



White Paper

Demonstrating Coaching ROI

Which of the following statements do you think is most true about your organization's views on measuring the return on investment (ROI) on coaching your executives?

- A. We've tried, and it's futile! There's no way we can link our outcomes to business metrics.
- B. ROI on coaching? Well, it would be nice, but we see coaching as more of an executive perk – we just want to keep our executives happy.
- C. An ROI measurement for coaching would be great. And although we're sure it makes a difference, it just seems too difficult to link it to the bottom line.
- D. We know the ROI on the coaching our executives and managers receive. Without this reliable measure there's no way we could build a strong business case to continue to sustain the initiative.

To isolate and measure the impact of coaching and its ROI is one of the “Holy Grails” in coaching today.

We sat down with ROI expert, Merrill Anderson, Ph.D., author of several books, including *Bottom-Line Organization Development* and co-author of *Coaching that Counts*, who has created a model and a methodology for utilizing coaching as a “developmental process (for the individual) and a strategic initiative (for the organization)” – which includes measurements demonstrating the ROI of coaching inside organizations.

As more people inside organizations are being

coached, more organizations are looking for a return on investment in coaching. And as Anderson illustrates in the first chapter of his book, *Coaching that Counts*, the results of coaching that clients report compared to the results leaders intend to achieve can cause some misperceptions in the value of coaching.

We begin our discussion from a very practical perspective:

Pam: How and where do you initiate the conversation inside an organization to begin measuring the ROI an organization receives from coaching?

Merrill: It depends on who is asking the ROI question.

If it is someone internal – in a leadership development position or an individual who's managing the coaching initiative – the conversation begins with a question about how to demonstrate the value of coaching so that they can expand or continue the coaching initiative.

Business leaders, on the other hand, generally have two questions about coaching inside organizations: As a result of coaching, what are people doing differently; what are their new behaviors? And, what impact is coaching having on my organization – the tangible benefits and intangibles. In some cases there is interest in gaining monetary impact and ROI. As leaders decide how to make investments – in coaching or in other leadership development programs – they want some kind of business case to support their decision. This is where ROI comes in to play.

Pam: People inside organizations talk a lot about the tangibles and intangibles of coaching. Could you talk a bit about your approach to measuring both of these factors?

Merrill: Intangibles are critically important to the business. Those that come up frequently, and are some of the most important outcomes of coaching initiatives, are increased employee engagement, teamwork, problem solving, cross-silo collaboration and improved customer, dealer or partner satisfaction.

We also look at the tangible benefits, including the increased personal and team productivity, reduced costs, increased quality and reductions in the cycle time of business processes.

Pam: And how do you attribute increases in these areas to coaching versus a new class, a new supervisor or other influences?

Merrill: The key is to isolate the effects of coaching from other potential influencing factors, like those

you mentioned. It's about collecting stories of the people who were coached, what they've learned and the impact they've had on the organization. In some cases we can compare their results to a control group who has not been coached. It is challenging to do as we aren't operating a scientific experiment, but some comparisons can be made.

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In essence we personally interview everyone who has been coached about four months after completing coaching. We wait that long in order for a person to change their behavior, start taking new actions, get traction and have impact in an organization. In the interview with each person coached we collect three things: what they learned; how they applied the learnings and the impact of coaching on the business – the intangibles, tangibles and monetary benefits. We also validate the monetary benefits.

Pam: In our last Hudson Coach Certification class, 75 percent of the participants coaching inside organizations were starting a coaching initiative from ground zero and felt they had little sense of how they would begin evaluating effectiveness. What is the starting point you recommend?

Merrill: You begin by going through a structured interview process with each person who has been coached. You help them tell their story of how they've taken what they've gained and created real changes in the work environment. And then through the structured interview process, they estimate how their

actions resulted in monetary benefits.

For example, a couple of years ago, my firm did a coaching study at a global professional services firm. We learned that coaching began there as a grass roots initiative. First, there were a few people around the firm who were being coached, they shared their experiences with colleagues who then also got coaches. Eventually, they got to a point where the grass roots movement was so large that it attracted the attention of the corporate university, who wanted to better understand the value of coaching, and then utilize coaching within existing HR processes in order to increase the value. By organizing and integrating coaching, the value of coaching shifted from being a collection of coaching relationships to becoming a strategic initiative for the organization.

We began the data collection with an open-ended email survey. This survey helped us understand who had experienced coaching. We then interviewed more than 40 people who responded to the survey using a process called expert estimation. “Adding expert estimation to the evaluation strategy provides a credible set of data to isolate the effects of coaching.” By probing more deeply in the interviews we isolated how they attributed their results to coaching, rather than to other factors. Meanwhile, we went to the firm’s senior leadership and asked about their expectations of leadership development and of coaching (i.e., increased diversity, improved client satisfaction and employee engagement). And then we could demonstrate how coaching was meeting their expectations.

