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Beyond compliance: understanding the behavioural drivers of non-financial misconduct

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Contents

Foreword

Summary

1. Introduction

1.1 Definition and scope of non-financial misconduct

1.2 Scope and limitations of this review

2. Why NFM takes root: theoretical frameworks

2.1 Theory of Planned Behaviour

2.2 Social Identity Theory

2.3 Cognitive Dissonance Theory

3. Drivers of NFM

3.1 Cognitive biases

3.2 Behavioural patterns

3.3 Organisational drivers

3.4 Bad apples versus bad barrels

4. Barriers to reporting

4.1 Self-reporting

4.2 Reporting by others

4.3 The availability heuristic and the reporting feedback loops

5. What makes people report misconduct?

6. The social value of reporting

7. Case study

7.1 Theoretical frameworks in practice

7.2 Organisational factors

7.3 What eventually broke the silence

7.4 Why multiple frameworks matter

8. Conclusions

9. Bibliography

Foreword

Behaviours such as bullying, harassment and discrimination have a lasting impact on victim-survivors whose careers, confidence and wellbeing have been damaged, sometimes irreparably. The cost is not theirs alone. As the FCA itself has made clear, where such behaviour goes unchecked, it weakens the cultures organisations depend on, damages the reputation of the firms in which it takes hold, and undermines the trust on which market integrity rests.

The new non-financial misconduct rules and guidance have raised the bar for financial services firms. However, two questions have received less attention: *why* misconduct persists; and, *what* interventions work?

These are the gaps the Chartered Insurance Institute (CII)'s programme of work on non-financial misconduct are seeking to address. As a professional body, we are well placed to bring behavioural insight to problems the sector has tended to approach through rules, policies, and procedures.

This literature review examines the cognitive, cultural, and structural dynamics that allow misconduct to take root, persist, and remain concealed. A second phase will involve empirical research, testing which interventions shift behaviour. Our work complements the FCA's framework, assisting the sector to move from compliance to genuine culture change.

I commend this review to firms, professionals, and policymakers, and look forward to building on it through the empirical phase to come.

Matthew Hill
Chief Executive

Summary

Non-financial misconduct (NFM) persists across UK financial services despite codes of conduct, whistleblowing channels, and an expanding regulatory remit, culminating in the FCA's new rules taking effect in September 2026. This literature review asks a question that rules alone cannot answer: what psychological, behavioural, and organisational mechanisms allow NFM to take root, persist, and remain concealed?

Applying three complementary frameworks (Theory of Planned Behaviour, Social Identity Theory, and Cognitive Dissonance Theory) it argues that the mechanisms which enable misconduct to operate at two levels.

At the individual level, in-group bias, groupthink, cognitive dissonance, and taking a lack of reporting as evidence of an absence of misconduct, normalises and conceals harmful behaviour. At the organisational level, these dynamics are compounded by factors including non-disclosure agreements, a lack of transparency, consequences for those who report, and an accountability gap in which perpetrators are sanctioned for procedural failings rather than the conduct itself. Alongside these mechanisms, the review also examines why people do come forward.

The review lays the groundwork for a subsequent empirical research phase, which will test which interventions are most effective in disrupting NFM at organisational level.

1. Introduction

Non-financial misconduct (NFM) poses an ongoing challenge for the financial services sector. Despite the existence of codes of conduct and codes of ethics setting out expected standards of behaviour, whistleblowing and speak up policies facilitating the raising of concerns, as well as training, behaviours constituting NFM continue to occur, often without being reported.

The Financial Conduct Authority (FCA) has progressively brought NFM within its supervisory remit, culminating in new rules and Handbook guidance (PS25/23, December 2025) taking effect from September 2026. These developments establish clearer boundaries of accountability; but do they, by themselves, address the underlying question: what are the behavioural, psychological, and organisational mechanisms that allow NFM to take place and persist?

This literature review examines that question. It identifies the mechanisms through which NFM is enabled, sustained, and concealed in professional settings, applying three complementary theoretical frameworks (Theory of Planned Behaviour, Social Identity Theory, and Cognitive Dissonance Theory), as well as an exploration of the drivers of misconduct (cognitive biases, behavioural patterns, organisational culture), the barriers that prevent it from being reported and motivations of those who do come forward.

The findings are intended to complement regulatory approaches and inform the responses from the Chartered Insurance Institute (CII) on guidance, standards and policy engagement.

1.1 Definition and scope of non-financial misconduct

The term was first used in the regulatory context in 2018, when the Women and Equalities Committee published its Report on Sexual Harassment in the Workplace. The FCA responded with a letter (FCA, 2018) to the Chair of said Committee drawing a link between what it termed 'non-financial' misconduct, workplace culture, psychological safety, and the regulator's statutory objectives.

Through a series of speeches, letters, and consultation papers between 2018 and 2025, the FCA expanded both the scope and specificity of the term, culminating in July 2025, when consultation paper CP25/18 confirmed that the conduct rules on serious NFM (which until then applied only to banks) would also apply to non-banks.

In December 2025, policy statement PS25/23 finalised the accompanying Handbook guidance in the staff conduct (COCON) and fitness and propriety (FIT) sourcebooks explaining when bullying, harassment, violence and similar behaviour amounts to a breach of Conduct Rule 1 (acting with integrity) or Conduct Rule 2 (acting with due skill, care and diligence).

The threshold for considering NFM 'serious enough' is aligned with the harassment standard found in the Equality Act 2010: the behaviour must have the purpose or effect of violating a person's dignity, or creating an intimidating, hostile, degrading, humiliating, or offensive environment for them.

