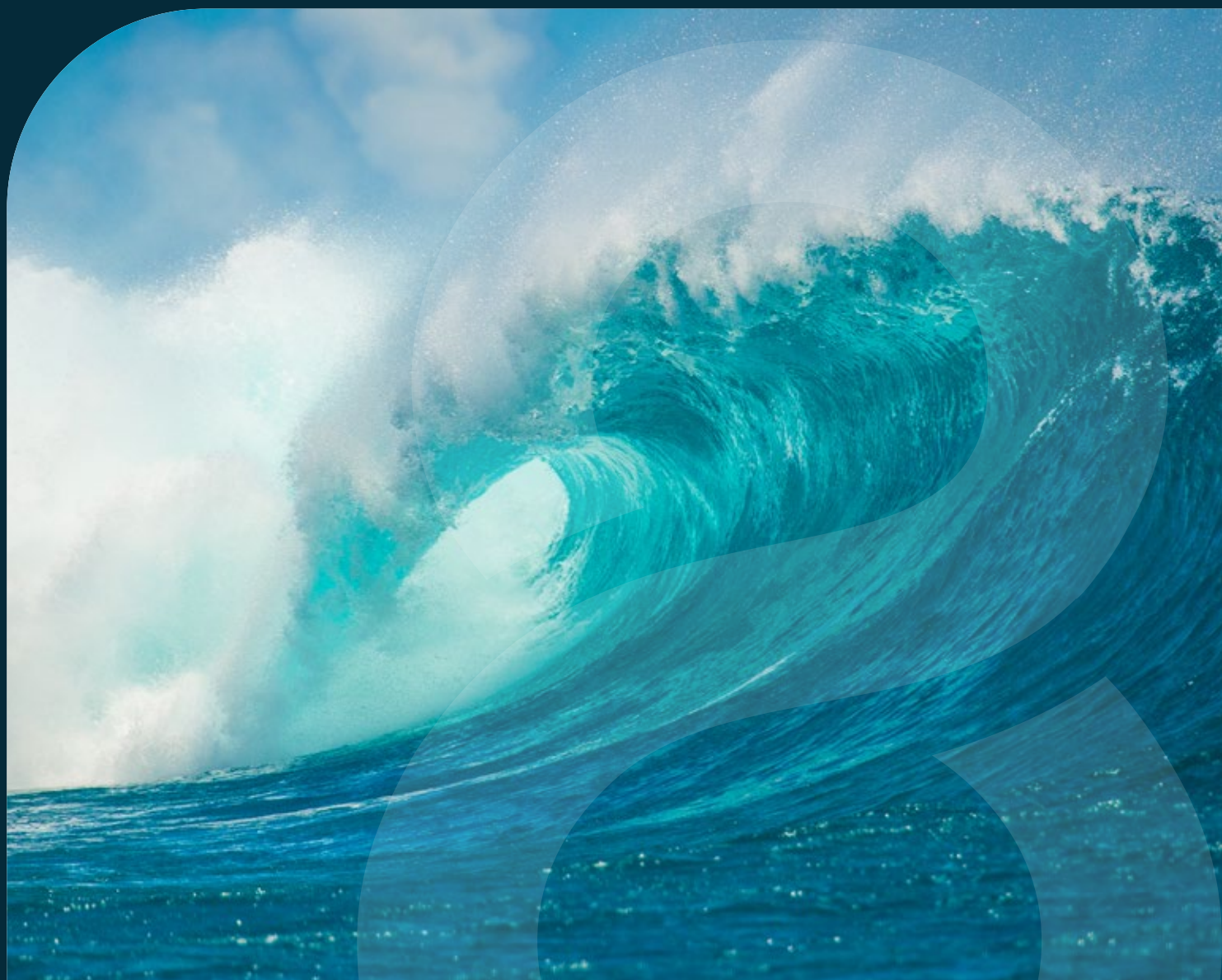


Empowering SME Sustainability

This research report explores how SMEs are at the beginning of an exciting wave of sustainability as they start their journey to Net Zero Carbon



Introduction

When it comes to carbon emissions, you often think about the big offenders. Whilst large organisations do emit mass amounts of Green House Gases (GHGs), we cannot ignore the role Small and Mid-size Enterprises (SMEs) can play in helping reduce emissions from the atmosphere. SMEs consist of 99% of businesses across the UK¹ and contribute to around 50% of the UK's carbon emissions alone². They also can be a key part of supplying and servicing larger organisations and therefore play an even more significant role in tackling climate change.

However, SMEs typically have limited budgets, resources, and capacity to take on what may seem to them as the next fashionable trend that can be under regulated and uncertain. Despite this, there is an increasingly high demand for businesses of all sizes to play their part to collectively achieve our national and global targets of 1.5c as part of the Paris Agreement.

