The International Journal of Coaching in Organizations

IJCO

An ROI Method for Executive Coaching: Have the Client Convince the Coach of the Return on Investment with Commentary

By Mary Beth O'Neill, M.A.

Journal information:
www.ijco.info

Purchases:
www.pcpionline.com

Professional Coaching Publications, Inc.

2007

ISSN 1553-3735

An ROI Method for Executive Coaching: Have the Client Convince the Coach of the Return on Investment

MARY BETH O'NEILL, M.A.

This article first appeared in the International Journal of Coaching in Organizations, *2005, 3(1), 39-52. Reprinted with permission of Mary Beth O'Neill,* IJCO *and Professional Coaching Publications, Inc.*

After reviewing typical dilemmas executive coaches face to identify the ROI for their services, O'Neill provides a practical plan for integrating ROI analysis into the coaching relationship. She uses a case example to illustrate the method, and shows how this practice preserves the client's responsibility, not only for results, but for providing the link between their developmental strides and the increased success of their business. The article concludes with a 5-step summary of the process.

INTRODUCTION

Although executive coaching is a well established practice in the corporate environment, its benefits are likely to be more obvious to clients than to the accounting department.[1] This article presents practitioners with a method for demonstrating a quantifiable return on investment (ROI) for their work with clients. This article addresses the needs of executive coaches working in the field rather than those of researchers and academics regarding research methodology. I welcome researchers to bring their considerable expertise to this strategy.

The main focus of the article is a 'how-to' method for an executive coach or consultant to not only address the issue of ROI but also to directly involve the client in evaluating the bottom line benefits of coaching. An experienced practitioner who understands how organizations work can successfully implement this ROI strategy.

A word about the use of the term "ROI". I use ROI as it is colloquially applied in our culture, generally to refer to the financial gains that business executives want to see compared to the costs they pay. There is a conversation in the training, organization development, and executive coaching fields about what formula is more useful to use with clients, ROI percentages or Benefit/Cost ratios. Each of these terms has a specific meaning and formula. I prefer the Benefit/Cost ratio because I think it is more accessible to both coaches and clients, particularly those who are just beginning to apply fiscal thinking to coaching interventions. But when referring to the general discussion of measuring coaching's effect on bottom line results, I use the term, ROI, because that is the language most frequently used in conversations and the media.[2]

There is a conversation in the training, organization development, and executive coaching fields about what formula is more useful to use with clients, ROI percentages or Benefit/Cost ratios.

THE DILEMMAS

Most practitioners I talk to are stymied around the three following dilemmas in identifying the ROI of their work. The first dilemma may be stated, *"I work on the 'soft side' of business – the development of people skills in a leader. How could I ever define and measure that? Besides, I'm completely intimidated by research and statistics. It's not my thing."*

The second dilemma is from those who have some confidence in their quantitative skills but do not know how to link a leader's development to measurable business results. *"I can measure the shifts in a leader's attitudes and the team's perspective on the leader's effectiveness, but how do I link those to the bottom line?"* Or practitioners may say, *"I've even been able to measure shifts in organizational goals among those whom I have coached, e.g., retention and promotions, but I don't know what elements of the coaching/consulting effort – if any – created the change."*

The third dilemma comes from a values conflict expressed, *"If I take on the responsibility of measurement then I'm doing the client's job for them – I've stepped over the line. I've become responsible for bottom line results rather than for methods that lead to executive development. Anything I do that weakens the leader's sense of responsibility for results erodes my effectiveness."*

If you have experienced any of these dilemmas yourself, take heart. Over the last ten years, I have developed a coaching strategy, beginning with the contracting phase, which can link leader development to the bottom line results of executive coaching clients. The method allows the leader to retain full responsibility, not only for their business results but for linking their developmental challenges to those results.

I have developed a coaching strategy, beginning with the contracting phase, which can link leader development to the bottom line results of executive coaching clients.

The Three Key Factors Methodology

You can set up a coaching or consulting contract for success by helping a client identify the three Key Factors around a specific business challenge they face. These Factors are areas executives manage every day but whose potential is often underutilized. The three Key Factors are: 1) the ***business results*** that leaders need to achieve, 2) the ***leadership behaviors*** they need to exhibit, and 3) the ***team interactions*** that the leader requires of staff in order to attain the desired results (see Figure 1).

You can set up a coaching or consulting contract for success by helping a client identify the three Key Factors around a specific business challenge they face.

As you can see, this does not appear to be rocket science. But my motto for identifying and working these three Key Factors is, "It's simple but it's not easy." That is, every leader knows that these three categories are important, but very few executives working under pressure manage all three factors simultaneously. One or two of the factors escape the leader's attention. The resulting decrease in effectiveness often triggers a call to a coach to begin working with a leader in the first place.

