Coaching and Return on Investment

Featured in the October 2019 edition of the Edge International Communiqué

By Jonathan Middleburgh

While executive coaching has become popular in many law firms and corporate law departments, one of the reasons often given by senior management and HR for not taking advantage of this approach – or using it only to a limited extent – is the difficulty of measuring return on investment (ROI).

In reality, there is a relatively robust methodology to measure the ROI of coaching. As with other complex, multi-factor situations, it is important to be careful with the measure and to avoid a definitive attribution of success to one factor when multiple factors are at play. But coupled with other data, measurement of ROI can help build a powerful business case for the use of executive coaching.

Measuring Effectiveness of Coaching and ROI

After 20-plus years of published research, the methodology for measuring the ROI on coaching has become increasingly respectable.

Kirkpatrick (1977) proposed a now widely accepted four-level taxonomy for the evaluation of training programmes, which is regularly used to evaluate learning and development (L&D) interventions and has often been used to evaluate coaching programmes.

When applied to coaching, the four Kirkpatrick levels (see e.g. Phillips & Phillips, 2005) are:

- Reactions of the participant and the coach to the coaching engagement;
- Learning from the coaching engagement (new knowledge, skills and understandings);
- Behavioural changes as a result of coaching; and
- Business-impact measures (e.g. productivity, quality, costs, time, client satisfaction, job satisfaction).

To the Kirkpatrick taxonomy, Dr Jack Phillips, a well-known expert in ROI methodology, added a fifth level: calculation of ROI.

The formula for calculating ROI involves subtracting the costs of coaching from the estimated value of the outcomes of
coaching, and expressing this as a percentage \((\text{estimated coaching benefits} - \text{costs of coaching}) / \text{costs of coaching} \times 100\%).

Grant (2012) points out that there has been a broad range of ROI figures for coaching, with published estimates in various studies ranging from 221% to 545% to 788%, and a commonly reported ROI of 700% (for a typical study see McGovern et al. [2001]).

Inevitably, ROI will vary from coaching assignment to coaching assignment. The point is that there is a respectable source of evidence suggesting that ‘effective’ coaching offers a good return on investment, perhaps of up to 500%, maybe even more.

I put the word ‘effective’ in inverted commas deliberately, as the quality of the coaching and the choice of coach will obviously play a key role in determining the effectiveness of the coaching and hence ROI. I return to this point below.

Certainly in the law firm context, it should be relatively easy to generate a prima facie business case for coaching given, for example, salary costs and the differences in billing levels / work generation between a high-performing, productive, senior associate or partner.

A Note of Caution

Figures around ROI are often – and rightly – treated with scepticism because of the propensity of some practitioners to cite ROI figures as if they were holy writ. As always, the devil is in the detail and it is important to sound a note of caution before bandying around such figures.

A number of points are relevant in this context.

First, while asserting that a range of studies suggest a healthy ROI for coaching, it is important to be clear that not only is there a wide fluctuation in these figures, but also that several academics have questioned the rigour of these studies and some of the assumptions behind the calculations (see e.g. De Meuse et al. [2009]; also Grant [2012]). For example, the calculations sometimes ignore indirect costs of coaching; coachees often use a broad brush in assessing the monetary benefits of coaching; and it is often difficult to separate the effect of coaching from other factors (e.g. economic climate; chance) in order to establish that the coaching itself has caused the assumed or claimed positive results.

That said, and with some clear and honest caveats, it is reasonable in my view to assert that a range of evidence suggests that coaching can result in a healthy ROI.

Second, the figures from the ROI studies are at best an indication of possible ROI. To establish the actual ROI of a coaching intervention requires: (a) a clearly designed methodology for the capturing of the data that is needed to calculate ROI; (b) a commitment from both coach, coachee and the law firm or other organisation commissioning the coaching to gather and capture that data; and (c) the methodical capturing of that data during and at the end of the coaching process.

In practice, the law firm might not want to incur the costs associated with the design and implementation of a methodology. Capturing the data requires both coach and coachee to spend time during the coaching process gathering that data – for example the coachee might need to fill out a questionnaire rating the efficacy and benefits of the coaching process, and the coach might want to spend time gathering 360-type data towards the end of the coaching process. The more rigorous the evaluation, the more potentially costly. The organisation might feel that the costs associated with rigour outweigh the benefits of rigour of approach.

