Measuring ROI in Executive Coaching

Jack J. Phillips, Ph.D. and Patricia P. Phillips, Ph.D.

<This article first appeared in the ***International Journal of Coaching in Organizations***, 2005, Volume 3, Issue 1, pp. 53-62.>

At first glance, the thought of measuring the ROI in coaching appears to be a novel idea or an impossible mission. Both views are inaccurate. With increased use of executive coaching, many executives are questioning its value, particularly as coaching expenditures grow. Although coaching assignments are planned and executed with good intentions, not all engagements produce the value desired by either the individual being coached (participant) or the sponsor who often pays for it. Measuring return on investment (ROI) in coaching is now used by some organizations – and coaches – to show the value in terms that managers and executives desire and understand. This article describes how the ROI Methodology™, used globally in 40 countries, collects six types of data – including ROI – to show the complete success of coaching.

Why ROI?

Several issues are driving the use of ROI to measure the success of executive coaching. Among these are:

1. **Visibility.** Executive coaching has taken on increased visibility in recent years. This visibility in corporate offices and attention in the press has brought new levels of scrutiny. A highly visible or perhaps even controversial project sometimes must be held to higher of levels of accountability, including demonstrating the value with credible ROI data.
2. **Accountability Trend.** An accountability trend is developing across all types of organizations, functions, programs, and projects. Many executives are demanding results from different processes and projects – asking for the actual ROI. It's a logical argument – money is invested so there should be a return on the investment.
3. **Costs.** Coaching is expensive and the costs of coaching have continued to rise. A top notch coach charges very high fees and some organizations offer coaching to all their managers and executives. The total bill is not only increasing, but is significant. Increased costs translate into the need for additional accountability often at the ROI level. Executives ask the basic question: Do the monetary benefits of coaching overcome the costs of coaching?
4. **Soft Skills Concern.** Because executive coaching falls into the category of "hard-to-measure" or "hard-to-value" processes – typical of soft skill efforts – executives are more concerned about the return on investment. It's an easy request in a very soft area. Executives do not understand how, or if, the ROI can be developed. Consequently, they ask for it.
5. **A Familiar Term.** The concept of ROI is a familiar term for executives who manage businesses or parts of businesses. ROI is used for investments in plants, equipments, and other companies. So why shouldn't it be used for other major investments as well? Also, executives with MBAs and management degrees have studied the concept of ROI, know how it's developed, and appreciate the usefulness of the concept.

6. **A Long History of Use.** The concept of ROI has been used for over 300 years as a business tool. It is not a new fad passing through the organization. Instead it is an old, familiar friend that is now used in unfamiliar places such as human capital, quality, and technology.

These and other influences are prompting executives to raise the issue of ROI in executive coaching. The good news is that it is being developed with limited resources, providing a credible value reflecting the payoff of an executive coaching assignment.

The ROI Methodology™

The ROI Methodology™ is ideal for measuring the success of coaching. Developed and refined in the last two decades by Dr. Jack J. Phillips[1], the methodology collects six types of data, including the actual ROI. This process has been used by over 2,000 organizations to show the success of a variety of human resource development programs, including leadership development, executive development, management development, and executive coaching. It has been well documented with over 15 books translated into 25 languages. Over 2,500 individuals have been certified to implement the ROI methodology internally in their organizations. Approximately 5000 ROI studies are conducted each year, globally. The process has been formally implemented in over 40 countries. A global professional network with 600 members has been organized to share information. The methodology is comprehensive, consistent, and credible. Its success and use are based on five elements, described next.