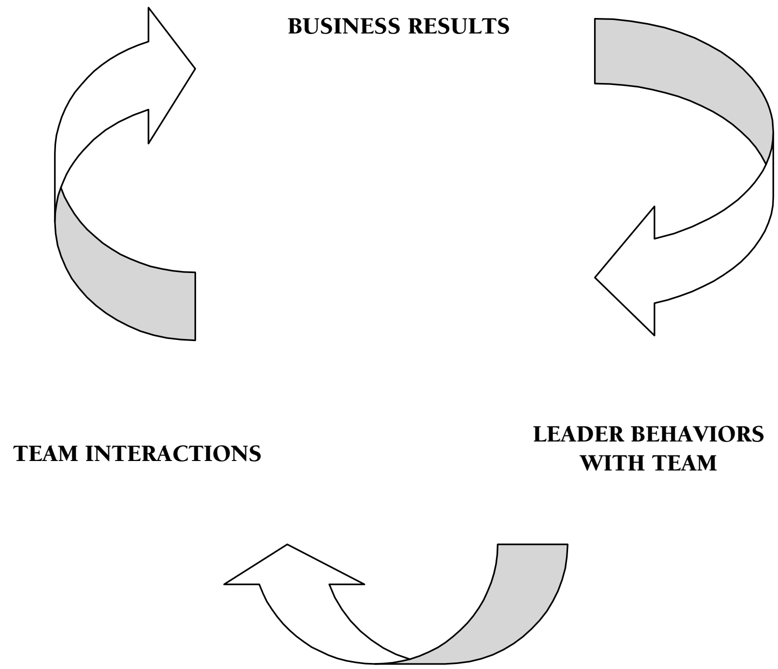
The real challenge for leaders and coaches is to ensure not only that leaders pay attention to these three Key Factors but also that they are linked and interrelated to each other and integrated into the choices the leader makes on a daily basis. When coaches assist leaders in identifying and customizing the three Key Factors to their situation: 1) it begins the coaching process, and 2) it produces interrelated categories that can be assessed for the ROI of the executive coaching work.

A CASE EXAMPLE

I coached Anne (not her real name) when she was general manager of her division. I was called because Anne faced several challenges – she had team members with longstanding interpersonal conflicts; corporate revenue goals were not likely to be met; and Anne's boss withdrew support because he was frustrated with her division's problems. Anne was considered a "high potential" leader and was respected by many in the company for her demonstrated gifts and skills. At the time I met Anne, however, it was a stretch to get the kind of traction that would count as success in her boss' eyes which led to a loss of confidence in herself.

Figure 1. Three Key Factors for Leader Success

An effective leader optimizes the ways the following three Key Factors interrelate in order to achieve organizational goals with clear and measurable results.



"It's simple, but not easy."

Early in our conversations, Anne and I discussed the three Key Factors and ways she could identify them in her area. At first, Anne wanted to focus on "improved staff relations" as her business result because she spent so much of her energy dealing with conflict between team members. "Improved staff relations," however, is not a business result, it is a team behavior. I encouraged her to move it onto the team interactions list.

After we explored many of the challenges she faced, Anne chose the business result of increasing revenue. Ultimately, that was the factor that the company and her boss cared most about. In order to boost revenues, Anne thought her own leader behaviors needed to revolve around resolving staff differences. This is an example of a painful symptom stealing all of an executive's attention. As we talked it became clearer to Anne that some of these differences could be originating from Anne's lack of clarity in her expectations of the staff. So she put "define role clarity" on her leader behaviors list.

This is an example of a painful symptom stealing all of an executive's attention.

A great challenge for the coach in working with a leader to identify the three Key Factors is establishing the linkages among those Factors. The Factors may seem so self-evident that leaders do not pay much attention to them and only consider the factors on a vague, general level disempowering themselves and their teams. The deeper challenge comes in working to *customize* and render *measurable* each of the three Key Factors while *demonstrating their interrelationships*. This is the first building block to establishing an ROI approach. ***Link and make measurable, link and make measurable*** – the mantra of three Key Factors work.

Anne's work defining the three Key Factors was a significant step, but it was only the beginning. So far she had determined: 1) business results – increase revenue, 2) leader behaviors – define clear roles, and 3) team interactions behaviors – improve staff relations. Were they linked and customized to her situation? Her leader and team behaviors were linked: we suspected that if she further clarified her team's roles, some of their conflicts with each other would evaporate. But how would that increase revenue?

As an executive coach, an important part of your job is to probe, and repeatedly emphasize, the interdependencies among the three Key Factors. Rarely should you accept a leader's first answer. By repeated questions regarding the links among the factors, you can help the leader focus on the crucial items under each factor, namely the ones that give leaders the most leverage and the greatest chance of success. Your collaborative skepticism, probing until you reach the essence of the factors, builds in leaders the growing confidence that they have identified what is most critical to their situation. ***You*** do not convince them; ***they*** convince themselves of the links by their own repeated refinements.

Anne perceived that the team members needed her to clarify her expectations so that they could prioritize their work better. The team lost energy to conflicts – both hidden and explicit – which slowed the implementation of all their plans. Clarifying expectations and collaborating to resolve differences mobilized Anne and her team to close in on their business goals.

Define the Measures: How Will You Know When You Get There?

Any item identified by the leader needs not only to be linked to the other factors but also must be measurable. Four simple categories to use in measuring business results are time, money, quality, and quantity. The measurable goals on the leader and team factor lists must be specific, observable, and repeatable.

The deeper challenge comes in working to customize and render measurable each of the three Key Factors while demonstrating their interrelationships.

See Figure 2 for a "menu" of items that fit into each factor[3]. The menu is ***a la carte***: the leader can choose the items that are most relevant to her situation and most interdependent upon each other. Not all of these menu items, however, are specific or measurable enough. They may be in the ball park but you will need to work with the leader to hone them further.

Anne's Measurable Factors

In Anne's situation, to say that the team needed to "improve staff relations" was not specific enough to direct team members to engage in behaviors that served the goal of improved relations. To recommend that team members paraphrase each other's points of view in meetings was a ***specific way*** to improve team relations. Paraphrasing may seem an overly simplistic exercise. But when the right set of simple interdependent behaviors are chosen and applied simultaneously, they prove to be the key behaviors necessary to break through a logjam.

Four simple categories to use in measuring business results are time, money, quality, and quantity.

