



Special Report
For Accounting Firms

IS IT WORTH SPENDING MONEY ON SOFT SKILLS?
QUANTIFYING THE RESULTS OF COACHING

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Introduction:

Managing Partners are intrigued with the possibility of what coaching might change in their workplace. Not only can attraction and retention of talent be a challenge, but overworked, overstressed key employees may be exhibiting unacceptable behaviors. Yet without the ability to quantify results coaching is a tough sale. This report addresses the issue of establishing the Return on Investment (ROI) of a coaching engagement.

As there are no published studies on ROI specifically from accounting firms, although companies such as Ernst and Young and Deloitte are strong proponents of coaching, parallels will be drawn from other sectors. Why should accounting firms not gain all the benefits of coaching as well as increasing revenues and decreasing costs through strategic coaching engagements? To this end, a method of evaluating ROI is suggested for accounting firms.

My associates and I specialize in and have a passion for working with accounting firms. Our concentration is on what are commonly called the “soft skills.” Through our experience we have demonstrated that what is true for Fortune 500 companies is also true in creating a competitive advantage for accounting firms.

We specialize in working with those firms who want a competitive advantage in recruiting prime talent, retaining their key employees and developing their partners, managers and staff. Frumi & Associates provides a formal measurable coaching program to address the specialized needs of growing firms.

Unlike other coaching firms our associates all have an intimate knowledge of the accounting profession and the challenges they face.

Why Should You Read this Report?

As the managing partner, what is your responsibility to your firm? According to author and leadership guru Kevin Cashman, “creating authentic value goes beyond getting financial results. Getting financial results is not what the magic of leadership is all about. Even poor leaders get results—often at unacceptable costs. We can achieve our goals but harm our health; get results but damage morale; make earnings but jeopardize customer relationships; push for cost savings but diminish quality; advance our career but destroy our family.”

Good leaders get results; great leaders create sustainable value by serving multiple constituencies. True Value Creation requires that we also enrich the lives of people. Developing your people is an excellent way to create value.

Issues Concerning Metrics in Accounting are not New News

In October 2002, CFO Research Services (a unit of CFO Publishing Corp.) undertook a research effort to explore corporate performance management. An article on the subject stated “CFOs find themselves pressed by regulators and investors to produce faster, more reliable, and more transparent financial reports—and then swear to them in writing. This exposes an embarrassing problem for CFOs: many are unable to create better reports and forecasts because of inadequate systems and processes for gathering data about corporate performance.”

The two main obstacles to improving performance management cited in this article are a lack of integrated IT systems and competing priorities. Other obstacles cited included change management fatigue, lack of funds for process and/or systems change, concern about the difficulty of implementing a new system, inadequate senior management support, and resistance from the business units.

Apart from finding a way to gather and process data more efficiently—the how of performance management—many companies face the challenge of figuring out what to measure and report. Unless they are tracking the key drivers of

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sales and costs, both financial and non-financial, all the budgeting and forecasting in the world won't boost the bottom line.

Finally, there may be a need to show a business case before embarking on a significant effort to improve performance management. Tracking headcount reduction resulting from a new software package is one thing, but measuring other, equally important benefits such as better decision-making or improved employee productivity is unlikely to be as precise. Some companies do attempt to put a dollar value on a project's various intangible benefits, but in most cases the effort is still mostly qualitative.

Looking for Answers in other Industries

As there has as yet been no definitive research done on the ROI of coaching in accounting firms, it would be reasonable to look into what studies have been done to date. What follows are excerpts from two of the most comprehensive studies, one done by The Manchester Group and a second by Metrix Global. The complete studies are available at your request.

Study 1

Executive Coaching Yields Return on Investment of Almost Six Times Its Cost

Manchester Inc., the global leader in customized executive coaching programs, has released the results of a study that quantifies the business impact of executive coaching. The study includes data on executive behavior change, organizational improvements achieved, and the return on investment (ROI) from Manchester's customized, comprehensive executive coaching programs.

The study included 100 executives, mostly from Fortune 1000 companies, who received coaching from Manchester. Companies that provided coaching through Manchester to their executives realized improvements in productivity, quality, organizational strength, customer service, and shareholder value. They received fewer customer complaints, and were more likely to retain executives who had been coached.

In addition, a company's investment in providing coaching to its executives realized an average return on investment (ROI) of almost **six times** the cost of the coaching. Manchester conducted what is believed to be the first major study to quantify the business impact of executive coaching.

Half of the executives in the study held positions of vice president or higher (including division president, general manager, chief executive officer, chief financial officer, chief information officer, partner, principal, and practice leader). Almost six out of 10 (57%) executives who received coaching were ages 40 to 49, and one-third earned \$200,000 or more per year.

The coaching programs that executives participated in were a mix of both change-oriented coaching — which is aimed at changing certain behaviors or skills — and growth-oriented coaching — which is aimed at sharpening performance. The coaching programs typically lasted from six months to one year.

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.

