informative. This paper has made a first step in this direction by providing an overview on such possible cost classifications and by analyzing their mutual influence and their progression. Future research should strive to further consolidate these classifications and validate our cost progression models, ideally through real-life observations in the data quality field.

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