

Author: Geoff Wade BSc., BE.,
Grad. Cert. NLP., MBA.

Executive Coach, Management
Consultant and Inspiritive partner

Geoff Wade is a graduate of the University of Sydney. He is a Management Consultant with over twenty-five years of experience in Business Performance Management (BPM), Business Performance Improvement, Organisational and Culture Change, Sales and Marketing. Geoff has a BSc, BE, MBA, and a Graduate Certificate in Neuro-Linguistic Programming (NLP).

Geoff held a wide range of operations, sales, marketing, line and senior management positions with multi national companies for over twenty years. He has been a management consultant and seminar presenter since 1998.

You can contact Geoff via e-mail at geoff.wade@onirik.com.au or by calling Inspiritive on +61 2 9698 5611.

What could effective NLP based coaching be worth to you and your business? Act now and find out. Call [Inspiritive](#) and ask them to help you find the latent productivity improvement opportunities in your team.

Coaching

You've probably read that coaching is a \$100 million industry and is second only to IT in growth. It has been hailed as a solution to under achievement and stress. According to a recent survey, almost 60% of American companies say they are providing coaching or similar developmental counselling for their upper management, CEO's and sales people. Just as successful athletes take on coaches to improve their game, so do senior, middle management and sales people. These people see the service can be powerful, effective and produce measurable results.

Coaches say "a therapist helps a person get from dysfunctional to functional and a coach shows a person how to get from functional to exceptional." Coaching is about finding what might be blocking people from their best performance and working to remove that block or adding the missing and necessary resources and skills.

Why, you ask, is coaching so useful for these people? The answer is feedback. Feedback is what adults use to learn what works and what does not. And senior management roles and sales roles have less access to objective feedback than many other roles.

Sales people are usually out of the office or on the retail shop floor performing "on their own" rather than under the coaching eye of their manager. Senior managers lose access to objective feedback by virtue of their position and power. Who is going to tell the boss that she motivates with fear? Three hundred and sixty degree feedback and emotional intelligence studies demonstrate that employees in these roles are more likely to have an inflated view of their competencies and less congruence with the perceptions of people who work with them often and know them well (15% higher – Sala, Hay & McBer 2001). This can have significant implications for performance improvement.

Coaches give objective feedback. So, they help managers and sales people better understand how they are perceived by others, and how they behave. And qualified coaches who NLP then help people make fast and lasting behaviour and habit changes.

There is a great deal of evidence supporting the hypothesis that coaching is useful, and that effective coaching delivers performance improvement (refer to case studies on this web-site and elsewhere). But, you ask, "What is it worth to my business?" You say, "Show me the typical ROI and payback period?" You even ask "How can I calculate a specific ROI and payback for the performance improvement that flows from coaching when the behavioural changes are rarely directly related to revenue improvement or cost reduction?" *Read on.*

Economic Value Add

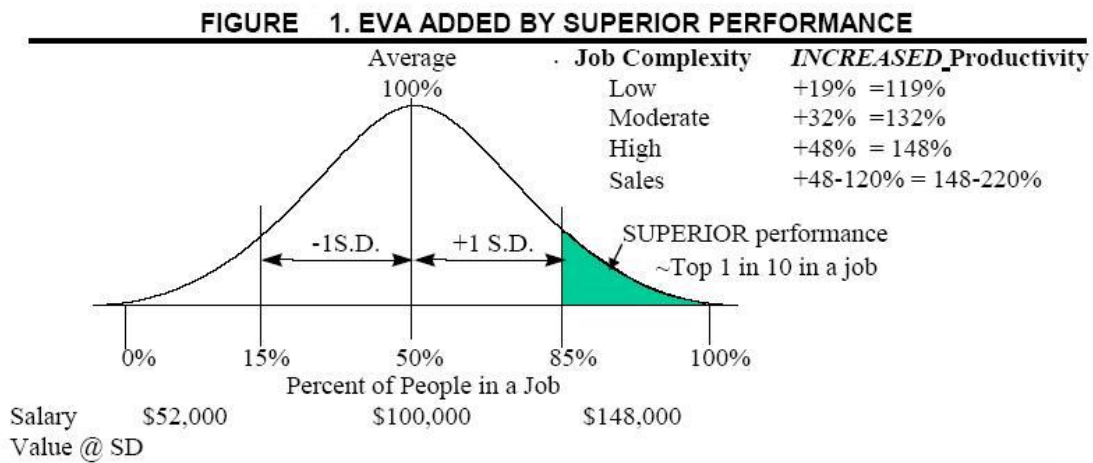
You've probably heard that Economic Value-added (EVA), cost-benefit, and return on investment (ROI), and payback period analysis are being used more and more to evaluate training, coaching and other human resource programs. They help staff to:

