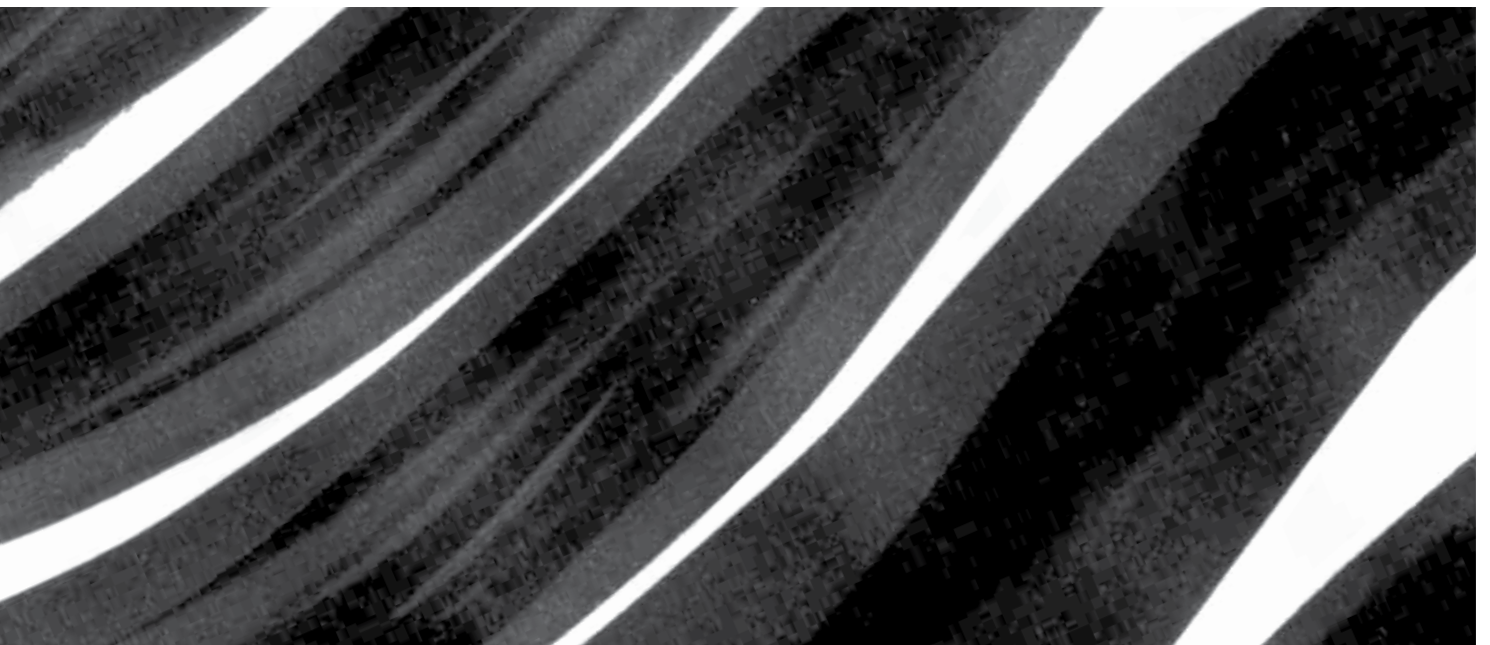


# Aligning Leader Coaching to Business Outcomes

Australia and New Zealand



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# Executive Summary

As organisations return to growth, there is increased emphasis on creating more effective business leadership. Executive and leadership coaching has emerged as a development vehicle of choice to create this, however, there is little evidence-based research that can prove a genuine ROI on impact.

To understand more about the impact of leader coaching, Right Management conducted a global study of more than 28,000 employees in ten major industry sectors in 15 countries in the The Americas, Europe and Asia Pacific.

Our research shows a direct link between leadership, employee engagement and business performance. However our experience has shown that aligning coaching goals to leadership competencies and organisational capabilities created the best opportunity to evaluate impact and financial return.

This document provides information and insight into aligning leader coaching with business results.

Right Management would like to thank the participants of this important study. We look forward to continuing to equip you with the essential resources and solutions you need to return to growth.

# Introduction

Executive and leadership coaching has emerged as a development vehicle of choice to create more effective business leadership. Growing at around 40% a year, the global Executive and Business Coaching Industry generated revenue of US\$1.5 billion in 2007, of which Australia had a share of US\$105 million<sup>1</sup>. A Google search on 'Executive coaching – Australia' will generate 792,000 hits or links in 0.15 seconds.

