PARETO ANALYSIS

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Reference this article

Abstract / Definition
Pareto analysis is based on the observation that operational results and economic wealth are not distributed evenly and that some inputs contribute more than others. It is referred to as the ‘80/20 rule’, a nomenclature which has popularised a complex economic concept introduced by Vilfredo Pareto, a nineteenth-century Italian economist. The implication of the 80/20 rule is that most efforts are not efficient and should be reduced. The strategic objective would be to leverage and maximise the efforts that produce most of the results. In strategic management, Pareto analysis is linked to the analysis of an organisation’s internal environment. It is particularly useful to identify internal strengths and weaknesses through the evaluation of an organisation’s internal resources and capabilities, which are the source of its core competencies and which in turn, create competitive advantage.

Keywords
Pareto analysis, economic wealth, 80/20 rule, competitive advantage

Link to publication