- Focus on the problems or opportunities with the greatest cost or value to the business. A small difference in a BIG dollar value problem or opportunity can produce significant results; a BIG difference in a trivial problem can only yield trivial results.
- Focus on those investments with the shortest payback time. So the money tied up in any improvement program is recovered and released for re-investment in other programs.

EVA of Competency

Competency may be described as "an underlying characteristic of an individual which has a cause-effect relationship to effective or superior performance in a job". Competency can be taught and 'learned' during training and coaching or 'selected' during recruitment. We define superior performance as that which is one standard deviation or more above the mean. This definition may be stated more generally as "any individual characteristic (or combination of characteristics) that can be measured reliably and that distinguishes superior from average performance, or effective from ineffective performers, at levels of statistical significance." We prefer this 'superior performance' definition of competence (specifically one standard deviation above the mean or the top 15 percent of performers in a job) because, as you'll see, it helps us easily calculate the economic value of coaching and competency improvement programs.

So first let us talk about the EVA of performance one standard deviation above the mean. As illustrated in Figure 1 (Hunter, Schmidt, and Judiesch 1990) depending on the complexity of the job, if you improve employee performance one standard deviation above the mean you gain between 19 percent and 48 percent of economic value added in non-sales jobs and you enjoy a 48 to 120 percent increase in productivity for sales jobs.



The simplest means to value superior performance (i.e. that which is one standard deviation above the mean) for any job in your organisation is to multiply the average salary for the job (for example, \$100,000) by 100 percent plus the additional percentage of productivity contributed by superior performance. It's easy to see that if a superior worker in a complex job is 48 percent more productive than an average worker, he or she has a productivity salary value of \$148,000, even if he or she is paid \$100,000. Conversely you can tell that a poor performer one standard deviation below the mean may be paid \$100,000 but has a salary value of only \$52,000.

Most studies of economic value added by superior performers suggest that such global estimation by salary value is very conservative. First, it is easy to perceive that it is more accurate to use the full cost of employment (salary plus benefits plus overhead, usually totalling between 2.5 and three times base salary) as the economic value an employee must deliver for the organization simply to break even. Second, you'll quickly grasp most employees in valuable jobs can leverage economic benefits that are vastly greater than their salary or full employment costs. For example in the top 500 US companies, average salespeople earn an average AU\$60,000 in direct salary and sell \$3 million worth of goods or services each year. Superior salespeople, who are one standard deviation above the mean, sell up to 1230 percent more. They sell goods and services worth \$6.7 million (Sloan & Spencer, 1991). Look again at Figure 1 and see this 1230 percent difference between superior and average salespeople is at the top end of the 48 to 120 percent range found by Hunter et al. (1990). Note that the incremental \$3.7 million in economic value added is not 123 percent of salary, but 6,150 percent, or sixty one times salary. Even if we only use incremental margin to calculate the value add – let's assume 25% margin on revenue – the value add is an amazing 1,540 percent or fifteen times salary.

EVA of an Intervention

We can clarify the EVA added by competency based interventions if we:

- (1) Articulate the EVA of performance one standard deviation above the mean (+1 SDAM) and
- (2) Grasp the impact or 'effect size' on increased productivity that we can attribute to intervention vs. independent variables (for example, selection, technology, managers, or local economies).

When you identify these two factors the value you add when you select a coaching intervention equals the economic value added by performance at one standard deviation above the mean +1 SDAM multiplied by the 'effect size'. If you have more than one person in the program then you sum for all individuals or take the above equation and multiply it by the number of people impacted.