Figure 2. Three Key Factors Menu
Identify, Connect and Lead Your Highest Priority Factors

BUSINESS RESULTS

Money	**Time**	**Quality**	**Quantity**
↑ Sales	↓ Project Length	Meet Quality Standards	↑ Production
↑ Revenue	↓ Production Time	↓ Defects	↑ # of Services
↑ Profit	↓ Down Time	↓ Relapse	↑ Service Vol.
↓ Discounts	↓ Task Time	↑ + Media Visibility	↑ Customers
↓ Employee Absent.	1st to Mkt. Innov.	Meet Environ. Standards	↓ Inventories
↓ Production Costs	↓ Approval Time	↓ Customer Satisfaction	↑ Market Share

TEAM ACTIONS	**LEADER ACTIONS**
Paraphrase to clarify understanding.	Give goals and expectations.
Give opinions, raise concerns.	Ensure understanding.
Give input outside their function.	Gain commitment.
Manage conflicts.	Encourage differences.
Seek decision clarity.	Clarify decision style.
Hold peers accountable about mutual agreements.	Give corrective feedback.

Figure 3 lists the specific three Key Factors that Anne chose to identify and manage. In terms of business results, Anne had numerical revenue goals for her business unit. She also believed that her team could best meet revenue goals by redesigning their sales process. The timeline they had to achieve both the redesign and their revenue goal was one year.

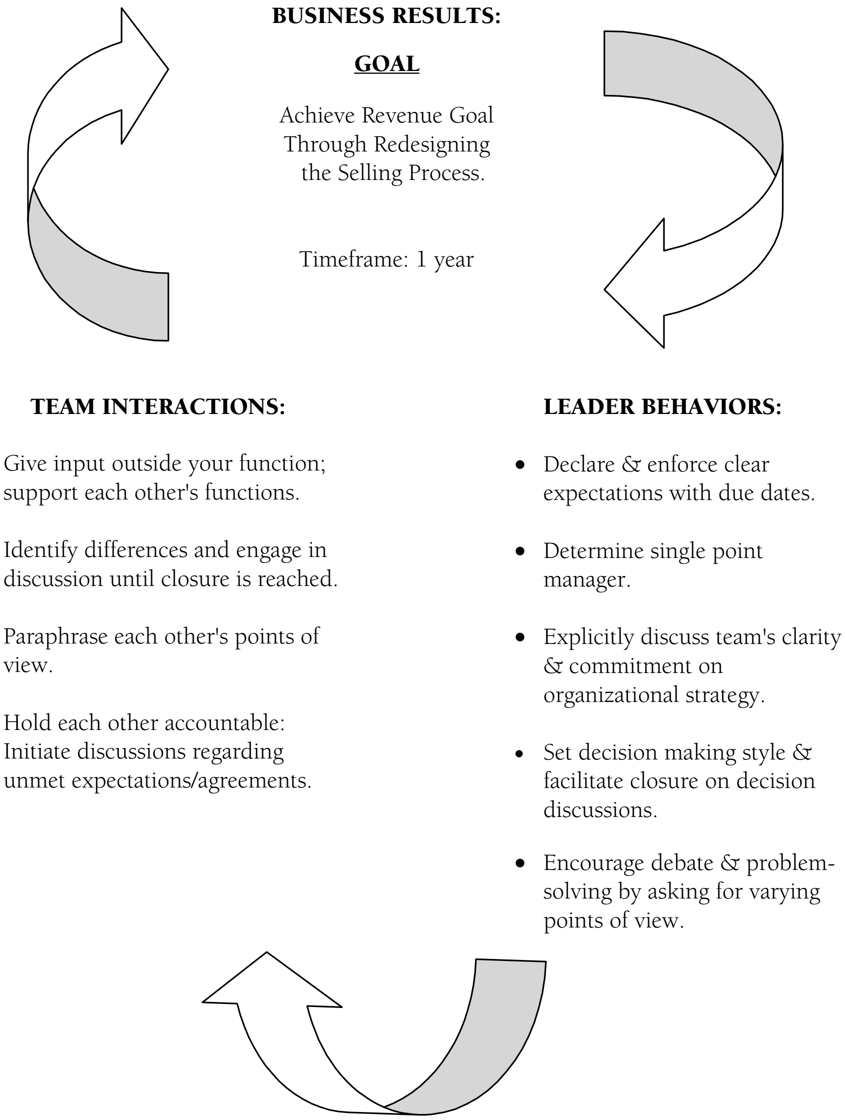
When the right set of simple interdependent behaviors are chosen and applied simultaneously, they prove to be the key behaviors necessary to break through a logjam.

Usually the leader and team behavior lists contain 3-5 items each. This allows for the individual behaviors to build upon one another and form a synergy of key interactions that will make the difference for the business. On Anne's leader behavior list, the first four items outlined specific ways in which she could continually clarify roles for her team. All team interaction items addressed the issue of improving staff relations. These two lists identified the critical actions they all needed to make on a daily basis in order to achieve business success.

When you believe you and your client have successfully created a ***measurable*** list for each Key Factor, you can take the "movie camera" test – if the leader and the team were to engage in these behaviors during day-to-day interactions, could someone watching a movie of these interactions identify the desired behaviors? Could an observer recognize the behavioral expectations set forth by the leader?

This level of specificity can aid the coach as she encourages the leader and team to enact their plan on a continual basis. Both the executive and the coach can inquire about frequency and quality. How many times do they see these behaviors in meetings? Are they consistently and effectively used in every team meeting, whether the leader is present or not? Are expectations clear and do team members seek the leader's support or clarification? Reinforcement of these specific and observable behaviors begins to affect how the team does business.

