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## LAW OF VITAL FEW APPLIED IN THE COOPERATIVIST CREDIT SYSTEM: AN ANALYSIS AT SERVICE POINTS

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*Cleydner Marques de Magalhães Maurício*

Economist, Master in Administration.

Professor at: `` Universidade Federal de Alagoas `` -UFAL

PhD student at SOTEPP/Afya – UNIMA

*Marcos Antônio Moreira Calheiros*

Economist, Specialist. President of the

Regional Economic Council

12th Region –AL

*José Alex Tenório da Costa*

Economist, Specialist. President of the Union of Economists of Alagoas

*Ivaldo Pinto Barros*

Economist, Advisor to the 12th Region

CORECON –AL

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**Abstract:** This article addresses the Law of the Vital Few, also known as Pareto 80/20, as a strategy to be used to leverage credit union results. We sought to gather data from the Service Points - PA of a Credit Cooperative Unit in Brazil, with the purpose of responding to the central problem of the research: applicability of the Pareto rule, as a strategy for developing Service Points. The method used was bibliographic review, plus a case study. Based on the literature review and the case presented, the research made it possible to establish the Law of the Vital Few. Based on the results obtained, it can be said that it is possible to create a working group to develop effective actions, aiming to improve the results of some Service Points, since 60% of the results are generated by 25% of the Service Points.

**Keywords:** Law of the Vital Few, Strategies, Pareto 80/20, Cooperatives.

## INTRODUCTION

Credit cooperatives are financial institutions formed by the free association of people, which we call cooperatives. Like any business organization, credit cooperatives must have management mechanisms that are simple and compatible with the principles of cooperativism, as well as meeting the regulatory requirements of the Central Bank.

In this context, the work originated from the need to build a model of analysis and action, capable of meeting the objectives of growth and equality of the cooperative system. Therefore, the Law of the Vital Few was applied to the data set of three components of the balance sheet of Service Stations – Service points of a credit cooperative.

Information about the cooperative's identity and Service Points was protected so that it could not be used to the detriment of the company. Therefore, for reasons of secrecy and confidentiality, the results expressed from

these components were multiplied or divided by any number “n”, which did not affect the data analysis.

As a time frame, 2019 and space, a Singular cooperative (or 1st degree cooperative) and the SERVICE POINTS of the respective cooperative studied. The choice of the year was to portray the period without the influence of the impact of COVID-19.

Given the aspects discussed above, this study starts from the guiding question: How to apply the Law of the Vital Few as a strategy for analyzing Credit Union Service Points? Therefore, the objective of this study is to analyze the relevance of the Law as an instrument to promote the development of credit cooperatives. Therefore, it is important to address aspects of thematic literature.

A cooperative is a civil organization that, by its nature, is a non-profit association of people that acts as a company. As Bialoskorski Neto (2012) highlights, one must “[...] consider the fact that the cooperative is a non-profit organization, and that, therefore, there is a different economic logic in its operation”. With this we realize that the difference between cooperativism is the provision of services and benefits to its members. By capital, we understand that it has no weight in the decision-making process, what matters are people, therefore, in the decision, each member has the right to one vote, regardless of their capital. The contribution of capital, through shares, encourages the cooperation of associates in their company's investments.

Knowing that the member has rational behavior, Zdanowicz (2014) states that when investing in the cooperative, the member expects to receive, after some time, a satisfactory return, in terms of Surplus (in companies it is called profit). In this case, the investment is made if there is the possibility of profitability, preferably above financial market remuneration rates.

Much has been studied about the role that cooperativism has provided for societies, transforming people's lives. Cooperativism is a mode of production and organization, which represents possibilities for work and income. (FIORINI; ZAMPAR, 2015). Therefore, the use of the Benchmarking strategy collaborates with the 5th Principle of cooperativism, which is: Education, training and information.

According to Stapenhurst (2009), for benchmarking to exist - an instrument to measure and improve the company, comparing it with the best market or sector practice, it is necessary to meet two important elements. The first is to compare performance and determine the difference between "our company" and the "best company". The second factor is to evaluate how the companies with the best results achieved superior performance, so that we can adopt their practices, adapting our reality.

For Boxwell (1994) and Camp (2007), benchmarking is a type of research that allows comparisons of procedures and practices between companies, with the aim of making improvements and leveraging competitive advantage. The objective is to identify the factors that justify the success of a company, branches, agencies, etc.

As the market is quite competitive, it is up to company managers to spare no effort to achieve improvements in their business, with action strategies that are replicable to the context in which they are operating. In the words of Kao et al (2008), competitiveness is associated with the assessment of the market share that a given company holds, or even with the profit, which in the case of cooperativism are the Surplus.

