

Cost-Benefit Analysis for Acting on Political and Social Issues

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Initiatives: [CHRO Effectiveness](#); [Diversity, Equity and Inclusion](#); [Executive Leadership](#); [Strategic Risk Management](#)

Organizations may face backlash for acting on contentious political and social issues, yet curbing these actions may demotivate employees. CHROs can help their organizations decide whether to act by weighing the benefits and costs of proposed actions in a structured, rigorous way.

Organizations today face internal and external stakeholder pressure to act on a variety of political and social issues. Requests for action may include:

- Issuing an internal or external statement about a political or social event
- Making a donation or matching employees' donations to a political cause
- Realigning the organization's value chain to include or exclude certain individuals, organizations or geographic areas
- Lobbying, donations or other political activities that aim to affect political decision making

However, organizations may face a public or political backlash when they act on contentious issues. Different types of backlash that organizations may face include:

- Criticism from employees who disagree with a given action (Criticism may begin with internal expressions of dissatisfaction — such as in town halls or virtually — but may escalate to include external expressions to the media, stated demands such as an open letter to organizational leadership, curtailment of work, or resignation.)
- Commentary from external media organizations, who may interpret and report on an organization's political actions in ways that deviate from the organization's intended message

- Dissatisfaction from consumers, suppliers or other nodes in the organization's value chain that causes these stakeholders to reshape their relationship with the organization (e.g., consumers threatening a boycott or suppliers renegotiating a contract)
- Retaliation from politicians, such as by canceling government contracts, restricting access to markets or removing tax and regulatory benefits for a specific organization or industry

CHROs can help their organizations decide whether to act in response to political and social issues by weighing the benefits and costs of potential actions in a structured, rigorous way. In particular, CHROs should help their organizations:

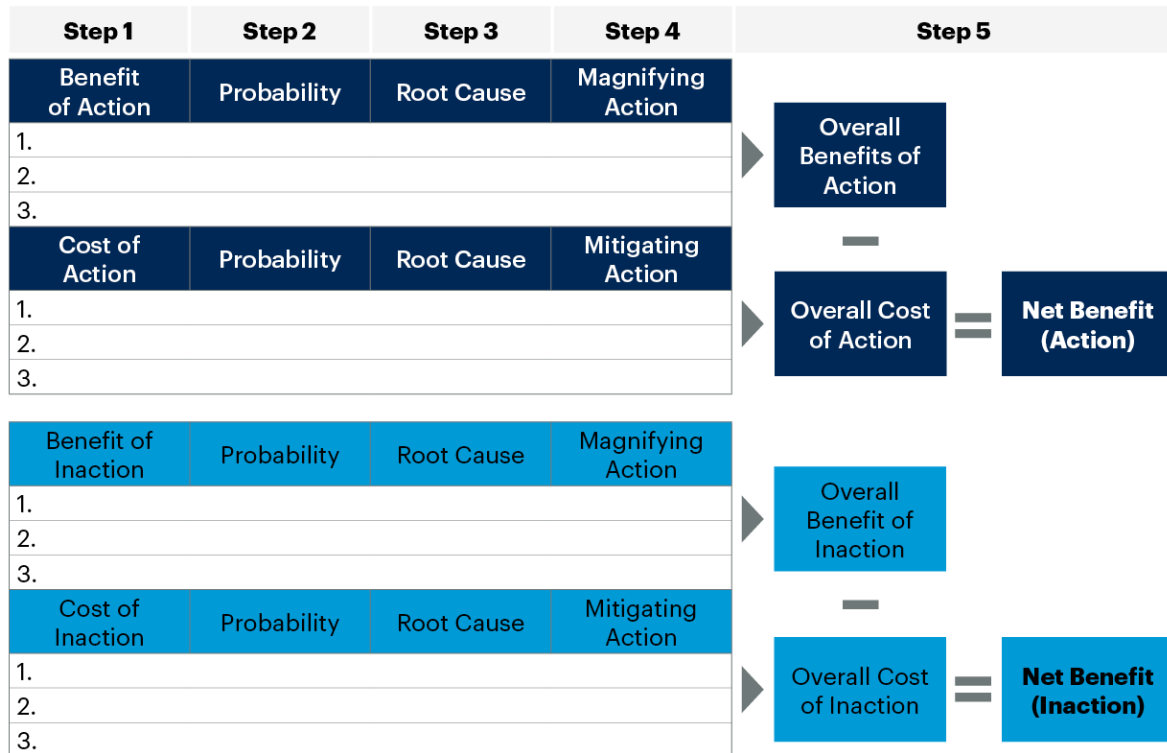
1. Assess the benefits and costs of both action and inaction.
2. Assess the probabilities of these consequences occurring.
3. Identify relevant root causes.
4. Identify ways to magnify benefits and mitigate costs.
5. Synthesize probabilistic assessments into actionable recommendations.

Framework for Evaluating Benefits and Costs of (In)Action

Business leaders may be tempted to simply curb their political and social involvement in light of recent costly incidents in which organizations acted politically and faced blowback. However, limited political involvement may risk demotivating employees and cause organizations to miss out on potential benefits. CHROs should instead help their organization systematically weigh the benefits and costs of action and inaction – both generally and in specific circumstances – in five steps (see Figure 1).

Figure 1: Framework for Assessing Benefits and Costs of Political Action

Framework for Assessing Benefits and Costs of Political Action



Source: Gartner
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Step 1: Assess Benefits and Costs of Action and Inaction

CHROs need to identify and assess the benefits and costs of political actions to present a holistic view to the rest of the C-suite (and potentially their CEO and board of directors). The organization must also consider the consequences of not acting politically. Inaction may have benefits, such as bolstering the organization’s reputation as a politically neutral party, but it could also have costs.