Elements of the ROI Methodology

How to increase accountability can be viewed as a puzzle that has been solved over time. The challenge is to develop a comprehensive measurement system with credibility and acceptance to a variety of groups. Figure 1 shows these various elements.[2]

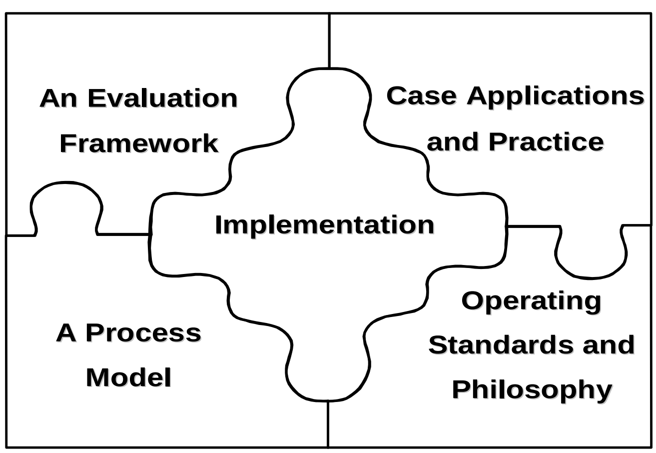

Figure 1 – Elements of the ROI Methodology

The Evaluation Framework

The evaluation framework details the specific types of data arranged in a chain of impact that must occur if coaching is to add business value and ultimately ROI. These represent hard and soft data items collected at different time frames often from different sources. Figure 2 shows the definitions of these types of data presented as levels of data.[3] These levels build on

Kirkpatrick's four level framework for evaluating learning and development. We add a fifth level for the actual ROI.

Evaluation Levels	
Evaluation Level	**Measurement Focus**
1. Reaction and Planned Action	Measures participant satisfaction with the program and captures planned actions.
2. Learning	Measures changes in knowledge, skills, and attitudes.
3. Application and Implementation	Measures changes in on-the-job behavior and progress with application.
4. Business Impact	Captures changes in business impact measures.
5. Return on Investment	Compares program monetary benefits to the program costs.

Figure 2. Evaluation Levels and Measurement Focus

At the first level the participant and the coach react to the engagement. A variety of data items are collected at this level with particular focus on such measures as

1. Relevance of the coaching to the current work assignment,
2. Importance of the coaching to my job success,
3. Intent to use what is learned in the coaching engagement,
4. Effectiveness of the coach, and
5. Amount of new insights gained from the coaching process.

Although measures can be developed, these are the more critical ones that show the success of coaching.

At level two learning is measured usually on the self assessment scale. New knowledge, skills, and understandings are developed.

Level three translates into behavior change, as the application is being monitored. Here the actions, steps, processes, and behaviors are captured following and during the coaching assignment.

At level four, business impact measures are the consequences of the new behavior. This coaching assignment should influence one or more key measures, such as productivity, quality, costs, time, customer satisfaction, and job satisfaction.

Finally, an ROI value is generated, as the cost of coaching is compared to the monetary benefits of the business impact measures. At this point in the process only the levels of data are identified as the normally occur in a chain of impact. A process model is needed to provide consistency in options in collecting, processing, and reporting data.

Process Model
Figure 3 (see next page) shows the different steps in the process model. Every evaluation approach should have a comprehensive model that offers a step-by-step sequential process. For each step in the model options should be available to accomplish that part of the process.

Because the situations can vary significantly, a variety of options are needed to cover all the possible types of coaching programs and scenarios. However, for the coaching environment some of the options are minimized and these are discussed later under key steps.

Standards
Every process needs standards. In the ROI Methodology™, standards presented in Table 1 provide the rules for collecting, processing, analyzing, and communicating data.[4] The standards, labeled Guiding Principles, are not only the rules but represent a very conservative approach as well.

Table 1. Guiding Principles

1. When a higher level evaluation is conducted, data must be collected at lower levels.
2. When an evaluation is planned for a higher level, the previous level of evaluation does not have to be comprehensive.
3. When collecting and analyzing data, use only the most credible sources.
4. When analyzing data, choose the most conservative alternative for calculations.
5. At least one method must be used to isolate the effects of the solution.
6. If no improvement data are available for a population or from a particular source, it is assumed that little or no improvement has occurred.
7. Estimates of improvement should be adjusted for the potential error of the estimate.
8. Extreme data items and unsupported claims should not be used in ROI calculations.
9. Only the first year of benefits (annual) should be used in the ROI analysis of short term solutions.
10. Costs of the solution should be fully loaded for ROI analysis.
11. Intangible measures are defined as measures that are purposely not converted to monetary values.
12. The results from the ROI Methodology™ must be communicated to all key stakeholders.