The current regulatory position is that conduct which would make any reasonable person doubt an individual's integrity, respect for others, or basic decency can trigger Conduct Rule breaches and render an individual unfit under the Fit-and-Proper test, with consequences ranging from discipline to prohibition to practice.¹

¹ The FCA's NFM framework is one of several statutory regimes bearing on workplace misconduct. Sexual harassment, in particular, also sits within the Worker Protection (Amendment of Equality Act 2010) Act 2023 shifting employer liability from reacting to sexual harassment to preventing it. Subsequently, the Employment Rights Act 2025 has brought disclosures of sexual harassment within whistleblowing protection. For firms in scope of the FCA's NFM rules, these duties operate in parallel.

Limitations of regulatory framing

Before the current rules were finalised, Keller and Kokkinis (2021) identified potential shortcomings within the FCA's broader approach to accountability under the Senior Managers and Certification Regime (SM&CR).

- **Individual accountability:** The change of focus from collective to individual accountability may encourage firms to make individuals scapegoats for wider organisational failings.
- **Risk aversion:** Potentially deterring ethical individuals from leadership roles, changing the entire profile of the sector.
- **Data limitations:** Absence of reported misconduct (required under the SM&CR data driven approach) doesn't necessarily correlate with a positive culture.

These concerns relate to the SM&CR itself. The new rules and guidance on NFM clarify how the regime applies to NFM and does not alter the features that Keller and Kokkinis saw as problematic: individual-centred accountability, reliance on firm-reported data.

1.2 Scope and limitations of this review

This review focuses on the drivers of misconduct broadly, rather than distinguishing between the dynamics of specific forms such as bullying, harassment, sexual violence or discrimination; each of these carries distinct characteristics that merit dedicated analysis.

The literature drawn upon is predominantly rooted in Western contexts, and the influence of different cultural norms on misconduct is not explored here. Individual characteristics such as neurodiversity or gender, which may shape how people perceive, experience, and respond to workplace misconduct, fall outside the scope of this review and warrant separate research attention.

These exclusions reflect the need to establish a foundational understanding of the common cognitive, behavioural, and structural mechanisms before examining how they interact with specific misconduct types, cultural contexts, or individual differences.

2. Why NFM takes root: theoretical frameworks

This literature review explores the topic of NFM through the lens of three complementary approaches: Theory of Planned Behaviour (TPB), Social Identity Theory (SIT) and Cognitive Dissonance Theory (CDT). Each of these provides different avenues of exploration of NFM and should be viewed in combination.

2.1 Theory of Planned Behaviour

Developed by Ajzen in 1985, the TPB provides a framework for understanding how intentions translate into actions. According to TPB, behaviour results from a confluence of factors (Ajzen, 1985, 1991):

1. **Attitude toward the behaviour:** Individual beliefs about consequences of an action.
2. **Subjective norms:** Perceived social pressure to conform.
3. **Perceived behavioural control:** Belief in the ability to perform the behaviour.

The combination of these factors shapes intention to act and influences actual behaviour.

Extended TPB and moral obligation

Beck and Ajzen (1991) extended the framework to incorporate perceived moral obligation as an additional dimension. It represents an individual's sense of responsibility or ethical duty to act or not to act in a specific way. In NFM contexts, this moral obligation might derive from a professional code of ethics: an individual may recognise their behaviour violates the code, creating an internal conflict even when other factors favour the action.

In the case of workplace bullying, for example, the behaviour might occur where an individual holds a positive view toward dominance behaviours (attitude towards the behaviour), works in an environment where bullying is normalised (subjective norms), and perceives no meaningful consequences (high perceived behavioural control). Even if the individual acknowledges bullying violates their professional code (moral obligation), the model suggests this factor may be overridden when the other three strongly favour the negative behaviour.

Limitations of TPB for understanding NFM

TPB faces criticism (Sniehotta et al., 2014), particularly regarding its ability to predict actual behaviour from stated intentions, an important consideration when applying the theory to the prevention of misconduct. TPB assumes reasoned, conscious decision-making; however, research suggests that decisions often involve unconscious biases operating outside conscious control (Tajfel & Turner, 1979; Kahneman & Tversky, 1974; Festinger, 1957). These are covered later in this paper.

This limitation is relevant for NFM, where behaviours such as discrimination may occur automatically, without the deliberative process TPB describes. For example, an individual may sincerely believe they oppose discrimination (negative attitude towards the behaviour) while unconsciously favouring in-group members in hiring decisions.

Value despite limitations

The core insight of TPB, that behaviour emerges from multiple interacting factors, stands. Its limitation stems from the assumption that all behaviour follows conscious deliberation.

Nevertheless, TPB offers a useful framework for examining the *deliberative* aspects of NFM. It reveals that even conscious misbehaviour requires alignment of multiple factors: individual attitudes, social context, perceived ability to act, and moral considerations. This suggests interventions targeting a single factor (such as ethics training alone) may be unlikely to prevent misconduct if organisational norms and control systems remain unchanged.

2.2 Social Identity Theory

SIT (Turner et al., 1979) proposes that individuals develop preferences for rewarding members of their own group. This in-group favouritism operates below conscious awareness, suggesting it reflects deep-seated psychological mechanisms rather than conscious choice.

The existence of unconscious in-group preference is well established through the Minimal Group Paradigm (Tajfel et al., 1971), which demonstrates that even an arbitrary, trivial categorisation (e.g., grouping people by their preference of a particular work of art) can trigger in-group favouritism and discrimination against out-groups. This finding has been replicated across populations (Otten, 2016), establishing that it is the sense of belonging to a group, rather than any specific shared characteristic, that drives in-group preference.

