

## *Institute of Executive Coaching<sup>1</sup> Short Report:*

### **Return on Investment (ROI) and Executive Coaching**

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One of the most frequently cited dilemmas in the executive coaching field is the issue of return on investment (ROI) as a measure of coaching effectiveness (Anderson, 2001a, 2001b; McGovern et al., 2001). Measuring the ROI of executive coaching is based on the view that if money is invested in it, then there should be a return on investment with the financial gains from executive coaching being greater than the costs (Phillips & Phillips, 2005). ROI as a measurement is normally used for investments in tangible assets such as plant and equipment and is the most commonly used calculation in business.

ROI studies in the executive coaching field focus on the bottom-line impacts of the coaching undertaken. Examples of ROI results in the literature include executive coaching delivering 5.7 times the financial outlay for executive coaching (McGovern et al., 2001); a 529% return (Anderson, 2001a); and 6 to 10 times (O'Neill, 2005). However, ROI calculation is a sophisticated and complex matter and in terms of its calculation in the leadership development and people management arena (which includes executive coaching) it has its problems. To design a way through this maze requires an understanding of the issues. Following are some of the key ideas in the

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<sup>1</sup> The Institute of Executive Coaching, Sydney, Aust. was established in 1999 as a centre of excellence for executive coaching in Australia and the Asia-Pacific. Since that time the Institute has worked extensively in major organisations and trained over 1,200 coaches. The Institute is known as one of the region's most respected coaching providers and coach training organisations. Barry Parkinson is CEO of the Institute and mentor and executive coach to senior executives. Dr Hilary Armstrong is Director of Training and a Master Coach., and Julie-Anne Tooth is an Associate of the Institute and an Executive Coach who is completing a PhD in best practice coaching.

literature related to ROI and executive coaching. Also included is a table that summarises the results of studies in the area.

The growth in the executive coaching market, the increased role of Human Resources (HR) in managing the use of coaches and the interest from HR and end users in estimating value, are all impacting on the general interest in evaluation (Braddick 2003a). Added to this are competitive market pressures and an associated push from executive coaches for this type of evaluation. Cincaid and Gordick (2003) believe it important to the development of the field. “Our [executive coaches] ability to speak the language of business by conducting research that documents ROIs (financial return) can influence the perceived value the market assigns to our services. Delivering programs that document impact and ROI will create new opportunities to highlight the specific value proposition and ...to be seen as the most qualified service providers”.

Alternatively, according to Dagley (2006a), the primary reason may be political. To compete for funding in organisations, HR professionals need to demonstrate methods of measurement and evaluation to support their proposals. On the other side of the coin, coaches themselves promote ROI because it is useful as a marketing tool. In addition, as the field develops, there is increasing interest from academics who are promoting quantitative and/or (mostly or) qualitative research tools to develop the field (and win their own research profiles) in the process.

Mainly, the issues reflect the tired old argument between quantitative and qualitative research methods. This is played out in the following positions:

- whether one believes that the complex nature of human relationships can be quantified and measured, and if one does, whether one believes (Phillips & Phillips, 2005) which methodology is appropriate,
- whether practitioners should be measuring their work at all because of the subjective interpretation of the numbers (Dagley 2006a),
- whether there are too many variables between coaching encounters and the bottom line to make a connection,

- whether one takes the stance that the only way to evaluate coaching is through qualitative research and the subjective experience of coaches and their coaching counterparts (Fillery-Travis & Lane, 2006; Laske, 2004), or
- whether ROI is the right way to measure the effectiveness of coaching in the first place (Fillery-Travis & Lane, 2006; Braddick 2003b).

It is also important to recognise that in spite of the arguments about ROI, executive coaching is a multi-million dollar industry that is continuing to grow and develop. In the HR area there will always be tension between the different positions in the measurement of so-called “soft skills”. This tension is illustrated in Dagley’s (2006b) research with 17 Australian HR professionals about their often comprehensive, in-house coaching programs. Most of the practitioners interviewed in this study commented that generally, effective ROI evaluation was not done, ROI tools and measures were lacking and, in some cases, cost/benefit analysis was not done at all (Dagley, 2006b).

Another way to think about the issue is to begin with the commonly experienced coaching outcomes achieved through a coaching assignment. As Dagley (2006a) points out, the issue with measurement is that many executive coaching outcomes are not related directly to financial gain at all but to a range of other intangible benefits such as leader satisfaction, building capability of senior staff or dealing with people problems. Furthermore, between these outcomes and the bottom line, there are a range of complex variables. Perhaps coaching effectiveness research should focus on these. As Osrin (cited in Braddick, 2003a) stated, “For years companies have been looking for the relationship between an intervention (such as coaching or training) and business performance. The intervening variables, such as *leadership and employee engagement*, are much more meaningful.”