In almost every case the standards are aimed at being very conservative in the analysis, essentially understating the results of the coaching project. This conservative approach translates into executive buy-in for the data and for the coaching project. Without buy-in, the study would be virtually worthless. The standards represent the most important part of this overall comprehensive evaluation system.

Application
Individuals who are involved in coaching and who desire more accountability are encouraged to use this process to show the impact of coaching. A quick success story is very important. The good news is that there are case studies already published and tools and templates are available, including software and many reference books (including the ones at the end of this article). Not knowing how to do it should not be a legitimate barrier today. Individuals who have a need to pursue ROI can achieve it, often with minimal resources.

THE ROI MODEL

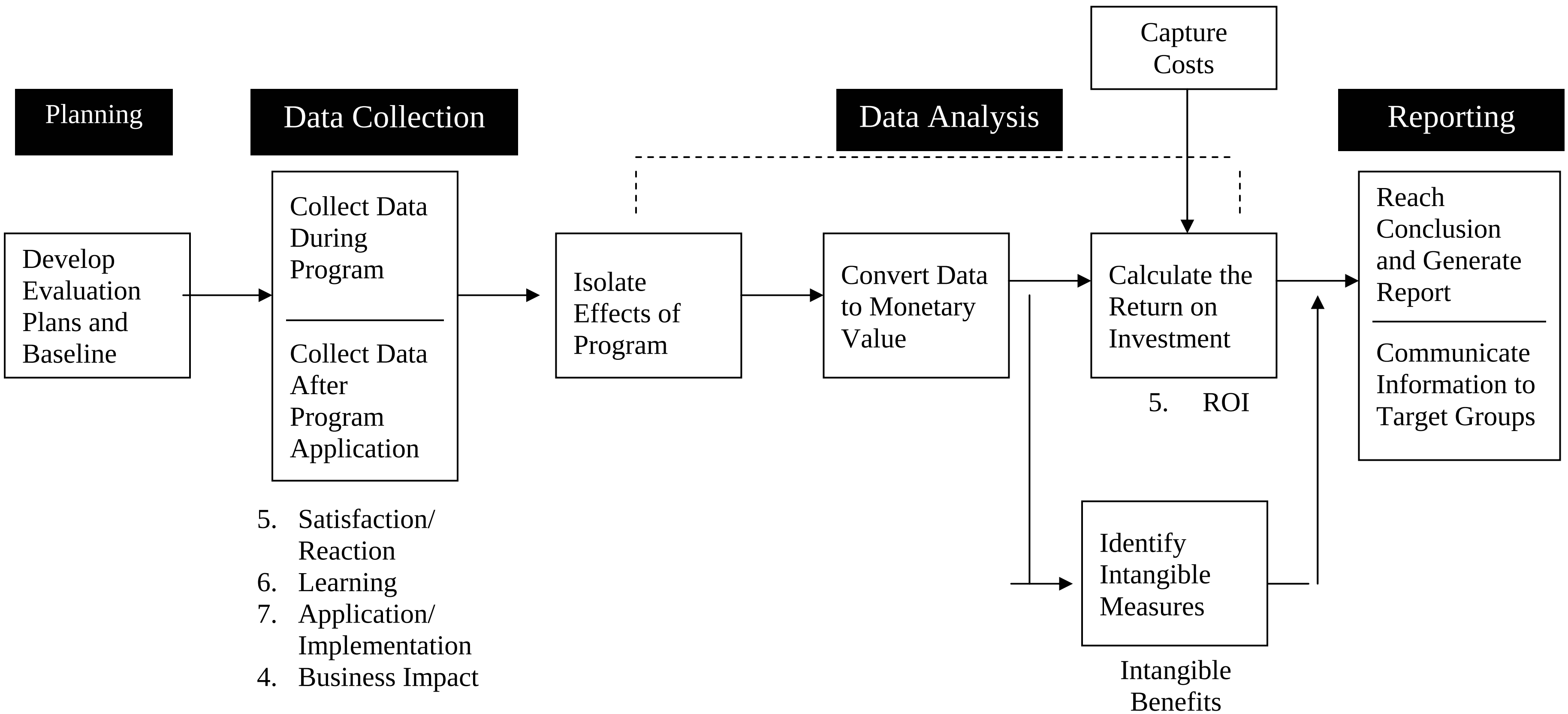

Figure 3. The ROI Methodology

Implementation

Implementation addresses a variety of issues about the routine use of the ROI Methodology™ in a coaching environment. This issue addresses how data will be communicated, how often studies are needed, who actually conducts the studies, and other issues that often hinder the routine use of the methodology. Implementation issues are addressed in several of the books.[5]

Key Steps

The following issues pertain directly to the use of the model in the executive coaching environment and show the most likely scenarios to achieve success with ROI. (See Figure 3 for the process steps.[6])

Objectives: Shifting the Engagement to the Right Level

The beginning point for ROI development is to establish objectives based on the commitment between the coach, the client organization, and the individual being coached. Many engagements are based on behavior, as individuals outline specific behaviors they are interested in changing through the coaching process. However, for coaching to add significant business value, it should be based on a business need. Thus, if the ROI in coaching is desired, the initial engagement should be elevated to the business need level. Let's explain. Figure 4 shows the alignment of the up-front needs assessment with evaluation data.[7] If the initial coaching engagement is based on job performance needs (behavior), the most appropriate level of evaluation is application.