The coaching industry is not regulated and therefore open-entry opportunities exists for ex-CEOs, HR / OD practitioners, psychotherapists or line managers to establish their own coaching business and offerings. Moves are underway to establish a true profession of coaching globally, endorse a set of academic fundamentals in tertiary training and post-graduate courses, and establish qualifications and accreditation guidelines with governing bodies - but the industry is not there yet.

So the “cottage industry” flourishes, public and private sector organisations continue to invest heavily in leadership coaching programs as illustrated by the market data above and yet, astonishingly, there is very little evidence-based research that shows a genuine return-on-investment (ROI) on the impact of leadership coaching. At Right Management, we also strongly believe in the benefits and impact of coaching, having provided leadership coaching services for over 20 years globally to thousands of leaders, but acknowledge there is no proven or robust methodology for measuring ROI on coaching.

Research undertaken by Kombarakaran et al (2008)<sup>2</sup> has, however, shown that coaching can lead to increased employee productivity. It is a viable method of leadership development, especially for organisations focused on retaining high-potential employees.

<sup>1</sup> The Business Coach @ Sydney Business School. University of Wollongong. [www.uow.edu.au/gsb](http://www.uow.edu.au/gsb)

<sup>2</sup> Kombarakaran et al (2008), Executive Coaching: It Works!, American Psychological Association and the Society of Consulting Psychology.

# A Brief History of Leadership Coaching

Executive coaching has its roots in psychotherapy, performance and motivational psychology, and management theory. Coaching was initially used by organisations to support valued leaders who typically achieved business outcomes but in doing so displayed a less than desirable leadership style through leadership behaviours that were not aligned to the organisation's espoused values or culture and therefore needed to get "fixed."

The evolutions of coaching and of business are closely related. The advent of remedial coaching coincided with the breakdown of business hierarchies and the flattening of organisational structures. With fewer leaders and less time to perform tasks for themselves, leaders were, more than ever, required to deliver outcomes through others. A new premium was placed on collaboration, interpersonal skills and emotional intelligence. Leaders who had previously succeeded by deploying more autocratic leadership styles or by leveraging pure technical prowess rather than actual people engagement and leadership skill were forced to adapt. In some cases, they needed the aid of remedial coaching to make the transition.

Coaching took on a more positive and less stigmatising role when business conditions evolved again. As the pace of change quickened (often as the direct result of technological innovation), as organisations increasingly found themselves operating on a global scale, and as global competition increased the rate and scope of work, they could no longer rely on the vagaries of time and corporate experience to develop their leadership talent.

Instead, they needed to move high-potential candidates into positions of greater responsibility with maximum efficiency. This was usually through thoroughly planned and structured leadership development experiences in which one-to-one coaching played a central role.

Executive coaches were relied on to meet such specific aims as helping leaders fill skill gaps or develop the cultural awareness necessary for succeeding in a global environment. But they were also tasked with the more general aim of impacting the entire organisation by addressing the all-around potential of key leaders and, more significantly, working with multiple leaders. Where the typical coaching assignment previously involved a single "problem" leader, it now often involved a number of high potentials being groomed for a move up the ladder or an

*Coaching was initially used to support valued leaders...who needed to get "fixed".*

*Coaching can move high potential candidates to leaders with maximum efficiency*

Executive Team in their quest to create the desired enabling culture for organisational performance.

The anecdotal evidence and growth of the coaching market suggests a trend towards delivering increasing value to those organisations that have come to use it as a development vehicle for their leaders and high-potentials. But whether, as currently practised, it delivers full value to organisations, who often devote precious development dollars to its users, has been difficult to measure and quantify.

## The Measurement Challenge

The research basis for executive coaching is, to date, minimal<sup>3</sup>. Most writing in the field is based on what can be termed practice wisdom. Individual executive coaches have, not infrequently, described their practices, techniques, and outcomes in articles and books and have been the subject of reports in the media. Their descriptions are essential for this emerging profession as practitioners struggle to define its phenomena and key variables. This work will lay the foundation for establishing regulation guidelines and training practices but does little to explain the quantifiable impact of coaching.

