

CALCULATING ROI FROM EXECUTIVE COACHING

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Executives like to say that the company's most important asset "goes up and down the elevator each day". Venture capital investors often claim that they primarily "invest in management."

As Executive Development consultants, we like to think that this is all true. After all, what makes up an organization if not its people? And logic would dictate that an intelligent, strategic plan of investing in this "human capital" would lead to a greater return on the organization's core assets.

However, investing in people is not the same as investing in a piece of equipment or a new software program. For one thing, measuring the return on an investment in a person is a bit more difficult than, say, measuring the increase in the number of widgets per hour produced by the new widget machine that has just been installed on the factory floor.

While it is more difficult to calculate the ROI of an investment in coaching, it is certainly not impossible. The formula is straightforward:

$$\%ROI = \frac{\text{Benefits Achieved} - \text{Coaching Costs}}{\text{Coaching Costs}} \times 100$$

Coaching Costs

The challenge is clearly identifying the Benefits Achieved through the coaching program and assigning a monetary value to those benefits.

Clearly Identifying the Coaching Objectives Upfront

We can increase the chances of calculating a meaningful estimate of the bottom line impact of coaching if we carefully identify the highest priority objectives before the outset of the program - and take an "objective" measurement of these areas of interest before and after the coaching occurs.

The specific objectives that we focus on will vary by coaching case and will depend on many factors:

- Client's department, position, level, function, etc.
- Corporate culture
- Industry
- Corporate objectives/challenges/opportunities
- Client's developmental needs, behavioral challenges, opportunity for advancement
- Changes in business strategy, required competencies, leadership or ownership
- Etc.

Again, while the specific areas identified for improvement will vary case-by-case, some examples of coaching objectives include:

- Communicating clearly and effectively with bosses, peers, reports, customers, investors, etc
- Consistently delivering business results that meet or exceed the competition, and/or forecast
- Managing the team in an efficient and effective manner
- Providing developmental opportunities and support for others
- Encouraging and rewarding innovation
- Demonstrating vigilance regarding costs, quality and customer service
- Performing in a manner consistent with the company's mission and prevailing ethical standards.
- Etc..

After identifying the highest priority objectives for the coaching program, we can then consider the results that arise from either achieving or falling short of our objectives.

Measuring the Results of Coaching

Some results are more "tangible" than others and are, therefore, easier to translate into monetary value or bottom-line impact. This is not to say that the tangible outweigh the intangible in terms of importance. In fact, intangible changes in the client's behavior can often have a wider-ranging impact than, or may actually lead to, the more tangible benefits of coaching.

Examples of tangible benefits from coaching:

- Increased sales
- More customers called on
- More new accounts opened
- Decreased costs
- Decreased employee turnover
- Decreased absenteeism
- Shorter time to market
- Improved productivity
- Fewer customer/employee complaints
- Etc.

Examples of intangible benefits from coaching:

- Reduced conflict
- Better teamwork
- More productive meetings
- Improved employee morale
- Improved development of subordinates
- Better customer service
- Increased job satisfaction
- Better work/life balance
- Etc.

There are several vehicles for measuring the benefits achieved (again, conducted both before and after the coaching occurs). They can include:

- 360-degree surveys of the client's bosses, peers and reports
- Climate surveys
- Customer surveys
- Surveys of sales, costs, employee turnover and other business results
- Etc.

In order to calculate ROI, we have to convert these benefits into dollars.

Of course, while we believe executive coaching can have a considerable influence on business results, other factors obviously have an impact. For example, sales volume is subject to many complex factors, only one of which is coaching. The level of sales is also impacted by: economic conditions, product developments, competition, pricing, customer demand, currency fluctuations, etc. To the extent that we have confidence that the coaching influenced sales volume to some extent, we can apply a percentage adjustment or weighting to the monetary value of the sales increase to reflect this impact.

For example if we believe that 25% of a \$1 million increase in sales can be attributed to behavior change prompted by the coaching, we would add \$250,000 to our "Benefits Achieved" number in our ROI formula. This adjustment allows us to isolate the effects of the coaching.

An Example of Calculating Executive Coaching ROI

Let's look at "simplified" example of calculating the ROI for an executive coaching case. Using a real-life case, we will focus on a single, tangible benefit achieved through coaching for illustrative purposes.

A division head of a large, public technology company was being considered for promotion to a recently vacated Chief Operating Officer position. However, the executive had a reputation for micro-managing and was considered by peers and reports to be "intense" and "intimidating". A six-month coaching program led to breakthroughs that transformed his reputation as a leader to one of collaboration and empathy. The coaching also helped the executive to improve his strategic use of time through greater delegation of responsibility. The Board of Directors cited these changes when naming him the new COO and affirmed that without these improvements, a new COO would have been sourced from outside the company. The coaching program cost \$30,000.

One key benefit from this coaching case was avoiding an outside search for a new COO. Let us estimate the monetary value of this benefit.

- Executive search agency fee of 30% of annual compensation (\$300,000) is saved - \$90,000.
- Assuming the company's internal recruiter spends 75 hours on the search, including reviewing candidates, scheduling interviews, preparing assessments, conducting reference checks, notifying unsuccessful candidates, etc., this cost

can be estimated at approximately (75 hrs/2000 hrs annually X \$75,000 recruiter annual salary) \$2,800.

- Assuming the search would have taken approximately 3 months, the cost of lost productivity resulting from the vacant COO position can be estimated at 25% (one quarter of a year) of annual compensation - \$75,000.
- Assuming a new COO recruited from outside the company is contributing at a 75% productivity level for the first year on the job as the corporate culture, policies, practices, etc. are learned, the cost of this lost productivity can be estimated as 25% of annual compensation - \$75,000.

If we stop here, we see we have already reached a 709% return on the coaching investment. Of course, this calculation is incomplete as we have not included the savings related to orientation, training and other administrative expenses incurred with a new hire. We have also excluded other tangible and intangible benefits resulting from the behavioral improvements from the coaching, many of which may be quite substantial.

In the future, more and more HR professionals will be asked for the ROI on executive coaching expenditures. While challenging to calculate, it will be critical that monetary values be assigned to tangible (easier) and intangible (more difficult) results in order to measure this investment in a company's most important asset - its people.

Other Studies on Executive Development Investment Returns

- According to a study of senior level executives at Fortune 1000 companies who received developmental coaching, the average return from the programs was nearly 5.7 times the initial investment. (Maximizing the Impact of Executive Coaching, The Manchester Review, 2001, Volume 6, Number 1, Joy McGovern, et.al.).
- According to a survey of 30 executives who participated in a large executive development program at a Fortune 500 company, coaching resulted in a 529% return on investment (Executive Briefing: Case Study on the ROI of Executive Coaching, Merrill C. Anderson, Ph.D., MetrixGlobal, LLC.).
- According to the Harvard Business Review, three stock portfolios comprised only of companies that "spend aggressively on employee development" each outperformed the S&P 500 by 17 - 35% during 2003 (How's Your Return on People?, Harvard Business Review, March 2004, Laurie Bassi and Daniel McMurrer).