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Maximizing the Impact of Executive Coaching: Behavioral Change, Organizational Outcomes, and Return on Investment

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Executive coaching, which surfaced as a leadership development practice over a decade ago, is now among the most widely used executive development techniques. Yet, despite its growing tenure as a leadership development practice, executive coaching is still used sparingly in many organizations, and has remained underutilized. The authors believe this is because the paucity of empirical research into its effectiveness leaves the field open to speculation and subjective opinion.

Introduction

As executive coaching practitioners, we have direct experience demonstrating that this process does have a lasting impact on the individuals who participate in

it, on the larger organization of which they are a part, and on the organization's financial bottom line. Measuring and demonstrating this, however, led us into previously unexplored territory. No prior research had attempted to quantify the business outcomes of executive coaching. Since a controlled experimental trial was not possible, our challenge was to demonstrate a chain of impact (Phillips, 1997). As a result of our experience, we posit:

- **Coaching** translates into **doing**.
- **Doing** translates into **impacting** the business.
- This **impact** can be **quantified** and **maximized**.

The traditional paradigm for evaluating the effectiveness of development programs has examined four levels of criteria or impact (Kirkpatrick, 1983), specifically:

- **Reaction to the program and planned action:** the participants' reactions to, and opinions about, the intervention, and what they plan to do with the material

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- **Learning:** the competencies the participant was expected to acquire as a result of the program
- **Behavioral change:** whether the participant is doing things differently as a result of the program
- **Business results:** relating participation to either tangible or intangible business results

More recently, a fifth level has been added to the evaluative schema (Phillips, 1997):

- **Return on investment (ROI):** the relationship between the monetary value of the results and the cost of the initiative

Our research follows the full new paradigm, including the fifth level, return on investment. Although this is the recommended methodology for analyzing program impacts, there have been few studies reported in the literature that have researched individual executive development programs, and we know of none that have actually followed the recommended approach.

Method

Demographics

The participants in this study were 100 executives in the northeastern and mid-Atlantic regions who had completed their coaching between 1996 and 2000.

Sixty-six participants were male and 34 were female. Their ages ranged from 30 to 59 years. At the time of coaching, 50 percent held positions of vice president or above. The sample included Caucasians (78 percent), African Americans, Hispanics, and Asians. Twenty-eight percent reported total compensation in the \$100,000 to \$149,000 range, and 19 percent reported amounts of \$250,000 or higher.

Stakeholders

Where possible, we also surveyed the executives' immediate supervisors or human resource representatives who had observed the coaching experience and could comment on its effectiveness. We refer to these individuals collectively as "the stakeholders."

Coaching Process

Participants followed customized programs addressing their individual needs. However, the following features were generally applicable to all the coaching engagements included in this study:

- **The coaches** were typically Ph.D. or M.B.A. graduates with at least 20 years' experience as organization development practitioners or line managers. All had graduated from a standardized internal training program focusing on principles of assessment and intervention in executive coaching practice.
- **Coaching programs** fell into two broad categories: **change-oriented**, with an emphasis on supplementing and refocusing the participant's skills; and **growth-oriented**, with an emphasis on accelerating the learning curve for high-potential or recently promoted executives. In this study, 55 percent of cases were classified as change-oriented, 29 percent as growth-oriented, and 16 percent as combining the two orientations.
- **Coaching programs** typically ranged from six to 12 months in **duration**. Whatever the orientation and content, all coaching programs followed standard assessment **procedures**. These included personality instruments, multi-rater surveys, and interviews with members of the multi-rater survey sample. Standard coaching protocols were followed in order to maximize alignment throughout the process among the participant, his or her immediate manager, the HR representative, and the coach. Meetings were held at specified intervals to share feedback and review progress toward goal attainment. Confidentiality principles were stipulated in order to protect the specific content of coaching sessions while keeping the stakeholders informed of goals and progress.

Interviews

Two independent contractors were recruited and trained to gather the data. An interview protocol was developed to address the five levels of impact outlined above. During a 25- to 45-minute phone interview, executives rated their level of satisfaction with the coaching process as a whole. In addition, they described their goals for coaching, rated how effectively they had achieved these goals, described the new behaviors they had adopted, indicated how frequently they currently

used the new behaviors, and identified factors that had contributed to the effectiveness or ineffectiveness of their coaching program.