Furthermore, a variety of biases on the part of practitioners and authors can influence their descriptions of practice wisdom, limiting the degree to which their conclusions can be valid or generalized. In recent years, a number of consulting firms and business groups have conducted research on executive coaching although their results are not always widely publicised, shared or subjected to peer review. These “studies” lay claim to return of investment of coaching of up to 500% and yet the methodology used to determine outcomes is not disclosed or open to scrutiny. A number of professional associations also promote research-based presentations on executive coaching at regional and national conferences.

Our own experience in collecting leader feedback, undertaking client reviews and assignment evaluations shows that almost without exception the individual leader, the sponsoring manager and organisation endorse the value of the coaching program far beyond the coaching investment made.

<sup>3</sup> Kilburg R, (2000) Executive coaching: Developing Managerial Wisdom in a World of Chaos, Washington, DC: American Psychological Association.

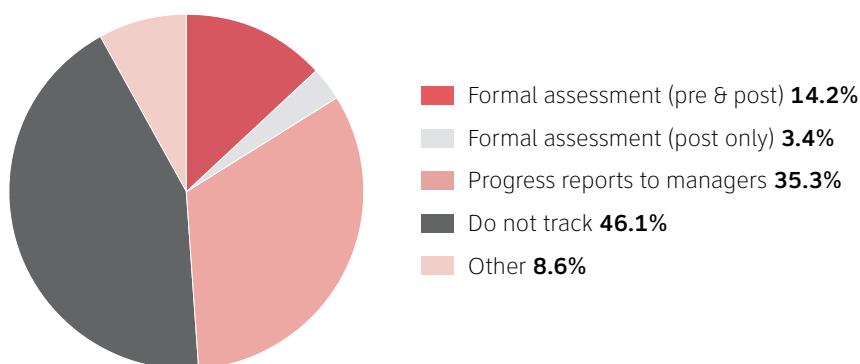
But there is no algorithm or ROI calculation that can accommodate the enormous number of variables that will influence the impact of a coaching program on a leader's behaviour and performance. One cannot accurately partition the impact a leader's behaviour has on business performance with numerous complex variables, such as the prevailing organisational culture, the leader's own manager, their team's current and potential capability, market conditions, competitor action or inaction, operating at the same time.

As Leveson<sup>4</sup> (2009) suggests, coaching can have positive impacts by changing leader behaviours and contributing to improved business performance. It is, however, more difficult to directly link coaching to improved business performance as positive business impacts are achieved when coaching is combined with other interventions and process improvements.

Perhaps it is unrealistic to expect a robust scientific approach to measuring the impact of coaching but at a minimum there should be some approach to evaluating the effectiveness of the coaching interventions.

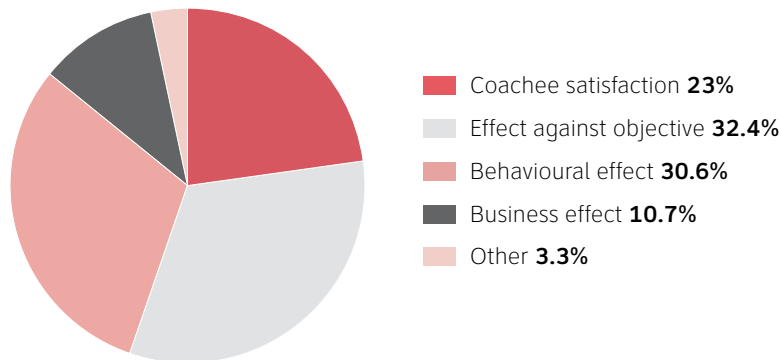
Right Management recently conducted a survey of human resource professionals in which 46% of respondents indicated they conduct no tracking of coaching effectiveness whatsoever, while only 14% conduct formal assessments both before and after coaching. Of those who do track, about a quarter measure leader satisfaction and a third measure coaching's effect on behaviour. Only a third again measure coaching against objectives and a mere 11% measure business effect.

**Figure 1: What process do you use to measure the effectiveness of coaching?**



<sup>4</sup> Alec Leveson: Meeting and Maximising the Business Impact of Executive Coaching, University of California pp 117

**Figure 2: When tracking effectiveness, what measures do you use?**



## Research Methodology

Some 28,810 employees representing 10 major industry sectors in 15 countries participated in an online survey covering a variety of talent management issues and their impact on engagement.

