

## The ROI of Executive Coaching

Calculating the ROI of Executive Coaching is a subjective undertaking, no matter what formula you choose to employ for your evaluation model. The reason the calculation is often subjective is that it is difficult to put a dollar value on something like resolving a problem, accelerating change in an organization, or grooming a rising star in the company for a future leadership role. Nevertheless, most companies try to measure the dollar value of executive coaching in ways similar to those used to estimate the value of training programs.

Executive coaching can represent a significant investment in an employee when underwritten by a corporation. It is a very important investment in your future if you seek coaching on your own. It is thus not surprising that company executives and individuals want to monetize their return on the investment.

The value and return on the investment of both time and money in executive coaching can be estimated or calculated in several ways.

**1. Results or Immediate Outcomes.** One way to calculate the ROI of executive coaching is to look at tangible, statistical results. Here are a few examples of how executives or companies have analyzed the results or immediate outcomes of executive coaching.

*A large company in the hospitality industry reported saving between \$30 million and \$60 million by coaching its top 200 executives.*

*In one recent study of coaching clients, 28% stated that they had learned enough to boost quantifiable job performance in sales, profits or productivity by between \$500,000 and \$1 million.*

**2. Benefits to Individuals and Organizations.** In companies with low-performing teams or divisions or with individuals being groomed for executive leadership in the company, executive coaching can result in benefits to both the individual and the organization. In a study of 100 executives from Fortune 1000 companies who received executive coaching for six to 12 months, executives noted improvements in:

- Working relationships with direct reports (77% of people reporting)
- Working relationships with immediate supervisors (71%)
- Teamwork (67%)
- Working relationships with peers (63%)
- Job satisfaction (61%)
- Working relationships with clients (37%)

In another study of the effects of executive coaching in a group of more than 1000 executives, both tangible and intangible benefits were considered.

#### Tangible Business Impacts:

- Productivity (53% of people responding)
- Quality (48%)
- Organizational strength (48%)
- Customer service (39%)
- Reduced complaints (34%)
- Retention (32%)
- Cost reductions (23%)
- Bottom-line profitability (22%)
- Top-Line revenue (14%)
- Reduced turnover (12%)
- Other Business (7%)

#### Intangible Business Impacts

- Improved Relationship: Reports (77%)
- Improved Relationship: Stakeholder (71%)
- Improved Teamwork (67%)
- Improved Relationship: Peers (63%)
- Improved Job Satisfaction (61%)
- Reduced Conflict (52%)
- Increased Organizational Commitment (44%)
- Improved Relationship: Clients (37%)
- Other Intangibles (31%)

A survey of over 4000 corporations which use executive coaching reported the following primary benefits:

1. Improved individual performance
2. Bottom line results (including profits)
3. Client service and competitiveness
4. Development of people for the next management level, including
  - Increased confidence
  - Improved skills and self-empowerment
  - Goal achievement
  - Relationship improvements
  - Retention

**3. Monetized ROI Calculation.** Many corporations, however, need to monetize the return on investment. Using a traditional ROI calculation formula, this can be done in a way that looks something like this.

**1. Estimate the total value realized** by the company of resolving the specific problem, of accelerating change in an organization, or of grooming a rising star. Try to make realistic estimates of dollar amounts with which you feel very comfortable. Your estimate should account for such things as

- Increased productivity
- Reduction in turnover cost
- Hours saved by accelerating a process x number of people involved x combined pay for those people involved
- Quality improvements
- Positive impact on team or corporate morale
- Lifetime value of the employee being groomed.

**2. Estimate the percentage of the value that can be directly attributed to the executive coaching.** (20%, 50%, etc.). Multiply the value realized (#1) by the percentage attributable to the coaching. (\$75,000 x 66% = \$50,000) to calculate the **immediate value.** .

**3. Calculate and subtract the total cost of the executive coaching.** Calculate the fees paid to the coach and the value of time away from the job on the basis of the individual's salary. For example, if the cost of the coaching was \$9,000 and the value of time away from the job was \$4,000, the total coaching cost was \$13,000. Subtract the total coaching cost (\$13,000) from the immediate value calculation (\$50,000) to obtain the net return on investment of \$37,000.

**4. Finally, divide the return on investment (\$37,000) by the coaching cost (\$13,000),** thus  $37 \div 13 = 2.85$ .

The direct ROI would be 285%.

The formula will look like this:

$$\frac{([total\ value\ x\ \%\ due\ to\ coaching] - cost\ of\ coaching) \times 100}{Coaching\ cost} = ROI$$

On average, studies on the ROI of coaching report a return of five to seven times the initial investment. The return is high because executive coaching programs are, by definition, focused on the specific needs of the individual.

*Fortune magazine reported the results of a 2001 poll of executives and upper level managers given six to 12 months of coaching. When asked to give a "conservative estimate of the monetary payoff from the coaching," those who received the coaching estimated the value at six times the cost to the company for the coaching services. Monetized, this means that a cash investment of \$18,000 for a Vice President was calculated to produce a return on investment of \$108,000.*

Executive coaching usually has indirect and long-term value not included in the calculation above. Other value recognized as a result of the executive coaching might include some or all of the following:

- Improved individual performance
- Improved team or company performance
- Long-term effects on profit, quality or productivity
- Long-term value of innovation
- Long-term professional development value resulting from greater goal setting and attainment capability
- Empowerment and confidence
- Leadership development
- Improved morale
- Improved relationships
- Talent retention
- Preparedness for greater leadership roles

Many of these benefits, both immediate and long-term, will impact the performance and morale of others in the corporation and contribute to strengthening of the corporate culture (or change). Some of these benefits and values will be difficult to monetize while some (sales increases, productivity increases) can be accurately and simply calculated.

The total ROI of the executive coaching, then, would monetize all of these benefits and values using the same formula above.