Now let's look at the effect size. Competency based coaching interventions add value by shifting employees' performance curves toward greater average economic value added per employee. If one effect size equals one standard deviation then intervention impacts can be measured in percentages of effect sizes. (Spencer, L. 2001) found that selection (i.e. recruitment) effect sizes average 0.20 SDAM and training and coaching effect sizes average 0.44 to 0.64 SDAM.

Once the economic value of performance one standard deviation above the mean is known (refer to Figure 1 for a guide or determine these numbers within your own organisation), the "effect size" of an intervention can be used to measure how much economic value-add a competency coaching application can deliver. You can forecast EVA from training and coaching by multiplying the effect size shift from the intervention by the known value of performance +1 SDAM.

For a sales person if we take the lower effect size of 0.44 SDAM for a coaching programme then the value becomes an increment of \$1.6 million in revenue and \$400,000 in margin. Now let's assume the investment in a training and coaching intervention for one sales person (i.e. the out of pocket expense, plus the cost of the sales person's time, plus the opportunity cost of lost of sales revenue during the training and coaching time) is \$50,000. Then using the margin increment the ROI is 700% (Return/Investment = $[\$400,000 - 50,000]/\$50,000$) and the payback is 1.7 months (Investment/Return * 12 = $\$50,000/[\$400,000 - \$50,000] * 12$). Where else will you get a better return? And it is obvious, is it not, that the same calculation for a sales manager, or line manager, who will be responsible for much more revenue and profit, will deliver an even higher ROI.

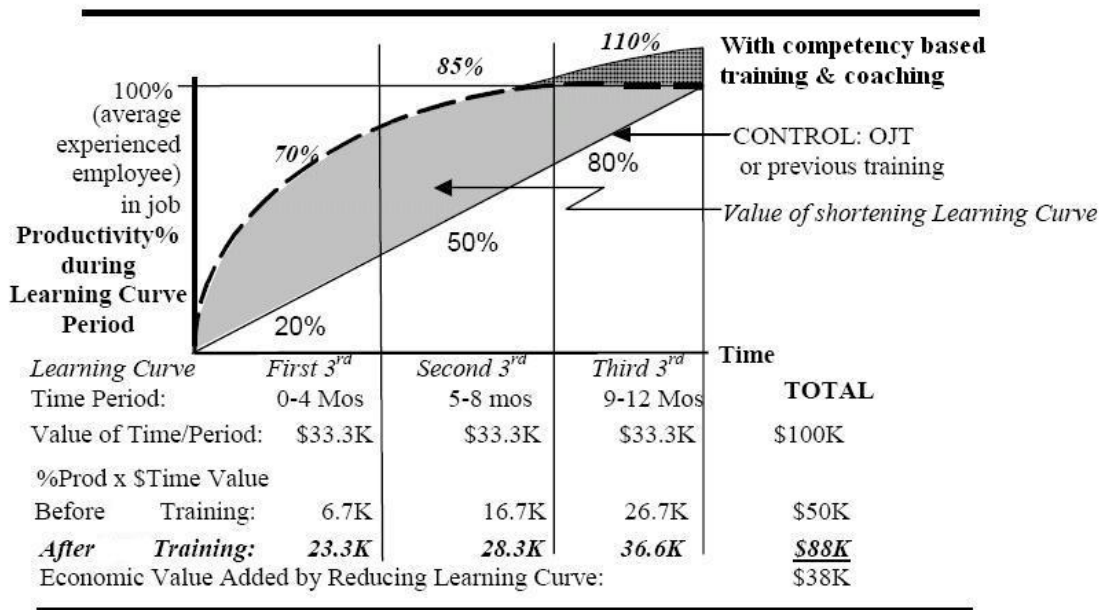
EVA of Shortening the Learning Curve

Coaching is also a critical factor in the process of new recruits reaching full productivity. Performance management, training and coaching also add value because they:

- (1) Shorten the time it takes employees to reach 100 percent productivity (defined as the average productivity of average experience workers in the job) and
- (2) Increase productivity when they push average employees' performance toward that of superior performers.