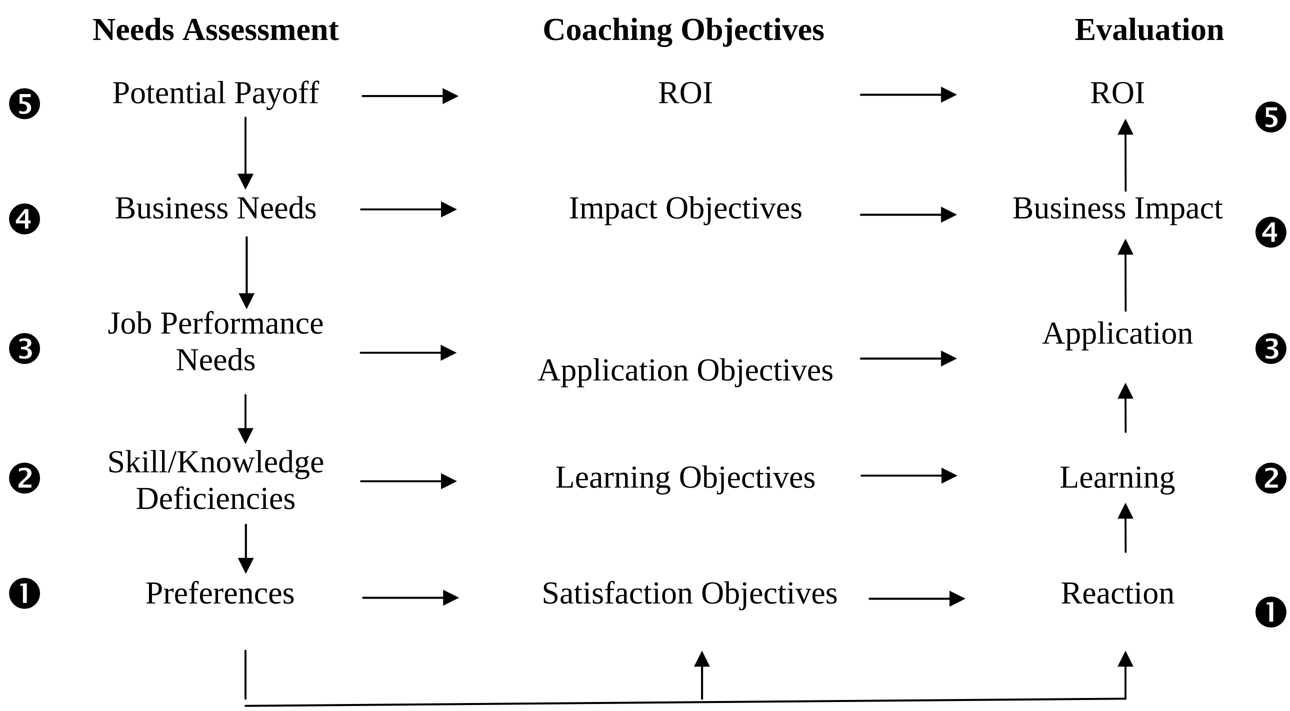

Figure 4. Linking Needs, Objectives, and Evaluation

If the initial engagement is pushed to the business needs level, it becomes easier (and sometimes even routine) to evaluate at the impact level. Subsequently, the ROI is developed from the impact data. It is not very difficult to convert a job performance need (behavior) into a business need. The coach should guide the participant to the business need by asking “so what?” and “what if?” questions. The coach is attempting to pinpoint what will happen if a specific behavior changed. In some cases, it means that a specific business measure, such as productivity, cycle time, quality, project delivery, or retention will improve. When a business impact objective is established, the coaching assignment has the best opportunity for developing the actual ROI. In the needs assessment, preferences refer to the structure and process of the coaching engagement (e.g., timing, duration, location, format), taking into consideration the preferences of the coach, the person being coached, and the client organization. Satisfaction objectives refer to reaction of all parties on topics such as relevance, importance, usefulness, effectiveness, and perceived value.

Planning for ROI Is Essential

A coaching impact study begins with planning for data collection and analysis. Two planning documents are recommended: a data collection plan and a data analysis plan. In the data collection plan, specific types of data are identified corresponding to the levels of evaluation and objectives. For each objective, the data collection method, timing, and source are selected. The analysis plan focuses strictly on the business measures and addresses issues such as isolating the effects of the coaching on the business measure, converting the business measures to monetary value, identifying costs, and reporting data.

Collect Six Types of Data

Although several data collection methods are available, the most likely scenarios are to collect data directly from the individual being coached through a follow-up questionnaire, interview, action plan, or performance contract. The most efficient and cost effective method, the questionnaire, captures data about the progress (or lack of progress) from the individual being coached – and perhaps the coach, as well. Specific changes in behavior are captured along with accomplishments. The most important part of the questionnaire – normally referred to as chain of impact questions – is where the individuals detail a specific impact chain to show the value of the contribution. All six types of data can be captured in the same questionnaire. The interview can be more flexible than the questionnaire, yet more time consuming and expensive. The same set of questions can be used in the interview, but with an opportunity to probe.