A company's ability to survive and have a competitive advantage in world markets depends on several factors. Among them we highlight the analysis of the elements that make up the balance sheet. Regarding

this aspect, Gitman (1997) states that to compare the performance of a company with that of another, or with itself, over time, an analysis must be used, through indexes that demonstrate the situation and performance of the company, whether cooperative or not.

Therefore, the analysis of indicators must be understood as a tool to assist decisions, being an instrument, if used well, to leverage the company. According to Kaplan and Norton (1997), if an organization's performance is not being monitored, the company will not be managed. For the firm to prosper, it must use a management and performance measurement system, in accordance with its strategies.

It is known that strategies have several concepts and definitions. Among the various authors who deal with the topic, we highlight Oliveira's thought. According to Oliveira (2004), who defines strategy as "... a path, or manner, or action formulated and appropriate to achieve, preferably, in a different way, the established challenges and objectives, in the best positioning of the company in relation to its environment". Porter (1996) says that "strategy is the creation of a unique and valuable position, involving a different set of activities".

Still on strategy, Barney & Hesterly (2007, p. 5) state:

A company's strategy is defined as its theory of how to gain competitive advantages. A good strategy is one that really generates such advantages. (...) The more accurate the assumptions and hypotheses are in reflecting how competition in the sector actually evolves, the greater the probability that a company will obtain competitive advantages with the implementation of its strategies.

According to Besanko (2012), the use of strategy is fundamental to the success of a company, which, in addition to being beneficial, is also stimulating. He also reinforces that managing and implementing a strategic decision or a change in the nature of

the company is fundamental to success.

When it comes to strategic actions, we propose the use of the Law of the Vital Few, also known as the 80/20 Pareto Principle, to be applied in the individual credit cooperative, in relation to its Service Stations – Service Points. This tool can be used in the most diverse corporate environments and it is estimated that 80% of the effects arise from just 20% of the causes.

Koch (2016) explains that 80/20 must not be understood as a fixed, rigid formula. It will not always be in these values that 20% of the causes are influenced by exactly 80% of the results. This proportion may vary from case to case. The proportions can differ from 80/20, and can have a ratio of 70 to 30, 60 to 40, or even 99 to 1, states Koch (2016).

Given these perspectives, the study aims to apply the 80/20 Pareto Principle as a development strategy for the credit cooperative. Before we comment on the Pareto Principle, it is worth mentioning that Wilfried Fritz Pareto was the creator of the Pareto Diagram. Between 1864 and 1867, Pareto studied mathematical sciences at the Polytechnic Institute of Turin. At the same school, he entered the engineering course in 1867 and obtained his degree in 1870. (PARETO, 1984). He researched issues related to income distribution. With this, he demonstrated that in Italy income and wealth were not distributed evenly throughout the evolution of societies, called Pareto's Law. (MACHADO, 2012).

The Law of the Vital Few also states that, when we know the true relationship, we are likely to be surprised by the degree of imbalance. Whatever the level of inequality, the greatest chance is that it will exceed our initial expectations. Executives may suspect that some customers and some products are more profitable than others, but when the size of the difference is realized, they are very likely to feel surprised and even amazed (KOCH, 2016).

From the above, it is demonstrated that this study is important to create meaningful relationships between cause and effect, effort and reward. In business, resources can be managed more intelligently, concentrating further studies on the group of 20% responsible for 80% of results, and applying the best procedures – benchmarking, to other less efficient Service Points. The applicability of the Law of the Vital Few to the results of Service Points can make the growth of the unique cooperative satisfactory for the purposes of the cooperative members.

In the previous paragraphs we understood the importance of Benchmarking, as an element that identifies best practices and results, through which we will use the Law of the Vital Few as a strategy for evaluating financial indicators in the decision-making of cooperative organizations.

This article is organized into three sections, the first being introductory, which contextualizes the problem and reviews the literature relevant to the study. In the following section, the methodology adopted to meet the proposed objective is presented. In the third section, the results and discussions. Finally, in section 4, ending the article, the conclusions are presented.

## METHODOLOGY

To achieve the objective of this study, the research used is a quantitative approach, exploratory-descriptive in nature, using secondary data.

The purpose of the research, in addition to obtaining more information on the subject and enabling new studies, is to apply the Law of the Vital Few (Pareto Principle) to analyze the operational indicators of the Service Points – PA, of a Singular cooperative, also called 1st Degree Cooperative.