Pam: From your experience are there certain approaches to coaching that seem to create more effectiveness and greater value?

Merrill: Yes. Effective coaching all boils down to one thing: insight. Specifically, how the coach can elicit insights from the client. The coach has to

be at least one step ahead of the client; however, both coach and client experience the insight. As the coaching relationship develops, these insights build upon one another and continue to deepen. In our book *Coaching that Counts* we identify four sets of insights that coaches may utilize. The more the coach can deepen the client’s insight, the more value the coaching creates for the client as well as for the business.

On the flip side, there are approaches to coaching that create less value. For example, I have observed coaching where the coach would simply work on whatever issue the client brought up in a monthly coaching call. There was no development arc; each session started fresh. The coach relied on the premise that the client knew what the most critical issues were. The client didn’t have a clue and so coaching addressed a series of symptoms. Consequently, insights tended to stay superficial. Great coaches are great learners who can translate their insights into critical questions for the client. This is how you make your coaching count.

Pam: What are the primary reasons companies resist measuring the ROI of coaching? What are their “a-ha!” moments when they do?

Merrill: I think that there continues to be skepticism that it’s possible to show how coaching creates monetary value and ROI. In our evaluation work we emphasize evaluation as a story-telling process. We provide coaching clients with a step-by-step process to tell their unique story of value creation.

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In our experience the skeptics become supporters – at least most of them. The biggest “a-ha” experiences I have seen have come from coaches. We often provide coaches with feedback from the evaluation. In many cases, the coaches are astounded at how their coaching initiated a series of events that led to significant value creation. In one example, a coach enabled a client to rebuild some burned bridges with three colleagues. One thing led to another and the end result was more than a \$250,000 increase in net revenue. That opened some eyes.

Pam: Are there some standard learnings that you find companies have when they begin to measure ROI?

Merrill: An ROI evaluation is a discovery process, a learning process. Often, coaching managers and business leaders learn how to better leverage coaching in their organizations. Examples include better sourcing and qualification of coaches, better matching coaches with prospective clients, and increased communications with the coaches. Along the way, we dispel some myths. One myth is that the effects of coaching can never be converted to monetary value because it is too hard to do, or there are too many influencing factors. We bust the myth that the effects of coaching can't be isolated. We also identify annualized monetary benefits and have had CEOs and CFOs support the results.

Pam: A recent article in *Choice*, a magazine for professional coaches, said that ROI remains the elusive goal of the executive coaching industry... and because measurement of coaching outcomes is so challenging, it is even more difficult to link outcomes to business metrics. In fact, the article stated that 73% of organizations do not measure ROI but would like to find a link, and 21% of organizations do not believe a link is possible. How would you respond?

Merrill: In a recent study conducted by MetrixGlobal, LLC and Linkage, Inc., we looked at how leadership coaching is utilized and managed in organizations and where to spot trends for the future. We conducted a survey of 216 people from a wide variety of organizations, both large and small, and asked them how important it was to them to evaluate coaching:

- Currently, 57% evaluate coaching in terms of behavior change, although 86% expect to do so in the next two years.
- Intangible benefits are currently evaluated by 24% of the organizations, although 86% expect to evaluate intangible benefits in the next two years.
- And only 15% of the respondents said that they currently evaluate the monetary benefits or ROI of coaching. However, 60% said that they expect to evaluate the ROI of coaching in the next two years.

I think that both surveys are expressing the same theme: ROI is important to demonstrate although few companies are currently doing so.

Pam: From your book, it would appear that measuring the ROI of coaching creates a more holistic approach to the organization – would that be accurate? Are there any work/ measurements used to measure the value of holistic benefits versus the isolated or individual improvements?

Merrill: Looking at the organization more holistically brings me back to the MetrixGlobal/ Linkage study where 60% of the respondents said that it was extremely important that leaders integrate coaching approaches into their leadership styles and that coaching becomes engrained in the company culture. However, only 7% or fewer said that their organizations were now extremely effective in these

two areas.

So, it seems that there is more strategic value expected from coaching, and I think a bigger game to be played. We're moving from leaders being coached to leaders being coaches and from building coaching capability to building coaching cultures. The MetrixGlobal/Linkage study suggests this and our work with clients confirms this.

Case Study: Case for Support of Measuring the ROI of Coaching

Recent Hudson Coach Certification graduate and banking executive, Ron Paydo, CEO of FirstMerit Bank, Ohio, decided to tackle measuring the ROI of coaching inside his organization as his coaching project while in the certification program. Building on the growing evidence of successful and measurable results in the coaching industry, Ron made the case for the need and value of impact studies by studying the effect of coaching inside his organization.