Figure 3. Anne's 3 Key Factors



These lists are not *the* exhaustive or complete list for any team that needs to increase revenue. Each situation is unique and therefore customized. Though these may seem to be obvious behaviors for achieving business goals, they were built from the ground up so that the leader was convinced that this particular combination would make a difference. It does not matter that many of them happen to also appear on generic leader competency lists. For the same reason that leader competency lists rarely stir people to transform their leadership, leaders and teams tend not to mobilize around a generic list as effectively as they mobilize around *their* lists.

Take the "movie camera" test – if the leader and the team were to engage in these behaviors during day-to-day interactions, could someone watching a movie of these interactions identify the desired behaviors?

Truth in Advertising: Leaders Will Balk

In many ways working with a leader to identify the three Key Factors seems so straightforward as to be simplistic. However, dealing with a real world leader feeling pressure in the workplace is another matter entirely. Executives are so compelled by forces internally and externally to "act first and think later" that they have a hard time settling down enough to be thoughtful, specific, and integrated.

Often, when you ask executives to identify the three Key Factors regarding a business issue, they either look at you blankly, shrug the exercise off as a waste of time, or claim that they already have all that in place. These reactions indicate an anxious leader rather than an irrelevant exercise. A coach needs to develop a thick skin to an executive's resistance to thoughtfully engage with the three Key Factors.

One way to begin a productive discussion of the three Key Factors is to start with the Key Factor that energizes the leader the most. The sequence is not important; you can start with leader behaviors as easily as starting with either business results or team behaviors. Though Anne was quite willing to take ownership for improving her and her team's performance, sometimes I work with executives who are fixated on laying blame on their teams. In those situations I reflect and amplify that energy by asking for a list of all the ways in which the team does not function well. The executive typically has no problem creating a list, e.g., 1) they don't take initiative, 2) they fight with each other, 3) they are unprepared for meetings, etc. The list can quite easily convert into categories for the team interactions Factor by simply replacing the negative actions with positive ones, e.g., (1) they take initiative, (2) they collaborate with each other, and (3) they prepare for meetings. This gives the coach and leader a starting point to make specific, proactive, and measurable behaviors for each item on the team interactions list. It's then easier to ask leaders what behaviors they must exhibit in order to create an effective team. Your client can next identify the leader behaviors factor that will create a synergy between the leader's and the team's interactions.

Executives are so compelled by forces internally and externally to "act first and think later" that they have a hard time settling down enough to be thoughtful, specific, and integrated.

Defining the three Key Factors requires discipline on the part of leaders (and coaches!) to face the ambiguity of executives' work situations. The process to finalize the three Key Factors with a client is an iterative one. The exercise is one of self-definition – the clients create their own platform on which to build a successful enterprise and will know specifically whether they succeed or fail in each area.

The clients create their own platform on which to build a successful enterprise and will know specifically whether they succeed or fail in each area.

Anne's first reaction to the three Key Factors was that they were probably another "canned" coaching tool. It wasn't until she began practicing with them and using them that she saw the value in the tool and how it could help her with her team and business results. She said, "An important learning for me was that, although the three Key Factors list was a generic learning tool, *my* Key Factors were completely customizable."

Assess Other Variables

In order to identify a return on investment for the coaching engagement with the leader, it is essential to explore with the executive the other variables besides coaching that will affect the likelihood of success - the ability to accomplish all three Key Factors. This will be important when a formula that only accounts for the coaching variable is calculated at the end of the coaching engagement.

I have learned to ask the leader to create a list of four variables:

1) variables *internal* to the organization that *improve the chance for success*, including the strengths and assets of the team or organization,

2) *internal* organization variables *that detract from success*,
3) variables *external* to the organization *that benefit it*, and
4) *external* variables *that may jeopardize its success*.

Executives sometimes need to be reminded to consider positive internal variables because they are so used to assessing negative threats that they forget what they have in their favor.

There should be a list of many items for each variable. A sampling from each of Anne's variables is: 1) *an internal strength*: she had a team of skilled people who understood the business challenges they faced, 2) *an internal challenge*: executives higher in the organization made decisions that diminished the ability of Anne and her team to control outcomes, 3) *an external opportunity*: there was untapped revenue in the market place, and 4) *an external challenge*: other formerly reliable segments of the market were cutting business because of a dip in the economy.

Truth in Advertising: What It Takes to Get There

Since the focus of this article is on a Benefit/Cost Ratio calculation, it is beyond our scope to detail the specific executive coaching implementation methodology that helped Anne and her team achieve results in all three Key Factors.[4] However, I will give a broad sketch of the work I did with Anne and her team that helped her get the results she needed.

You know the leader behaviors factor is incomplete until coach and leader identify behaviors that are a stretch for the leader and thus often avoided.

We worked with the three Key Factors constantly throughout the coaching process. After setting them in the beginning, they remained as a standing agenda item for nearly every meeting afterwards. Midway through the process we discussed progress on each factor and whether Anne and her team were likely to achieve them. At the end we had a formal conversation assessing results for each of the three Key Factors (see next section).

Other elements came into play in the executive coaching engagement. Working with a colleague, we did live team coaching with Anne and her team members while they were all present and working on business issues at their meetings. We helped her sequence a series of concentrated efforts, from communicating the three Key Factors to her team, to getting feedback from team members on whether the factors were on target, to gaining commitment to them, to helping them communicate more directly with each other. The executives with whom I work have team members who are leaders themselves. This offers the added benefit of teaching team members leadership skills that they can then apply to their own staffs. We focused on three ongoing learning challenges – 1) the leadership challenges and behaviors that Anne found emotionally daunting; 2) her ability to "learn live" with her team so team members were willing to take on more of their own challenges; and 3) a shift by the leader and the team to more effective co-created patterns of interacting with each other.

A question you can ask repeatedly during this discovery conversation is, "What connection do these behaviors have with reaching your business results?"

