ETHICAL
GOVERNANCE

EXECUTIVE SUMMARY

Behavioural Risk in Governance

The Missing Link Between Governance Structures and Governance Outcomes

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Governance frameworks have become more sophisticated with every decade — yet significant governance failures continue to occur in organisations that were structurally compliant, adequately resourced, and staffed by experienced, credentialled people. The conventional explanation focuses on what went wrong in the decision. This paper argues that a different explanation matters more: the conditions that shaped how judgement formed, and what was and was not raised, before the decision moved.

> **Behavioural risk** is the risk that human judgement is influenced by psychological, social and organisational conditions in ways that lead to decisions inconsistent with an organisation's purpose, responsibilities or objectives.

Behavioural risk is distinct from conduct risk. It operates upstream, is largely invisible in conventional governance documentation, and is cumulative — developing through nine identifiable drivers and two governing mechanisms that recur across entirely different governance failures.

The Nine Behavioural Drivers

Pressure — narrows deliberative space	**Incentives** — rewards diverge from stated values	**Power** — raises the cost of challenge
Fear — silences available information	**Fatigue** — degrades careful judgement	**Loyalty** — displaces purpose with deference
Ego — resists acknowledging uncertainty	**Cognitive Bias** — distorts evaluation of evidence	**Identity-Purpose Inversion** — merges self-interest with organisational purpose

Two Governing Mechanisms

Behavioural Capture is the gradual shaping of judgement through repeated small social adjustments until deference becomes normal governance practice. **Moral Licensing** is the psychological process by which past ethical credentials reduce present ethical vigilance — the organisations most confident in their values are not necessarily the best governed.

Governance does not fail because people stop knowing right from wrong. It fails because the conditions that shape judgement quietly change what feels right.

Behavioural Risk in Practice

The paper examines five major governance failures through this lens — cases spanning engineering, automotive, aviation, government and professional services, showing a consistent behavioural architecture beneath structurally distinct failures.

- **NASA Challenger (1986)** — pressure, fear and normalisation of an eroding safety margin.
- **Volkswagen Dieselgate (2015)** — incentive misalignment and identity-purpose inversion.
- **Boeing 737 MAX (2018–19)** — commercial pressure compressing safety-critical judgement.
- **Robodebt (2016–19)** — power dynamics and moral licensing enabling escalation without challenge.
- **PwC Australia (2023)** — loyalty and behavioural capture displacing professional obligation.

The Decision Integrity Model

Behavioural risk interferes at every stage of the governance process — purpose, judgement, decision, action and outcomes — not only at the point of decision itself. The Decision Integrity Model, developed in the paper, traces exactly where that interference occurs, giving boards a structural way to locate behavioural risk before it manifests as failure, rather than explaining it only in hindsight.

A Call for Systemic Recognition

The paper closes with practical governance actions by role — from boards and chairs to executive teams, internal audit and risk committees — and argues that behavioural risk should be formally recognised as a distinct governance risk category by regulators, governance codes, professional bodies, risk standards and academia.

9+2	5	7
drivers & mechanisms	cases examined	governance roles addressed

The first generation of governance reform focused on structures.
The next generation must recognise behaviour.

This is a summary of the full white paper *Behavioural Risk in Governance: The Missing Link Between Governance Structures and Governance Outcomes* by Sanela Osmic GAICD (2026), Ethical Governance Pty Ltd.
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