Data was collected from November, 2008 to January, 2009. Respondents were largely from private corporations (91%) employing 50 or more people. The organisations represented ranged in revenue from under US\$1 million per annum to over \$1 billion. The study used a stratified sample of employees that matched the workforce population in each country on several factors, including industry, size of organisation, gender, and age.

The 10 major industry sectors represented in this research include:

- Agriculture, forestry and fishing
- Mining and quarrying
- Manufacturing
- Electricity, gas and water supply
- Construction
- Wholesale and retail trade
- Restaurants and hotels
- Transportation, storage and communication
- Finance, insurance, real estate and business services
- Government, social and personal services

# Research Findings

In the absence of evaluation, coaching programs are at risk of being considered a discretionary investment in times where organisational development budgets are continually being scrutinised and financial returns are expected from training and development initiatives. This increased pressure to “prove” return is even more prevalent today, particularly in organisations where difficult resourcing decisions are being made against the need to ensure the required organisational capabilities are in place to both survive and then accelerate out of the global economic down-turn.

You don’t need statistics to reinforce how difficult, time-consuming and costly it is to replace a high performing leader. In recent times, organisations have recognised the need to become more sophisticated in their succession planning and overall talent management and pipeline systems. Current estimates of the cost to replace a middle manager are 240% of annual salary<sup>5</sup>.

The leadership and culture issues don’t go away – indeed one might argue that they have been exacerbated in recent times. Our own global engagement study undertaken recently highlighted the continuing critical role of leadership and its relationship to engagement drivers of Australian and New Zealand employees.

## SENIOR LEADERS’ IMPACT

Our study showed a primary driver of employee engagement for Australian workers is the belief that senior leaders have the capability to make their organisations successful. In New Zealand, a key driver of engagement was whether workers felt Senior Leaders valued employees. The table below represents the four biggest determinants of employee engagement.

**Figure 3:**

	Australia	New Zealand
I am committed to my organisation’s core values	73% (1)	79% (1)
Our customers think highly of our products and services	65% (2)	71% (2)
I have a clear understanding of what is expected of me at work	81% (3)	85% (12)
I have been fairly rewarded (eg pay, benefits, incentives, etc) for my performance in the last year	44% (4)	43% (8)
You can balance work & personal interests at my organisation and still progress		62% (3)
Senior leaders value employees	48% (10)	57% (4)

<sup>5</sup> JT Kostman and William A Schiemann, People Equity: The Hidden Driver of Quality, Quality Progress, May 2005 pp41

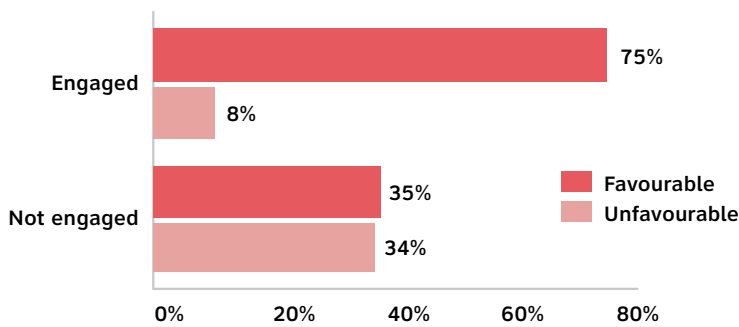
Furthermore, our research found that where employees have more favourable views about immediate leadership and senior leadership, they are more likely to be engaged in their position leading to increased productivity.

### IMMEDIATE LEADERS' IMPACT

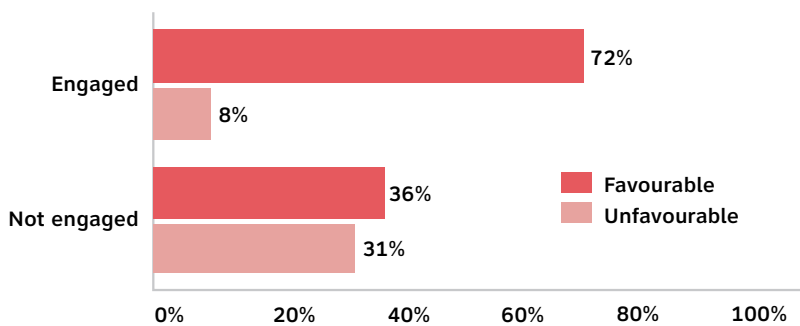
The following graphs highlight the strong link between leadership and employee engagement in both Australia and New Zealand.