“What is not always clear in organizations is how initiatives, whose effects are a challenge to quantify, impact the bottom line,” says Ron. “It is critical to emphasize the need for coaching to demonstrate its impact on the bottom line. Money is acknowledged as an indicator of value in the marketplace. Peter Drucker often refers to profit as the return on invested capital. You must always evaluate the return to our human and financial capital in light of profitability.” Ron set forth to do this by presenting the results of measuring the ROI of coaching at FirstMerit in his paper.

FirstMerit began implementing coaching in 2003 with 18 executive and middle managers participating in Hudson's *Coaching for Leaders* program before shifting to individualized coaching. Ron began his research with an anonymous survey where participants who received the individualized coaching were asked to answer questions on a scale of 1-5 with one indicating they 'highly do not agree' and five indicating 'highly agree'. The results indicated that respondents overwhelmingly believed they benefited from the coaching experience. Of the 15 surveys analyzed, the results scored as follows:

- I feel I have truly benefited from the experience (Rating 4.8)
- My coach has taught me different ways to evaluate situations (Rating 4.8)
- I feel the time with my coach was well spent. (Rating 4.7)
- I feel the coach helped me personally as well as professionally (Rating 4.6)
- I noticed personal growth in myself (Rating 4.6)
- My coach met my expectations (Rating 4.5)
- My job performance has improved because of my life coach (Rating 4.4)

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- I feel the sessions have improved my relationships with my colleagues, clients, family, etc. (Rating 4.4)
- I feel my coach helped make me aware of talents I truly needed for my position so I could further develop (Rating 4.0)
- My coach has helped me to retain staff (Rating 3.5)
- I feel I could have achieved these results with an internal manager/mentor (Rating 2.4)
- I feel my time would have been better spent taking care of business at my office (Rating 1.2)

One point of interest for Ron was the belief that the results participants achieved with coaching could not be as easily achieved with an internal manager or mentor. More than half of the employees surveyed said they did not think they would have improved as a person without the help of a coach. “This again proves that there are many managers out there who are not good coaches,” explains Ron. This also demonstrates documented evidence in Ron’s presentation that coaching paves the way for decision makers to create higher levels of organizational effectiveness through dialogue, inquiry, and positive interactions.

Ron says he was especially pleased with a participant’s recognition that coaching can help them in both their personal and professional lives. “It was good for me to see that the employees recognized that this was not just about getting better in the workplace, but it had to benefit to them personally as well.”

And Ron says the most impressive response was participant’s answer to the final question: What percentage has your job performance or efficiency improved because of your coach? The answer: a staggering 29%.

In comparing the performance of those employees who received coaching against the annual reviews of all FirstMerit employees, the coached employees have seen a 27% increase in their performance over a two- year period, while the non-coached employees have seen only a 5% improvement over the same period.

| Evaluation Period | FirstMerit Non-coached Employees | FirstMerit Coached Employees |
|-------------------|----------------------------------|------------------------------|
| Year 1 | 2.78 | 3.06 |
| Year 2 | 2.82 | 3.44 |
| Year 3 | 2.91 | 3.91 |

As for coaching’s impact on bottom line performance and ROI, Ron notes that all of the employees who received coaching are still with the company. This, he says, is a demonstration of the research documented in his paper stating that employee retention can be positively impacted by coaching. And with no employee turnover among these employees, FirstMerit has not had to bear any of the cost of replacing those employees.

Through open-ended questions about the participant’s goals with coaching and the improvements they’ve gained from working with a coach, Ron also collected additional information on the value for coaching inside his organization. Here is an insight into one participant’s learnings: “The greatest benefits for me were learning a new ‘language’ in terms of how I see things. I now understand the power of having someone who listens to me and encourages my thoughts and feelings. I have learned the value of leading from behind. I now carve out the time to

nurture myself. There has been the impetus to move me toward introspection, reflection, quiet time, and spiritual exploration.”

Ron’s conclusion about the value of coaching, based on his research and the results reported by other companies, is that coaching does offer a return on investment. “There is more than enough proof and statistics that prove the value of the return on investment to a company. This is accomplished through increased retention of employees and/or increased productivity... I have first-hand proof of the value to my organization. Let the numbers speak for themselves.”

Bottom Line: Using Assessments to Support the Coaching Engagement

Editor’s Note: Over the past few months, the Hudson Institute of Coaching has had the good fortune on several occasions to spend time with Tricia Naddaff, president of Management Resource Group (MRG). She has been working with our leadership team for the past year and returns again in September for another session. This past April, attendees at Hudson’s Annual Learning Conference heard Naddaff speak about coaching leaders, and later on that month, participants in Hudson’s Author’s Call heard Naddaff’s views on the role and use of assessments in the coaching conversation. In short, she’s become a valued ‘friend of Hudson’. Many of you are familiar with MRG, an international firm based in Portland, ME; an early pioneer in the field of leadership assessments, known for creating high quality assessment tools and research to facilitate development in the areas of leadership and management, sales and career/development/personal growth. Two fundamental beliefs set Tricia Naddaff and her firm, Management Research Group, apart from most assessment advocates. First, she believes that assessments should open the window of possibilities for people, rather than reduce them to “three labels and four bar graphs.” Secondly, she believes that assessments, in and of themselves, are just information – “to be valuable they not only have to be in service to something, they can and should be supportive of the coaching process.”