More importantly to this study, executives identified the tangible benefits to the business that resulted from the coaching process. To put the coaching in context, executives also identified factors other than the coaching which could have contributed to their increased effectiveness and the consequent business results. Then they provided an estimate of the annual monetary value of the business results. Finally, they identified intangible benefits derived from the coaching program.

Calculating Return on Investment

Participants were asked to quantify the business impacts they had already identified. (Participants used their own calculation methods, which they described to the interviewers.) After participants had provided their estimates, they were asked for their confidence level in their estimate. To eliminate outliers, an upper limit of \$1 million was placed on high-end estimates.¹ Next, a series of adjustments was made in order to render the estimates conservative and isolate the ROI component attributable to the coaching, as distinct from other factors.

- **To isolate the effects of coaching,** ROI estimates were multiplied by the percent of the improvement that executives attributed to coaching (known as the **isolation factor**).²
- **To adjust for potential errors in estimation:**
 - The ROI estimates were multiplied by the executives' confidence level in the isolation factor.³
 - The ROI estimates were multiplied by the executives' confidence level in their ROI estimates.⁴

The original ROI estimate was adjusted four times, and this "**conservative ROI**" was used as the metric. This conservative approach maximized the credibility of the data (Phillips, 1997).

$$\text{ROI (\%)} = \frac{\text{Adjusted ROI} - \text{Program Costs} \times 100}{\text{Program Costs}}$$

Example

A senior manager working on interpersonal skills and project management skills attributed 50 percent of the improvements in her behavior to the coaching program. She attributed the remaining 50 percent to her commitment to the process. She was 100 percent confident in this estimate. Next, she estimated the ROI of her coaching to be \$215,000 and was 90 percent confident in this estimate. To calculate the conservative ROI, the executive's estimate needs to be adjusted. Thus, \$215,000 multiplied by 50 percent (her attribution to coaching), then by 100 percent (her confidence in the attribution), and by 90 percent (her confidence in the ROI estimate) results in a conservative ROI of \$96,750. Given that the cost of her coaching program was \$15,000, we applied the ROI formula:

$$\text{ROI (\%)} = \frac{\$96,750 - \$15,000 \times 100}{\$15,000}$$

$$\text{ROI (\%)} = 545\%$$

Thus, the executive's company obtained 5.45 times its investment in coaching.

The Total Value Scale

Since the executives interviewed came from 56 organizations, large and small, we expected variability in their ROI estimates. Thus, we developed a scale for standardizing participants' estimates of the value of coaching. The Total Value Scale (TVS) provided a common ground for discussing the value

¹ Estimates of \$5 million and \$25 million were converted to \$1 million.

² Isolation factors ranged from 90 percent to 10 percent with an average of 50 percent and a standard deviation of 21 percent.

³ Confidence levels in the isolation factor ranged from 100 percent to 50 percent with an average of 95 percent and a standard deviation of 10 percent.

⁴ Confidence levels in the ROI estimate ranged from 100 percent to 10 percent with an average 77 percent and a standard deviation of 26 percent.

of coaching. For example, an executive in a small manufacturing industry may consider \$50,000 a far more significant ROI than one in the information technology industry. The scale was anchored as follows:

- +5: The value of coaching was far greater than the money and time invested.**
- 0: The coaching paid for itself.**
- 5: The value of coaching was far less than the money and time invested.**

Results

Reaction

Eighty-six percent of participants and 74 percent of stakeholders indicated that they were “very satisfied” or “extremely satisfied” with the coaching process:

- “It was great working with someone who was very savvy and had experience around senior people.”
- “This has been the greatest gift the company ever gave me. They can give you a bonus, but you’ll just blow it on something. But this is a gift that will stay with me. When this started, my new boss was ready to fire me. Now he’s promoted me.”

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Learning

We asked participants and their stakeholders to identify their top two development priorities. The content of executive coaching typically focused on the following categories:

- Enhancing leadership skills (14 percent)
- Enhancing management skills (18 percent)

- Fostering personal growth (such as clarifying career issues, addressing work/life balance, self-knowledge/self-development—12 percent)
- Enhancing business agility and technical or functional credibility (15 percent)
- Enhancing interpersonal skills (35 percent)

Behavioral Change

Effectiveness at Goal Achievement

We began by asking the following question: “What are you doing differently that you may otherwise not have done without the coaching?” Responses to this question ranged from the very specific (e.g., “I’m reviewing my writing several times before sending memos out”) to the general (e.g., “strategic planning”).

Next, we asked participants to rate their own effectiveness at achieving their goals on a five-point scale.

