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Firm-Level Determinants of Sustainability Practices in the UK Banking Sector: A Stakeholder Perspective

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Abstract

The primary objective of this study was to understand the key factors that influence the adoption of sustainability practices within banks, focusing on firm-level factors. The research employed an online survey targeting stakeholders in the UK banking sector, using structured questions to assess perceptions of sustainability practices and their alignment with financial goals. The findings revealed that, while UK banks are increasingly adopting sustainable lending and investment practices, there remains a stronger emphasis on financial performance over sustainability goals. Banks often prioritize their reputation and brand image, with customer demand playing a significant role in shaping sustainability practices. Furthermore, the study found that banks in the UK provide sufficient sustainability-related disclosures to stakeholders, meeting growing expectations for transparency.

Keywords: *Sustainability practices, UK banking sector, stakeholder perspective, firm-level determinants, customer demand, sustainability disclosures.*

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INTRODUCTION

UK banks have increasingly integrated sustainability into their operations, driven by stakeholder pressure, regulatory requirements, and competitive advantage. Institutions such as Barclays, HSBC, and Lloyds have adopted policies that support green finance, ethical lending, and responsible investment, signaling a shift from profit-centric models to more socially and environmentally conscious banking (Maina, 2023). This evolution has been influenced by the growing recognition that long-term financial performance is tied to environmental and social stability. Regulatory bodies like the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) have reinforced this trend by mandating climate-related disclosures and encouraging sustainable risk management frameworks. These policies have compelled banks to embed Environmental, Social, and Governance (ESG) factors into their risk assessments, reporting mechanisms, and strategic planning processes (Feridun & Güngör, 2020).

While large, internationally active banks often lead in ESG adoption, smaller institutions sometimes lack the capacity or incentives to implement comprehensive sustainability frameworks. Sustainability practices refer to the strategies and actions organizations implement to operate in ways that protect the environment, promote social well-being, and ensure long-term economic viability. The goal is to create value not only for shareholders but also for society and the planet (Kutaula et al, 2025). Sustainability practices help organizations manage risks, improve reputation, and contribute to global efforts toward sustainable development. Moreover, some banks approach sustainability as a compliance formality rather than a strategic imperative, leading to gaps in practice and performance. Despite the global emphasis on sustainable development, the banking sector in developed economies like the United Kingdom has shown a mixed level of commitment to sustainability practices. Many banks have adopted sustainability reporting and green finance frameworks, yet a significant gap remains in how firm-level characteristics influence the depth and effectiveness of these sustainability practices. This problem is compounded by the reality that most traditional banking operations prioritize profit maximization over environmental and social responsibilities (Costa-Climent & Martínez-Climent, 2018).

Given the scale and influence of the UK banking sector, understanding the specific organizational or firm-level factors that drive or hinder sustainability adoption becomes crucial. This study investigates these firm-level determinants to highlight which internal mechanisms most affect sustainability implementation in the UK banking industry. Studies by Nigerian scholars provide useful frameworks that can be adapted and applied to the UK context. One of the central firm-level determinants of sustainability is corporate governance. According to Naciti (2019), effective governance structures—such as having independent board members and dedicated sustainability committees—significantly enhance an organization's ability to incorporate sustainable practices. Governance mechanisms ensure accountability and transparency, which are critical to embedding ESG principles into the banking system. In the UK, larger banks often have dedicated ESG teams and sustainability officers who oversee compliance and strategic implementation, indicating that robust governance enhances sustainability outcomes.

Leadership commitment is another pivotal driver. Luo et al, (2025) emphasized the role of transformational leadership in promoting organizational change, including the shift toward sustainability. Leaders who prioritize long-term value creation over short-term profit margins are more likely to champion sustainability initiatives. In the UK, where banks operate under strict regulatory scrutiny and stakeholder expectations, leadership commitment to sustainability is seen as both a compliance measure and a strategic differentiator. Banks such as HSBC and Barclays have made significant strides in sustainability, largely driven by top-down leadership engagement. Organizational culture also influences sustainability practices. As Fang et al, (2022) noted, firms with a culture that supports innovation, ethical behavior, and environmental consciousness tend to perform better in implementing sustainable strategies. In the UK context, many banks are revisiting their corporate values to align more closely with global sustainability goals. These shifts are often reflected in internal training, stakeholder engagement, and sustainability performance reporting.