Third, as pointed out by Grant (2012), ROI might or might not be the right measure of success or failure. For sure, the key objective of the coaching might be to drive immediate financial results. However, often the goals of coaching are more diffuse – for example, they might concern managing client relationships more effectively or developing a more nuanced approach when communicating with peers or subordinates, rather than to increase profitability in the short term.

In the case of these latter goals, achievement of the goals will almost certainly be good for the business of the law firm. Greater effectiveness at managing client relationships, for example, will almost certainly increase client retention and ‘stickiness’ of client relationships. But this will not necessarily translate into causally identifiable financial results; indeed an overemphasis on ROI might be counterproductive to certain desired behaviours, such as building long-term client relationships, and more likely to encourage the chasing of short-term financial wins.

In these circumstances, the more appropriate approach to evaluating the effectiveness of the coaching might be a different measure or measures, such as focusing on tracking changes in the targeted behaviours – via repeat 360-degree feedback, for example.
A Practical Approach

A suggested approach to evaluating coaching is as follows:

1. Decide how much time and resource you want to invest in evaluating coaching – e.g., how important is it for senior management / the business to understand the ROI of coaching? Do you need to discuss this internally?

2. Think carefully about the purpose of evaluating coaching. What is the imperative? Is it one of more of the following: (a) to build a business case internally for coaching; (b) to assess the effectiveness of the coach or coaches you are using; (c) to assess impact on the individual coachee; (d) to demonstrate actual ROI of the coaching intervention or programme; (e) to understand common themes across a number of coaching interventions / to highlight systemic issues that might need to be addressed.

3. If the imperative is to build a business case for coaching internally, there is a wide range of available, respectable data as to the ‘typical’ ROI of coaching. This data can be presented internally, with the caveats set out above.

4. You can strengthen the business case by using other available internal data, e.g. retention rates, costs of losing key talent (recruitment costs, onboarding costs, estimated opportunity costs, etc.).

5. If the purpose of the evaluation is to assess the effectiveness of the coach and / or impact on the coachee, an evaluation might, for example, be one or more of: (a) pre- and post-coaching questionnaire; (b) formal or informal debrief with the coachee; (c) pre- and post-coaching 360 feedback.

6. If the purpose of the evaluation is to demonstrate ROI, the evaluation will need to cover the following areas: (a) direct costs of coaching; (b) indirect costs of coaching (e.g., estimated loss of revenue, if any, due to coach being tied up with coaching sessions); (c) estimated financial benefits of coaching.

7. One way to estimate the financial benefits of coaching is to have the coachee fill out a questionnaire which gets the coachee to think about financial wins as a result of the coaching (e.g., increased productivity, new clients won, increased instructions from existing clients, etc.).

8. Identifying the estimated financial benefits of coaching requires careful thought and design. For example, a good questionnaire might ask the coachee the following questions: Did the particular financial win result from the coaching alone or from a mix of factors? If from a mix of factors, what percentage of the win is attributable to the coaching? Expressed as a percentage, how confident are you as to the accuracy of your figures?

9. Coupled with the questionnaire, you will need to design a defensible formula to turn the outputs of the questionnaire into an estimated financial benefit.

Conclusion

Lack of evidence of ROI and the difficulty of measuring ROI are often cited as reasons why law firms and corporate law departments do not use coaching.

Insofar as there is a need to generate a business case to justify the commissioning of coaching there is plenty of evidence available to suggest that effective coaching generates a decent level of ROI. That evidence needs to be contextualised, as suggested above.

Once an organisation decides to use coaching, it is right and proper that coaching engagements are evaluated; indeed, such evaluation will generate confidence as to the efficacy of the coaching, inform decisions about levels of investment in coaching and potentially help the organisation to determine if certain coaches are less effective than others.

Using ROI as the key metric for evaluation is not necessarily the right decision, for the reasons discussed above. The correct approach to evaluation requires careful consideration as to the objectives of the coaching and how best to measure these in a way that will provide meaningful, robust and useful data for the organisation.

For further information or to discuss the issues in this article, please contact Jonathan Middleburgh at Middleburgh@edge-international.com or on +44(0)7973 836343

Edge Principal Jonathan Middleburgh coaches senior legal talent in both law firms and legal departments. An ex-lawyer who is also trained as an organisational psychologist, Jonathan has a wide range of experience helping law firms and legal departments to develop their senior legal talent so as to maximise business outcomes.