The information was obtained from a Singular in the Northeast. We analyzed three

components of the balance sheet of Service Points – Service Points of this Singular. For reasons of secrecy and confidentiality, the results expressed from these components were multiplied and/or divided by any number “n”, which did not affect the relative analysis of the data. Furthermore, we do not disclose which cooperative was researched or the names of the service points.

The year was chosen to portray the period without the influence of the impact of COVID-19, therefore the year 2019. To carry out the study, the documentary research strategy was used. Based on the data obtained in the research, it is intended - based on the construction of the Pareto Principle - to measure and evaluate the evolution of each Service Point, seeking, through this analysis, to employ the best operational procedures of the most significant Service Points, in terms of results.

The Balance Sheet components selected for analysis in this research were:

- Total assets;
- Leftovers;
- Total deposits.

The procedures adopted to group the Balance Sheet data, corresponding to the analyzes described above, followed the steps:

Preparation of a table with 5 (five) columns, containing the following denominations in each column: Name of the PA (Designated by a letter “x” to maintain anonymity), Value of the asset, Accumulated value of the asset, (these values were multiplied and or divided by any number “x”, to maintain the confidentiality of the information), Individual percentage, Accumulated percentage.

Registration of the total asset values of each Service Point, part of a Single, in descending order, that is, from the highest value to the lowest value;

Recording of accumulated total asset

values;

Registration of relative values (individual percentage of participation) per cooperative;

Record of relative values (accumulated percentage);

After constructing the table, the percentage of 25% of the total Service Points – Service Points of the cooperative under study was used as a criterion, which corresponds to 2 (two) Service Points with the highest volume in total assets. These two Service Points with the highest participation, around 60%, demonstrate that the 2 (two) Service Points generate 60% of the result, while 6 (six) participate with 40% of this result. The same procedure was carried out for the items: Surplus and total deposits, whose results are similar to that found in the total assets item.

## RESULTS AND DISCUSSIONS

The results of the participation of the Service Points of the Singular studied in relation to the item Total Assets are presented in Table 1. It can be seen that two Service Points are responsible for approximately 60% of total assets. And 39.4% of total assets belong to 6 (six) service points. Thus, it was found that 25% of service points are responsible for 60.6% of the cooperative's assets, while 75% of service points account for less than 40%.

This way, the two Service Points, here called “A” and “C”, accumulate financial resources and assets that the cooperative uses for its operations in a very significant amount. It was observed that these two Service Points are vital for granting credit, a crucial instrument in meeting the financial needs of the cooperative's members. It is also responsible for fostering the economic growth of the community.

As shown in table 2, another item analyzed was the total deposit. This is essential for any

Point	Total assets	Accumulated asset	Individual percentage	Accumulated percentage
A	69.322.216,50	69.322.216,50	40,5%	40,5%
C	34.309.753,50	103.631.970,00	20,0%	60,6%
B	23.097.136,50	126.729.106,50	13,5%	74,1%
E	17.934.529,50	144.663.636,00	10,5%	84,5%
D	11.030.224,50	155.693.860,50	6,4%	91,0%
F	10.545.073,50	166.238.934,00	6,2%	97,1%
G	4.799.418,00	171.038.352,00	2,8%	99,9%
H	90.184,50	171.128.536,50	0,1%	100,0%

Table 1 – Share in Total Assets

Source: Authors' adaptation based on balance sheet data

Point	Deposit	Accumulated deposit	Individual percentage	Accumulated percentage
A	70.383.715,50	70.383.715,50	43,3%	43,3%
E	29.990.118,00	100.373.833,50	18,4%	61,7%
D	25.739.779,50	126.113.613,00	15,8%	77,6%
F	13.515.157,50	139.628.770,50	8,3%	85,9%
B	10.467.588,00	150.096.358,50	6,4%	92,3%
C	9.769.120,50	159.865.479,00	6,0%	98,3%
G	2.545.399,50	162.410.878,50	1,6%	99,9%
H	198.423,00	162.609.301,50	0,1%	100,0%

Table 2 – Share of Total Deposit

Source: Authors' adaptation based on balance sheet data

Point	Leftovers/Loss	Accumulated result	Individual percentage	Accumulated percentage
A	4.216.095,00	4.216.095,00	109,8%	109,8%
B	1.050.118,50	5.266.213,50	27,4%	137,2%
E	550.300,50	5.816.514,00	14,3%	151,5%
C	524.269,50	6.340.783,50	13,7%	165,2%
H	- 130.864,50	6.209.919,00	-3,4%	161,8%
D	- 513.441,00	5.696.478,00	-13,4%	148,4%
F	- 668.256,00	5.028.222,00	-17,4%	131,0%
G	- 1.190.064,00	3.838.158,00	-31,0%	100,0%