Implicit Association Tests (IAT), which measure reaction times to assess unconscious attitudes and associations (Greenwald et al., 1998), provide further evidence that people express unconscious preferences for members of their own group, regardless of how that group is defined.²

IATs have attracted some criticism: concerns have been raised about low test-retest reliability, with the same individual producing different scores on different administrations of the test (Schimmack, 2021); evidence suggesting IAT scores are weak predictors of actual discriminatory behaviour (Oswald et al., 2013); and debate over whether the test captures personal bias or simply reflects familiarity with culturally prevalent stereotypes (Gawronski and Hahn, 2019). However, these criticisms relate specifically to the IAT as a measurement tool, not to the underlying phenomenon it attempts to capture.

Furthermore, research suggests that SIT has evolutionary foundations, finding similar biases in non-human primates and other social animals, indicating that in-group favouritism may reflect an evolved predisposition rather than purely a product of human culture (De Waal, 2008).

² The IAT works by measuring the speed with which participants pair concepts (e.g., in-group/out-group members) with positive or negative attributes. The assumption is that faster pairings reflect stronger unconscious associations. For example, a participant who more quickly pairs their own group with positive words is considered to hold an implicit in-group preference. Since its introduction, over 40 million IATs have been completed through Harvard University's Project Implicit platform, making it one of the most widely used tools in social psychology (Ratliff et al., 2024).

2.2.1 Groupthink and System 1 thinking

SIT explains why groups may protect their own in-group members, even when those members behave badly. A related phenomenon explains why nobody in the room challenges the decision not to act: groupthink.

Groupthink occurs when cohesive groups prioritise consensus over engaging in the critical evaluation of decisions (Janis, 1982). Members of homogeneous groups are more likely to self-censor doubts, dissenters may face pressure to conform, and the group may develop a shared belief everyone agrees on, which may not always be true. The result is decision-making that is not subject to enough scrutiny, because the group's social dynamics suppress the critical thinking which good decisions require.

Another way of conceptualising this phenomenon is Kahneman's (2011) System 1 and System 2 thinking. System 1 is described as fast, intuitive, and automatic; the autopilot we default to when things feel familiar and comfortable. System 2 is slow, deliberative, and effortful; the one we draw on when something demands careful evaluation. Homogeneous groups, where members share similar backgrounds, are more susceptible to collective System 1 thinking, because shared assumptions go unquestioned. Decisions that need scrutiny may be sailed through because they 'feel right' to everyone in the room.

Where SIT and groupthink operate together, the effect is compounded. In-group favouritism creates the motivation to protect a perpetrator; groupthink suppresses the mechanism through which that protection might be challenged. The combination may make it more likely that misconduct is simultaneously known about and never confronted.

2.2.2 Diversity and in-group dynamics

If groupthink typical of homogeneous groups compounds the effects of SIT, could diverse groups mitigate against this dynamic? Carter et al. (2024) found fewer instances of corporate misconduct in US firms with more women on boards, particularly where representation was not tokenistic. This suggests diverse leadership teams, and by extension, diverse groups, may reduce certain biases that prevent misbehaviour from being identified and reported.

That said, SIT stipulates that any group, regardless of composition, will still exhibit in-group favouritism. What diverse groups may alter is not the existence of in-group bias but the quality of the group's decision-making. Phillips, Northcraft and Neale (2006) found that diverse groups spent more time on tasks and processed information more carefully than homogeneous groups, and that this more careful processing accounted for their better performance.

This is consistent with System 2 thinking: where groups do not share the same assumptions, the automatic consensus explained by groupthink is harder to reach, as diverse perspectives create friction that forces deliberative reasoning. Without that friction, homogeneous groups may default to System 1 processing in which misconduct by in-group members is rationalised or reframed: bullying becomes 'competitive edge'; harassment is dismissed as 'banter' (Einarsen et al., 2017).

Diversity may not fully eliminate in-group favouritism, but it may disrupt the automatic consensus that allows such rationalisations to go unchallenged.

2.3 Cognitive Dissonance Theory

Festinger's (1957) CDT provides insight into how individuals manage conflicting beliefs about misconduct. This model describes the psychological discomfort individuals experience when holding contradictory beliefs, and their subsequent efforts to reduce this discomfort.

In TPB terms, dissonance arises when an individual's attitudes, subjective norms, moral obligations, and perceived behavioural control conflict. For example, an individual may believe discrimination is wrong (attitude, moral obligation) while working in an environment where it is normalised (subjective norms).

Strategies for managing dissonance

When encountering beliefs that challenge their own, Festinger suggests individuals adopt one of three strategies to minimise discomfort:

- 1. Change one's own beliefs to align with the challenging behaviour.** *Example:* A graduate joins a firm where aggressive sales tactics are normalised. Initially uncomfortable with pushing unsuitable products, they experience cognitive dissonance. Over time, they adopt the belief that 'everyone does it' and 'customers should do their own research,' reducing their discomfort by changing their ethical framework to match the normalised organisational behaviour.
- 2. Persuade the challenger to change their beliefs.** *Example:* A compliance officer notices a manager routinely approving transactions with inadequate documentation. They challenge this practice, citing regulatory requirements. If they have sufficient authority, the manager may modify their behaviour and reduce the dissonance they have created.
- 3. Psychologically distance oneself from the person causing the discomfort.** *Example:* Mid-level staff observe a senior colleague consistently prioritising personal relationships over client suitability in product recommendations. Unable to challenge someone with decades of tenure and unwilling to abandon their professional ethics, they dismiss his behaviour as 'old school,' categorising him as fundamentally unlike themselves.

