

An ROI analysis of the Leadership Coaching Series

By Bill Phillips, Ph.D.

The Leadership Coaching Series is an innovative management development program designed to allow key employees to examine their management competencies and develop those competencies that will take them to the next level. The experiential design allows the participant to experience performing leadership skills in both a group workshop and team project setting. The focus is on the individual. The use of competency based assessments and an individual coach allow the participant to focus on those competencies that are needed at the next level of leadership. The series generally has 10 to 14 participants from a variety of industries, and includes five 6-hour workshops, one community impact project, three individual coaching sessions, and a competency based 360 degree feedback tool.

The series' research-based design ensures maximum ROI for the participants. Components of the series that contribute to the ROI are **competency based development**, **experiential learning**, and **individual feedback and coaching**.

ROI Analysis: Competency Based Development

Competency based development is an integral part of the Leadership Coaching Series. Each of the participants is given a competency based 360 feedback. The 360 feedback instrument is used to identify the competencies that are present and lacking so that an individual development plan can be created. The development plan is then shared with the participant's manager for input and feedback to ensure it meets organizational goals. In what follows, we provide a research-based analysis of ROI for the Leadership Training Series. Using basic methodology for making effective calculations for return on investment (ROI) as outlined in an article by Stephen Martin and Lionel Laroche (2000)¹ we have been

able to make the economic case for the Leadership Coaching Series competency based development component.

It reasonable to assume that the participants in the Leadership Coaching Series will most likely have a normal distribution of performance. That is, about 10% of the employees would be performing at superior levels, most would be performing around the middle at an acceptable level of performance, and another 10% would be at or below the margins of acceptability. According to Spencer and Spencer (1993)² "superior" performance is defined statistically by researchers as one standard deviation

above average performance—roughly the level achieved by the top 10% of staff in a given work situation.

The conclusion of extensive research by Hunter, Schmidt and Judiesch (1990)³ is that for most technical and complex jobs, one standard deviation above the mean is worth roughly 40% of output for complex jobs. The jobs of the participants in the Leadership Coaching Series are professional, technical and administrative, and fall into this category.

For the Leadership Coaching Series participants, we identified the competencies that differentiate superior performance from average performance for mid-level managers with the potential of moving into executive status so that training processes could be refocused to develop those competencies. Our goal in the series was to move average performing employees to superior performers, whether the participants stayed in the role of mid-level

manager or moved to an executive status. To do this, we used the 360 degree assessment to determine the current competency level of the employees, and through individual feedback and coaching, implement a development plan designed to move the employees to superior performance.

A general and reliable rule of thumb according to Smith, Gregg, and Andrews (2000)⁵ developed from extensive analysis indicates one standard deviation is equivalent to 40% of the compensation paid to that group. The implementation of competency based training would not be perfect. Research by Falcone, Edwards and Day (1986)⁶ indicates that the average effect of competency based technical and sales training is a positive shift of the performance curve by 0.67 of one standard deviation. Using an average wage per employee we were thus able to calculate the anticipated ROI for the Leadership Coaching Series as **496%**:

ROI for the Competency Based Development Program of the Leadership Coaching Series*

1 Leadership Coaching Series participant with a salary of \$50,000= **\$50,000**

Value of one standard deviation: $\$50,000 \times 0.4 =$ **\$20,000**

“Imperfection Discount” factor: $\$20,000 \times 0.67 =$ **\$13,400**

Against the Leadership Coaching Series cost of \$2,250, this generates an ROI of:

$(\$13,400 - \$2,250) / \$2,250 =$ **496%**

*Based on the average salary of participants of \$50,000.

ROI Analysis: Individual Feedback and Training

An additional feature of the Leadership Coaching Series that should contribute to the ROI is the use of **individual feedback through coaching** to help employees create an effective development plan and work with their managers on implementation of the plan.

The studies related to ROI for individual feedback and coaching are impressive. According to Spencer (2001)⁷ feedback and coaching on mission-critical skill (competencies) can generate a 10% of one standard deviation performance improvement. A study by Turner (2001)⁸ reported that managers that underwent a managerial training programs showed an increased productivity of 22.4%. However,

a second group was provided coaching following the training process and their productivity increased by 88%. In a study reported by Manchester(2001)⁹ with over 43 executives receiving training, a conservative estimate of ROI of 570% was reported.

In the Leadership Coaching Series, a case could be made for some of the same results reported in the studies above. The study by Turner most closely follows the process in the Leadership Coaching series. Training followed by coaching produced a productivity increase of 88%. It would be reasonable to assume that the series could produce an increase in productivity of the same magnitude.

ROI Analysis: Experiential Learning

The Leadership Coaching Series also makes extensive use of **experiential learning**, which contributes to the overall ROI of the series. The participants are taught leadership concepts, and then practice them through role playing, simulation, and a community based project that they work on in a team setting. The research supporting the effectiveness of experiential learning is significant. Although it is difficult to define and measure an ROI specifically based on the experiential learning component of the Leadership Coaching Series, previous research permits us to make a strong case for the potential value of this component.

Malcolm Knowles' (1996)¹¹ research found that adults need an opportunity to apply learning quickly, and they learn best by active (as opposed to passive) experiences.

Roger Schank's (1999)¹² learning theory states that skills are developed and information is obtained in a practical context. Edgar Dale, a renowned educational psychologist, referenced in an article by Mingail (2002)¹³ purports that simulated and direct experiences generate a retention rate as high as 90%. In contrast, traditional teaching techniques such as lectures result in a 10% retention rate.

In one study reported by SMG (2002)¹⁴ designed to use experiential learning to improve sales initiatives in a Fortune 500 telecommunications company according to an independent ROI study, the company realized an annualized net benefit of over \$60 million on the project. That's an ROI of over 3900%. The study found that the benefit to cost ratio was 40x.

Conclusion

Methodology exists to make a case for a substantial ROI for the Leadership Coaching Series. The anticipated ROI numbers for a Leadership Coaching Series participant are impressive. These ROI numbers are projections; we are in the process of conducting additional follow up studies to determine actual ROI of the series.

The ROI for the **competency based** component would be an amazing 496%. The **individual feedback and training** and **experiential learning**, although more difficult to accurately quantify in ROI terms, will also contribute to the value of the investment. To put this in perspective, according to Phillips (1997)¹⁰, it is generally assumed that a training program must be able to show an ROI of at least 25% during its first year to be effective. Even if post studies show the Leadership Coaching Series' actual performance to be under the anticipated ROI of 496%, it is reasonable to assume the ROI would still be sizeable.

References and Notes

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- ⁴ Salary is used rather than "output" because, without extensive research, it is very difficult in most jobs to establish a reliable value for the output directly derived from a particular job - with the notable exception of sales jobs.
- ⁵ "Referenced in Selection and Assessment - A New Appraisal", M Smith, M Gregg and D Andrews, p.111.
- ⁶ "Meta-analysis of Personnel Training Techniques for Three Populations", A Falcone, J Edwards and R Day, presentation to the Academy of Management, Chicago, 1986.
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- ¹³ "Are You Game for a Change? Simulate and Stimulate." Mingail, Sandra. National Post (Toronto Edition). December 4, 2000.
- ¹⁴ Referenced in "A Case for Simulation: A Review of Research on the Impact of Simulation", Strategic Management Group, Inc., 2002.