Table 3 – Result of Surplus/Loss

Source: Authors' adaptation based on balance sheet data

Point	Leftovers/Loss	Accumulated result	Accumulated percentage
G	- 1.190.064,00	- 1.190.064,00	-31,0%
F	- 668.256,00	- 1.858.320,00	-48,4%
D	- 513.441,00	- 2.371.761,00	-61,8%
H	- 130.864,50	- 2.502.625,50	-65,2%
C	524.269,50	- 1.978.356,00	-51,5%
E	550.300,50	- 1.428.055,50	-37,2%
B	1.050.118,50	- 377.937,00	-9,8%
A	4.216.095,00	3.838.158,00	100,0%

Table 4 – About Losses to Surplus

Source: Authors' adaptation based on balance sheet data



financial institution. Through the deposit, it is possible to serve customers and/or members by lending resources and/or financing goods. Through deposits, the institution generates revenue from the spread, providing surpluses for credit cooperatives.

In this case, it was found that 61.7% of these deposits come from 2 (two) Service Points and 38.3% are generated by the other 6 (six) Service Points.

In relation to the results presented in graph 1, it is clear that the accumulation of total deposits in only 25% of the Service Points, represented by Service Points “A” and “E”. While the 75% of Service Points hold less than 40% of Singular’s total.



Graph 1 – Representation in Total Deposits

Source: Authors’ adaptation based on balance sheet data

After analyzing the participation of the Service Points in the Assets and in the total Deposit of Singular, it is known that for the Surplus, as shown in table 3, the Service Points “A” and “B” presented R\$ 1,428,055.50 a more than the total of the Leftovers of the entire Singular, that is, these two Stations generated R\$ 5,266,213.50, while Singular presented a surplus of R\$ 3,838,158.00.

Therefore, this excess amount of R\$ 1,428,055.50 was used to cover unsatisfactory results generated by the other 6 (six) Service Points, here called H, D, F, G. The Service Points “E” and “C” were also important to increase Leftovers.

If the Singular cooperative did not have

these other 6 service points, its result would be higher than the current one: *coeteres paribus*.

Finally, when we present the results starting from the biggest losses to the biggest leftovers, Table 4, it appears that, together, Service Points G and F generated R\$ 1,858,320.00 in losses. This represents, in percentage terms, approximately 48% of Singular’s result. The total amount provided by Singular was R\$ 3,838,158.00. However, the Service Points: G, F, D, H presented accumulated losses of R\$ 2,502,625.50, which corresponds to 65% of Singular’s total surplus.

Therefore, Service Points G, F, D and H deserve preferential administrative treatment, compared to the others, with regard to the application of strategies that reverse the Loss situation. Although Service Points G and F represent almost 50% of this share, these two Service Points represent only 25% of the Service Points of this Singular, reasons for us to believe that this control is essential.

## CONCLUSIONS

The work portrays the possibility of using the Law of the Vital Few, also known as the Pareto 80/20 Principle, as a leverage strategy in the business of credit unions, through the evaluation of the performance of Service Stations – Service Points.

In view of the above, the aim was to answer the following question: How to apply the Law of the Vital Few as a strategy for analyzing Credit Union Service Points? The justification for choosing this question is the importance of seeking instruments that help the manager with the credit cooperative’s performance strategies.

As a basic argument, we verify the use of the Law of the Vital Few, the 80/20 rule, in various cause and effect relationships that serve as guidelines for cooperative strategies. Centered on this principle, the study revealed that on average 25% of Service Stations –

Service Points are responsible for 60% of the results in total Assets, Deposits and Surplus. These findings provide practical support for improving the results and management of the credit union, corroborating the applicability of the Pareto Principle in performance analysis.

The Law of the Vital Few - LPV does not suggest that the remaining 75% can simply be ignored – they must be worked on, through an Action/Control team, specialized in results, so that strategies can be developed that provide more equitable results for the cooperative system.

From the LPV we can not only identify a strategy to leverage operational results in the cooperative, but also know the participation of the Service Station in Singular's overall performance. With this, it is possible to develop actions to encourage and motivate

other colleagues, create control and action groups and reduce disparities in results between the Service Points, which will provide significant gains for the Individual holding the Service Points.

Considering the results found here, it is observed based on the literature that it is possible to use the Law of the Vital Few as a strategy for credit cooperative management, based on the performance of its Service Points.

Furthermore, among the limitations of this work, we can mention some items from the Balance Sheet that were not analyzed. Also, it is possible to cite the analysis in just one Singular and in a single exercise. Future work can verify whether this fact is repeated with a larger sample, both in a longer time frame and in a greater number of cooperatives.

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