

# STRATEGIC PLANNING FAILURE: THE ROLE OF COGNITIVE PSYCHOLOGY [1]

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## ABSTRACT

Strategic planning failure is shown to emanate from the cognitive psychological characteristics of human beings including limitations on human information processing, the inappropriate use of simplifying heuristics as decision aids, cognitive overload resulting from typical multipage strategic plans, and difficulties in focusing attention appropriately. A novel approach to strategic planning, the One Page Business Plan® system, is shown to overcome many of the cognitive limitations that lead to the failure of traditional strategic planning. In addition, the One Page system promotes improvements to intraorganizational communication, alignment of goals, and tactical execution.

## ROLE OF STRATEGIC PLANNING IN THE ORGANIZATION

Strategic planning is seen as an essential exercise for organizations to engage in (e.g., [3], pp. 121-129). In essence, a good strategic plan is one that gives an organization a set of objectives around which to focus its actions and a set of planned activities that, if executed smartly, will lead to organizational success.

The classic corporate strategic plan is often developed over some fairly short time interval (multiday planning retreats are common), but the plan itself is often extensive (100-200 pages or more). Firms' organization-wide plans are often multiyear in scope.

As ([10], p. 146) note, planning is costly—"resources are consumed in the planning effort, and leadership attention is diverted to strategy, and, as a result, away from fixing operational problems." ([4], pp. 5-6) develop estimates of planning costs: Ford spent \$1.2 billion on planning and (for large corporations) 4-5 months and 20-30% of senior executives' and financial managers' time was devoted to planning.

While it is true that many firms derive some benefit from this traditional planning process, why is it that strategic plans are so often put on the shelf once prepared?

### The Failure of Strategic Planning

([9]) argues that strategic planning often falls short of the mark for many reasons, but, these five reasons seem to stem from cognitive psychological dimensions:

1. There is no coherent format for business plans;
2. Planning is simply an exercise in extrapolating from the status quo;
3. Plans fail because they are viewed as being too inflexible;
4. Plans fail as communications devices because they are too long and too complex to be understood well by all employees; and,
5. Plans also fail as communications devices because they are all one-way.

Consider: most strategic plans are so complicated, complex, and interconnected that people's cognitive limits are exceeded. ([8], p.34) reports that a manager on average gets roughly eleven minutes of uninterrupted time to "think."

## Why Are People Such Poor Planners?

Characteristics of human cognition (see for example, [6]) point to four major limitations on our ability to cope with the environment's continual presentation of *large* amounts of *complex, rapidly changing*, and often *ambiguous* data:

1. Limits on human information processing power—people cannot process information very quickly. People cope with information overload by ignoring information, seeking executive summaries, or simply abandoning the task.
2. The difficulty in understanding and acting upon a classic corporate strategic plan is that there is so much information present in one that the only way people can cope with it all is to develop ad hoc, often inappropriate heuristic or mental models.
3. Severe limits on short-term memory capacity—in a now-historic paper, [7] reported that most people most of the time have a short-term memory capacity of about seven items. A classic corporate strategic plan has no set of a priori chunks for managers reading it, so each manager is reduced to coping with the overwhelming number of unformatted bits and bytes appearing in the plan.
4. Difficulties in focusing attention: distractions and interruptions interfere with attention. ([8] notes that organizations are filled with distractions and interruptors. And, for the classic strategic plan, spanning multiple pages of exposition regarding the firm and its multiple environments, 11 minutes tranches are simply not enough time to focus attention and derive much usable from that amount of information processing.

## The One Page Business Plan® System

A planning system has been designed and developed that takes into account many of the known human cognitive limitations. In so doing, the resulting system is more likely to be accepted, understood, and used on a regular basis. The One Page Business Plan®, or OPBP (see [5]), involves an individual's OPBP and the organization's OPBP.

### Individual OPBP

There are five elements to an individual's OPBP—Vision, Mission, Objectives, Strategies, and Action Plans. These five OPBP elements are restricted to a format such that the OPBP fits on one 8½" x 11" sheet of paper.

### Organizational OPBP

For almost all companies, there is not a single plan. Instead, all executives will each have their own plans for the year. For subordinates to succeed, they must talk amongst themselves to ensure that their entire set of plans jibe with their boss' plan.

And, not only must horizontal communication and alignment occur, vertical communication and alignment must also occur within the organization.

### Inferences

The One Page Business Plan® system was designed so as to minimize the four limitations of cognitive psychology and yet reap the many potential benefits from strategic planning. First, by virtue of having an entire OPBP on one 8½" x 11" sheet of paper, efforts to understand that plan do not lead to fatigue or confusion or require considerable lengths of time to get back in context after putting it down.

Second, people use simplifying heuristics in cases of uncertainty and/or information overload. Information overload is mitigated in the OPBP system due to its brevity and uniformity of information format across all OPBPs.

Third, short-term memory limitations play no role in the creation or use of a OPBP, owing to brevity in exposition of plans and consistency in format for OPBPs.

Fourth, similarly, the effects from wandering attention focus, distractions, and interruptions are also minimized due to the brevity in exposition of OPBPs.

## CONCLUSIONS

Managers are informationally overwhelmed with what is presented in a classic strategic plan. They resort to the use of ad hoc mental models to cope with the excess information; limitations on short-term memory make it difficult for each manager to extract meaningful information from the strategic plan; and, difficulty in focusing attention on the plan, especially due to the operating environment of most managers where interruptions and distractions are the order of the day.

A possible way around these barriers posed by individual cognitive psychology stems from a novel approach to strategic planning, the OPBP. Each OPBP is short, thereby minimizing information overload issues, short-term memory problems, and attention drift. There is a standard format and template for the five elements of the OPBP, thereby minimizing the need to develop ad hoc mental models of the plan, facilitating attention focus, and staying within limits of information processing power. Communication and alignment issues are systematically addressed as an organization's set of OPBPs are not complete until and unless each manager's OPBP articulates with, supports, and is supported by the OPBPs of all of that manager's subordinates', peers', and superiors' OPBPs. Execution issues are systematically attended to in the OPBP as each month, Performance Scorecards and Progress Reports are updated.

## REFERENCES

- [1] An earlier version of this paper was presented at the 7<sup>th</sup> Hawaii International Conference on Business May, 2007; this version has been substantially revised. I appreciate the insights of Cristina Giannantonio on an earlier draft.
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