Therefore, we conducted a research study to share the voice of SMEs and to explore what the challenges and concerns are about adopting more sustainable practices. From these results, there is some hesitation and resistance, but also an optimism and desire to achieve a common goal. This research shows we are at the very beginning of an exciting wave in sustainability as SMEs start their journey to Net Zero Carbon.

Research Summary

The study was conducted via an online survey with 500 Senior Managers or C-Suite leaders with responsibility for sustainability issues within their business from organisations across the UK with 10-500 employees. This included a mix of 5 key sectors: Retail, Banking and Finance, Construction, Manufacturing and Food and Beverages which was completed in December 2021.



The Picture of Sustainability

Firstly, it is important to recognise how many organisations stated their commitment to sustainability. There is no shortage of good intentions as 99% of the individuals said they care about sustainability and 98% believed the full leadership team of the organisation cares a great deal too. 96% claim to be committed to sustainability and it is interesting to see what the reality of this commitment looks like within the wider context of this research.

For this study, we defined sustainability as the avoidance of the depletion of natural resources in order to maintain an ecological balance. Carbon offsetting, reducing carbon emissions and lifecycle assessments are all part of 'sustainability' which we continued to explore with our respondents.

As a core part of the research, we wanted to establish how far organisations are on their journey to Net Zero Carbon. Due to carbon footprinting being a relatively new movement in the grand scheme of things, it is no surprise that only 2 out of 500 SMEs claim to have reached Net Zero. However, 71% have started to measure their carbon footprint and even 35% have started reducing their environmental impacts. And of the 28% who have not yet started measuring their emissions, 18% plan to within the next year. It is a positive start on the Race to Net Zero however some of the significant challenges occur at the later stages when organisations look to measure and offset their Scope 3 emissions. It seems there is still some clarity needed on this as 24% did not know the difference between Carbon Neutral and Net Zero which suggests despite the great start, there is more work that needs to be done to get business leaders up to speed with the full requirements of making these commitments.

SME Net Zero Status

28%

Not started measuring

71%

Started measuring their carbon footprint

50%

Started reducing their carbon

15%

Achieved Carbon Neutral

0.4%

Achieved Net Zero Carbon

Carbon Neutral vs. Net Zero Carbon

Scope 1 Gas, diesel, oil and any refrigerant leakages

Scope 2 The purchase of heat, steam, cold water, and electricity

Scope 3 Upstream and downstream activities including supply chain (this is the largest part of an organisations carbon emissions typically accounting for more than 90% of GHGs)



Carbon Neutral
includes Scopes 1 & 2



Net Zero Carbon
includes Scopes 1, 2 & 3

Offsetting Conflicts

It was important to explore how offsetting was perceived amongst business leaders. The results showed that only 30% of respondents claimed to know a lot about carbon offsetting schemes. There seemed to be more knowledge amongst the Banking and Finance (44%), and Construction (41%) sectors, compared to Retail (20%) and Manufacturing (19%). Interestingly, the level of knowledge also increased with seniority of the decision-makers with only 19% of Managers claiming to 'know a lot' vs. 38% of Senior Managers / C-Suite.

The survey asked about organisations' preferences for local or international carbon offsetting schemes, or if they preferred a combination of the two. 42% prefer a combination, 40% prefer local and 18% have preference for international schemes. This suggests that there is a desire for diverse offsetting schemes which factors in proximity, control, and cost. For example, consumers can often value offsetting schemes that are closer to home that prioritise biodiversity and flood management.

Examining this further, respondents were asked what type of carbon offsetting scheme their organisation is likely to use over the next 3 years. Only 28% of SMEs surveyed said they would like to use 'off the shelf' offsetting schemes, suggesting that they are interested in more than the basic offering. The majority (48%) said they would likely introduce 'bespoke' offsetting schemes that are tailored to their environmental objectives. 36% went as far to say that they would likely use 'premium' schemes which provide offsetting to the highest and most credible standard to have a wider environmental, economic, and social impact.

However, when presented with the potential costs of each of these schemes, the results differed. 'Bespoke' schemes remained the most popular at £50 per head (52%). 'Off the shelf' dropped by 4 percentage points at £10 per head, and 'premium' dropped by 21 percentage points at £100 per head suggesting that SMEs intentions are good, but they may not see the value in ensuring their offsets are credible and adhering to the highest standards. Sufficient investment is vital to achieving successful long lasting sustainable strategies, yet this response highlights that potential issues could arise when making purchase decisions around offsetting. Even though we see in the following chapters, brand building and the fear of greenwashing is of high concern for SMEs', it begs the question; how far are they willing to go to make sure their sustainability practices are robust and credible?