Executive coaches must assist leaders as they face those challenges that are personally and emotionally daunting. In some ways, you know the leader behaviors factor is incomplete until coach and leader identify behaviors that are a stretch for the leader and thus often avoided. Executives are more willing to face their own leadership challenges when they see how necessary these very behaviors are to achieving specific business results. Anne showed courage in several areas – to enter uncharted territory for her and her team, the tenacity to stay the course, and the willingness to learn about herself. Thus, the coaching engagement was satisfying for all involved – the leader, her team, and her coaches.

The Benefit/Cost Ratio: Clarify the Connection

At the end of the contract with your client (or for ongoing projects, at the 8-10 month timeframe) you can review the results for each of the three Key Factors and begin to see the benefit from the coaching endeavor. First, ask your client for specific measures they did or did not accomplish regarding the business results. Then return to the team behaviors list – to what extent did the team enact them? How does the leader know that? How often and where do they show up? Lastly, coaches should use the same line of inquiry for the leader behaviors.

"With every coaching session, the three Key Factors felt more real and actionable. Time and practice are absolute key ingredients for making the three Key Factors come alive, spurring a leader and team into action."

A question you can ask repeatedly during this discovery conversation is, *"What connection do these behaviors have with reaching your business results?"* As I mentioned before, your job is to be a collaborative skeptic. You ask questions like a good anthropologist who may have an inkling but who still asks the naive questions. For example, *"How did improved decision-making increase your market share?"* If there truly is a connection, they can tell you, but you may have to continue to ask them to show you the connection from the behavioral factor to the results factor to identify the link. As a coach, you should keep pursuing the connections until your client has convinced you that there is a link. In the meantime, they have deepened their own confidence in the links among all three Key Factors. Let's review Anne's situation to see what results she achieved (Figure 4).

Anne's Results

Anne achieved $244.8 million revenue for the year, which was 10 percent better than the year before. This is impressive, given that her peers in the region were 6-14 percent lower than Anne in achieving their year's revenue. Also, the selling process that Anne's team designed was not only approved but also incorporated into the corporate planning department.

Anne accomplished all her goals in her own leadership behaviors and those of her team. They impacted nearly every meeting they had. In fact, the leader and team factors show unanticipated improvements beyond her expectations. In addition to meeting the stated goals for team behaviors, they proactively redesigned the staff meeting to improve problem solving. The team continued to hold these meetings when Anne could not be there, and they proactively asked for deadlines. Anne learned how to aid the team in resolving their issues by referring them back to each other when they avoided interaction by approaching Anne. Because of her team's improved effectiveness and her financial results, she received increased support from her boss.

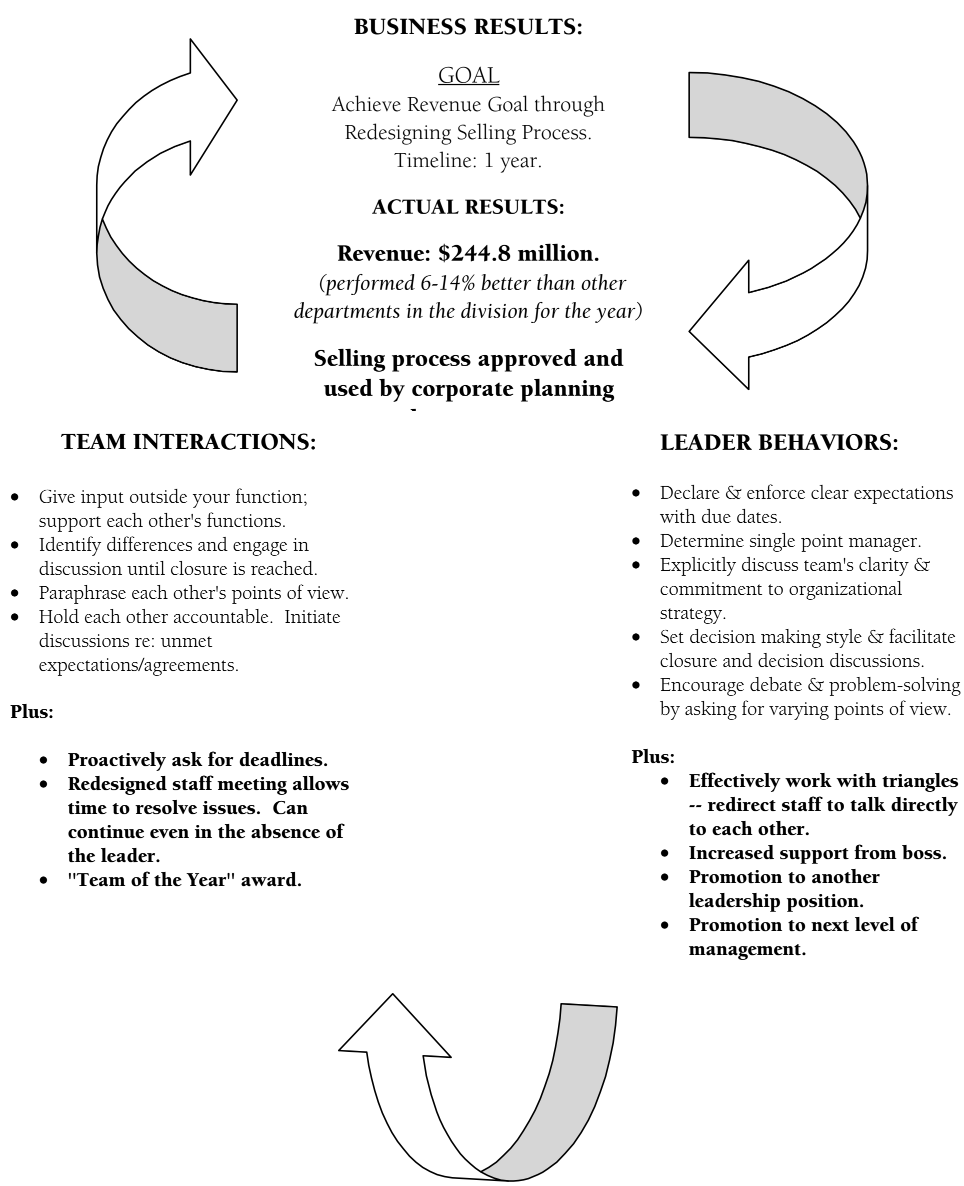
Because Anne and the team focused so persistently on their behavioral factors, they created new synergies that allowed them to achieve their revenue results.