Business Impacts

Among the results of the study:

- Manchester’s coaching programs delivered an average return on investment of 5.7 times the initial investment in a typical executive coaching assignment — or a return of more than \$100,000 — according to executives who estimated the monetary value of the results achieved through coaching.
- Among the **tangible benefits to companies that provided coaching to executives** were improvements in:
 - Productivity (reported by 53% of executives)
 - Quality (48%)
 - Organizational strength (48%)
 - Customer service (39%)
 - Reducing customer complaints (34%)
 - Retaining executives who received coaching (32%)
 - Cost reductions (23%)
 - Bottom-line profitability (22%)
 - Top Line Revenue 14%
 - Reduced Turnover 12%
 - Other Business 7%
- Among the **intangible benefits to executives who received coaching** were improved:
 - Working relationships with direct reports (reported by 77% of executives)
 - Working relationships with immediate supervisors (71%)
 - Teamwork (67%)
 - Working relationships with peers (63%)
 - Job satisfaction (61%)
 - Conflict reduction (52%)
 - Organizational commitment (44%)
 - Working relationships with clients (37%)
 - Other Intangibles (31%)

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.

Study 2

Executive Briefing: Case Study on the Return on Investment of Executive Coaching

A *Fortune* 500 firm and Pyramid Resource Group, a coaching services company, recently engaged MetrixGlobal LLC to determine the business benefits and return on investment for an executive coaching program.

***The Bottom Line:** Coaching produced a 529% return on investment and significant intangible benefits to the business. Including the financial benefits from employee retention it boosted the overall ROI to 788%. The study provided powerful new insights into how to maximize the business impact from executive coaching.*

Results

Coaching was a very effective developmental tool for the leadership development participants, producing financial and intangible benefits for the business. Coaching sessions were rich learning environments that enabled the learning to be applied to a variety of business situations. Decision-making, team performance and the motivation of others were enhanced. Many of these business applications contributed annualized financial benefits. Other applications created significant intangible benefits. Overall, the participants appreciated their coaching experiences and would highly recommend coaching to others.

Three-quarters (77%) of the 30 respondents indicated that coaching had significant or very significant impact on at least one of nine business measures. In-depth discussions were conducted over the telephone with each respondent to further explore the business impact of coaching. Sixty percent of the respondents were able to identify specific financial benefits that came as a result of their coaching.

Overall, productivity (60% favorable) and employee satisfaction (53%) were cited as the most significantly impacted by the coaching. Respondents defined productivity in this context as relating to their personal or to their work group productivity and half (50%) documented annualized financial benefits. Employee satisfaction was viewed both in terms of the respondents being personally more satisfied as a result of the coaching as well as the being able to increase the employee satisfaction of their team members. The respondents could not quantify this benefit in financial terms. Customer satisfaction (53%) was also a significant source of intangible benefits.

The next most frequently cited as being significantly impacted by coaching were work output (30%) and work quality (40%). Twenty percent of the respondents identified financial benefits as a result of increased work output. Many respondents reported improvements in work quality; however, they were not able to quantify these improvements in terms of dollar benefits. Work quality improvements were considered an intangible benefit of the coaching.

Program costs were tabulated for all 43 leadership development participants in determining the return on investment. **Overall, the coaching process produced a 788% return on investment.** Given the client company's downsizing activities and the general state of the telecommunications industry, the client was reticent to fully factor in the financial benefits from retention. **Excluding the benefits from employee retention, a 529% return on investment** was produced. While those clients who had customer or people responsibilities produced proportionally greater

financial benefits, the realization of benefits to the business was fairly widespread throughout the group involved in this study.

ESTABLISHING THE ROI OF COACHING FOR YOUR FIRM

ROI can be a very complex process, but it doesn't have to be. When used to evaluate coaching, Dr. Jack J. Phillips, Ph.D. and Patricia P. Phillips, Ph.D., experts on the subject of ROI, suggest that several important tips are important to keep in mind.

1. **Ensure that the engagement focuses on a business need.** It is critical for the engagement expectations to be pushed to the business level.
2. **Both the coach and the person being coached should be committed to providing data.** This upfront early commitment is critical to secure the quality and quantity of data needed. These are the two primary data sources and, although records can be checked, there is nothing more credible than information obtained directly from those whose performance has changed.
3. **Keep the process as simple as possible.** The process can be kept simple and made very conservative and credible.
4. **Communicate results.** The presentation of results is very critical. The appropriate target audiences should be selected and communication used to obtain buy-in for the methodology as well as buy-in for the data.
6. **Use the data.** Evaluation data usually indicate changes are needed. Needed adjustments should be implemented. Improvements should be instituted to make the project more successful in the future.

The **Three Key Factors Methodology** is a method suggested by executive coach Mary Beth O'Neill. The following is an excerpt from an article published by her:

You can set up a coaching contract for success by helping a client identify the Three Key Factors around a specific business challenge they face. These Factors are areas executives manage every day but whose potential is often underutilized. The three Key Factors are:

- 1) the *business results* that leaders need to achieve,
- 2) the *leadership behaviors* they need to exhibit, and
- 3) the *team interactions* that the leader requires of staff in order to attain the desired results.