The action plan is very appropriate for coaching. With this approach, the individual being coached develops action items that will be implemented during and, perhaps, after the coaching session. The action plan not only indicates behavior changes (i.e., particular steps in the action plan), but shows the business impact that will be driven with the behavior change. The business measures are defined and converted to monetary terms, possibly with assistance from the coach. The performance contract is the action planning process with a pre-engagement commitment. The individual being coached and the coach reach an agreement on the measures that need to change as a result of coaching. In some cases, the immediate manager of the person being coached is in the loop.

Only Take Credit for the Coaching Impact

One of the most critical challenges is to isolate the effects of the coaching assignment on the impact measures. While some coaches may assume that any behavior change and subsequent impact is directly attributed to coaching, it may be possible (and probable) that other influences are driving the same measure. Thus, as a change in business measure is documented, it is important to take the extra step to isolate the effect of the coaching on that measure. Although ten strategies can be used, including control groups and trend lines, the most logical strategy for isolating the effects of coaching is to use participants' estimates. In this situation, the individual being coached indicates the percent of improvement linked to the coaching after other factors have been itemized (i.e., all the factors that have contributed to the improvement in the measure). Recognizing that this is an estimate, another step must be taken: adjust for the error of the estimate. Here, participants are asked to indicate the confidence of the estimate that's been provided on a scale of 0-100% where 0% is no confidence and 100% is certainty. The estimate is then multiplied by the confidence factor to determine the final estimate figure.

Converting to Money

Converting data to monetary value appears to be another difficult issue, but may actually be one of the easiest. When a specific measure has been identified that is connected to the coaching assignment, it is often a very simple and routine matter to convert it to monetary value. While at least ten approaches are available, three are typical in coaching situations.