Festinger suggests that strategies 1 and 3 are more likely to apply where the person challenging our beliefs is someone in a position of authority or where their position in the social group is well established. Strategy 2 is more feasible when the challenger has a weaker social standing or status.

Group dynamics, external support and 'othering'

Festinger argued that social groups are both sources of cognitive dissonance and vehicles for its resolution. On one hand group membership may require adopting beliefs that contradict personal values, and on the other the strength of an individual's external support network becomes critical in determining how they respond to that contradiction.

An individual entering an organisation where NFM is normalised might experience greater dissonance if they have strong external reinforcement (for example, through professional body guidance and an associated code of ethics) that such behaviour is wrong. Individuals lacking such external guidance and codes may more readily modify their beliefs to reduce dissonance (strategy 1).

Where external support is salient, however, changing one's own beliefs (strategy 1) may feel impossible. Equally, persuading senior, well-established colleagues to change (strategy 2) may seem unfeasible. In such cases, individuals may resort to strategy 3: psychologically categorising those engaged in NFM as fundamentally 'other', someone who doesn't share their values or professional identity.

This psychological distancing allows the individual to maintain their belief that the behaviour is wrong while doing nothing to prevent or report it, because they perceive it as the behaviour of someone 'not like them'. By setting the perpetrator apart, the group can continue to uphold its ethical standards in principle, while tolerating the behaviour in practice.

This mechanism may help explain why NFM perpetrated by individuals in a position of authority goes often underreported, tolerated, or overlooked by other members of the social group.

Limitations and empirical questions

This application of CDT to NFM contexts remains largely theoretical, and while it offers a plausible explanation for how professionals may reconcile contradictory ethical standards with organisational norms, empirical research is needed to validate whether these mechanisms operate as described.

3. Drivers of NFM

The theoretical frameworks discussed above provide insight into the mechanisms through which NFM intentions form and persist. This section turns to the drivers that feed into those mechanisms: the cognitive biases that distort judgement, the behavioural patterns that entrench misconduct over time, and the organisational conditions that facilitate misconduct to emerge.

3.1 Cognitive biases

A cognitive bias is a systematic error in judgement; a heuristic or mental shortcut people use to make decisions quickly (System 1 thinking). Although the proliferation of identified biases in the literature has attracted criticism of over-identification³, it is well established that people rely on heuristics and are prone to decisions based on cognitive processes that are ill-suited to the complexity of social interactions (Kahneman, 2011).

How biases may operate on the observer

The *representativeness heuristic* leads people to judge the likelihood of something happening based on how closely it matches an existing mental model rather than on objective evidence. People may conceptualise what a perpetrator 'looks like' and assess colleagues against that image. High-performing, well-regarded individuals may not fit the prototype and hence may be presumed unlikely perpetrators regardless of any supporting evidence.

The *availability heuristic*, where people judge the frequency of events by how easily examples come to mind, produces a reinforcing effect. Vivid, recent, or frequently discussed instances feel more common than they are, and the reverse holds true for instances that are hard to recall. In an organisation with few visible complaints, staff may struggle to bring instances to mind and conclude that there is no real problem. The absence of reports is taken as evidence of absence (which may be true in some cases).

How biases may operate on the perpetrator

Other biases entrench misconduct by operating on the perpetrator rather than on the observers.

Confirmation bias is the tendency to attend to evidence that supports an existing belief while discounting evidence that contradicts it. For someone engaged in misconduct, it means registering neutral or positive interactions as confirmation that their behaviour is acceptable, while filtering out signs of discomfort from others.

The *actor-observer bias* describes how people explain their own negative behaviour by reference to circumstances while attributing identical behaviour in others to character. A negative remark made by a colleague may lead to labelling the colleague as 'rude'; made by oneself, it may be labelled as 'a joke that didn't land'.

Moral licensing describes how past ethical behaviour can act as a credit that offsets current misconduct. For example, an individual who has championed diversity may unconsciously feel entitled to bend the rules in their interpersonal conduct.

³ Desjardins (2021) catalogued 188 biases.

These biases illustrate a broader insight from the cognitive psychology literature: judgement is shaped by fast, automatic processes that operate by default unless something interrupts them. They work in two directions, concealing misconduct from those who might report it, and entrenching it in those who commit it. This poses a challenge for regulatory frameworks that depend on firms reporting misconduct: reporting obligations alone are unlikely to produce reliable data without parallel interventions designed to mitigate these biases.

3.2 Behavioural patterns

Unlike cognitive biases, which are inherent to how people process information, behavioural patterns originate in experience and reinforcement. They may be conscious (for example a deliberate pattern of workplace bullying sustained over years to consolidate power) or they may develop incrementally, becoming automatic through repetition without the individual fully recognising the trajectory of their own conduct.

The main distinction is agency: we are not active participants in the creation or deployment of cognitive biases, whereas behavioural patterns, even when they operate below conscious awareness, are shaped by learning and can, in principle, be unlearned (and therefore potentially more amenable to intervention).

The literature points to different behavioural patterns relevant to NFM.

Escalation patterns

Satalkar and Shaw (2018) document how minor misconduct can escalate to serious violations when early behaviour goes unchallenged. Individuals who face no consequences for low stakes transgressions may grow increasingly confident in their ability to avoid detection or sanction, progressively testing the boundaries of acceptable conduct.

This pattern suggests that early intervention in apparently minor issues may be an effective means of preventing more serious misconduct. Conversely, organisations that treat low-level incidents as too trivial to address may be inadvertently signalling that the behaviour is acceptable, creating the conditions for escalation.