Participants considered 73 percent of goals to have been achieved “very effectively” or “extremely effectively.” Stakeholders were more conservative, evaluating 54 percent of goals as having been achieved with this level of effectiveness, and 85 percent as having delivered results “effectively” or more.

Factors That Contributed to Goal Achievement

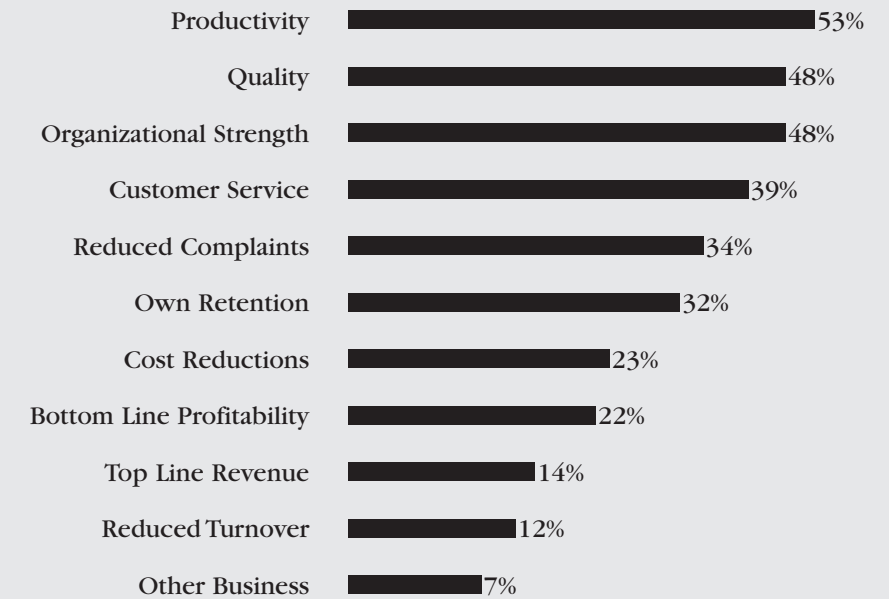
In analyzing the chain of impact, we also sought to identify the factors that contributed to or prevented sustainment of newly acquired behaviors. We asked executives to identify the factors that had made the coaching experience particularly effective, and those that may have detracted from its effectiveness. Factors we evaluated included the assessment process itself, the effectiveness of the feedback received, the executive’s commitment to the process, the coach-executive relationship, the confidentiality of the coaching, the availability of the coach and the executive, and the manager’s and organization’s support.

Eighty-four percent of participants identified the quality of the relationship between executive and coach as critical to the success of the coaching. This is well illustrated by the following quotations:

- “The coach made it effective. [She] listens very well. She learned the language of the organization very quickly and very well. She was flexible and understanding of schedule changes.”

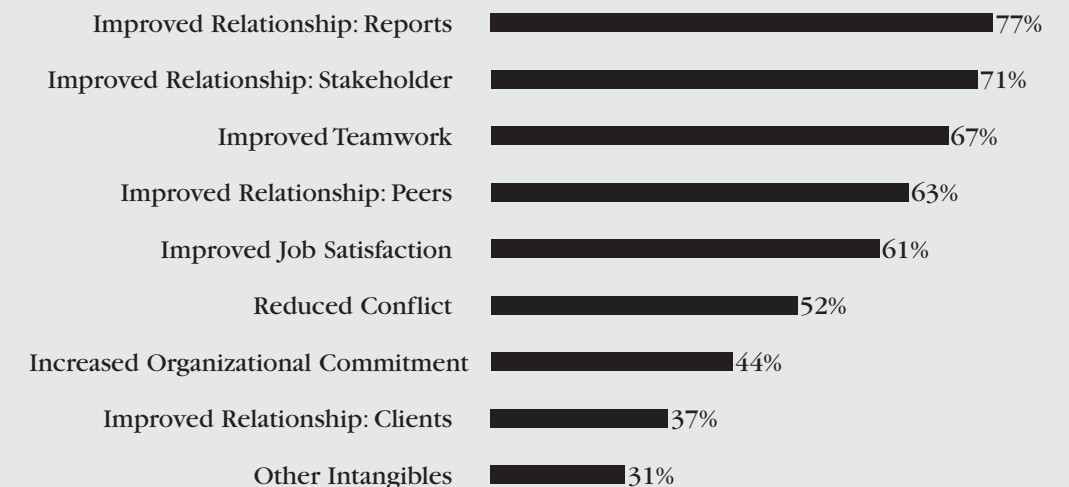
Tangible Business Impacts

(Frequency of impacts reported by executives)



Intangible Business Impacts

(Frequency of impacts reported by executives)



- “My coach. Our personalities connected. He had a nice style. He understood what I needed and offered support strategies. His business experience was critical. And, when I first signed up, the first thing I said was, ‘Can I see you this week?’ The opportunity to immediately utilize the service was great.”