As further evidence that Anne and her team exceeded their behavioral goals, the team received the regional "Team of the Year" Award, and Anne was promoted to another leadership position within the company. Her new division was rife with challenges, and she brought me in to begin three Key Factors work and the live team coaching process with her new team. Using the three Key Factors in a whole new area, Anne said, "Now, my second time around, is a whole different story in terms of owning the customization process to create the three Key Factors list for this team, as I have personal experience with the results. With every coaching session, the three Key Factors felt more real and actionable. Time and practice are absolute key ingredients for making the three Key Factors come alive, spurring a leader and team into action."

Solidifying the Connections Among the Three Key Factors

It was through my questions such as, *"How do you know that you and your team's behaviors made a difference in the bottom line?"* that many of the behaviors over and above the set goals came to light. Because Anne and the team focused so persistently on their behavioral factors, they created new synergies that allowed them to achieve their revenue results.

Figure 4. Anne's Results



By remaining conscious of the decisions they were making and the specific commitments necessary within each phase of their work, Anne and her team were able to create efficiencies that affected their bottom line. Anne is convinced that without managing specific behavioral leader and team factors, she would not have achieved her results. She named specific decisions that executed the three Key Factors well and directly led to her business results. Her ability to focus on these customized behaviors sowed the seeds for success. She knew what her team was like before the three Key Factors focus, and now she had evidence in their daily interactions that underscored the changes achieved by incorporating the three Key Factors into their work routines. In my practice, I have also incorporated the use of pre- and post- surveys of the leader and team behaviors which track their frequency before and after the contract.

Benefit/Cost Ratio: Quantifying the Impact

Once Anne identified and showed that the behavioral Key Factors led to bottom line improvement, it was necessary to assess how much the coaching contract impacted her results. What percentage can be attributed to the executive coaching variable as opposed to the other variables that Anne named earlier?

I see it as my duty not only to remind them of all the variables that could have affected their results but to paint them with bold strokes.

Often leaders are so pleased with their results that they enthusiastically exclaim, *"100%! The coaching is 100% of what got us there!"* This comment is reminiscent of happy participants immediately after a training class giving a high rating because they had a good experience. It is not necessarily tied to the training's effectiveness. Therefore, it is our job, once again, to be skeptical about the "grade inflation" our clients give because they are satisfied with the coaching engagement.

You must ask clients not only to connect one Key Factor to another, but also to assess to what extent the internal and external variables they had named earlier impacted their results. I see it as my duty not only to remind them of all the variables that could have affected their results but to paint them with bold strokes. I once told a client who claimed the coaching variable was 100% of the impact, "You can't give me 100% of the credit – your leadership alone was a huge variable. *You* made it happen. What are you, chopped liver?" Through deeper questioning, healthy skepticism, and light hearted humor, I helped the client to knock down the percentage they gave to coaching as they more seriously considered the host of variables at play. This increases my credibility as a hard-nosed business partner. I am not looking for an unjustified compliment but rather a realistic picture of the business variables and the coaching impact.[5]

Anne was able to weigh all the variables in her situation and to acknowledge the competent team she started out with, the opportunities in the marketplace, and her own business market instincts. After some careful consideration she assigned the coaching effort a 25% contribution to their success. She underscored that, though the other variables weighed in at 75%, she and her team would not have managed them to success without coaching. They absolutely needed the 25% coaching variable to get them the rest of the way. As one client said, "We would have gone 60% of the way ourselves, some expert consultants helped us achieve another 20%, and you delivered 20%. But without that 20%, we wouldn't have made it. There was no in-between – we had to either reach the goal completely or fail. Given what we were dealing with, without the coaching we would have failed."

I . . . personally enjoy knowing that the beneficial waves of the coaching effort will continue to break on the beach after my work with the client is done.

By now the leader is confident that the percentage of the impact attributed to coaching is realistic. Based on my clients' evaluations regarding the percentage of impact among all variables, the impact executive coaching has had on bottom line results averages between 20 and 33 percent.

Now let's go back to the numbers. The formula I use to calculate Benefit/Cost Ratio that accounts for the coaching impact as only one variable affecting the outcome is:

$$\frac{\text{business results x \% impact of executive coaching}}{\text{cost of executive coaching}}$$

I calculate an intentionally conservative Benefit to Cost Ratio to offset any doubts clients may harbor for the lack of a conclusive one-to-one statistical correlation between the behavioral Key Factors and the business results Factor. Rather than using the coaching impact as 25 percent of total revenue ($244.8 million), we took just the portion of Anne's revenue that was the difference in percentage between her performance and the next best department's revenue, which was a 6 percent difference (since many of Anne's internal and external variables are shared by all departments in Anne's division, you can think of other departments as a kind of control group that did not have the variable of executive coaching applied to their efforts for the year).[6] Six percent – the difference in performance- was $14.69 million.

