

Can I Get My Money Back?

What's the Return on Investment for Executive Coaching?

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It's hard to spend money on a hunch any more. Today's business decisions have to be reasoned, sharp and focused. If we spend money, does it add to revenues? Reduce costs? Boost productivity? Much of our decision-making is numbers driven.

The 2007 Sherpa Global Survey on executive coaching shows some surprising new information about formal measurement of the value of coaching.

The Sherpa Survey was sponsored this year by the executive education departments at Penn State and Texas Christian, along with Sherpa Coaching, the leading provider of coach training and certification.

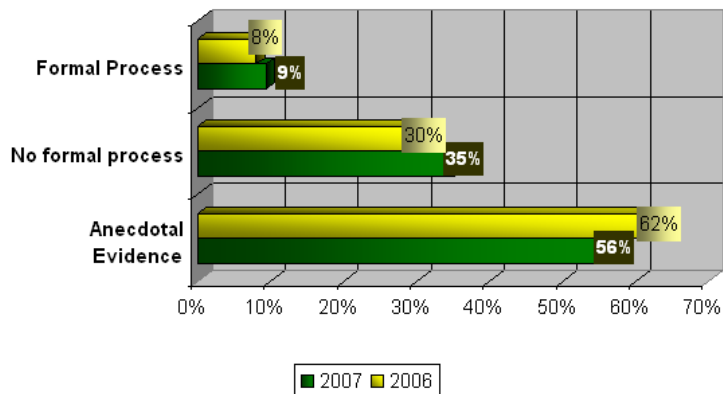
Demographics make leadership development a major concern for every organization. Solid information about a new industry devoted to creating great leaders is essential for business, government and education.

Just like last year, hundreds of HR professionals, purchasers of coaching services and executives who had used a coach answered the question: "How is the value of executive coaching monitored?"

Apparently, purchasers of coaching services haven't made progress in figuring out a business case to justify coaching. In fact, they may be giving up. This year, less than one in ten respondents say "HR has a formal process to evaluate effectiveness and return on investment", virtually the same as last year. Anecdotal evidence about the results of coaching is gathered 56% of the time, down 6 percentage points from last year's rate. The number of situations with 'no formal monitoring' went up by 5%, to 35% this year.



How is the Value of Coaching Monitored?



The amount of money spent on coaching is significant, as much as a billion dollars each year. The way that money is spent is changing. In this year's Sherpa survey, coaches and HR professionals said coaching is engaged for "people who need leadership development". This accounts for 49% of all coaching, up 6% from last year. 32% of coaching is for an individual with a specific problem or challenge, down 6% from last year, and 19% is reserved for individuals in transition, such as a new job or promotion. Compared to last year's numbers, about 6% of coaching has moved from specific problem-solving to general leadership development. That represents re-allocation of at least \$60 million dollars over the last 12 months.

So, we have a growing industry, a shift toward coaching for every emerging leader, and nobody seems to be tracking return on investment. Is there a formula out there? The coaching industry knows it would be beneficial to prove a solid ROI. With that in mind, the International Consortium for Coaching in Organizations (ICCO) interviewed a group of coaches and researchers on ROI. In mid-2006, ICCO released those interviews on an audio CD. Dr. Jack Phillips from the ROI Institute revealed his formula for calculating ROI on executive coaching. The formula is similar to Sherpa ROI formula, which goes like this:

1. Estimate the value of resolving an issue:

Example: Avoided \$65,000 in turnover costs,
 Increased productivity by \$45,000
 Total benefit: \$110,000

2. Multiply by the percentage of the improvement attributable to coaching
(in this example, 50%)

Coaching benefit \$55,000 (\$110,000 times 50%)

3. Factor in our degree of confidence in our estimates:

(in this example, we are 80% sure that our estimates in steps 1 and 2 are correct)

Adjusted coaching benefit: 44,000 (\$55,000 times 0.8)

4. Subtract cost of coaching (say, \$18,000)

Net benefit \$26,000

5. Calculate ROI : Divide net benefit (step 4: \$26k) by coaching cost (\$18k)

ROI = 144 % (26/18 = 1.44)