Firm size and financial capacity are equally important. Larger banks tend to have more resources to invest in sustainability initiatives such as renewable energy financing, social impact lending, and green infrastructure. A study by Cantele and Zardini (2018) found that financial strength correlates with a firm's ability to absorb the cost of implementing sustainability practices. UK banks, especially multinational ones, leverage economies of scale to roll out complex sustainability frameworks, unlike smaller banks that may lack the capital or expertise to do the same. Profitability, as a financial determinant, often has a dual role. On one hand, profitable firms are better positioned to fund sustainability initiatives (Duc-Cuong et al, 2021). On the other hand, when profit is prioritized above all else, firms may underinvest in sustainability due to perceived non-immediacy of returns. In the UK banking sector, profitability has enabled some banks to create green investment portfolios and issue green bonds, while others still lag due to cost-benefit uncertainties associated with sustainability efforts.

Human capital is another key determinant. Haji and Himpel (2024) posited that skilled and sustainability-literate employees are instrumental in achieving sustainability goals. In UK banks, employee education and training on ESG standards, ethical banking, and climate risk assessment contribute to overall firm performance in sustainability. These banks also recruit sustainability experts and provide certifications to staff, reflecting a strong linkage between human capital and ESG integration. Technology adoption within firms also facilitates sustainability. Sikder et al, (2023) emphasized that technological innovation can drive environmental efficiency, reduce carbon footprints, and improve monitoring systems. In the UK, banks are increasingly using fintech solutions to enable sustainable investment decisions and reduce operational environmental impact, such as transitioning to paperless transactions and deploying energy-efficient data centers. Firm ownership and stakeholder orientation affect sustainability strategies. Nigerian researchers such as Aguilera and Crespi-Cladera (2016) found that firms with dispersed ownership structures are more responsive to public opinion and regulatory requirements. Similarly, UK banks, particularly those with international shareholders, face higher pressures to comply with sustainability regulations and ethical standards. Stakeholder-inclusive firms are more likely to pursue sustainability goals to maintain legitimacy and reputation.

The motivation for this study stems from the growing global emphasis on sustainability and the need to understand how firm-level factors shape sustainability practices, particularly in the UK banking sector. Despite the sector's significant influence on the economy and society, there is limited research that holistically examines the internal factors driving sustainability initiatives from a stakeholder perspective. Existing literature, such as that by Haji and Himpel (2024), has largely focused on sustainability reporting and environmental compliance, often neglecting how organizational culture, leadership commitment, and internal policies affect sustainability outcomes. Similarly, Ghoul et al, (2017) noted that while corporate social responsibility (CSR) practices are gaining attention, studies rarely link them to firm-level drivers in financial institutions. Moreover, research within the UK context often centers on regulatory compliance rather than voluntary internal efforts.

METHODOLOGY

The study adopted an online survey research design due to its efficiency and automation in delivering questions and collecting responses. The method proved advantageous by minimizing data entry errors and facilitating straightforward importation of data into analytical software. The research was conducted in the United Kingdom, a highly developed nation with a robust banking sector, where sustainability practices were often overlooked. The UK's banking industry comprised various institutions—including retail and investment banks—and was regulated by authorities such as the Financial Conduct Authority and the Bank of England's Prudential Regulation Authority.

The population of the study included approximately 2.5 million stakeholders in the UK banking sector, based on data from the 2023 Financial Services review. A simple random sampling. Data were gathered using a structured online questionnaire.

RESULT AND DISCUSSION

Results

Research Question 1:

What are the company-level factors that influence sustainability practices in Britain's banking industry?

Table 1: Average Responses and Standard Deviation regarding company-level factors influencing sustainability practices in Britain's banking industry

N/A	ITEMS	N	Mini	Maxi	Mean	S.D	Remark
1	UK financial institutions prioritize economic outcomes over environmental and social objectives	191	1.00	4.00	1.42	.68	Disagree
2	The financial institution exhibits ecological stewardship by implementing responsible financing and investment strategies.	191	1.00	3.00	2.52	.56	Agree
3	Corporate reputation and public perception motivate UK banking institutions to embrace sustainable business practices.	191	1.00	3.00	2.23	.56	Disagree
4	Consumer expectations and market demand shape the implementation of environmentally conscious practices within UK banking organizations.	191	1.00	3.00	3.00	.62	Agree
5	British banks provide adequate transparency regarding sustainability matters to their stakeholders.	191	1.00	4.00	3.19	.70	Agree