Other success factors included: the structure of the process, regularly scheduled meetings, flexibility of meetings, “the role-playing the coach and I did,” meetings held off-site, and “the fact that the coach sat in on my staff meetings.” Each response was as unique as the experience itself.

Factors That Detracted from Effectiveness

Conversely, we identified the approximately 12 coaching experiences where executives had **not** sustained their new behavior for at least **one** of their developmental priorities. In response to the question, “What factors may have detracted from the effectiveness of your coaching experience?” participants frequently reported that detractors included a combination of the executive’s own availability and organizational pressures, for example:

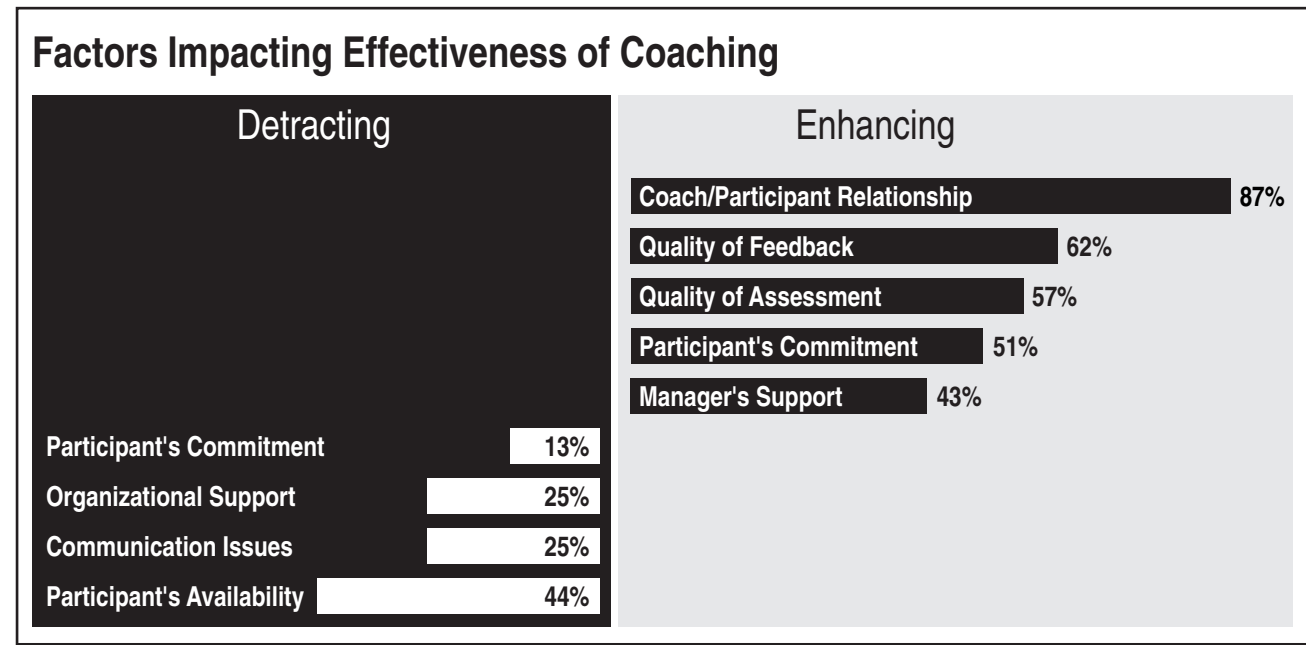
- “The demands of the organization allow me a relatively small amount of time to focus on the coaching.”

Organizational Outcomes

Tangible impacts on business included increases in productivity, quality, organizational strength, and customer service. These are richly illustrated in the following quotations:

- “We invested about \$10 million in a venture that was not making progress, and the company had considered terminating this project. I began managing this initiative and saw turnaround opportunity. I convinced our management to put another \$3 million into this project and it’s now successful. Had we decided not to go through with this project, we would have lost our \$10-million investment. The coaching played a key role in this because it helped me to walk through political landmines and gain consensus among key stakeholders to go forward with this venture.”
- “Through our ‘blue skying’ and stretching our expectations, we identified a number of cost efficiencies. A clear example is that we outsourced two areas, which I estimate will save us \$1.4 million over the next five years.”