Companies participating in a UK study reached a similar conclusion and expressed “wide agreement that there is little point in trying to identify whether coaching and mentoring have a direct effect on bottom line performance when it is clear that they are indirect influences in the first place” (cited in Braddick, 2003a). Perhaps the best we can achieve is to show the link between coaching and improvements in an executive’s performance. Braddick (2003b) suggests a more justifiable chain of effect appears to be

that coaching appears to have a positive effect on valued behaviours, e.g. leadership and emotional intelligence behaviours, which, in turn, appear to influence positively outcomes such as employee engagement and organisational climate, both of which are associated with superior business performance.

The Institute of Executive Coaching aligns itself with Braddick's approach. The pathway between coaching effectiveness and the organisational bottom line is paved with too many variables to enable a direct connection. We take a middle way between the positions cited above with the view that there are indicators that can provide outcome trends that occur as a result of coaching interventions. These indicators may be qualitative (subjective) or quantitative (analytical) and the two must be differentiated. Each provides a different level and type of information to a business considering employing coaching as a business tool. Qualitative data is relatively straightforward to collect. This can be done by conducting surveys among individuals involved in a coaching intervention. Most of the published studies are based on this methodology and are conducted by coaching companies or academics interested in promoting the value of coaching. There is quantitative data available to date but it is not plentiful compared to the dollars spent on the practice. This is partially because ROI data is complex and partially because it involves correlation with an organisation's business parameters, which are often considered confidential.

However, the focus on ROI is counter-productive. The cause and effect relationship between measurable investment and outcome is too complex to be able to realistically isolate the benefits of coaching alone. It is more realistic to measure the quantitative success of a coaching intervention against an organisation's existing Key Performance Indicators (KPIs). KPIs vary from organisation to organisation, depending on their business needs, but are generally directly measurable parameters that can track a subsidiary or department's performance, e.g. sales per employee or percentage staff turnover. Such measures can more readily be tracked with coaching interventions to provide a closer correlation.

The Institute's position is that there is no research methodology that, on its own, will categorically measure the effectiveness of a coaching intervention. The gold standard of

quantitative research (RCTs<sup>2</sup>) will not because of their dependence on standardised method and delivery (impossible because every coach brings a different and unique set of relationship skills to the encounter and the method). Any particular research methodology promoted by a coaching company (usually their own) will not because it again is simplifying a process that has too many variables affecting it. Neither will qualitative research that is based on peoples' subjective experience of coaching which, while giving insight into subjective experience does not take into account the perceptions of others or the positive biases people often have about their own behaviours and impacts. What is required is a multi-faceted approach that provides knowledge for practitioners as well as useful knowledge for the client organisation. This means a tailored research process that may include any of the above, but which ultimately is customised to the environment in which the coaching assignment sits.

The starting point for the IEC was to decide what outcomes we required from embarking on our own research. We identified that effectiveness research would assist us to maintain a high quality in our work (including new learnings), it would be a marketing tool and it would provide a service to our partner organisations into which we provide coaching services. We therefore use and customise a range of strategies with our partner organisations to evaluate our executive coaching effectiveness. The starting point for the Institute was the development of a Coaching Effectiveness Survey based on the IEC integral approach to leadership development. This approach identifies four key areas - self-awareness, leadership behaviours, building effective teams and cultures, and improved business results - as the key outcome areas for executive coaching. The survey was designed to measure the benefits people experience in these four areas from coaching, the significance of these benefits to their workplace, how coaching is perceived to work and general demographic factors. The survey instrument forms the basis of a larger evaluation process. This is as follows:

### **Step 1. Tailoring of IEC research instruments**

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<sup>2</sup> Randomised Clinical Trials

- Identification of organisational objectives, both business outcomes and behavioural objectives.
- Pre-coaching survey to identify individual expectations and goals
- Tailoring of our pre and post-coaching survey to the organisational objectives.

**Step 2.** Evaluation survey distributed and analysed, both for aggregate data comparison and data set comparison in the case of talent pool coaching.

**Step 3.** Distribution of results and convening of an action learning group of coaching counterparts to discuss and add further to them.

**Step 4.** Comparison of survey results with organisation surveys such as 360 feedback diagnostics used by the organisation, engagement surveys, staff satisfaction surveys retention figures, promotion statistics and team effectiveness.

**Step 5.** The organisation calculates these results against any “bottom line” results, such as share prices and profit that occurred during the period of the coaching engagement.

