



## **Productivity**

**November/December 2008**

### **Pareto's Principle – The 80-20 Rule Helps Managers be More Effective**

In 1906, Italian economist Vilfredo Pareto created a mathematical formula to describe the unequal distribution of wealth in his country, observing that twenty percent of the people owned eighty percent of the wealth. In the late 1940s, Dr. Joseph M. Juran inaccurately attributed the 80/20 Rule to Pareto, calling it Pareto's Principle. While it may be misnamed, Pareto's Principle or Pareto's Law as it is sometimes called, can be a very effective tool to help you manage effectively.

#### **Where It Came From**

After Pareto made his observation and created his formula, many others observed similar phenomena in their own areas of expertise. Quality Management pioneer, Dr. Joseph Juran, working in the US in the 1930s and 40s recognized a universal principle he called the "vital few and trivial many" and reduced it to writing. In an early work, a lack of precision on Juran's part made it appear that he was applying Pareto's observations about economics to a broader body of work. The name Pareto's Principle stuck, probably because it sounded better than Juran's Principle.

As a result, Dr. Juran's observation of the "vital few and trivial many", the principle that 20 percent of something always are responsible for 80 percent of the results, became known as Pareto's Principle or the 80/20 Rule.

#### **What It Means**

The 80/20 Rule means that in anything a few (20 percent) are vital and many (80 percent) are trivial. In Pareto's case it meant 20 percent of the people owned 80 percent of the wealth. In Juran's initial work he identified 20 percent of the defects causing 80 percent of the problems. Project Managers know that 20 percent of the work (the first 10 percent and the last 10 percent) consume 80 percent of your time and resources. You can apply the 80/20 Rule to almost anything, from the science of management to the physical world.

You know 20 percent of your stock takes up 80 percent of your warehouse space and that 80 percent of your stock comes from 20 percent of your suppliers. Also 80 percent of your sales will come from 20 percent of your sales staff. 20 percent of your staff will cause 80 percent of your problems, but another 20 percent of your staff will provide 80 percent of your production. It works both ways.

#### **How It Can Help You**

The value of the Pareto Principle for a manager is that it reminds you to focus on the 20 percent that matters. Of the things you do during your day, only 20 percent really matter. Those 20 percent produce 80 percent of your results. Identify and focus on those things. When the fire drills of the day begin to sap your time, remind yourself of the 20 percent you need to focus on. If something in the schedule has to slip, if something isn't going to get done, make sure it's not part of that 20 percent.

There is a management theory floating around at the moment that proposes to interpret Pareto's Principle in such a way as to produce what is called Superstar Management. The theory's supporters claim that since 20 percent of your people produce 80 percent of your results you should focus your limited time on managing only that 20 percent, the superstars. The theory is flawed, because it overlooks the fact that 80 percent of your time should be

spent doing what is really important. Helping the good become better is a better use of your time than helping the great become terrific. Apply the Pareto Principle to all you do, but use it wisely.

### **Manage This Issue**

Pareto's Principle, the 80/20 Rule, should serve as a daily reminder to focus 80 percent of your time and energy on the 20 percent of your work that is really important. Don't just "work smart", work smart on the right things. [Pareto Analysis](#) can be used to identify what is most important by graphically displaying the relative importance of groups or segments of data.

---

*Article by John Reh, [www.about.com](http://www.about.com).*