We found that employees who rate their immediate leader positively are more likely to be engaged.

**Figure 4: Relationship between “Immediate Leadership” and “Employee Engagement” - Australia**



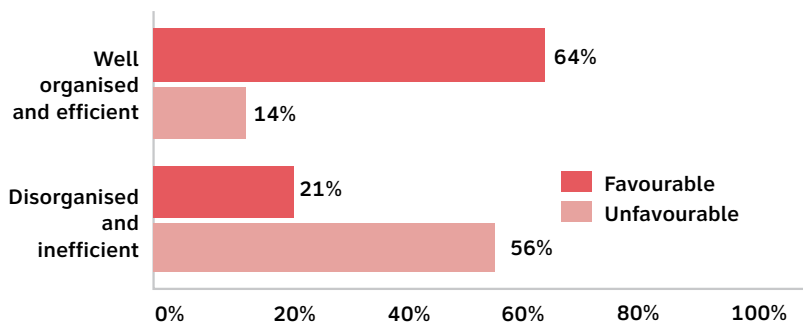
**Figure 5: Relationship between “Immediate Leadership” and “Employee Engagement” - New Zealand**



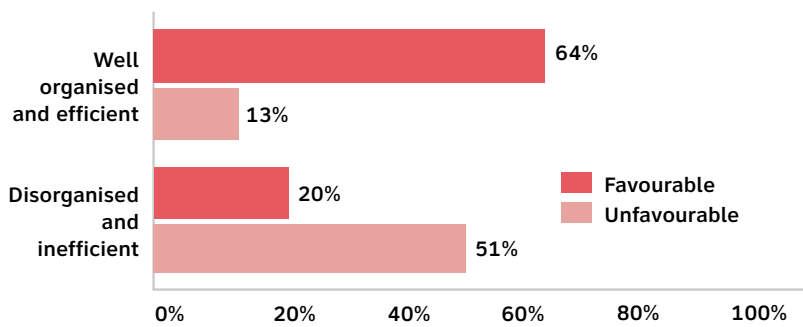
The following graphs show a strong relationship between leadership and employee perception of efficiency in both Australia and New Zealand.

We found that participants who agreed 'our work processes are well organised and efficient' also rated their immediate leader positively.

**Figure 6: Relationship between "Immediate Leadership" and "Employee View of Efficiency" - Australia**



**Figure 7: Relationship between "Immediate Leadership" and "Employee View of Efficiency" - New Zealand**



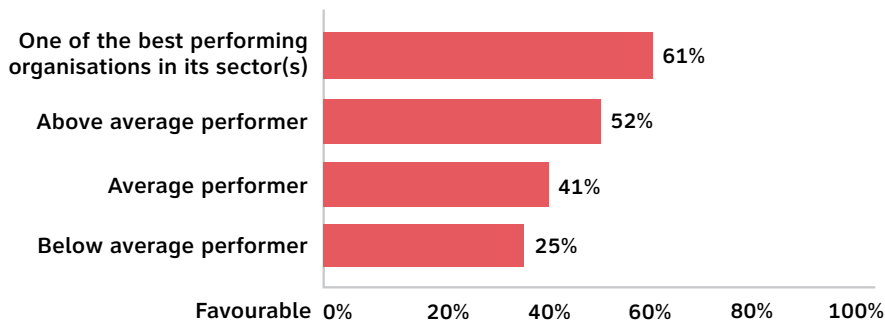
Given these links between leadership, employee engagement and business performance, strong and aligned organisational leadership should be a priority as the economic conditions improve.

# Implications for Organisations

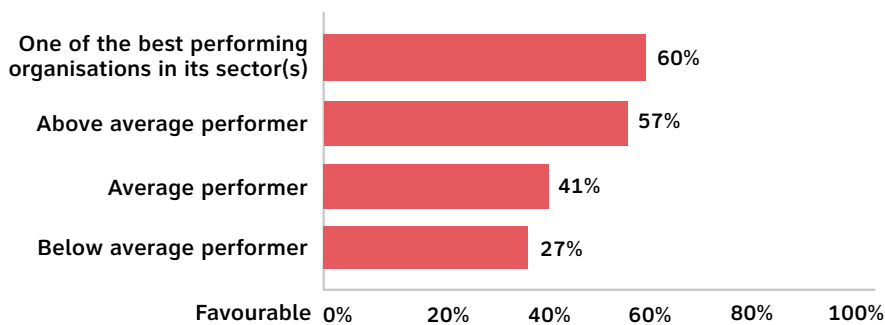
The case for continual targeted investment in leadership capability is compelling. The global economic downturn has turned up the heat on leaders at all levels – the challenge to engage, align and motivate employees to deliver results has become significantly harder as leaders have fewer resources at their disposal yet the same customer and market expectations and demands.