Normalisation

Repeated exposure to misconduct reduces the psychological barriers to engaging in it. Einarsen et al. (2017) find that sustained exposure to hostile behaviour recalibrates individuals' sense of what is accepted. Baron and Corbin (2016) identify how this recalibration can produce failures to recognise improper conduct. The implication is that normalisation operates not only on perpetrators but on bystanders and organisations, eroding the collective capacity to identify behaviour that should be challenged.

Normalisation connects to TPB's subjective norms: an individual, joining a team where poor behaviour is commonplace, faces an environment where tolerance is the norm, perceived behavioural control to challenge it is low, and the moral obligation to intervene has been eroded by the acceptance of those around them.

SIT adds to it, as anyone seeking in-group acceptance faces pressure to adopt the group's tolerance of misconduct as a condition of membership and the longer the behaviour has been tolerated, the harder these dynamics are to disrupt.

Reciprocity and retaliation

The literature on counterproductive work behaviours (CWB) identifies a pattern in which employees who experience or witness misconduct respond with poor behaviour of their own. Jensen et al. (2010) find that breaches of the psychological contract (the implicit expectations employees hold about fair treatment) can trigger retaliatory behaviours ranging from disengagement to active sabotage.

In essence, misconduct breeds misconduct, both through the escalation of individual perpetrators and through the reactive behaviours of those on the receiving end.

3.3 Organisational drivers

The previous sections examined how individual mental models stemming from System 1 thinking and learned behaviour respectively contribute to NFM. This section looks at how the environment in which individuals work, its incentives, norms, and power structures, play a role in whether misconduct is enabled or constrained.

Consider a firm where bullying by senior staff proceeds unchecked while identical behaviour among junior employees is disciplined: the inconsistency signals that the rules apply differently depending on who you are, not what you do. This raises the question on whether misconduct is primarily a problem of individuals, of the organisations that surround them or the interplay between both.

There are three organisational aspects that, taken together, go some way to explain how organisational environments shape conduct:

Ethical infrastructure

Organisations' 'ethical infrastructure' comprises of both formal elements (codes, surveillance, sanctioning systems) and informal elements (ethical climate, norms of respect and justice). Having formal policies without corresponding informal reinforcement can reduce ethical behaviour by creating a false sense of assurance (Tenbrunsel et. al, 2003, Einarsen et. al, 2017).

Social learning

Employees take their cues from what they observe, particularly from those in positions of authority. When leaders model or tolerate inappropriate behaviour, they establish informal norms that override formal policies (Soylu, 2011). The effect compounds as new employees observe what is rewarded and what is ignored; the organisation's culture, as distinct from its stated values, becomes self-reinforcing.

Psychological contract

Employees hold implicit expectations about how their employer will treat them. When those expectations are breached, through unfairness, broken promises, or tolerance of misconduct, the result can be counterproductive work behaviours (CWB) motivated by retaliation against the firm (Jensen et al., 2010). For example, hiring a relative of a senior leader (nepotism) over a high performer would disengage that high performer to the detriment of their team/organisation.

Alternatively, employees may simply disengage, becoming 'reluctant stayers', present in body but withdrawn in commitment, unlikely to challenge misconduct or invest in the organisation's culture (Singh, 2020).

These three elements interact. Where ethical infrastructure is weak, leaders' behaviour fills the vacuum, establishing norms through social learning. When those norms tolerate misconduct, the psychological contract is breached for employees who expected a professional environment, producing either retaliation or withdrawal, both of which further erode the culture.

3.4 Bad apples versus bad barrels

A debate in the literature is whether NFM is primarily driven by flawed individuals or by the environments in which they operate (Kish-Gephart et al., 2010).

Individual factors (the 'bad apples') include personal ethics and moral development (Kohlberg, 1969), personality traits such as narcissism and Machiavellianism (Murphy, 2012; Valentine et al., 2015), previous exposure to and normalisation of misconduct (Gubler et al., 2015; Einarsen et al., 2017), and the psychological drivers discussed above.

Environmental factors (the 'bad barrels') include organisational pressure and unrealistic targets (Valentine et al., 2015), weak ethical infrastructure (Tenbrunsel et al., 2003), inadequate reporting mechanisms, and leadership that models or tolerates inappropriate behaviour (Soylu, 2011). While some organisations may be consciously corrupt, where firms with poor records systematically rehire repeat offenders (Egan et al. 2016), most 'bad barrels' are not deliberately unethical. They are environments where structural pressures and cultural weaknesses have allowed misconduct to become normalised over time.

Neither explanation is sufficient on its own: a 'bad apple' in a well-controlled environment (one that does not incentivise poor behaviour and has effective mechanisms to detect and address it) may lack both the opportunity and the perceived benefit of engaging in misconduct. Conversely, a 'bad barrel' can draw misconduct from individuals who would otherwise not behave poorly.

This distinction matters as it suggests that focusing solely on identifying and sanctioning individuals, may be insufficient without attention to the organisational conditions that enable those individuals to act.

4. Barriers to reporting

The theoretical frameworks and drivers discussed in the preceding sections explain how NFM forms and persists. This section turns to why it often goes unreported.

4.1 Self-reporting

Self-reporting refers to the disclosure of one's own misconduct through formal or informal channels. Concealing one's own misbehaviour may be expected from dishonest individuals, but why might otherwise ethical individuals fail to report, or even recognise, their own? The theoretical frameworks discussed earlier offer an explanation.

