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SMEs and Net Zero: how to get there (from here)

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Executive summary

Reducing the carbon emissions that result from the everyday activities of small and medium-sized enterprises (SMEs), both in the UK and internationally, is something we need to address urgently as a society. There is a strong case for focusing more attention on smaller firms: they're a bigger part of the problem than many people think but could play a decisive role in delivering solutions and embedding lower carbon practices. The central section of the paper provides some background to the issues and highlights a number of important challenges for researchers and policymakers. It is easy to get disheartened when you are working on climate-related issues, so a few concluding examples of initiatives point a way forward.

Why do policymakers need to focus on smaller firms?

Small and Medium-sized Enterprises (SMEs) are key players in the business response to climate change. As the authors of a recent report argued, there will be, "no Net Zero without SMEs" (OECD, 2021). So, let us start by identifying three important ways in which they *are* involved:

- **Energy use and carbon emissions:** sceptics often point to the low emissions of smaller firms, as compared to large energy-intensive businesses, such as primary steelmakers. However, while the firm-level emissions of many small firms are relatively insignificant, the sheer number of SMEs makes them a *big* part of the problem. For example, SMEs are estimated to be responsible for more than 13% of *total* global energy demand, a figure that could be cut by almost a third via 'cost-effective' efficiency measures (IEA, 2015: 8)[1]. Energy experts suggest this could be cut by almost a third via 'cost-effective' efficiency measures (IEA, 2015: 8) (Figure 1). However, in contrast to their larger counterparts, SMEs often lack the necessary skills, knowledge, funding and motivation to adopt lower-carbon solutions, and are often less tightly regulated and harder to reach through policy intervention.

[1] These figures are approximations, making a great deal of variation by region and sector. The absence of reliable, fine-grained and longitudinal data on energy use and related emissions is itself an important obstacle to progress in decarbonising SMEs.

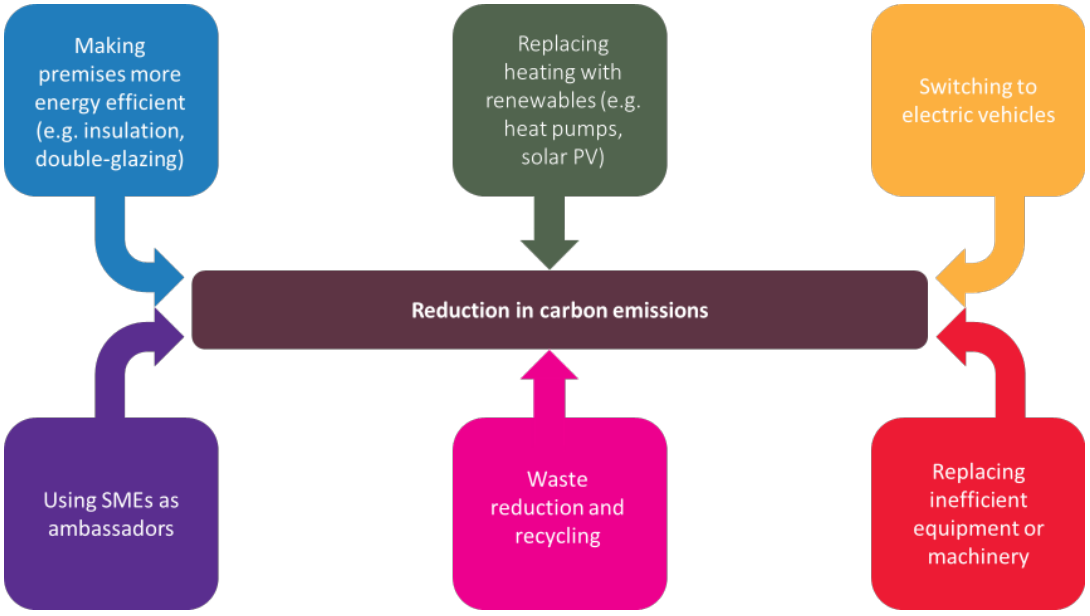

Figure 1: Examples of opportunities to reduce emissions in SMEs
Source: Wetherall et al. (2022: 42 - adapted)

- **Eco-innovations and green start-ups**: SMEs can also be part of the solution. In the UK and other countries, political leaders tend to focus their attention on emerging and often untried (yet high-profile) technological innovations, such as carbon capture and storage (CCS) and modular nuclear reactors. However, in the short term, smaller businesses will play a key role in the dissemination of more mundane technologies, such as rooftop solar panels, electric vehicle charge points and heat pumps. They are also critical to the scaling up of retrofitting our ageing buildings, creating new 'last mile' cycle delivery services, and creating lower-carbon business models in sectors such as catering and hospitality (Science for Environment Policy, 2020; Blundel and Hampton, 2021).