Figure 2 shows the economic value (38% of base salary) that results if we shorten a learning curve by 33 percent if we teaching new hires the competencies and best practices of superior performers (Spencer, 1986). The learning curve time to reach 100 percent productivity is divided into three equal periods, each costing one third of the total cost of employment for the entire learning curve period, in this case $\$100,000/3 = \$33,000$ for first, second and third sub-periods.

FIGURE 2 VALUE OF SHORTENING LEARNING CURVE TIME FOR EMPLOYEES WITH EMPLOYMENT COST OF \$100,000 PER YEAR.



This model proclaims training and coaching as a better (i.e. lower cost and faster realisation of benefits) option than replacement for under performers. The costs of turnover include:

- 1. Lost productivity during the time of acquiring new staff (55-57 days) e.g. approximately two months of lost sales for a sales position.
- 2. Recruitment costs totalling roughly one third of an employee's first year salary, whether paid to a search firm or incurred by all the steps and costs of internal recruitment and selection.
- 3. Out-of pocket costs for relocation and training.
- 4. Lower productivity during a new hire's learning curve period - the time from the day he or she is hired to the day he or she is 100 percent productive (i.e. reaches the average productivity of an average experienced person in the job). Learning curve time averages twelve months for technical and professional personnel.

The minimum cost of replacing a technical or professional person is his or her direct salary for a year (Spencer 1986); the actual cost is between two to three times direct salary if the full cost of

employment, including benefits and overhead, is added to the salary and if lost productivity (from for example, lost sales, or the loss of a major contract, or a delay in time to market of a new product during those fifty-five to fifty-seven days it takes to replace an employee) is taken into account (McClelland, 1998; Spencer & Spencer, 1993).

You can see the calculations are simple and the ROI and payback from effective performance management, training and coaching are among the best any business can realise.

Training Room Skill Transfer to on the Job Skills

While the above statistics are compelling reasons to invest in employee training and coaching many companies count pennies in this area because there is research that shows that classroom skills do not always effectively translate to new on the job behaviours. One piece of research on sales training suggests that within three months of classroom training 87% of skills effectively demonstrated in the training room are not in use on the job (Huthwaite Inc.1979). More and more companies are realising that they must look to new methods and tools to enable employees to change at a deeper level if they are to successfully make changes and achieve corporate goals. Traditional skills based training is not getting the results business requires.

Traditional skills based training is designed to give employees new skills and abilities to enable them to achieve desired business results. It mostly accomplishes this. But what happens if the employees' deeper (or higher level) beliefs and values are not aligned with the new skills or desired result? Look at an example where an employee attends a training programme to gain presentation skills. Yet at the level of beliefs the employee does not believe they can present effectively. This misalignment at the belief level can block the individual from learning or using the new skills to create a desired result. Another employee attends the same programme and believes they are a good presenter. Yet at the level of values, presenting is not important to them. This misalignment of the values level can prevent the employee from being motivated to use the new presentation skills.

It's easy to see the end result in both cases is that although both employees have the new skills they are not demonstrating them in their behaviour and therefore the benefit to the business is not manifested. We argue there is obviously more to getting results than giving people new skills. Many companies have become aware of the effect that beliefs and values have on performance, but most are not aware of the ease with which these can be changed or realigned using NLP based coaching techniques. Research also supports the power of on-the-job coaching in both motivating staff and ensuring the translation of classroom skills to on-the-job skills. The same research that found traditionally taught skills did not translate from class to job also found that this pattern does not apply where effective on-the-job coaching supports the classroom training (Huthwaite 1979).

In our work with our clients in the area of sales we know this to be the case. Above we wrote about the industry research that shows superior salespeople, who are one standard deviation above the mean, sell 123 percent more. Our clients have achieved performance improvement results from implementing NLP based sales coaching programs between 50% and 280% uplift (depending upon the nature of their sales force, product and market). Managers among our clients also attribute other productivity benefits to our coaching - like how they reduce the amount of time they spend in meetings by between 30% and 50% and yet achieve the same business outcomes.