The real challenge for leaders and coaches is to ensure not only that leaders pay attention to these Three Key Factors but also that they are *linked* and interrelated to each other and integrated into the choices the leader makes on a daily basis. When coaches assist leaders in identifying and customizing the Three Key Factors to their situation: 1) it begins the coaching process, and 2) it produces interrelated categories that can be assessed for the ROI of the executive coaching work.

Define the Measures: How Will You Know When You Get There?

Any item identified by the leader needs not only to be linked to the other factors but also must be measurable. Four simple categories to use in measuring business results are time, money, quality, and quantity. The measurable goals on the leader and team factor lists must be specific, observable, and repeatable.

When you believe you and your client have successfully created a *measurable* list for each Key Factor, you can take the "movie camera" test -if the leader and the team were to engage in these behaviors during day-to-day interactions, could someone watching a movie of these interactions identify the desired behaviors? Could an observer recognize the behavioral expectations set forth by the leader?

Assess Other Variables

In order to identify a return on investment for the coaching engagement with the leader, it is essential to explore with the executive the other variables besides coaching that will affect the likelihood of success - the ability to accomplish all Three Key Factors. This will be important when a formula that only accounts for the coaching variable is calculated at the end of the coaching engagement.

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O'Neill has learned to ask the leader to create a list of four variables:

- 1) variables *internal* to the organization *that improve the chance for success*, including the strengths and assets of the team or organization,
- 2) *internal* organization variables *that detract from success*,
- 3) variables *external* to the organization *that benefit it*, and
- 4) *external* variables *that may jeopardize its success*,

Executives sometimes need to be reminded to consider positive internal variables because they are so used to assessing negative threats that they forget what they have in their favor.

The formula used to calculate Benefit/Cost Ratio that accounts for the coaching impact as only one variable affecting the outcome is:

$$\frac{\text{business results} \times \% \text{ impact of executive coaching}}{\text{cost of executive coaching}}$$

O'Neill calculates an intentionally conservative Benefit to Cost Ratio to offset any doubts clients may harbor for the lack of a conclusive one-to-one statistical correlation between the behavioral Key Factors to the business results Factor. This percentage is agreed upon in the contracting phase.

Measuring Both Sides of the Balance Sheet

Retention is one area where cost savings can be easily measured. A handy tool called the **Employee Turnover Calculator – Cost and reduction ROI** can be found at the following website:

www.careersystemsintl.com/turnovercalc.htm. CSI's research estimates the cost at anywhere from 50% to 200% of the employee's salary, including lost productivity, on-the-job training, executive search services, etc. When using the calculator try a few different percentages to observe the impact on your bottom line results.

Revenue growth is easily measured. Growth can be achieved by coaching partners in the firm to let go of their difficult clients and make space to identify and contract with ideal clients. Identify what you would find valuable and significant as a measurement and then measure it over a period of one year. A pilot program is highly recommended to this end.

What is important is that you create your own measurements that would be relevant to you in the context of your firm. In order to make the decision to use coaching in your firm a conversation on risk vs. reward is welcomed by the author of this Special report.

Conclusion

Accounting presents a view of a company's historical events – a look in the rear view mirror if you like. Coaching is an innovation which requires one to look through the windshield instead. There are not as yet definitive studies on the ROI of coaching engagements in accounting firms; however that is not to say that major firms aren't using coaching. The member of the national Human Resources group who is responsible for building the coaching capabilities of the people at Ernst & Young's said the following: "We use coaching heavily to support our people processes and build leadership within the firm. We use both internal and external coaches and we have a program for HR (Human Resources) professionals that certifies them on coaching skills and our coaching methodology. We have used more anecdotal data over the last 6 years to identify the benefits of coaching and we are just starting to design some ROI measures for a couple of our initiatives." In addition, coaching will soon be used at Ernst & Young at the partner level to re-energize their levels of engagement and commitment, and to develop their resilience all in the pursuit of better serving their clients.

About the Author:

Frumi is an experienced business advisor, mentor and coach. She has a passion for working with professional service firms where she specializes in accelerating business results and resolving the people issues that may limit their success.

Frumi has had a distinguished career history as an entrepreneur and financial executive. Her experience and expertise as both a CEO and a CFO has allowed her to provide responsive and collaborative support to executives in a wide array of companies and industries, including manufacturing, service industries and direct marketing.

Frumi's clients say that she is a positive catalyst for the changes that increase performance, profitability and life satisfaction. Clients appreciate her unique blend of practical, theoretical and communications/strategic skills that makes the work Frumi does unique among business advisors and coaches. They say that the motivation and inspiration she provides makes a difference in their lives and in the results they achieve.

Frumi has just finished her eighteen month term as the President of the National Board for the Professional Coaching and Mentors Association (PCMA). She serves on the Advisory Board of the Executive Coaching Program at Chapman University.

