

Measuring snowflakes? - Calculating the return on investment from executive coaching

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European-based executive coaches [Dr Sabine Dembkowski](#), Director of [The Coaching Centre](#) and [Fiona Eldridge](#), Director of [The Coaching and Communication Centre](#) outline a guide that can be used by coaches and organisations to calculate Return on Investment (ROI) and contributes to enhancing the standing of coaching as an effective tool for developing leaders of an organisation.

It is true that company costs are under scrutiny, particularly for training and development. However, personnel costs are a significant part of overall costs in any business but particularly in the service sector. In particular, the highest proportion of the costs are devoted to the leadership team. Recent media attention has put the spotlight on the increasing costs of leadership teams.

This poses the key question about how to maximise the performance of the leadership team of an organisation whilst controlling costs. Clearly a sub-optimal use of the potential of this team could lead to huge opportunity costs for an organisation and these can be easily underestimated when scrutinising the budget for possible cuts.

Maximising the performance of a leadership team via executive coaching can yield significant returns for an organisation. Yet there have been few studies of ROI from coaching thus far in a European context, and coaches and organisations often opt for a qualitative approach when evaluating the process – an approach which may not satisfy the demands of tight budget control and shareholders.

To demonstrate the ROI coaches and organisations can follow the process below:

Calculating ROI from a coaching programme

The calculation is carried out at the end of the agreed coaching programme. Data gathering uses a mixture of qualitative and quantitative approaches and requires input from the coachee and his/her sponsoring organisation.

Questions for coachee

1. Looking back over the programme please describe the performance improvement that you have realised as a result of coaching. In your answer you may wish to include reference to internal documents such as performance and development reviews and appraisals.
2. What are the indicators of impact on the organisation of these improvements? Please tick as appropriate.

Increased output/sales
Increased personal productivity
Increased team productivity
Increased product quality
Improved customer relationships
Reduced customer complaints

Reduction in delivery times
Other (please specify)

Note to coaches – these questions should be modified according to the nature of the client organisation

3. For each item you have ticked above complete a benefit calculation using the following table:

Indicator of impact	Estimated annual monetary value of performance improvement	%age improvement due to coaching	%age confidence in this estimate
xxx	xxx	xxx	xxx
xxx	xxx	xxx	xxx

4. When the table is filled out for all items the monetary benefit can be calculated with the following formula:
5. Monetary value = Estimated annual monetary value of performance improvement x Estimated value percentage improvement due to coaching x percentage confidence in this estimate
6. Then add up all items to produce an overall sum. Pass your calculations to your coach who will validate them with your organisation.
7. What are the intangible benefits of the coaching programme for you?

Steps for coach

1. Determine the cost of coaching
 - Professional fees charged
 - Opportunity costs client time to participate in coaching
 - Materials
 - Travel expenses
 - Admin costs

Add all costs to produce a total figure

2. Validate coachee's estimate of benefit and opportunity costs for client time participating in coaching with relevant personnel in the client organisation
3. Calculate Return on Coaching Investment

$$\text{ROI} = ((\text{Benefits} - \text{Costs}) / \text{Cost}) \times 100$$

4. Prepare report for client organisation

Dembkowski and Eldridge identify seven critical success factors for demonstrating ROI from coaching. These are listed below:

The Top 7 Critical Success Factors for demonstrating ROI from coaching

1. Begin by setting objectives for the coaching session according to SMART principles (specific, measurable, achievable, realistic and time bound) and establishing a benchmark for performance from existing appraisals and reviews.

2. Ensure that coaching objectives flow from overall project objectives and/or business objectives.
3. Communicate the methodology for measuring the monetary value of the coaching programme before the programme begins.
4. Check with internal experts within the organisation (e.g. payroll or finance) for critical figures (e.g. opportunity costs client time for participating in coaching).
5. Capture the monetary value of the coaching in tandem with the intangible value.
6. Validate your calculation with the coachee.
7. Communicate the results of the coaching programme to key stakeholders in the organisation.

For the coaching profession as a whole demonstrating ROI using a clear well-defined methodology will assist in raising the profile of the profession as responsible and accountable as well as contributing to the recognition of coaching as a critical and valuable tool for organisational development.

The authors of this article would be interested in receiving your feedback and results applying the formula and aim to complete a report over the coming year which will then be fed back to the coaching community.

The formula contained in this article is copyright MetrixGlobal, LLC. The essence of this article was presented at a Pre-Conference Session at the International Coach Federation European Conference 2003, Stresa Ita under the title "Measuring magic: applying ROI Strategies to coaching".