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In conclusion, whether we can measure the ROI of executive coaching or not may be less important than remembering that across the board in any surveys done on executive coaching, overall satisfaction with the experience runs around the 90% mark. People in organisations find it an extremely useful experience especially in the areas of self-awareness, self-efficacy and interpersonal relationships. The question of ROI belongs with the organisation. The role of coaching providers is to partner with organisations to assist them design and develop pathways that enable them to ascertain the value of their investment in coaching. So far, for the Institute this has meant a combination of research methods and our experience is that where organisations have been involved with some form of evaluation there is no doubt that executive coaching is an effective and valuable people strategy.

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## Appendix 1: A Selection of ROI Outcome Studies in Executive Coaching

Study	Method/Data Collection	ROI/Key Findings
McGovern et al., 2001  US	Interviews. 100 executives from 56 organisations between 1996 and 2000. Interviews with executive's supervisor or human resource representative ('others').	<ul style="list-style-type: none"> <li>○ Return from coaching was 5.45 times the initial investment in coaching.</li> <li>○ Tangible business impacts included: productivity 53%; quality 48%; organizational strength 48%.</li> <li>○ Intangible business impacts included: improved relationships with reports 77%; improved relationships with stakeholders 71%; improved teamwork 67%; improved relationships with peers.</li> <li>○ 84% of participants identified the quality of the relationship between executive and coach as critical to the success of the coaching.</li> </ul>
Anderson, 2001a  US MetrixGlobal LLC study	Questionnaire. Part 1: electronic, Part 2: telephone  43 leadership development participants in a Fortune 500 firm.	<ul style="list-style-type: none"> <li>○ Coaching produced a 529% return on investment and intangible benefits to the business.</li> <li>○ 60% of the respondents identified tangible benefits: productivity (60% favourable), employee satisfaction (53%) and work output (30%).</li> <li>○ Intangible benefits: employee satisfaction (theirs and others), customer satisfaction (53%) and work quality (40%).</li> </ul>
Anderson, 2001b  US MetrixGlobal LLC study	Interviews. Sample size not indicated. Executives in a Professional Services Firm - 55% of the leaders having worked with a coach for nine months or less and 45% having worked longer with a coach; and 25% having worked with a coach for over a year.	<ul style="list-style-type: none"> <li>○ Coaching produced a 689% return on investment.</li> <li>○ Top 3 competencies developed: leadership behaviour (82%); building teams (41%); and developing staff (36%).</li> <li>○ 53%: significant improvements in relationships with peers and team members. 18% of the leaders even went on to significantly improve client relationships; gaining greater clarity about how their behaviour impacted clients and being better able to respond to client issues.</li> <li>○ Senior leaders identified eight business areas that they expected executive coaching to impact and two cited as especially impacted by at least half of the leaders coached: teamwork (58%) and team member satisfaction (54%).</li> </ul>
Bougaie, 2005  US	Data collection by mixed methods: telephone interview and questionnaire.  6 corporate leaders in a large, multinational telecommunications company.	<ul style="list-style-type: none"> <li>○ Positive business outcomes: bringing a project in on time or launching a new product line</li> <li>○ None of the executives were able to share quantifiable results which had been impacted by their participation in the executive coaching program.</li> <li>○ Findings: 1. coaching was a positive experience; 2. coaching increased my self-awareness; 3. my interpersonal skills have improved; 4. coaching impacted me personally; 5. coaching impacted my decision making; 6. being coached has the connotation that there is a performance problem; 7. feedback on my performance has improved; 8. I focus more on relationships and people; 9. it is important for the coach to be external; 10. the team/my organization is more effective; and 11. learning occurred during the coaching process.</li> </ul>
Dagley, 2006b  Australia	17 Melbourne, Australia based HR professionals who were responsible for 1033 executive coaching engagements valued at a total of \$15.3 million over two years.	<ul style="list-style-type: none"> <li>○ HR practitioners had generally not undertaken any analysis of the return on the investment from the coaching; citing such areas as a lack of measures and measurement tools, lack of knowledge on how it could be done well and that cost/benefit was not done or not popular in the industry.</li> <li>○ All of the practitioners rated the coaching as at least 'moderately effective'; six reported they were 'very effective' and one reported the program was 'outstandingly effective'. Highest benefits were 'clearer understanding of own style, automatic responses and the issues arising from these'; 'communication and engagement skills'; 'ability to cope with stress'; a 'clearer understanding of professional performance'; and 'clearer understanding of organizational issues and how to resolve or overcome them'.</li> <li>○ Key organisation benefits were seen to be 'development of the talent pool' and 'talent retention and morale'.</li> </ul>