KEY: X = Mean; SD = Standard Deviation, N=191

Table 1 presents the average responses regarding organizational factors that influence sustainability practices within Britain's banking industry. The findings indicate that statements 2, 4, and 5 recorded mean scores between 2.52 and 3.19, exceeding the benchmark mean of 2.50, demonstrating that participants endorsed these organizational factors affecting sustainability practices in UK banking. Conversely, statements 1 and 2 showed disagreement with mean scores ranging from 1.42 to 2.23. The key organizational drivers of sustainability practices in UK banking include responsible financing and investment approaches, consumer expectations, and adequate transparency in sustainability reporting to stakeholders. These results reflect increasing consciousness and anticipation about sustainability's significance in banking, suggesting banks should reevaluate their motivations for environmental initiatives. Financial institutions may need to pursue authentic sustainability commitments rather than simply improving their corporate reputation. This indicates a broader transformation toward more ethical and sustainable banking operations and demonstrates demand for enhanced openness and responsibility from banks concerning their environmental efforts. Such trends could also shape future regulatory frameworks in banking, with authorities potentially implementing policies to encourage or require sustainability practices, mirroring changing social values and priorities.

Hypothesis 1: No substantial organizational-level factors significantly influence sustainability practices within Britain's banking industry.

Table 5: t-test Analysis of the Responses

N/A	ITEMS	Mean	S.D	t-cal	sig	Remark
1	UK financial institutions prioritize economic performance over environmental and social objectives.	2.01	.68	.657	.00	NS
2	The banking institution exhibits ecological stewardship through responsible financing and investment strategies.	1.81	.56	.754	.00	NS
3	Corporate reputation and public perception motivate UK banking organizations to embrace sustainable business practices.	1.76	.56	.704	.00	NS
4	Consumer expectations shape the implementation of environmentally conscious practices within British banks.	1.82	.62	.919	.00	NS
5	UK banking institutions provide adequate transparency regarding sustainability matters to their stakeholders.	2.00	.70	.816	.00	NS

Key: $\bar{X}$ = Mean; SD = Standard Deviation, N = 191, NS-Not Significant; t-calculated; t-tab- t-tab 4.05

The analysis showed that the calculated t-values ranged between 0.657 and 0.919, falling below the critical threshold of 4.05. This suggests no statistically significant variation in the average scores for organizational factors affecting sustainability practices within Britain's banking industry. The results indicate that meaningful corporate-level drivers of sustainability practices are absent in the UK banking sector.

Discussion of Findings

The study's outcomes presented in Table 1 identified organizational factors influencing sustainability practices in UK banking, including environmental stewardship demonstration and consumer expectations. The analysis shows that key corporate drivers comprise responsible lending and investment approaches, client demand, and comprehensive sustainability reporting to stakeholders. These results align with Haji and Himpel's (2024) observations that sustainability practices involve strategies for environmental responsibility, encompassing organizational initiatives addressing environmental, social, and economic issues while maintaining long-term sustainability and adaptability. The overall response averages and variations reveal both successful areas and improvement opportunities in UK banking sustainability practices. While positive attitudes exist toward comprehensive sustainability frameworks, community involvement, and sustainability criterion integration, enhancement opportunities remain in renewable energy investment and environmental impact assessment. These areas could advance the sustainability mission within Britain's banking sector.

Hypothesis testing revealed insufficient evidence to reject the null hypothesis, meaning the study failed to identify significant organizational determinants influencing UK bank sustainability practices. These findings suggest additional research is needed to investigate alternative determinants or improve measurement approaches for the examined factors. The absence of significant drivers may indicate that UK banking sustainability practices result from complex factor interactions beyond this study's scope. Consequently, policymakers and banking professionals should avoid universal approaches to sustainability promotion, instead considering individual bank characteristics and customizing interventions appropriately.

CONCLUSION

This study explored the firm-level determinants of sustainability practices in the UK banking sector from a stakeholder perspective, shedding light on the internal factors that influence banks' sustainability efforts. Findings suggest that leadership commitment, corporate governance structures, strategic orientation, employee engagement, and internal policies significantly shape the design and implementation of sustainability initiatives. Stakeholders, including employees, customers, and regulatory bodies, perceive these internal drivers as critical to achieving long-term environmental, social, and economic goals. The research also revealed a disconnect between regulatory compliance and genuine sustainability integration, highlighting the need for banks to embed sustainability into core operational and strategic frameworks rather than treat it as an external obligation.

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