To assess benefits and costs, CHROs should ask:

- Which key stakeholders (e.g., employees, investors, consumers) will be affected by this political action/inaction?
- Do all stakeholders feel the same way about this issue (e.g., employees are unified in their views)?
- Will the effects be positive or negative?

- How large will the effects be?

Step 2: Assess Probabilities of Benefits and Costs Occurring

CHROs can help the organization better anticipate the overall effect of acting politically by assessing the probability of each identified benefit and cost occurring. The organization may find it more important to prepare for more-likely-to-occur smaller benefits or costs rather than focusing on less likely, albeit larger, consequences.

To assess these probabilities, CHROs should ask:

- Does this consequence have a high, medium or low probability of occurring?
- Did the organization face this consequence when it acted politically in the past?
- Did other organizations face this consequence in similar situations?

Step 3: Identify Root Causes

CHROs should also think critically about the potential root causes of individual consequences. Thinking strategically about root causes will ensure they have appropriately identified the relevant effects of acting politically and help them determine how to respond. For instance, an organization may face a consumer and investor backlash based on its political activity, but these effects may be connected. Investors might be less willing to provide capital to a company because they disagree with its political activity or because they believe a consumer backlash will negatively affect the organization's profitability. These different root causes imply the different courses of action an organization should take to mitigate potential costs.

To identify root causes, CHROs should ask:

- How might these benefits and costs be connected?
- What is driving these potential benefits and costs?

Step 4: Identify How to Magnify Benefits and Mitigate Costs

Even if an organization will likely face costs from political actions, they can dull these negative effects by taking countervailing actions. For instance, business leaders who fear their employees may be demotivated by inaction on political issues can try to minimize employee discontent by explaining why they couldn't take action in this particular instance. Conversely, organizations can magnify positive reputational benefits by highlighting popular actions they have taken internally and externally.

To magnify benefits and mitigate costs, CHROs should ask:

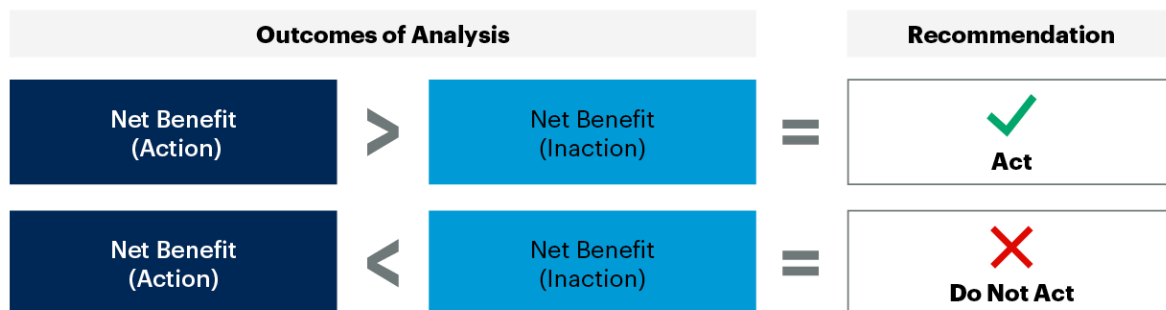
- What countervailing actions might support the organization's political activity or lack thereof?
- Who should lead these actions?
- How can the organization send effective internal and external messages about its actions or decision not to act?

Step 5: Synthesize Assessments Into Actionable Recommendations

CHROs should be prepared to provide actionable recommendations to senior leaders based on their assessment. They should first synthesize the various benefits and costs of action and inaction they have calculated to identify the probabilistic net benefit of action and inaction. They should then compare these net benefits to each other. As a general guideline, the CHRO should recommend that senior leaders consider acting politically if the net benefits of action outweigh the net benefits of inaction, and recommend not acting if the net benefits do not carry substantive weight (see Figure 2).

Figure 2: Translating Analysis Into an Actionable Recommendation

Translating Analysis Into an Actionable Recommendation



Source: Gartner
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CHROs should couch these recommendations appropriately and be mindful of several potential pitfalls and limitations:

- It is difficult to identify all of the relevant costs and benefits of political action and inaction, as well as their related probabilities. CHROs should be wary of overclaiming the accuracy of their analysis.
- It may be tempting to overengineer the analysis of benefits and costs, such as by assigning strict numerical probabilities and magnitude estimates to potential effects. Doing so may provide a false veneer of rigor and credibility.
- HR rarely takes unilateral political action. CHROs should compare their recommendations to those of other senior leaders and be prepared to defer to the CEO or other leaders who will ultimately make statements or approve actions.

Act With Confidence but Be Ready to Adjust

Adopting this framework for assessing the benefits and costs of political action and inaction will enable CHROs and their organizations to act politically with greater confidence. Without a structured approach for deciding whether and how to act politically, organizations will be forced to rely on the gut instinct of senior leaders, leading to higher risks.

Also, organizations should be wary of any decision framework's inherent limits and be ready to adjust their approach should circumstances change. Continuously updating their assessment of the benefits and costs of acting politically, rather than conducting this type of assessment as a one-off activity, is the best way for organizations to ensure they meet rising stakeholder demand for political action without taking on high levels of unanticipated risk.

Document Revision History

[How to Systematically Weigh the Benefits and Costs of Acting Politically - 27 July 2022](#)

Recommended by the Author

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