- **Influence on consumers and other businesses**: Following on from the previous point, SMEs also have a major role to play in influencing market and non-market behaviours. Their influence can extend along the supply chain, as businesses buy lower carbon products from their suppliers and (in turn) persuade their customers to purchase more sustainable products and services (Figure 2). One of the keys to unlocking these changes is to frame interventions around personal, professional and organisational values (Williams et al., 2020, Hampton et al., 2022).

Recently, these arguments have translated into practical efforts, with a variety of place- and sector-based decarbonisation initiatives led by a diverse cast of actors, including banks, industry associations, universities, accreditation bodies and consultancy firms (e.g. SME Climate Hub, 2022). However, despite the increased activity, most SMEs are making little or no progress in reducing their carbon emissions, and policymakers are finding it difficult to respond effectively (Blundel and Hampton, 2021a; OECD, 2021). So why is it so difficult to decarbonise SMEs, and what can we do about it?

Figure 2: Businesses can influence lower carbon behaviours in a variety of ways

The decarbonisation challenge: a personal perspective

There is now a very extensive literature on the 'greening' of SMEs and researchers have applied a wide variety of techniques and frameworks to analyse the issues, often focusing on particular aspects and levels of analysis. For example, there are many individual-level studies on the motivations of self-styled 'eco-entrepreneurs' and firm-level studies that examine 'win-win' arguments for adopting more environmentally sustainable practices. Over the years, I have been involved in several reviews of research and policy in this area (Blundel et al. 2013; Science for Environmental Policy, 2020; Blundel and Hampton, 2021a, 2021b; Wetherall et al., 2022). It is, of course, impossible to summarise such a disparate range of outputs, so instead I highlight three gaps in the evidence base that are particularly urgent, important and / or unresolved. In my view, these, "need to be filled in order to design and implement more effective SME-specific policy and to develop clear, relevant guidance for climate action.' (Blundel and Hampton, 2021a: 5-7).

1. **Energy data**: We are still lacking robust, empirical data sets, covering SME energy use and emissions by business size, sector, building and occupancy type, equipment, activity, and location. Along with more fine-grained technical data on energy consumption patterns, we need social scientific evidence on energy-related practices and decision-making.

2. **Support models**: We need good comparative evidence on most effective ways of delivering decarbonisation advice, products and services. This needs to include the full range of publicly and privately funded schemes. It also needs to address the complex arguments around the role of intermediaries, the use of place- and sector-based approaches, and the governance of these arrangements[2].

[2] I am currently part of a UKERC-funded project examining the governance of SME decarbonisation across the four UK nations (https://ukerc.ac.uk/project/sme-governance-for-net-zero/).

3. **Equity and inclusivity:** We also need to think about SME decarbonisation with a 'just' transitions lens. Many SMEs have either failed or faced existential challenges arising from the Covid-19 pandemic, the financial crisis, and (in some cases) extreme weather events. Research needs to give voice to the lived experience of SME owners, managers and employees, and to take seriously the challenges of ensuring equity, justice, and a recognition of diversity in the race to Net Zero.

Policy and practice recommendations

SMEs pose similar problems for researchers and policymakers alike. While there are many contributory factors, in many cases this can be attributed to the absolute number of discrete organisations to be addressed, and complexities arising from their geographic distribution, heterogeneity, constrained resources and (in all too many cases) relatively short lifespans. So how can we address these issues? Having been involved in several collaborative, policy-oriented projects in recent years, I have become increasingly convinced that multi-institution networks can be a vehicle to facilitate real interdisciplinary research collaboration and to foster closer links with policymakers. Here are a few examples:

- **The Network for Business Sustainability (NBS):** an international network that promotes sustainable development, "to build a fairer and more environmentally sound future." (https://nbs.net)
- **The ISBE Social and Sustainable Enterprise (SSE) SIG**: a special interest group, along with an annual conference track, that attracts an interesting and varied community of researchers (https://isbe.org.uk/special-interest-group/sse/)
- **The Zero Emissions Enterprise (ZEE) network:** a new cross-institutional grouping of academic researchers who are active in this field. Having been formed in the pandemic, we organised our first face-to-face meeting in July 2022. It aims to enable closer links with policymakers. For example, the network submitted a collective response to the recent independent review of the UK government's Net Zero policies, which was cited in the published report (https://zeenetwork.co.uk/).

Engaging with policymakers is, of course, one of ISBE's goals, and many of its researchers have very successful track records in this area. Other useful mechanisms include the UKRI's Policy Fellowships in government departments and the Northern Ireland Assembly's Knowledge Exchange Seminar Series (KESS) initiative (https://kess.org.uk/), which partners with the University of Ulster, Queen's University of Belfast (QUB) and The Open University (OU) amongst others. This engagement model works particularly well in smaller jurisdictions, where it can build on already close connections between key policy actors. However, variants could be developed for use at a UK-level, and in other countries.

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