Individuals substantially underreport their own misconduct, even when reporting is anonymous (Zuber and Kapetin, 2013), suggesting that evading consequences of coming forward may not be the only reason. Cognitive Dissonance Theory suggests that an individual who believes themselves to be ethical but has engaged in misconduct faces acute psychological discomfort. Reporting would force them to confront the gap between self-image and their actual conduct, the dissonance Festinger (Festinger, 1957) predicts people will find ways to circumvent through one or more resolution strategies, described in section 2.3:

1. the individual changes their own beliefs and reframes the behaviour ('everyone does it'),
2. they may seek to persuade others it was acceptable,
3. or they may distance themselves from the perpetrator.

Each of these resolution strategies is psychologically easier than self-reporting, which would require confronting the dissonance head-on.

Social Identity Theory compounds this effect, as individuals who see themselves as respected members of a professional community may resist any action that threatens their status within that group. Self-reporting, even anonymously, requires categorising oneself alongside those who have done something wrong, threatening both one's self-image and group membership. The result is paradoxical: the more strongly someone identifies as an ethical professional, the greater the psychological cost of acknowledging they have fallen short. It could be argued that the professional identity that should motivate ethical conduct could become a barrier to recognising wrongdoing in oneself.

4.2 Reporting by others

Reporting someone else's misconduct might seem more straightforward: the person doing so is, after all, acting in the organisation's interest, and their own integrity is not in question. Yet those that are motivated to come forward, be that through whistleblowing or reporting, face barriers. Although the two carry different evidentiary thresholds and legal protections against retaliation, the dynamics examined in this section apply across both pathways.⁴

⁴ Whistleblowing refers to a disclosure made in the public interest about specified categories of wrongdoing, defined under the Public Interest Disclosure Act 1998, and typically concerning matters whose implications extend beyond the individual concerned. Reporting refers to individual complaints about personal treatment, handled through internal procedures and, where the complaint relates to a protected characteristic, it is protected by the victimisation provisions of the Equality Act 2010.

4.2.1 Individual barriers

Glazer and Glazer (1999) identify four barriers facing those who report others' misconduct.

- **Emotional strain:** Whistleblowers require sustained courage, often over prolonged periods, as individuals navigate investigations, potential hearings, and ongoing workplace tension.
- **Social capital depletion:** Colleagues who initially offer support may withdraw as the process drags on and the personal cost of association becomes apparent, leading to isolation.
- **Career consequences:** There are long-term professional impacts for those who raise concerns, particularly in close-knit professional settings where reputation travels fast.
- **Fear of retaliation:** Which intensifies when reports are made externally rather than through internal channels.

More recent evidence specific to the UK financial services suggests the landscape hasn't improved sufficiently. Protect's 'Silence in the City 2' research (Protect, 2020), found that 70% of whistleblowers calling Protect for advice experience either victimisation, dismissal, or resignation. A third of concerns raised were simply ignored, and 58% of whistleblowers were ignored when they reported to their employer that they had been victimised.

The House of Commons Treasury Committee's 'Sexism in the City' report (2024) reinforced these findings, concluding that both whistleblowing processes and internal reporting channels within financial services firms are often ineffective at tackling bad behaviour or protecting those who report harassment. The Committee also found limited awareness of the FCA's whistleblowing line among those it was designed to serve.

One finding from the Protect research is particularly relevant to this paper: 47% of whistleblowers had under two years' service. This may reflect that newer staff are more likely to have fresh perspective and notice wrongdoing that has become normalised among longer-serving employees, a finding that directly supports the in-group dynamics described through Social Identity Theory in section 2.2 and the normalisation patterns identified in section 3.2.

4.2.2 Structural barriers

4.2.2.1 Institutional silencing: non-disclosure agreements

Non-disclosure agreements (NDAs), while serving legitimate commercial purposes, have been criticised for their use in silencing victims of workplace misconduct, particularly sexual harassment. The 'Sexism in the City' (2024) inquiry heard evidence that NDAs were routinely used in financial services settlement agreements preventing individuals from speaking about their experiences, even to family members, medical professionals, or subsequent employers.

This practice has been subject to legislative reform. The Employment Rights Act 2025 voids any provision in an employment contract or settlement agreement that prevents a worker from reporting harassment or discrimination. It builds on the Victims and Prisoners Act 2024, which already voids NDA clauses preventing victims of crime from disclosing to the police, lawyers, regulators, or close family.

These developments represent a recognition that institutional barriers to reporting exist but only address the structural mechanisms organisations have for silencing; the psychological barriers will continue regardless of whether NDAs are legally enforceable, especially where individuals are unaware of their legal rights or where the power dynamics that made NDAs effective in the first place remain unchanged.

4.2.2.2 The accountability gap

Even where reporting is acted upon and outcomes communicated, these may still discourage future complaints because in some cases perpetrators are sanctioned for failings adjacent to the misconduct (lying, obstruction, or policy breaches) rather than for the conduct itself. This occurs because procedural violations are easier to prove than contested interpersonal behaviour.

There are many high profile cases that illustrate this pattern: Bill Clinton was impeached for perjury and obstruction, not for the underlying sexual misconduct; Damian Green was forced from the UK Cabinet for making misleading statements, not for the alleged unwanted advances that triggered the investigation; and the FCA banned Crispin Odey for obstructing the disciplinary process and failing to act with integrity, rather than on findings relating to allegations of sexual misconduct.

This sends an ambiguous signal: there are consequences, but not for the behaviour that victim-survivors experienced and reported. For those weighing whether to come forward, it suggests that the system may remove a perpetrator but cannot or will not formally address the harm they reported.