Using Assessments to Lead From Behind

“I believe there are really only two or three reasons to use assessments,” says Naddaff. “The first and most significant reason is to provide insight into the multiple layers and aspects of an individual that are not readily apparent or recognizable by the individual or their coach.”

While coaching explores the multi-dimensional aspects of an individual and how they work through broad brush-strokes, such as, “they are a creative person” or “they have difficulties in creative systems,” Naddaff explains that assessments are helpful in uncovering the complexity of the person.

The second use of assessments, Naddaff believes, is to help the client and their coach find the most fertile ground for sustainable growth and change. “If used well, assessments can help us understand what aspects of the individual better lend themselves to being developed,” says Naddaff. “Through assessments we can find the areas that are more easily explored as well as those aspects more challenging or less desirable to focus on developmentally. Making wise choices requires measuring deeper, more sustainable aspects of the individual, including his or her personality and motivations combined with the more malleable, flexible parts of the individual, such as behavior. This rich

assessment information often helps individuals select areas of focus where they won't feel they are constantly trying to roll a large boulder up hill."

And Naddaff asserts that another best use of assessments is in helping the client understand the perceptions that other key players in the organization have about him/her that ultimately limits the client's potential in the organization. "This can be especially helpful when dealing with the individual's boss," says Naddaff.

Assess to a Plan; Not Plan to Assess

With more than 20 years in the consulting and assessment business, Naddaff says it took her a while to find center ground on the use of assessments. "I started off my career in the Organizational Development world by being very anti-assessment," explains Naddaff. "I was very frustrated with the use of assessments as a 'reductionistic tool' to name this person in four bar graphs and three labels. Then, for a while I swung the other way and was impressed at the additional information assessments could bring to the table and became an assessment junkie."

Today, Naddaff says that coaching is the great centering tool because the coaching conversation helps clients explore the options and make their own choices. "When you are focused on the client's growth goals you stop the 'mucking about' with too much data," explains Naddaff. "If we buy into the framework that assessments are always subservient to coaching and the coaching goals, then they become a methodology that becomes part of the contracting process rather than top billing."

She goes on to explain that when encouraging a person to change a deeply rooted aspect of themselves, such as their personality or core beliefs, you run the risk of pulling people away from their center. To be in service to an individual, she believes it's important to think about diagnostic methodologies – interviews, assessments – to explain how you will, together with this person, define what is core and things that you should explore together. "What we've seen work effectively at MRG is to use assessments within the overarching goals for a client to determine the different avenues of developmental priorities. Therefore, assessments are embedded in the coaching process a little bit at a time." As an example, Naddaff said that when you are in the process of coaching leaders to become more innovative, an appropriate use of assessments would be to build into the coaching engagement a small measurement, with a predefined purpose, to assess the individual's understanding of the creative thinking process. And, that it is best to consider an assessment as only one of the methodologies used to meet the goals of the coaching process.

A Practical Note for Coaches on Assessments

Naddaff claims that coaches tend to share two traits that can make the use of assessments effective, but can also turn coaches into assessment junkies: "Coaches are intellectually curious, making an assessment that creates new information very appealing; and coaches are intrigued and drawn to the possibility of exploring things that will tell them more about the individual, their uniqueness and who they really are." While Naddaff believes that these are wonderful traits that coaches bring to the table, she cautions coaches to pursue more information only to the purpose of being in service to the coaching process rather than allowing it to take control of the coaching process.



About the Author

Pamela McLean, Ph.D, is the co-founder and CEO of the Hudson Institute of Coaching. She is a clinical psychologist and the co-author of *Life Launch, A Passionate Guide to the Rest of Your Life*, and *Self As Coach, Self As Leader*. Dr. McLean has 30 years of experience as a licensed clinical psychologist, educator, and leader. She is passionate about issues related to adult development and her original research examined how women plan their lives, studying the lives of 500 women. She has been on the faculty of Antioch University, Santa Barbara City College Adult Education Division, and the adjunct faculty of The University of North Dakota.

Dr. McLean has served the board of The Association of Coach Training Organizations, The Harvard Women's Leadership Board, JFK School of Public Policy, and is a Master Certified Coach through the International Coach Federation, Fellow of The American Group Psychotherapy Association, and Member of APA's Division 13, Consulting Psychologists.