In addition to tangible impacts, executives and their organizations also obtained intangible benefits. These included improved relationships with direct reports, peers, and stakeholders, as well as improved teamwork, increased job satisfaction, and reduced conflict.



Some, through their comments, regarded these intangible benefits to be more meaningful to themselves and their organizations than the tangible benefits:

- “I developed closer relationships with my boss, direct reports, and peers. When I asked them for feedback, they were more collaborative. In terms of interactions, I sensed they wanted to interact with me. There was a change in their behavior. My network blossomed. I didn’t understand the process of valuing relationships; now I do.”

Return on Investment

Forty-three of the executives in the sample were able, when asked, to provide an estimate of ROI in dollars. (The remaining participants, although unable to provide such an estimate, nevertheless applied the Total Value Scale. These results are presented below.)

Initial ROI estimates, before adjustment, were as follows: The majority of the 43 participants who provided a numerical estimate reported between \$100,000 and \$1 million as the return on their investment in executive coaching. The following examples illustrate how they reached their conclusions:

- “Since we developed the team’s charter, turnover has been reduced. I know for a fact that we retained seven employees, each with a salary of \$65,000. It costs 20 percent of their salaries to replace them. Thus, \$91,000 has been saved. Also, I have been promoted and my salary increased by \$20,000 [indicating increased value to the organization]. In sum, the value of my coaching was \$111,000. I am 100 percent confident in this estimate.”
- “This would be a rough quantification. We’re more productive and people are more responsive. Last year we saved the company about \$4 million. Say 10 percent of that was because of my dealing with people in a more productive manner and their performing better in return, which would be \$400,000. I am 75 percent confident in this estimate.”

Next, we isolated the extent to which participants attributed tangible and intangible business impacts to the coaching itself, as opposed to other factors: On average, 50 percent of change was attributed to coaching, and 30 percent to the executive’s own commitment to, and use of, the process.

Summary

When calculated conservatively, ROI (for the 43 participants who estimated it) averaged nearly \$100,000 or 5.7 times the initial investment in coaching. We feel confident that this level of value has been achieved and may, in fact, be understated. According to Phillips (1997), if a program is not generating at least 25 percent return on investment in its first year, it should be considered to be an undesirable investment. Viewed in this light, we can say with confidence that executive coaching is a very valuable investment.

Total Value

Perhaps one of the most challenging aspects of the study was helping executives pinpoint an ROI estimate for their coaching process. Just as executive coaching is a highly individual matter, so are the ways in which participants can assess its financial value. Considering the wide variety of organizations and positions surveyed, and the variety of developmental objectives, it is no surprise that each participant had his or her own criteria for measuring ROI. Moreover, very few participants had kept records of the business areas affected by their changes in behavior. Thus, estimates varied not only in terms of criteria, but also in terms of specificity and confidence level, as already indicated. We developed the Total Value Scale to standardize participants’ estimates of the value of coaching.

Seventy-five percent of the sample (participants and stakeholders) indicated that the value of coaching was “considerably greater” or “far greater” than the money and time invested.

Seventy-seven percent of participants placed the total value of their coaching above +3, and 54 percent above +4.

Relationship between Total Value and Return on Investment

To determine whether the ability to provide a numerical ROI estimate influenced total value estimates, we compared the two groups of executives according to this criterion.

Although the average total value was slightly higher for those who did estimate ROI, the difference was not statistically significant.

As a final estimate of perceived value, we asked participants whether they would recommend the coaching (i.e., the type of intervention and the organization that provided the coaches) to others. An overwhelming 93 percent answered in the affirmative.

Conclusions

Effectiveness of Executive Coaching

This study produced strong evidence of the effectiveness of executive coaching. Effectiveness was demonstrated across all five levels of evaluation, beginning with participants' reactions: 86 percent of participants and 74 percent of stakeholders were "very satisfied" or "extremely satisfied." Seventy-three percent of participants considered that they had achieved their goals "very effectively" or "extremely effectively," as did 54 percent of stakeholders. There were only 12 cases where participants reported not sustaining at least one of their developmental priorities.

Most exciting of all were the estimates of return on investment. As indicated earlier, when estimated in the most conservative manner, ROI averaged nearly \$100,000 for the sample, or 5.7 times the initial estimate. Some estimates were as high as \$1 million, \$5 million, or even \$25 million.