Furthermore, over the last 12 months leaders at all levels have had to lead, facilitate or implement significant change in their organisations as a result of the economic downturn. Our global research highlights the impact of leadership on organisation performance. Clearly, where leadership is evident, organisational performance increases.

**Figure 8: Relationship between “Immediate Leadership” and Organisation Performance - Australia**



**Figure 9: Relationship between “Immediate Leadership” and Organisation Performance - New Zealand**



# Advice to Organisations

Given that leadership coaching is a viable and targeted approach to building organisational leadership capability specific to the needs and challenges of the individual, but there is no robust proven methodology to measure its impact, what can organisations do? We recommend organisations be absolutely sure to anchor your coaching activity in the context of your desired business outcomes and organisational capabilities.

## **ALIGNMENT LEADS TO SUPERIOR PERFORMANCE**

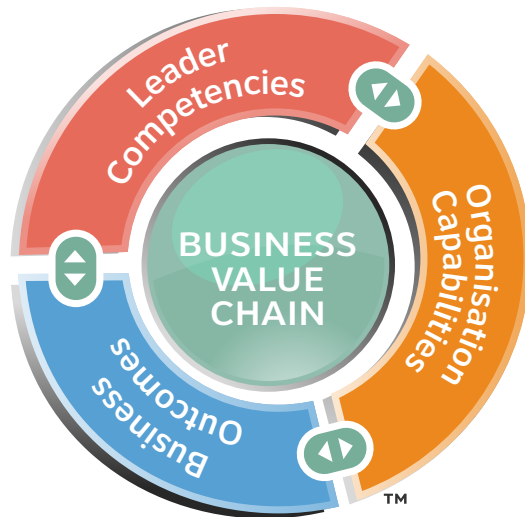
Coaching engagements need to reflect and reinforce the organisational capabilities required to deliver desired business outcomes. The one to one delivery approach remains fundamental. The leader continues to work with the coach to frame the objectives of coaching however, other stakeholders and systems should be factored into the process.

The stakeholders should include the Leader's manager, senior management and representatives of key functions such as HR, who share the responsibility of articulating the organisation's strategic objectives with the coaching effort to ensure that the coaching and strategy agendas are properly aligned — in other words, that the organisational context is made relevant.

Informed by organisational strategy, as well as by the organisation's culture, values, processes and structure, leadership coaching can become an even more powerful mechanism for impacting the entire organisation. Executive coaching then should be viewed as an organisational process driving systemic change and performance and seen not just as a one to one development event.

The Business Value Chain is a specific mechanism by which a coaching engagement ensures that strategic objectives are translated into a practical agenda for coaching.

**Figure 10: Business Value Chain**



The Business Value Chain charts a path to strategic goals as such increasing market share, revenues and profits for example by addressing the following areas.

**Business Value Chain - Gaining Alignment**

Leader Competencies	Organisation Capabilities	Business Outcomes
Strategic thinking	Goal clarity/alignment	Strategy-driven culture
Developing talent	Talent management	Talent retention
Customer focus	Service excellence	Customer loyalty

This strategic approach to coaching;

- Takes a comprehensive approach so that coaching not only improves individual performance but increases the likelihood of team and organisational impacts. It ensures that the leader's interpersonal, leadership and strategic skills are aligned with the organisation's desired leadership brand.
- Ties coaching outcomes to organisational strategy. Leaders develop broad capabilities relevant to realising the organisation's strategic objectives now and in the future.
- Supports the development of an organisation-wide coaching culture. Addressing the broader context in which the leader operates, it takes into full account the role of managers, colleagues, business strategy, culture and processes.

### **ALIGNMENT PROVIDES MORE ROBUST MEASUREMENT OPPORTUNITIES**

Aligning coaching goals to leadership competencies which are linked to business outcomes, creates transparency and increased opportunities for evaluating the coaching impact and financial return.