Now we can plug Anne's numbers into the formula (the coaching costs of the contract were $76,025):

$$\text{Benefit/Cost Ratio: } \frac{\$14{,}690{,}000 \text{ x } .25}{\$76{,}025} = 48{:}1$$

The benefit to cost ratio is 48 to 1 – Anne received 48 times the financial benefit that she paid out for the coaching effort.

The client is aware that we do not include all the benefits they actually receive, which further reinforces the worth of the coaching investment. I also personally enjoy knowing that the beneficial waves of the coaching effort will continue to break on the beach after my work with the client is done. The leadership, team, and process skills gained through coaching were transferred to other business issues but were not counted in the analysis. Another benefit not calculated includes the contributions that Anne and members of her team make to groups elsewhere in the company as they join other teams.

CONCLUSION

As I mentioned in the introduction, as an experienced practitioner you can use this practical analysis with your clients so they convince themselves of the value of their executive coaching investments. Figure 5 outlines the entire process. It requires a subset of the analogous skills that you use as an executive coach to develop your clients: deep listening to uncover crucial facts, striving for concrete behaviors over accepting generalities, and understanding how organizational components interact with the external environment in order to recognize critical areas for development.

This set of rewards for using the Benefit/Cost Ratio strategy builds a healthy portfolio for executive coaches who consider themselves business partners with their clients.

The rewards of using this approach are many. Leaders are more likely to remember to use the behaviors they know give them results. They are more likely to expect their teams to interact in specific ways that create results. Executives are more likely to invest in using you as a coach in the future when they have a new team or more challenging set of results to achieve. Clients are happy to be strong references for your executive coaching practice if it specializes in linking leader development to business results. This set of rewards for using the Benefit/Cost Ratio strategy builds a healthy portfolio for executive coaches who consider themselves business partners with their clients.

Figure 5. Overview of the Benefit/Cost Calculation Process for Executive Coaching

Step 1: Coach the leader to **identify the 3 Key Factors** the client wants to work on and improve that relate to a business need in the organization, and a change in leader/team behaviors.

Step 2: Customize and **hone the 3 Key Factors** until they are specific, measurable, and interrelated.

Step 3: Ask the leader to **identify other variables** that impact the client's results, internal and external advantages and obstacles.

Step 4: Check in and **assess progress** toward achieving the results and enacting the behaviors of the 3 Key Factors throughout the executive coaching process.

Step 5: **Evaluate Benefit/Cost Ratio.** The client –

(a) identifies **final results*** and assesses any interconnections or synergies created from improved leader and team behaviors on the business results.
(b) identifies results in **dollar amounts** and other bottom line metrics regularly used in the organization.
(c) recalls the significant **internal and external variables** that impacted the business results.
(d) names the **percentage of impact** that the executive coaching had on the results, relative to other variables.
(e) **calculates the benefit/cost** of the coaching variable:

$$\frac{\text{business results x \% impact of executive coaching}}{\text{cost of executive coaching}}$$

You then have the benefit/cost ratio.

Example of Anne's Case: Multiply the percentage of impact of the executive coaching (25%=0.25) and the business result number (0.25 x $14.69 million = $3.67 million). Take that result and divide it by the cost of the coaching ($3.67 million ÷ $76025 = 48). You then have the benefit/cost ratio (48 to 1).

* When I say "final results" I realize that you may continue to work with the client and/or the results are intended to be ongoing. At some point, however, it's time to evaluate progress. For significant changes to occur in all three Key Factors, I find that 8 - 10 months is the timeframe most frequently used for evaluation.

ENDNOTES

1 For a concise study that includes different approaches to measuring the impact of executive coaching see McGovern, Lindemann, Verganas, Murphy, Barker and Warrenfeltz (2001). Anyone who has responsibility for the HR function and wants to contribute more to identifying process and human capital ROI, see Jac Fitz-enz (2000).

2 Why do I prefer Benefit/Cost Ratio? A ratio – e.g., 10 to 1 – is more immediately accessible to clients. It is easier to grasp and visualize ("Oh, I got ten times more out of this project than I paid into it. That's great!"). ROI as expressed in a percentage – e.g., 1000% – takes an extra mental step (except for math minds) to see, relatively, how much was paid out to what was received.

3 See Mary Beth O'Neill, *Breakthrough Results with Backbone and Heart*, 2003, www.mboExecutiveCoaching.com. The co-editors consider this table an elaborated version of Table 5.1, found in Mary Beth O'Neill. *Executive Coaching with Backbone and Heart*. San Francisco: Jossey-Bass, 2000, p. 105.

4 The Executive Coaching Training Seminars explore in depth the methodology of working with the three Key Factors and the leadership development of executives. For more information, go to www.mboExecutiveCoaching.com.

5 Anderson (2003) also addresses this issue by asking the client the percentage of confidence they have in their estimate when linking the bottom line results to any human performance intervention. You can multiply the actual impact by this percentage.

6 Anderson and Anderson (2005) list ways to isolate effects, e.g., control groups. You could also compare Anne's performance to her own performance from the year before (as you recall, she brought in 10 percent more revenue than the year before). You can see, then, that the 6 percent difference from the next best performing peer's team in the same year is the more conservative number.

7 Jack and Patricia Phillips. [See Phillips (2002), Phillips, (2003), and Phillips and Phillips (2004)] use the following ROI formula to calculate return:

$$\text{ROI} = \frac{\text{program benefits - program costs}}{\text{program cost}} \times 100$$

I would use this formula for clients who prefer to work with net benefits and ROI percentages in calculating return. For them, the ROI formula has more credibility. However, I would still multiply the net benefits by the % of the coaching impact so that coaching only receives the portion of credit that variable deserves.

