
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. In conclusion, the study emphasizes the need for UK banks to integrate sustainability into their core strategies, balancing financial performance with environmental and social goals. The research recommends that banks strengthen their commitment to sustainability by aligning their operations more closely with stakeholder expectations and enhancing sustainability reporting practices. Additionally, policymakers should consider incentivizing sustainability practices to further promote environmental responsibility within the banking sector.

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

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. This leaves a gap in understanding how banks' internal dynamics, such as strategic orientation, resource allocation, and employee involvement, influence sustainability adoption. Addressing this gap is crucial for developing actionable strategies that align corporate goals with broader sustainability agendas. Therefore, this study seeks to bridge the literature gap by exploring firm-level determinants of sustainability practices in UK banks through the lens of key stakeholders.

Research Question

What are the firm-level determinants of sustainability practices in the UK banking sector?

Research Objectives

To identify firm-level determinants of sustainability practices in the UK banking sector.

Research Hypothesis

There are no identifiable firm-level determinants of sustainability practices in the UK banking sector

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 technique was employed to select 191 respondents from this population, ensuring that each individual had an equal chance of being chosen and reducing sampling bias. Data were gathered using a structured online questionnaire, which was divided into two sections: Section A collected demographic information, while Section B focused on firm-level and national-level determinants of sustainability, stakeholders' perceptions, and the underlying factors informing those perceptions. Responses were rated on a four-point Likert scale.

The questionnaire was validated by expert review, and its reliability was assessed using Cronbach's alpha, which yielded a coefficient of 0.81—indicating satisfactory internal consistency. Data collection took place over a one-month period via the JISC online survey platform. To ensure the trustworthiness of qualitative elements, the questions were thoroughly reviewed by both the researcher and supervisor to eliminate bias and ensure clarity. Data analysis involved calculating the mean and standard deviation of responses to assess central

tendencies and variability. Hypothesis was tested using t-tests, with predefined criteria for accepting or rejecting the null hypotheses based on the calculated and critical t-values.

RESULT AND DISCUSSION

Results

Research Question 1

What are the firm-level determinants of sustainability practices in the UK banking sector?

Table 1.
Mean Responses and Standard Deviation on the firm-level determinants of sustainability practices in the UK banking sector

N/A	ITEMS	N	Mini	Maxi	Mean	S.D	Remark
1	Banks in the UK place more emphasis on financial performance compared to sustainability goals.	191	1.00	4.00	1.42	.68	Disagree
2	The bank demonstrates environmental responsibility through sustainable lending and investment practices.	191	1.00	3.00	2.52	.56	Agree
3	The reputation and brand image of banks in the UK drive the adoption of sustainability practices	191	1.00	3.00	2.23	.56	Disagree
4	Customer demand influences the adoption of sustainable practices in banks in the UK.	191	1.00	3.00	3.00	.62	Agree
5	Banks in the UK disclose enough sufficient information on sustainability-related issues to stakeholders	191	1.00	4.00	3.19	.70	Agree

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

Table 1 shows the mean responses of the firm-level determinants of sustainability practices in the UK banking sector. The result revealed that items 2,4 and 5 had their mean values ranging from 2.52 to 3.19, which were above the criterion mean of 2.50, indicating that the respondents Agreed to the firm-level determinants of sustainability practices in the UK banking sector while items 1 and 2 Disagree with the mean ranging from 1.42-2.23. The firm-level determinants of sustainability practices in the UK banking sector are sustainable lending and investment practices, the customer's demand, and disclosing sufficient information on sustainability-related issues to stakeholders. This suggests a growing awareness and expectation regarding the importance of sustainability in the banking sector and it suggests a need for banks to reassess their motives and drivers for sustainability initiatives. Banks may need to focus on a genuine commitment to sustainability rather than merely enhancing their public image. This could signify a broader shift towards a more responsible and sustainable approach to banking practices and implies a demand for greater transparency and accountability from banks

regarding their sustainability efforts. It could also influence regulatory and policy developments in the banking sector. Regulators may introduce measures to incentivize or mandate sustainability practices, reflecting evolving societal expectations and priorities.

Hypothesis 1

There are no significant firm-level determinants of sustainability practices in the UK banking sector.

Table 5.
t-test Analysis of the Responses

N/A	ITEMS	Mean	S.D	t-cal	sig	Remark
1	Banks in the UK place more emphasis on financial performance compared to sustainability goals.	2.01	.68	.657	.00	NS
2	The bank demonstrates environmental responsibility through sustainable lending and investment practices.	1.81	.56	.754	.00	NS
3	The reputation and brand image of banks in the UK drive the adoption of sustainability practices.	1.76	.56	.704	.00	NS
4	Customer demand influences the adoption of sustainable practices in banks in the UK.	1.82	.62	.919	.00	NS
5	Banks in the UK disclose enough sufficient information on sustainability-related issues to 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 table revealed that the items had their t-cal ranged from 0.657-0.919 and were less than the acceptable level of 4.05. This indicated that there was no significant difference in the mean rating of firm-level determinants of sustainability practices in the UK banking sector. The findings imply that there are no significant firm-level determinants of sustainability practices in the UK banking sector.

Discussion of Findings

The findings of the study in Table 1 revealed the firm-level determinants of sustainability practices in the UK banking sector which include: demonstrating environmental responsibility, and customer demand. The result reveals that the firm-level determinants of sustainability practices in the UK banking sector are sustainable lending and investment practices, the customer's demand, and disclosing sufficient information on sustainability-related

issues to stakeholders. These findings are in line with Haji and Himpel (2024) who noted that sustainability practices encompass strategies in demonstrating environmental responsibility, initiatives, and actions undertaken by organizations to address environmental, social, and economic concerns while ensuring long-term viability and resilience. On the other hand, this result is not in line with the research findings of Duc, Anh, Thanh, Xuan & Kim (2021) who indicated a positive relationship between customer demand, corporate sustainability, and financial performance that is measured by earnings yield, return on asset, return on equity, and return on capital employed. The study disagreed that Banks in the UK place more emphasis on financial performance and disclose sufficient information on sustainability-related issues. The overall mean responses and standard deviations highlight both areas of strength and potential areas for improvement in sustainability practices within the UK banking sector. While there is generally positive sentiment towards aspects such as comprehensive sustainability strategies, community engagement, and sustainability criteria incorporation, there is room for enhancement in areas such as investment in renewable energy and environmental impact monitoring. Hence, these areas could contribute to furthering the sustainability agenda within the UK banking sector.

Findings on the hypotheses revealed that there is insufficient evidence to reject the null hypothesis. In other words, the study did not find any identifiable firm-level determinants that significantly influence sustainability practices in UK banks. Therefore, the hypothesis findings indicate the need for further research to explore other potential determinants or to refine measurement methodologies for the factors examined in this study. The lack of significant determinants may suggest that sustainability practices in the UK banking sector are influenced by a complex interplay of factors beyond those considered in this study. Hence, Policymakers and banking practitioners should be cautious about assuming a one-size-fits-all approach to promoting sustainability practices. Instead, they should consider the unique characteristics of individual banks and tailor interventions accordingly.

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. Furthermore, the study contributes to the literature by addressing a gap often overlooked in prior studies—specifically, the lack of stakeholder-informed insights into how firm-level mechanisms influence sustainability in financial institutions. The findings offer practical implications for policymakers, bank executives, and sustainability advocates who aim to enhance sustainable development outcomes within and beyond the banking sector.

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