

Human Performance

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Human Performance: **Pareto's Principle**

How the 80/20 rule can help you 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 per cent of the people owned eighty per cent 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. As a result, Dr. Juran's observation of the "vital few and trivial many" - the principle that 20 per cent of something always are responsible for 80 per cent 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 per cent) are vital and the many (80 per cent) are trivial. In Pareto's case it meant 20 per cent of the people owned 80 per cent of the wealth. In Juran's initial work he identified 20 per cent of the defects causing 80 per cent of the problems. Project Managers know that 20 per cent of the work (the first 10 per cent and the last 10 per cent) consume 80 per cent 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 per cent of you stock takes up 80 per cent of your warehouse space and that 80 per cent of your stock comes from 20 per cent of your suppliers. Also 80 per cent of your sales will come from 20 per cent of your sales staff. 20 per cent of your staff will cause 80 per cent of your problems, but another 20 per cent of your staff will provide 80 per cent 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 per cent that matters. Of the things you do during your day, only 20 per cent really matter. Those 20 per cent produce 80 per cent 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 per cent 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 per cent. 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 per cent of your people produce 80 per cent of your results you should focus your limited time on managing only that 20 per cent, the superstars. The theory is flawed, as we are discussing here because it overlooks the fact that 80 per cent 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 per cent of your time and energy on the 20 per cent of you work that is really important. Don't just "work smart", work smart on the right things.

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