Estimating Coaching ROI: A CPA's Perspective

You may have read or heard about research studies that show impressive results by estimating coaching ROI (ROI being the return on investment or the financial benefits of coaching compared to its cost). Research covering a number of selected companies does suggest that employee coaching can have a positive impact on a company's bottom line.

Unfortunately, the statistics tend to be biased because they do not include companies that had engaged executive coaches and were either unable to make reasonable estimates of ROI or they had subsequently gone out of business. Enron and WorldCom are examples of just a couple of companies that used coaches.

As an executive career coach who comes from a financial and CPA background, I know that the results you may experience from using executive coaches may not bear any resemblance with those positive "industry" estimates. More likely, you will realize, first-hand, how difficult it is to reasonably estimate the ROI of coaching.

When can you reasonably measure coaching ROI quickly?

There are some reasonable estimates you can make for some very specific types of coaching and situations. For example, coaching sales people that result in direct increases in sales or coaching manufacturing personnel that result in increases in production or decreases in spoilage are typical situations where you can reasonably measure the impact of coaching over the short term. Sustainability, however, is another issue.

What factors that affect coaching results are not reasonably measurable?

Outside of very limited and controlled situations, statements of ROI are typically based on assumptions and judgments by management after the coaching relationship has ended. As such, estimates do not consider events that occur outside of the coaching relationship yet could significantly influence results. Here are a few examples:

- Strategic changes within the organization
- Acquisitions and divestitures
- Management changes
- Organizational or structural impediments to implementing changes effectively
- Shifting customer preferences
- Industry and/or market changes
- National and/or global economic changes
- New technology
- Domestic and/or foreign competition
- Governmental regulations and policy changes

How can you reasonably measure coaching ROI?

Companies can make better decisions about whether to engage a coach by first understanding what the company is attempting to achieve and what would be the cost if it did not achieve it.

Here are some examples of the types of issues and the questions that a company needs to answer when considering whether the cost of engaging an executive coach is less than the cost of not making a change:

- The issue is: “We want to expand our product line to the consumer market over the next 18 months and we think our management team needs to collaborate more effectively.” The question they need to answer is: “What will be the cost to the company if management is not able to collaborate more effectively?”

- The issue is: “We need to grow the company by [per cent, dollar amount, expanding into new markets, etc.] within the next twelve months.” The question they need to answer is: “If we continue to do what we are doing without making changes, what will be the cost (e.g. financial, personnel, operational, etc) to the business?”

- The issue is: “We are losing some of our top performers who report to John and we are not sure why.” The question they need to answer is: “If John continues as is without his making changes over the next year, what will be the cost to the business? What key stakeholders are we likely to lose and how will that impact existing projects and customers?”

Not surprisingly, the answers will not be easy to estimate precisely. This does not mean that estimating the ROI is not possible. Rather, it suggests that the broader issue needs to be separated into specific issues that can lend themselves to measureable benchmarks. For example:

“Management and HR agree that John’s business unit had excessive turnover of X% in the past year. His area failed to achieve important goals. Exit interviews identified John’s behavior as being a factor.” Using the guidelines described above, the company can hone in on a specific issue or issues they want a coach to address with John.

To measure the ROI of coaching in this situation, the company will need to know what would reasonably-expected turnover look like and, specifically, what are the important goals that are not being met?

There are now two ways management can reasonably estimate coaching ROI:

Prospective – Management estimates the financial cost of the “excessive” turnover and not meeting each of the goals. Once those estimates are made, there now is a benchmark against which to measure change and compute ROI.

Retrospective – Let’s assume the coach works with John for one year and turnover is reduced to expectations and John’s area is able to meet all or most of their goals. John and his coach list all the items, both financially measurable and not, that were positively impacted. John’s boss, as well as one or more stakeholders in the company, provide a validation about which goals changed as a direct result of the coaching and what they would estimate to be the financial impact of the changes.

You can categorize the results of coaching into the following two areas for greater clarity:

Tangible Changes – More easily measured using financial analyses:

- Increase in revenue (as reflected in financial statements).
- Reduction in costs (as reflected in financial statements).
- Increase in area efficiency, productivity, and reductions in rejections or spoilage, etc. (determined from financial analyses using the change from a base period).
- Reduction in cost of turnover: Direct cost of replacing employee. (Indirect costs would probably be listed with intangible changes since they cannot be determined using financial analyses without significant assumptions and judgments.)

Intangible Changes – Requires significant assumptions and judgments and are not directly or fully measurable using financial analyses:

- John’s team is working together more effectively and harmoniously, generating more innovative ideas, exhibiting new-found passion and engagement.
- John’s area is working more effectively with other areas and vice versa breaking down departmental silos.
- John has been able to attract and retain new valuable talent.

Using the above techniques will help the company identify and focus on those areas where the impact will have the greatest potential ROI. It will also enable the company to predict the potential ROI with more confidence and provide criteria for measuring the effectiveness of the coaching as it progresses.

Companies often find that the intangible changes, while not precisely measurable, have the greatest positive impact on an organization, often greater than the tangible ones!

The major benefit of using this approach will be that the company, not the coach, takes ownership of the ROI criteria and estimates. The company does not need to rely on

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questionable industry estimates of coaching ROI because they have already made the business case for engaging a coach.

Why coaching cannot always be a complete solution to your issue

Coaching may not always be *The* solution even when it has effectively changed an employee's behavior. Here are a couple of examples of when a company may need to consider other remedies in addition to or even outside of a coaching relationship:

- An employee in a customer-facing role whose bad behavior has irritated customers or potential customers may have caused those customers to transfer their irritation from the badly-behaving employee to the company. Coaching the employee or even coaching a new employee may not overcome the negative feelings that customers now direct toward the company.

- Good employees often leave companies because of negative factors associated with their bosses or those higher up. Companies are usually not aware of the real reason why good employees leave or, when they are, they fail to take prompt action on the root cause. The result is that the employees who remain become frustrated and lose motivation, contribute to dysfunction within the organization, and may not be the best qualified employees the company needs.

Carl Wellenstein helps small and growing companies create and implement internal recruiting and interviewing processes that improve their and their external recruiter's ability to recruit and interview the people they need in leadership and management roles. If you would like more information about how Carl can improve your recruiting and interviewing processes, contact Carl.