

Circular Economy and Responsible Banking Practices

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Abstract

This study investigates how financial institutions in the UK can reduce waste and support the Circular Economy (CE). The study examines elements that can encourage the adoption of CE, including lending techniques, credit policies, financial product developments, and strategic priorities. It studies at how banks can support circular economy initiatives and sustainability, especially when it comes to funding them. This paper emphasizes the pivotal role banks play in driving the circular economy, particularly by reallocating capital to sustainable ventures, integrating circularity into risk frameworks, and backing innovation in circular technologies. It also highlights how banks can empower stakeholders—especially SMEs—with tailored support, while modelling circular principles within their own operations. The report also evaluates the opportunities and problems facing banks, including technological hurdles and ignorance. The paper also evaluates the opportunities and problems facing banks, including technological hurdles and ignorance. In order to create a CE model and examine its effects on waste reduction and the integration of the circular economy, the research uses a quantitative methodology that includes surveys and structured interviews with UK bank workers. The results will shed light on how the banking industry can support the CE, offering recommendations for improved practices. This research contributes to the academic understanding of CE in the banking sector, highlighting its importance for sustainability and economic innovation.

Research Question

What factors enable banks to reduce waste and contribute and create an impact on a circular economy?

Literature Review

Implementing the circular economy (CE) is a difficult process that includes the participation of many stakeholders, including the government, industry, academics, and consumers. These stakeholders' participation is essential to the shift from conventional linear models to circular principles, and their qualities—such as power, influence, dependence, and interest—help determine how well CE adoption works in organisations. Implementing the circular economy is a complex process (Ghisellini & Ugliati, 2020). It requires the engagement of various stakeholders—government, industry, academia, consumers, and others—to shift from the concept of “end of life” to circular principles (Kirchherr et al., 2023). Stakeholder involvement is fundamental to the implementation of circularity (Ghisellini et al., 2024), and there are attributes associated with stakeholders that help companies in their management efforts (Alamouch et al., 2024), such as power, influence, dependence, and interest, which determine who and what really matters (Mitchell et al., 1997) for each organisation.

While the significance of stakeholder engagement has been well established, little is known about the precise methods in which stakeholders support the implementation of CE. There is a requirement of research on the interactions and influences between stakeholders in the setting of circularity, which is what this study attempts to fill. The main goal is to compete although the literature highlights the importance of stakeholders for the implementation of the circular economy, how stakeholders effectively participate in this process remains underexplored (Sehnem et al., 2023), with limited interest from researchers in understanding stakeholder connections and interactions within the scope of circularity (Reinecke et al., 2023). Accordingly, this study aims to analyse the impact of influence, dependence, and interest on strategic stakeholders in the relationship between stakeholder engagement and the adoption of circular economy practices in business operation.

The justification for conducting this study within the outlined context stems from the fact that the application of the circular economy in banking is limited. Despite the significant potential for implementing circular practices, there is little discussion of the topic within the sector (Lamolinara et al., 2024). Circular innovations are often driven by startups (Henry et al., 2023), yet research on different sectors remains in its infancy (Bertucci-Ramos & Pedroso, 2021; Mendes et al., 2022), particularly regarding the circular economy and how interest, reliance, and influence affect the adoption of CE practices in corporate operations.

The banking sector, in particular, has been slow to adopt CE practices, despite its critical role in facilitating sustainable business activities through lending. In the UK, several banks like Lloyds Banking Group and HSBC have taken initial steps towards circularity, yet many remain behind in fully embracing these practices. European banks, including ING and Rabobank, are more advanced in integrating circular economy principles into their business models. Regulatory efforts in the UK have promoted green finance through policies such as setting targets for green finance disbursement and encouraging the development of green banking units. While green finance still represents a small portion of total bank disbursements, initiatives such as green banking policies, online banking, and environmental risk ratings show the sector's potential in contributing to CE.

Despite these efforts, obstacles like limited public awareness, unclear benefits, and insufficient knowledge of green technologies hinder the widespread adoption of CE within the banking sector. These challenges need to be addressed to expedite the transition to a fully circular economy.

Basic circular economy model has been introduced based on the conceptual framework of this study which will be remodelled and reshaped over the study time.

Table : Conceptual Framework for Circular Economy model for the Banking practices

Phase	Key Actions	Expected Results
1. Foundation: Inputs & Awareness	- Adopt paperless banking - Train employees in CE practices	Establishes digital efficiency and builds understanding of CE within and beyond the organization

	- Raise stakeholder awareness	
2. Enablement: Strategy & Innovation	- Align policies with CE goals - Design green financial products - Integrate CE metrics into lending criteria	Encourages CE-aligned banking behaviours and attracts circular clients
3. Implementation: Support & Investment	- Increase credit to recycling sector - Fund circular startups - Collaborate with CE industries	Mobilizes capital toward regenerative business models and promotes sector-wide adoption
4. Impact: Waste Reduction & Resilience	- Monitor CE performance - Reduce operational waste - Report sustainability metrics	Drives measurable impact, increases transparency, and strengthens long-term business resilience
5. Continuity: Feedback & Reinvention	- Evaluate outcomes - Reinvest in CE-aligned initiatives - Update strategies as needed	Fosters an adaptive cycle of continuous improvement in line with circular principles

Source : Authour's construction (2025)

Methodology

This study aims to explore factors that help UK banks reduce waste and contribute to the circular economy (CE). It is a descriptive, cross-sectional quantitative study that will develop a CE model and use primary data from surveys to assess its impact on waste reduction in UK banks. The research will employ a survey-based approach with a structured questionnaire, featuring both closed- and open-ended questions on topics such as banks' understanding of CE, current practices, perceived barriers, financial performance, and future strategies. The target population includes employees from commercial, investment, and specialized UK banks, with a sample size calculated using a specific formula. Stratified random sampling will ensure representation across different bank sizes and regions. Data collection will involve online surveys and interviews with key decision-makers.

The analysis will include data visualization and statistical tests like multiple regression analysis to identify factors influencing CE adoption. The study will focus on first-generation banks with established green banking strategies and modern banks already practicing paperless banking. Retail banks and branches with limited data access will be excluded. Ethical considerations, such as confidentiality and the right to withdraw, will be strictly followed. The collected data will be analysed using SPSS software to test the hypothesis and evaluate the CE model's effectiveness.

Contribution from this research

By examining the circular economy This research will present a novel scenario, highlighting the increasingly pivotal role of banking institutions in promoting circular products, processes, and services that are culturally and contextually relevant to diverse business practices across different regions. Sustainability and circularity have become fundamental tenets for the operation and development of the business sector, and the innovative capabilities of emerging companies are crucial for advancing the sustainability of UK businesses.

Second, this research will contribute to the development of a novel circular economy model specifically tailored to the banking sector, aimed at enhancing efficiency in waste reduction and material reuse within UK businesses.

Third, this study will also propose a robust and practical framework that can advance the state of knowledge regarding the circular economy. This framework will be designed to be readily implemented, calibrated, and validated. Additionally, it will offer a competitive stochastic option to simpler models that lack cognitive dimensions, thereby addressing a significant knowledge gap in the field of circular economy.

Finally, the research will facilitate collaborative partnerships among all supply chain members and stakeholders to positively influence the implementation of circular economy principles. Camilleri (2020) identified employees, suppliers, citizens, and government as key stakeholders in the circular economy. In certain contexts, governments, intergovernmental organizations, and non-governmental organizations may also be considered stakeholders. However, in the specific context of this study, shareholders will also be recognized as stakeholders, as their understanding, knowledge, and authorization regarding circular economy principles will be crucial for the successful implementation of the proposed CE model.

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