Find a standard value. For some measures, a monetary value has already been attached to it. For example, one turnover of a staff member can be quite expensive. Preventing a turnover can save a significant amount of money, thus a standard, accepted value for one turnover statistic may already exist in the organization, developed for other purposes.

Use expert input. Ask someone who works with the measure on a routine basis to provide an estimate based on their expert reference point. This expert may be the individual who collects the data or generates the report about the data.

Use participant estimates. Ask the individual being coached (participant) to estimate the value. Because it is a familiar measure, there may be a credible basis for the value. This estimate can be adjusted for the potential error of the estimate by capturing a confidence percentage (0% = no confidence and 100% = complete confidence).

Tabulate All the Costs

The costs of coaching are needed for the ROI calculation. The cost of the coaching assignment should be fully loaded – including both direct and indirect costs. Typical costs include fees, materials (if any), time, travel, administrative, and evaluation. The time for coaching engagements should include the coach (unless the coach is paid a fee) and the individual being coached. In some cases for internal coaches, there may be a cost for developing the coaching process and this cost would have to be prorated to the number of individuals being studied. Coaching assignments are usually not that expensive, so a fully-loaded profile adds to the credibility of the ROI value.

Calculate the Return on Investment

The return on investment is usually calculated in two ways. The benefits/cost ratio (BCR) is the monetary benefits of coaching divided by coaching cost. In formula form it is:

$$\text{BCR} = \frac{\text{Benefits}}{\text{Cost}}$$

The return on investment uses net benefits divided by costs. The net benefits are the monetary benefits minus the costs. In formula form, the ROI becomes:

$$\text{ROI (\%)} = \frac{\text{Net Benefits}}{\text{Costs}} \times 100$$

This is the same basic formula used in evaluating other investments where the ROI is traditionally reported as earnings (net benefits) divided by investment (coaching costs).

Let's consider an example of the benefit/cost ratio and the ROI. A project involving a coach with ten people who are being coached generates monetary benefits of $288,000. The coaching costs $74,000, including the direct expenditures, the cost of the time involved, and other miscellaneous expenses. The benefit/cost ratio is 3.89. The ROI is the benefits minus the costs divided by the costs:

$$\frac{\$288{,}000 - \$74{,}000}{\$74{,}000} \times 100 = 289\%$$

Thus, the two values are directly related. For a shortcut method, it's possible to take the benefit/cost ratio, subtract one (1), and multiply that result by 100 to obtain the ROI as a percentage.

Identifying the Intangibles

Intangible benefits associated with the coaching assignment should be captured. Intangibles are those measures that are not converted to monetary values, and usually items such as job satisfaction, stress reduction, conflict reduction, increased teamwork, few complaints, and other hard to value measures. Intangibles are very important and represent the sixth type of data in the ROI Methodology™.

Report Data to a Variety of Audiences

The final step in the process is to report data to a variety of stakeholder groups. Each potential audience should be analyzed in terms of audience needs and the most effective method of communication for the audience. In the very first study, a face-to-face meeting with key sponsors is desired and provides an opportunity not only to communicate the results of the study but also to gain support for the method used to conduct the study. A variety of options are available ranging from a detailed impact study to an executive summary to a one page description. The important point is to tailor the communications to the target audiences. Keep it as brief as possible. More communication time may be necessary early in the process to gain commitment to the methodology, assumptions, and industry standards as well as an understanding of the data.

Tips for Evaluating Coaching

In summary, the use of ROI in coaching is growing rapidly. ROI can be a very complex process, but doesn't have to be. When used to evaluate coaching several important tips are important to keep in mind.

