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## Guidelines for managing the economics of quality

*Lignes directrices pour le management des effets économiques  
de la qualité*



## Contents

<b>1 Scope</b> .....	<b>1</b>
<b>2 Normative reference</b> .....	<b>1</b>
<b>3 Definitions</b> .....	<b>1</b>
<b>4 Primary purpose of an organization</b> .....	<b>1</b>
<b>5 Managing the economics of quality</b> .....	<b>3</b>
<b>6 Identify/review processes</b> .....	<b>3</b>
<b>7 Organization's view</b> .....	<b>3</b>
<b>7.1 Identify process activities</b> .....	<b>3</b>
<b>7.2 Monitor costs</b> .....	<b>3</b>
<b>7.3 Produce process cost report</b> .....	<b>4</b>
<b>8 Customers' views</b> .....	<b>4</b>
<b>8.1 Identify factors affecting customer satisfaction</b> .....	<b>4</b>
<b>8.2 Monitor customer satisfaction</b> .....	<b>5</b>
<b>8.3 Produce customer satisfaction report</b> .....	<b>5</b>
<b>9 Manage the improvements</b> .....	<b>6</b>
<b>9.1 Management review</b> .....	<b>6</b>
<b>9.2 Identify opportunities</b> .....	<b>6</b>
<b>9.3 Conduct cost/benefit analysis</b> .....	<b>6</b>
<b>9.4 Plan and implement improvement</b> .....	<b>7</b>
<b>Annex A (informative) Bibliography</b> .....	<b>10</b>

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## Foreword

ISO (the International Organization for Standardization) is a worldwide federation of national standards bodies (ISO member bodies). The work of preparing International Standards is normally carried out through ISO technical committees. Each member body interested in a subject for which a technical committee has been established has the right to be represented on that committee. International organizations, governmental and non-governmental, in liaison with ISO, also take part in the work. ISO collaborates closely with the International Electrotechnical Commission (IEC) on all matters of electrotechnical standardization.

The main task of technical committees is to prepare International Standards, but in exceptional circumstances a technical committee may propose the publication of a Technical Report of one of the following types:

- type 1, when the required support cannot be obtained for the publication of an International Standard, despite repeated efforts;
- type 2, when the subject is still under technical development or where for any other reason there is the future but not immediate possibility of an agreement on an International Standard;
- type 3, when a technical committee has collected data of a different kind from that which is normally published as an International Standard ("state of the art", for example).

Technical Reports of types 1 and 2 are subject to review within three years of publication, to decide whether they can be transformed into International Standards. Technical Reports of type 3 do not necessarily have to be reviewed until the data they provide are considered to be no longer valid or useful.

ISO/TR 10014, which is a Technical Report of type 2, was prepared by Technical Committee ISO/TC 176, *Quality management and quality assurance*, Subcommittee SC 3, *Supporting technologies*.

This document is being issued in the Technical Report (type 2) series of publications (according to subclause G.3.2.2 of part 1 of the ISO/IEC Directives, 1995) as a "prospective standard for provisional application" in the field of the economics of quality because there is an urgent need for guidance on how standards in this field should be used to meet an identified need.

This document is not to be regarded as an "International Standard". It is proposed for provisional application so that information and experience of its use in practice may be gathered. Comments on the content of this document should be sent to the ISO Central Secretariat.

A review of this Technical Report (type 2) will be carried out not later than three years after its publication with the options of: extension for another three years; conversion into an International Standard; or withdrawal.

Annex A of this Technical Report is for information only.

## Introduction

This Technical Report presents concepts and a methodology which give organizations the opportunity to increase customer satisfaction and, at the same time, reduce costs. It also assists the organization in determining which of the techniques for the classification of costs and monitoring of customer satisfaction best meet their needs.

Quality management influences the economic performance of an organization both in the short and long term. The organization should not view these effects only in the form of cost reductions in the short term. What appears to be an improvement in the short term may have negative long-term effects on customer loyalty, product reputation or user confidence.

The short- and long-term economic goals should be formulated and regularly reviewed in quality planning.

# Guidelines for managing the economics of quality

## 1 Scope

This Technical Report provides guidance on how to achieve economic benefits from the application of quality management.

It should be applied broadly to all organizations and at all levels within an organization. It is not intended to be used in contractual situations nor as a subject for third-party audits.

## 2 Normative reference

The following standard contains provisions which, through reference in this text, constitute provisions of this Technical Report. At the time of publication, the edition indicated was valid. All standards are subject to revision, and parties to agreements based on this Technical Report are encouraged to investigate the possibility of applying the most recent edition of the standard listed below. Members of IEC and ISO maintain registers of currently valid International Standards.

ISO 8402:1994, *Quality management and quality assurance — Vocabulary*.

## 3 Definitions

For the purposes of this Technical Report, the definitions given in ISO 8402 and the following definitions apply.

### 3.1

#### **cost of conformity**

cost to fulfil all of the stated and implied needs of customers in the absence of failure of the existing process

### 3.2

#### **cost of nonconformity**

cost incurred due to failure of the existing process

## 4 Primary purpose of an organization

The organization's management should define and document its primary purpose, its quality policy and quality objectives. It is then possible to plan value-adding and cost-reducing activities to maximize the economic effect.

### EXAMPLES

A fire department would have the protection of the public from loss due to fire as its primary purpose.

A retailer may have the generation of profits as its primary purpose.