4.3 The availability heuristic and the reporting feedback loops

These barriers connect to the availability heuristic, i.e. our tendency to judge likelihood based on how easily examples come to mind.

Where negative repercussions on the complainant become visible to the wider organisation (career damage, social isolation, or retaliation), these become the 'available' examples that shape the mental models of what happens to those that raise concerns. This makes it harder for the next person to come forward, because the most easily recalled examples of reporting are ones leading to unwanted consequences for the complainant.

Overtime, a self-reinforcing cycle may emerge: underreporting produces an absence of visible misconduct; the absence of visible misconduct is interpreted as absence of a problem; the perceived absence of a problem reduces organisational urgency around improving reporting mechanisms; weak reporting mechanisms further discourage reporting.

Bjørkelo et al. provide an illustration of this feedback loop in practice. The organisation described in their paper framed a whistleblower's dismissal as a legitimate management decision rather than retaliation, and when multiple courts upheld that framing, the case became the kind of cautionary example that suppressed future reporting. For anyone within that organisation the most cognitively available example of what happens when someone reports misconduct was dismissal, judicial defeat, and lasting psychological harm.

A different feedback loop operates through what the complainant is told about the outcome of a complaint. Even when an issue is investigated and a disciplinary process reaches an outcome with repercussions for the perpetrator, the person who raised it is often not informed of the result, with organisations citing confidentiality and data protection duties as grounds for withholding it (Cowan et al., 2024).

The two feedback loops discourage reporting for different reasons. Visible retaliation on the complainant makes the costs of reporting salient, while undisclosed outcomes leave its results unknowable. For someone weighing whether to come forward, reporting can therefore appear to carry both personal risk and no visible benefit.

5. What makes people report misconduct?

Most research on reporting misconduct has focused on asking why individuals *don't* report, treating non-reporting as the problem to be explained and reporting as the common behaviour that needs no explanation. As Bull (2021) argues, this has the logic backwards: non-reporting is the norm, and reporting is the counter-intuitive act, since it often brings negative consequences for the person who comes forward, as discussed earlier in this paper.

Since reporting is the behaviour regulators want to encourage, understanding why people *do* report, as well as what deters them, gives firms two points of leverage for process design: removing the barriers that suppress reporting, and building the conditions that prompt it.

Research from the sexual misconduct field, spanning the criminal justice system, the workplace, and higher education, highlights that the motivations for reporting are varied and complex. They include the wish to protect others from the same treatment, for personal safety or to get 'closure', to sanction the perpetrator or to act on a sense of injustice.

Bull (2021) separates the underlying *rationale* for reporting from the immediate *catalyst* that triggers it. A motivation can lie dormant until something activates it, including leaving the organisation, a change in circumstances, validation from a third party, or discovering that others have been targeted by the same person.

The practical application of this distinction is that firms can build mechanisms that deliberately generate catalysts, for example provision for group complaints; risk assessment as soon as a disclosure is received; the removal of time limits, so that a catalyst arising long after the conduct can still activate a dormant intention to report; and active outreach to those who have disclosed informally.

6. The social value of reporting

The literature also points to the value (both individual and collective) of those who do come forward. Glazer and Glazer (1999) observe:

“Deviance reminds us of the legitimate boundaries of socially acceptable actions. It marks the limits of tolerance. Courageous behaviour serves a comparable and yet far more positive social function. Those who enact moral courage serve as vibrant reminders of our society’s highest values.”

From this we may consider that a valuable contribution which professional bodies and regulators might make to the landscape of NFM is to highlight the social value which is created by those who choose to come forward, to make this positive narrative cognitively available (availability heuristic).

The FCA’s Prescribed Person’s Annual Report on Whistleblowing (FCA, 2025) represents a step in this direction, reporting that 51% of whistleblowing reviews within the reporting period resulted in direct regulatory action against firms, and providing anonymised examples of outcomes to demonstrate that reports can lead to meaningful change.

As long as the most salient examples of reporting are examples of personal cost and institutional indifference, the availability heuristic will continue to suppress the very reporting on which effective regulation depends.

7. Case study:

This case study is presented as an example based on a case in the public domain. What is presented is an interpretation, and hence the language used throughout reflects this.

A financial services firm was dissolved after its founder faced allegations of sexual misconduct, leading to investor withdrawals and institutions cutting ties. Despite being cleared of certain specific allegations during trial, a press investigation later detailed allegations of sexual harassment and assault against the founder by multiple women over 25 years.

An FCA investigation also found the founder had obstructed the company’s disciplinary process which led to a ban from the UK financial services sector and a hefty fine. The regulator concluded that a culture of silence in which allegations of misconduct are not dealt with effectively can put consumers and markets at risk, and that the founder sought to evade and obstruct efforts to hold him to account, demonstrating a lack of integrity deserving a ban from the sector.

7.1 Theoretical frameworks in practice

We can use this case to examine how the theoretical frameworks we have discussed in this paper may have played out.

Through the Theory of Planned Behaviour lens

The case demonstrates TPB’s four components creating conditions for NFM:

1. **Attitude toward behaviour:** The founder may have held positive attitudes toward his own misconduct, continuing it for 25 years. Staff may have developed accepting attitudes; not toward the behaviour itself but toward tolerating it from someone in a position of power specifically.
2. **Subjective norms:** The investigation indicated that career advancement depended on pleasing the founder, revealing subjective norms where progression depended on accepting his behaviour.

3. **Perceived behavioural control:** The perpetrator likely had complete control to act; victim-survivors and bystanders had minimal control to intervene meaningfully. Power imbalances meant those who might report may have felt powerless against potential retaliation.
4. **Moral obligation:** The organisational context may have weakened moral obligations to report or intervene. The several years of delay before investigation indicates systemic moral failure.

