The ROI for Coaching

For years most organizational pundits have known that it is not how much you know but how well you relate to other people in the organization that really matters.

Research by the Center for Creative Leadership has found that the primary causes of derailment in executives involve deficits in emotional competence. The three primary ones are:

1. difficulty in handling change
2. not being able to work well in a team
3. and poor interpersonal relations.

A study of 130 executives found that how well people handled their own emotions determined how much people around them preferred to deal with them (Walter V. Clarke Associates, 1997).

Top reasons executives work with a coach

Effective coaching works with executives and others to develop their proficiency in working with change. It helps them identify when teamwork is important and to use their skills to foster it. Coaching builds skills and capacities for effective working relationships.

Coaching paves the way for decision makers to create higher levels of organizational effectiveness through dialogue, inquiry and positive interactions. Coaching creates awareness, purpose, competence and well-being among participants. Coaching is NOT another feel-good exercise based in soft skills that has no correlation to the bottom line.

In an article in the Harvard Business Review (Jan-Feb 1998) entitled *The Employee-Customer-Profit Chain at Sears*, by Rucci, Kirn and Quinn, a model was developed indicating that 5 units increase of employee attitude led to 1.3 unit increase in customers' positive impression, resulting in 0.5% increase in revenue growth.

One study examined the effects of executive coaching in a public sector municipal agency. Thirty-one managers underwent a conventional managerial training program, followed by 8 weeks of one-on-one executive coaching. Training– which included goal setting, collaborative problem solving, practice, feedback, supervisory involvement, evaluation of end-results, and a public presentation– increased productivity by 22.4%. Training and coaching increased productivity by 88%, a significantly greater gain compared to training alone. (Public Personnel Management; Washington; Winter 1997; Gerald Olivero; K Denise Bane; Richard E Kopelman)

The growing popularity of coaching

Between 25 and 40 percent of Fortune 500 companies use executive coaches, according to the Hay Group, an international human-resources consultancy. According to a survey by Manchester, Inc., a Jacksonville, Florida, career management consulting firm, about six out of ten organizations currently offer coaching or other developmental counseling to their managers and executives. Another 20 percent of companies said they plan to offer coaching within the next year.

Although it was once used as an intervention with troubled staff, coaching is now part of the standard leadership development training for executives in such companies as IBM, Motorola, J.P. Morgan Chase, Hewlett-Packard and many others. Companies such as Merrill Lynch, and sales-based organizations such as insurance firms use coaches to bolster performance of people in high-pressure stressful jobs.

In some cases, the coaching is geared toward correcting management behavior problems such as poor communication skills, failure to develop subordinates, or indecisiveness. More often, however, it is used to sharpen the leadership skills of high-potential individuals. Coaching can ensure the success, or decrease the failure rate, of newly promoted managers.

"People are in a legitimate state of doubt– about galloping technology, globalization, heightened competition and increased complexity," says Warren Bennis, who teaches leadership at the University of Southern California. "They need someone to bounce ideas off of and to listen to their existential grousing."

A ten-to-one ROI

Michigan-based Triad Performance Technologies, Inc. studied and evaluated the effects of a coaching intervention on a group of regional and district sales managers within a large telecom organization. The third party research study cites a 10:1 return on investment in less than one year.

The following business outcomes were directly attributed to the Coaching interventions:

1. Top performing staff, some of whom were considering leaving the organization, were retained, resulting in reduced turnover, increased revenue, and improved customer satisfaction.

2. A positive work environment was created, focusing on strategic account development and achieving higher sales volume.

3. Customer revenues and customer satisfaction were improved due to fully staffed and fully functioning territories.

4. Revenues were increased, due to managers improving their performance and exceeding their goals. (www.coaching.com)

A six-to-one ROI

Another study measured the business impact of executive coaching of 100 executives, mostly from Fortune 1000 companies, and was reported in the January 4, 2001 issue of Business Wire.

Half of the executives in the study held positions of vice president or higher. Almost six out of 10 (57%) executives who received coaching were ages 40 to 49, and one-third earned $200,000 or more per year.

The coaching programs that executives participated in were a mix of both change-oriented coaching- which is aimed at changing certain behaviors or skills- and growth-oriented coaching- which is aimed at sharpening performance. The coaching programs typically lasted from six months to one year.

The coaching programs delivered an average return on investment of 5.7 times the initial investment in a typical executive coaching assignment.

Among the benefits to companies that provided coaching to executives were improvements in:

Productivity: 53%
(of executives)
Quality: 48%
Organizational strength: 48%
Customer service: 39%
Reducing customer complaints: 34%
Retaining executives who received coaching: 32%
Cost reductions: 23%
Bottom-line profitability: 22%

Among the benefits to executives who received coaching were improved:

Working relationships with direct reports: 77%
(of executives)
Working relationships with supervisors: 71%
Teamwork: 67%
Working relationships with peers: 63%
Job satisfaction: 61%
Conflict reduction: 52%
Organizational commitment: 44%
Working relationships with clients: 37%

Coaching as a management style

Goleman, Boyatzis and McKee in their latest book Primal Leadership (Harvard Business School Press 2002) bring up the point that despite the commonly held belief that every leader needs to be a good coach, they exhibit this style least often. In high-pressure times, leaders say they "don't have the time" for coaching. Although coaching focuses on personal development rather than on accomplishing tasks, this leadership style generally predicts an outstandingly positive emotional response and better results.

The Critical Need for Impact Studies

What is not always clear in organizations is how initiatives of any sort dealing with intangible effects can impact the bottom line. Some examples of the ways that coaching programs affect financial results are provided in this article.

One study conducted by MetrixGlobal for an executive coaching program was impressive. Over 70 executives were coached from a multi-national telecommunications company that included participants in the United States, Canada, Mexico, and Brazil. MetrixGlobal performed an extensive survey of 43 coaching participants that yielded the following results:

Coaching produced a 529% return on investment and significant intangible benefits to the business. Including the financial benefits from employee retention, coaching boosted the overall ROI to 788%. The study provided powerful new insights into how to maximize the business impact from executive coaching. (Merrill Anderson: merrilland@metrixglobal.net,)

It remains critical to reiterate the need for coaching to demonstrate the impact on the bottom line. Money is acknowledged as an indicator of value in the marketplace. Peter Drucker often refers to profit as the return on invested capital. We must always evaluate the return to our human and financial capital in light of profitability. It is critical to establish measurements before coaching programs are implemented in order to account for the change induced by coaching. Few organizations or consultants take the time to do this.

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