Maximizing the Impact of Executive Coaching

This study also yielded a wealth of information about factors that contributed to (or could detract from) the effectiveness of coaching. We found evidence for the following guidelines to make coaching as effective as possible.

1. Select coaches with care.

The coaches who participated in this study were a highly select and formally trained group, and followed structured coaching processes. (See Method.) Although this study did not aim to compare the effectiveness of different types of coaches or forms of coaching, we believe that only by employing coaches of similar caliber can the degree of effectiveness demonstrated in this study be attained.

As described earlier, the relationship between participant and coach is of paramount importance. Participants and stakeholders are well advised to pay close attention to the matching of coaches to executives. The quality of the assessment and

feedback are closely related to the selection of a coach, since it is the coach who conducts the interviews with the multi-rater sample, interprets the other components of the assessment, integrates them, and delivers feedback:

- "My coach was absolutely impartial, had no biases, no preconceived notions. Besides, she didn't go by the book; she was flexible and open-minded. She let me know what the path was, but didn't do the work for me."
- "I developed a very good relationship with my coach. He was very effective because he was able to tie current things going on in my work life to the assessment and the feedback. . . . He kept things synchronized, integrated the information. He sat down with my manager and interviewed him about his expectations."
- "It worked because the coach was an objective outside person observing my behaviors and providing feedback on the spot—giving me specific examples and ways to improve my behaviors."

2. Provide strong organizational support.

As previously indicated, we found evidence that organizational support, in particular that of the participant's manager, was very important to the success of coaching. The following quotations further substantiate this point:

- "The fact that my peers also participated in coaching, (that) we did it as a team made it effective. Collectively it was powerful."
- "Supportive manager, supportive organization...the fact that it is **so well endorsed** by the company. The service is provided and encouraged..."

Executives frequently mentioned communication as a crucial factor. How the coaching was communicated within the organization was highlighted as greatly positive when done correctly, and it came across loud and clear when done poorly.

- "It was a very unusual step for our organization to hire management coaches. HR did a very clever thing: By positioning the program to be for high performers, they made it so that there was a status associated with being chosen to participate. That was very effective."

- "The organization did a great job communicating the program. Knowing that I was recommended to participate was a big plus."

In some organizations, communication issues detracted from the effectiveness of the coaching. These communication issues fell into two types: 1) communication to the executive by HR or his or her manager about the reason for the coaching, and 2) communication within the culture about coaching in general. One executive noted, "My company's way of presenting the coaching was negative. Thus, I had a lot of resistance at the beginning."

Underlying messages within the company culture also can cloud the effectiveness of a coaching experience: "Coaching is taboo in our company," was mentioned by some participants. Another commented: "The perception of coaching at [my company]. It makes you hesitant to let anyone know about it."

How to strengthen participant commitment, managerial support, and positive communication through the organization is, therefore, worth taking time and effort to address in order to gain the maximum benefit from the investment made in coaching. In our experience, the following principles help to achieve this:

- Establish a process to closely involve the participant's manager and HR representative from the outset and throughout the program.
- Work to establish strong alignment between participants and stakeholders regarding the significance, implications, and goals of the coaching.
- Frequently check in with stakeholders regarding progress and fine-tuning of the coaching goals.
- Encourage the organization to do all possible to provide the participant with enough time to take advantage of the coaching and engage in on-the-job developmental activities.
- Publicize the organization's commitment to the participant's success, and provide recognition for progress that is made.
- Position coaching effectively within the organization as a positive initiative and a sign of the organization's commitment to leadership development.

3. Measure and communicate the impact!

During the course of conducting the research interviews, we were repeatedly impressed by participants' reactions to our questions about specific behavioral changes and their connection, in a chain of impact, to tangible business outcomes and return on investment. Participating in the interview, according to several executives, served to heighten their sensitivity to the multiple ways in which their skills and behavior had impact throughout the organization. This increased self-awareness can be highly motivating and energizing. It also can lead those who have had contact with the coaching experience to think more carefully before engaging in behaviors that can have an unfavorable impact.

Communicating favorable results of specific coaching experiences can lower organizational barriers to acceptance of executive coaching, as well as enhance its desirability to future participants. We hope that this study provides a framework and methodology to serve these ends.

4. Make coaching more widely available.

Our results indicate that for all participants, including women and ethnic minorities, executive coaching was effective and provided significant return on investment. We hope that these results will encourage organizations to make this resource available to all who stand to benefit from it.

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