Cognitive Dissonance resolution strategies

The case illustrates Festinger's three options for resolving dissonance:

1. **Changing beliefs:** Some staff may have reframed the behaviour ('it's just how things work here').
2. **Changing others' beliefs:** Impossible given the position of power of the perpetrator.
3. **'Othering' the perpetrator:** Staff may have created exemptions for the behaviour. By setting the perpetrator as 'apart' or 'different,' staff could maintain their ethical beliefs while tolerating the misconduct.

Social Identity Theory dynamics

The case demonstrates multiple group dynamics:

- **In-group protection:** The founder belonged to an elite financial services in-group. His position meant protecting him protected the group's status.
- **Out-group creation:** Female employees, particularly junior ones, became an out-group whose experiences were minimised. Requesting anonymity, fearing social, professional, or financial retaliation, shows they understood their out-group vulnerability.
- **Power-based grouping:** The firm created implicit groups: those who pleased the founder (in-group with career benefits) versus those who challenged him (out-group facing retaliation).

Cognitive biases in action

Several biases might have enabled the ongoing misconduct:

- **Availability heuristic:** Without visible successful reporting cases, victims may have assumed reporting wouldn't work.
- **Representative heuristic:** Management attended to the firm's financial success while ignoring behavioural problems.

7.2 Organisational factors

Rather than just a 'bad apple', the firm became a 'bad barrel' where organisational pressure for financial success overrode ethical concerns, leadership failed to establish or enforce behavioural controls, and the culture enabled misconduct through collective inaction.

Reporting may have been perceived as useless given the power dynamics at play. The barriers to reporting (career risk, social retaliation, financial dependence, and the absence of any visible precedent for successful complaint) align with the structural and psychological barriers identified throughout this paper. That victim-survivors requested anonymity even when speaking to journalists, years after the events, illustrates how deeply these barriers persist beyond the immediate organisational context.

The eventual sanction illustrates the accountability gap, as the founder was banned for obstructing the disciplinary process and failing to act with integrity rather than for the sexual misconduct itself.

7.3 What eventually broke the silence

The case is instructive on what might have prompted disclosure:

1. **Discovering others were targeted:** The investigation unearthed initially 13 accounts, and its publication prompted a second wave of women coming forward.
2. **Leaving the organisation and the passage of time:** Disclosures happened years after the events, once career risk had receded.
3. **Third-party validation:** Several victim-survivors had confided informally in friends or family well before speaking publicly.

These may have been the catalysts that triggered the underlying dormant motivations to report the events.

7.4 Why multiple frameworks matter

No single theory explains this case. TPB shows how conditions aligned for misconduct; Cognitive Dissonance explains how ethical people tolerated unethical behaviour; Social Identity Theory reveals group dynamics protecting the founder; and cognitive biases explain misjudgements about risks and consequences.

The intersection of these factors may have created environments where the actions of the founder could continue unabated, through complex mechanisms that prevented intervention despite widespread knowledge of the behaviour.

To some degree, the same frameworks explain why the silence finally broke, as collective recognition by victim-survivors that others had been targeted too, may have gone some way in undoing the isolation that out-group dynamics had imposed on them.

This case demonstrates why addressing NFM requires a multifaceted approach.

8. Conclusions

This review asked why non-financial misconduct persists in professional environments that already have codes of conduct, training, reporting channels and regulatory oversight designed to prevent it.

A key finding is that the mechanisms which allow misconduct to happen are, in many ways, the same ones that prevent it from being reported. In-group loyalty protects perpetrators and makes the person who might report them reluctant to break with the group. Normalisation lowers the bar for poor behaviours and reduces the sense that anything is wrong enough to raise. Cognitive dissonance lets someone tolerate conduct that goes against their ethics and enables them to rationalise their own. The practical consequence is that prevention and reporting should be treated alongside each other.

Another finding is that these dynamics operate across two levels that interact with each other: on one hand the individual and largely unconscious manifestation of biases, identity and dissonance described above. On the other hand, factors that are more deliberative and built into how organisations work, including through non-disclosure agreements, a lack of transparency of how outcomes are communicated and an accountability gap where perpetrators are sanctioned for procedural failings rather than the conduct that prompted the complaint. This is the 'bad apple' and 'bad barrel' interplay where a flawed individual in a well-run environment lacks the opportunity to act, while a permissive culture may draw misconduct from people who might not otherwise offend.

The FCA's new rules, in force from September 2026, aim to surface this misconduct and hold firms accountable for it. But reporting will not increase only because it is required, which makes the question of why people do come forward as useful as understanding the barriers to do so, so that interventions are designed with both in mind.

The encouraging part is that these mechanisms can be identified, and what can be identified can in principle be disrupted, with the added value that, because the same mechanisms are often behind both the misconduct and the silence around it, tackling them may improve prevention and reporting at the same time.

The review already points to some levers, from challenging minor misconduct before it escalates to increasing awareness of constructive outcomes of reporting, a role professional bodies are well placed to play. Working out which interventions are most effective in shifting behaviour is the task of the next phase of the CII's programme of work, giving firms an evidence base for the changes most likely to improve culture.

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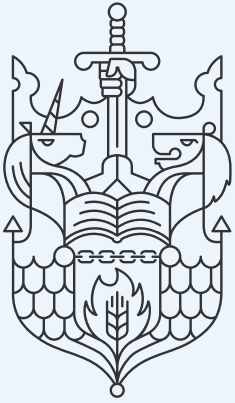
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