The Business Value Chain allows the leader to identify objectives at all three connected levels of performance, where development at one level drives improvement at the next. Improvement in outcomes predefined by the organisation and the achievement of strategic objectives become the ultimate yardsticks of coaching success, especially where the coaching engagement involves multiple leaders.

With more initial and sustained attention paid to aligning coaching goals with desired business outcomes, the practice of coaching will better serve organisations taking advantage of this very focused and personal approach to developing leaders in times when leaders need it most. Finally, such an approach ensures that the organisation is clearer on coaching outcomes at an individual, team and organisational level.

# Conclusion

To thrive, organisations need to ensure peak performance of their business leaders. A comprehensive approach to leader coaching will ensure these leaders can effectively engage, align and motivate employees to deliver results.

Coaching needs to be regarded not only as an individual event but also as an organisational process driving systemic change. Whilst there are no formal measures of ROI, the alignment of coaching goals with business outcomes will increase overall organisational performance.

Aligning leader coaching with business results will develop leaders in times when leaders need it most and ensure your organisation is set to thrive once the economy picks up.

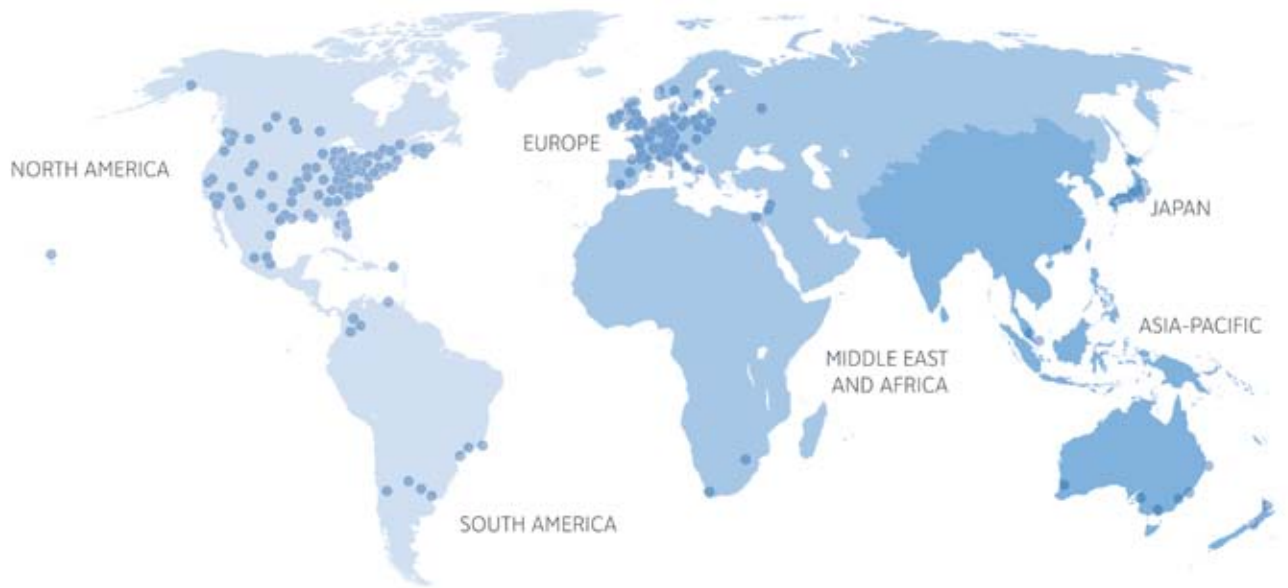
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# About Right Management

Right Management ([www.right.com](http://www.right.com)) is the talent and career management expert within Manpower, the global leader in employment services. Right Management helps clients win in the changing world of work by designing and executing workforce solutions that align talent strategy with business strategy. Our expertise spans Talent Assessment, Leader Development, Organisational Effectiveness, Employee Engagement, and Workforce Transition and Outplacement. With offices in over 50 countries, Right Management partners with companies of all sizes. More than 80% of Fortune 500 companies are currently working with us to help them grow talent, reduce costs and accelerate performance.

Right Management is a wholly owned subsidiary of Manpower Inc., leader in the employment services industry, creating and delivering services that enable its clients to win in the changing world of work.

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