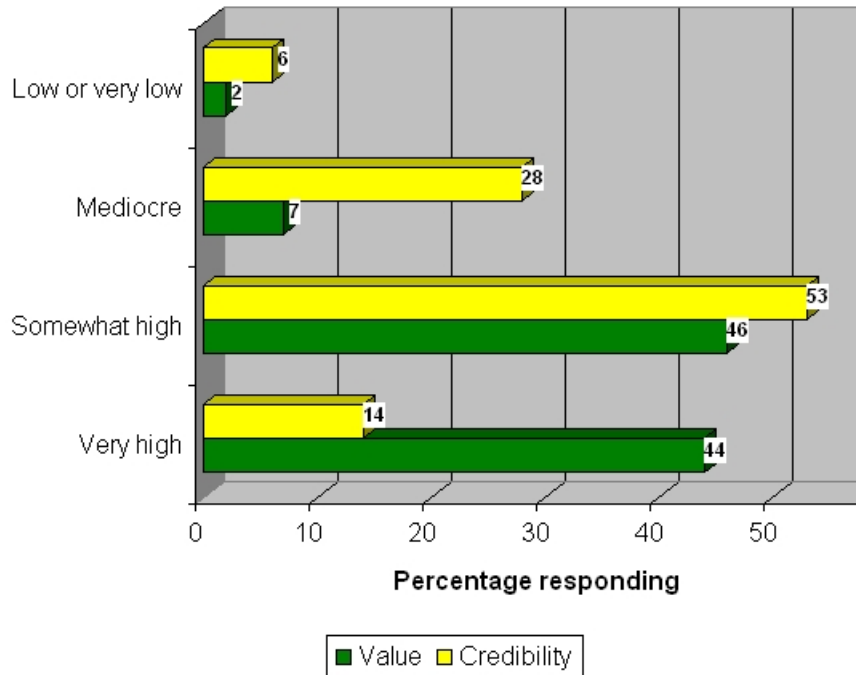
Granted, there are value judgments involved here. How much is a project worth? How much contribution did coaching make? That is why the Sherpa ROI formula factors in a degree of certainty, in effect reducing the calculated value of coaching directly, to account for subjectivity in the other variables in the formula.

Value and credibility

So if people are not measuring value, what are their perceptions of the value of coaching? They seem to trust the coaches they hire, but not the coaching industry as a whole.

Asked to rate the value and credibility of coaching, HR professionals and coaching clients gave us two very different answers. 90% see the value of coaching as 'very high' or 'somewhat high'. The credibility of coaching is markedly lower, though. While only 9% rate the value of coaching unfavorably, over a third of our respondents see the credibility of coaching as mediocre or worse.

HR Professionals' View of Coaching:
Credibility in yellow, Value in green.



So, the people who hire coaches recognize the value of coaching, but don't share the same belief in the credibility of coaching. So, how does coaching improve its image? Among coaches, HR professionals and coaching clients, a majority say that the coaching industry needs to agree on standard practices, just as the accounting and financial planning professions have. Based on new standards for practice, a university-endorsed coaching certification might help credibility, as well.

Where's the Value?

People place a high value on coaching. How do we know that coaching has value? When executive turnover or staff turnover is prevented by coaching, a specific value judgment can be made. Based on calculations of turnover costs in executive ranks, the value of a career save is currently pegged at \$40,000 or more for a mid-level manager.

The formulas are out there, and in some cases, it's easy to put a dollar value on coaching. Still, anecdotal evidence is the most popular way to figure out how much coaching is worth. That's probably the right approach, because it's hard to quantify the human factor.

The impact of an executive's decisions can be measured, but only to a degree. Relationships and morale are certainly assets, but like leadership, they are intangibles. When executive coaching changes the way people work together, there's a clear return on investment.

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Addendum: The 2007 Sherpa Global Coaching Survey's Methodology

The Sherpa Global Coaching Survey is designed to gather information about the state of executive coaching, from coaches and those who hire them.

Invitations were sent to a worldwide list of practicing coaches, including business and personal coaches. The survey was offered in English, French, German and Spanish.

The survey sponsor, Sherpa Coaching LLC in Cincinnati, also invited HR professionals likely to hire coaches. Penn State Executive Programs and the Tandy Center for Executive Leadership at Texas Christian University, survey sponsors, sent invitations to selected business professionals.

The survey was designed to differentiate between groups of respondents, and even asked different questions of coaches and non-coaches. When questions involved a subjective multiple choice, respondents were shown the choices in random order.

Research indicates that last year's Sherpa Global Coaching Survey was the largest published survey on executive coaching. The 2007 survey contains many of the same questions reported in 2006. Year to year comparison produces new information about trends in the ways coaching is practiced and perceived.

IQS Research of Louisville, Kentucky (USA) again hosted the survey and validated results. Respondents could take the survey more than once, but technology behind the scenes at IQS Research flagged duplicate responses. Once the data was collected, survey sponsor Sherpa Coaching LLC verified, analyzed and reported results using a Microsoft Access database developed for this project.

The survey is offered annually in early December, with publication of results in February of the following year. Those who respond to the survey receive the results directly by email, the day they are released.