1. **Ensure that the engagement focuses on a business need**. As discussed in the article, it is critical for the engagement expectations be pushed to the business level. Otherwise the ROI may be negative.
2. **Both the coach and the person being coached should be committed to providing data**. This upfront early commitment is critical to secure the quality and quantity of data needed. These are the two primary data sources and, although records can be checked, there is nothing more credible than information obtained directly from those whose performance has changed.
3. **Keep the process as simple as possible**. The ROI Methodology™ can morph into a complex process if not managed properly. Keep it simple and make it very conservative and credible.
4. **Follow the methodology**. The process outlined in this article and contained in several of the books on ROI is a very disciplined process. It is a sequential, step-by-step methodology that must be strictly followed. Leaving out a part of the process compromises the integrity of the study and will perhaps lower the credibility of the outcome.
5. **Communicate results**. The presentation of results is very critical. The appropriate target audiences should be selected and communication used to obtain buy-in for the methodology as well as buy-in for the data.
6. **Use the data**. Evaluation data usually indicate changes are needed. Needed adjustments should be implemented. Improvements should be instituted to make the project more successful in the future.

Final Thoughts

Developing the ROI in coaching is very straightforward, following the methodology defined in this article. A very credible impact study can be developed using a systematic, step by step approach to define levels and types of data, collect and analyze data, and report the data to key audiences. The methodology uses very conservative standards (guiding principles) for analysis and has been utilized to develop thousands of studies, including dozens in the coaching environment.

Jack J. Phillips, Ph.D.
Email: jack@roiinstitute.net

As a world-renowned expert on measurement and evaluation, **Dr. Jack J. Phillips** provides consulting services for Fortune 500 companies and workshops for major conference providers throughout the world. Phillips serves as chairman of the ROI Institute and is also the author or editor of more than 30 books—10 about measurement and evaluation—and more than 100 articles. His expertise in measurement and evaluation is based on extensive research and more than twenty-seven years of corporate experience in five industries (aerospace, textiles, metals, construction materials, and banking). Phillips has served as training and development manager at two Fortune 500 firms, senior HR officer at two firms, president of a regional federal savings bank, and management professor at a major state university.

Patricia P. Phillips, Ph.D.
Email: patti@roiinstitute.net
Dr. Patricia P. Phillips is CEO of the ROI Institute, a research and consulting organization focused on accountability issues in training, HR, and performance improvement. Patricia conducts research on accountability issues and works with clients to build accountability systems and processes in their organizations. She has helped organizations implement the ROI Methodology and has been involved in hundreds of ROI impact studies in a variety of industries. Patti has a Ph.D. in International Development and a Master of Arts Degree in Public and Private Management. She is certified in ROI evaluation and has authored several books on the subject.

Endnotes

[1] See, for example, Darelyn J. Mitsch (Ed.). *In Action: Coaching for Extraordinary Results.* Alexandria, VA: American Society for Training and Development, 2002; Jack J. Phillips. *Return on Investment in Training and Performance Improvement Programs. 2nd edition.* Woburn, MA: Butterworth-Heinemann, 2003; Jack J. Phillips. *Accountability in Human Resource Management.* Woburn, MA: Butterworth-Heinemann, 1996.

[2] This figure appeared in the handout by Jack J. Phillips. *Myths and Mysteries of ROI.* Presentation at ISPI Conference, Tampa. FL, 2004, p. 6.

[3] This table is adapted from the one found in Jack J. Phillips. *Return on Investment in Training and Performance Improvement Programs. 2nd edition.* Woburn, MA: Butterworth-Heinemann, 2003, p. 9.

[4] This table is expanded from the one found in the handout by Jack J. Phillips. *Myths and Mysteries of ROI.* Presentation at ISPI Conference, Tampa. FL, 2004, p. 10.

[5] See Jack J. Phillips. *Return on Investment in Training and Performance Improvement Programs. 2nd edition.* Woburn, MA: Butterworth-Heinemann, 2003; and Jack J. Phillips and Lynn Schmidt. *The Leadership Scorecard.* Woburn, MA: Butterworth-Heinemann, 2004.

[6] From Jack J. Phillips. *Return on Investment in Training and Performance Improvement Programs. 2nd edition.* Woburn, MA: Butterworth-Heinemann, 2003.

[7] Adapted from Jack J. Phillips, Ron D. Stone and Patricia P. Phillips. *The Human Resources Scorecard: Measuring the Return on Investment.* Woburn, MA: Butterworth-Heinemann, 2001.