Phillips and Phillips also advocate using "fully loaded" coaching costs to calculate the ROI or Benefit/Cost Ratio. This includes not only the coaching fees and coach's travel expenses, but also facilities costs, employee travel expenses (if applicable), and the salary and benefits costs attributed to the time the leader and team took out of their work days to engage in the coaching effort.

I see this as a judgment call of the client with whom I have the contract in any given coaching engagement. Some clients want the fully loaded costs and some do not. In Anne's case, she actually found the fully loaded costs less compelling. When I asked if she wanted to use them she said, " I only want to see the coaching travel expenses and fees. The other costs I would incur anyway – I take my team to quarterly off-site meetings and I'm paying the same salaries and benefits no matter what they are doing." The case would be different for those clients who measure and want to specifically increase staff productivity – then tracking fully loaded costs is much more relevant.

I offer these multiple options (ROI % vs. Benefit/Cost Ratio, fully loaded costs vs. only coaching costs) so you have an array of analytical tools to customize to your clients' needs and to what holds most credibility for them.

REFERENCES

Dianna Anderson and Merrill Anderson. Coaching That Counts. Boston, MA: Butterworth-Heinemann, 2005.

Merrill Anderson. Bottom-line Organization Development: Implementing and Evaluating Strategic Change for Lasting Value. Boston, MA: Butterworth-Heinemann, 2003.

Jac Fitz-enz. The ROI of Human Capital. New York: Amacom, 2000.

Joy McGovern, Michael Lindemann, Monica Verganas, Stacy Murphy, Linda Barker and Rodney Warrenfeltz. "Maximizing the impact of executive coaching: Behavioral change, organizational outcomes, and return on investment." The Manchester Review. 2001, 6(1), 1-9.

Jack Phillips. Return on Investment. Boston, MA: Butterworth-Heinemann, 2003.

Jack Phillips and Patricia Phillips. "Measuring ROI in executive coaching." Executive Coach Magazine, 2004(Spring), 18-21.

Patricia Phillips. The Bottomline on ROI. Atlanta, GA: CEP Press, 2002.

Commentary On
An ROI Method for Executive Coaching: Have the Client Convince the Coach of the Return on Investment

MARY BETH O'NEILL, M.A.

Since this article came out in 2005, I further honed the information and added it to two chapters of the second edition of my book, ***Executive Coaching with Backbone and Heart***, due to come out in July of 2007. The model, the Three Key Factors, is incorporated into the chapter on contracting for executive coaching so you can see how to use the methodology within a larger piece of coaching work. There are two other client examples of Three Key Factors work in the book besides this example with Anne. One example includes how to work with the client's boss during contracting to establish the Three Key Factors for the client.

The chapter on ROI in my book is updated in a couple of ways and I want to include an important one here in this commentary. It gives you a further suggestion on working with clients to calculate ROI in a way that adds even more credibility to your work in the client system.

You will see in this article that I use the formula –

$$\frac{\text{business results x \% impact of executive coaching}}{\text{cost of executive coaching}}$$

What are defined as the "business results" need to be customized to the client and their situation. In this article I talk about the business results that the client has the most control over and what they have a mandate to accomplish in their system for that year. It is also important, however, to prepare your client for what the executives above them may want in terms of calculating ROI on business results. While upper management may in fact give your client the task of increasing revenue (as is the case with Anne, my client in the article), they may not calculate ROI based on revenue generation. Most top level executives track net contribution for ROI rather than revenue, cost savings, or increase in market share. If that is what they value, then you need to give your client a heads-up that your client may need to show ROI based on that as well. Educating your client to the interests of top management can only help them when it comes to choosing the right level of business result to calculate their ROI formula. Your client still has the responsibility to choose the metric they work toward for calculating ROI. As was the case with my client, Anne, revenue was such an overriding business

Most top level executives track net contribution for ROI rather than revenue, cost savings, or increase in market share.

goal for the company that year that top level management was following it as keenly as net contribution. Therefore, the ROI calculation used in this article had enough credibility to stand on its own. It is important not to assume that credibility, however, without first checking it out within the client system.

Mary Beth O'Neill, M.A.

Website: www.mboExecutiveCoaching.com

Mary Beth O'Neill is an executive coach, leadership consultant, author, and leader of the Executive Coach Training Seminar Series. She has worked with executives and their teams for 20 years. Her specialty is live team coaching which encourages individual initiative and leadership from a systemic perspective in order to achieve breakthrough business results. The second edition of her book, *Executive Coaching with Backbone and Heart*, will be published July 2007 by Jossey-Bass.

IJCO | The International Journal of Coaching in Organizations

Resource Center for Professional Coaching in Organizations

The International Journal of Coaching in Organizations (IJCO) is the signature publication of Professional Coaching Publications, Inc. (PCPI). In addition to this internationally acclaimed journal, PCPI publishes books on topics of interest to those in the coaching community, whether practitioner, decision maker, or end user. You can count on PCPI, Inc. to provide content that pushes the envelope — bringing theory, research and application together in ways that inform, engage and provoke. Visit the PCPI website, www.pcpionline.com, to view and purchase our growing line of products.

If you have administrative questions, please refer them to our IJCO Office Manager, at officemanager@ijco.info. For advertising, marketing and operations inquiries, please refer them to John Lazar, IJCO Co-Executive Editor, at john@ijco.info. Please submit unsolicited manuscripts for peer review consideration to the IJCO office manager at officemanager@ijco.info.

Visit Both Our Sites at Your Convenience

Journal information:
www.ijco.info

Purchases:
www.pcpionline.com

Professional Coaching Publications, Inc.