A carbon offsetting scheme refers to a scheme which removes carbon from the atmosphere, such as tree planting, to compensate for carbon emissions emitted by organisations



Key Industry Standards

ISO 14064 & ISO 14067 – These international standards specify the guidance for quantification and reporting of GHG emissions and removals of your business or product

PAS 2060 & 2050 – A British Standards Institution verification that substantiates claims your business or product is Carbon Neutral

GHG Protocol – The world's most widely used GHG accounting standards

Face Value

When looking into why business leaders are starting to consider their sustainability strategies, we discover what the main drivers are. The results show that the most common single driver is to improve brand reputation (44%). It is no surprise then that the second most common driver is customers demanding more sustainability mentioned by 41% of decision-makers. This may come from 69% of respondents believing that their customers expect smaller organisations to have more genuine sustainability credentials than large corporates. Interestingly, of those who have started introducing sustainability practices 54% have seen the improvements to their reputation with customers and 36% have already seen greater sales revenues as a result. This data shows that there is real and tangible value in moving towards Net Zero Carbon.

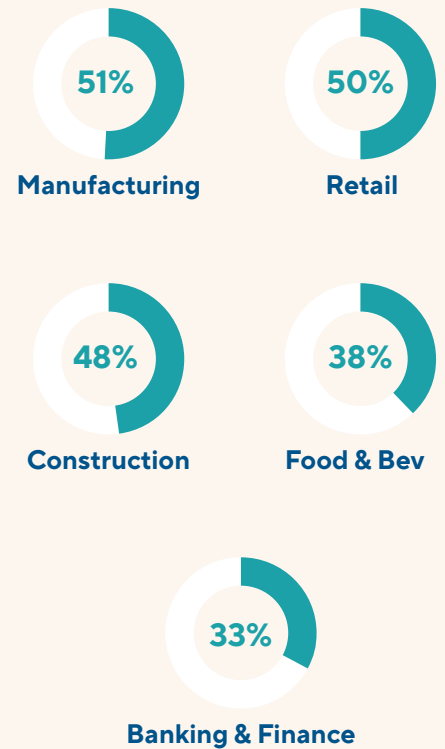
Other drivers included the senior leadership team's passion for sustainability (39%), employees wanting more from their organisation (38%) and supplier demands (28%). Lower down on the list are more official drivers for SMEs to get started on their journey, such as government requirements (27%) and trade bodies (22%).

Employee needs seem to be an important indicator for SMEs as it can play a significant role in attracting and retaining talent. That is why 47% claim to report on their sustainability commitments internally with employees. Closely following this, 46% report on their sustainability commitments for the purpose of brand building on their website and social media channels. Interestingly only 42% add their sustainability commitments to their annual report suggesting that they do not quite see this worthy of adding to their business updates yet.

Only 28% said that shareholders influence is a driver, yet with the rise of Environmental, Social and Governance (ESG) reporting, we predict this response to increase significantly over the coming years to help businesses detail exactly what their vision and actions are in this area. Especially as funding and loans are going to become more dependent on ESG reporting³, which may be why the Banking and Finance sector seem to be ahead of this curve as a higher percentage (35%) saw shareholders influence as a key reason for introducing sustainability.

Brand Value by Sector

Improving brand reputation as the main driver to committing to sustainability:



Sustainability ROI

Of those who have started introducing sustainability practices:

54%

have seen improvements to their reputation

36%

have seen greater sales revenues



Small Fish, Big Pond

It is hard not to feel like a small fish in a big pond as an SME. But many business leaders have not let that stop them from taking action as 77% disagreed that their impacts are only a drop in the ocean. 66% of respondents agreed that smaller businesses are leading the way despite having less resources than larger counterparts. However, it was felt amongst those who have not yet started measuring their footprint that they do not have enough budget for sustainability initiatives (43%). And as budgets are seemingly tight for SMEs, responses such as 45% claiming to 'not having enough staff or internal knowledge' comes as no surprise. Even if the feeling is that SMEs are leading the way, this does not come without sacrifices and this is clear across all industries.

Another big barrier to success seems to be the confusion around government and industry guidance (48%). This was especially prevalent in the Banking and Finance sector (59%) who clearly felt that not enough is being done to set clear boundaries and credible industry wide standards. This is reflected in the decision-makers responses to what they look for when it comes to external support. When considering a sustainability partner, 45% of SMEs prioritise 'knowledge' and then 'credibility' (39%) in their decision-making processes.

When considering an organisation's Scope 3 emissions, which includes the whole supply chain, SMEs play an important role in tackling these GHGs. They are either part of a larger organisation's supply chain or have their own extensive list of suppliers who have influence on their strategic direction, and therefore need to understand the challenges associated with measuring and reducing carbon emissions from these activities. Those who have started measuring their footprint said that the complexity of gathering data from their supply chain is their biggest challenge (31%). And when considering the SMEs who supply to bigger organisations 73% said they felt under increasing pressure from these buyers to become more sustainable to support their Scope 3 criteria.



66% of respondents agreed that **smaller businesses are leading the way** despite having less resources than larger counterparts

Scale of Risks

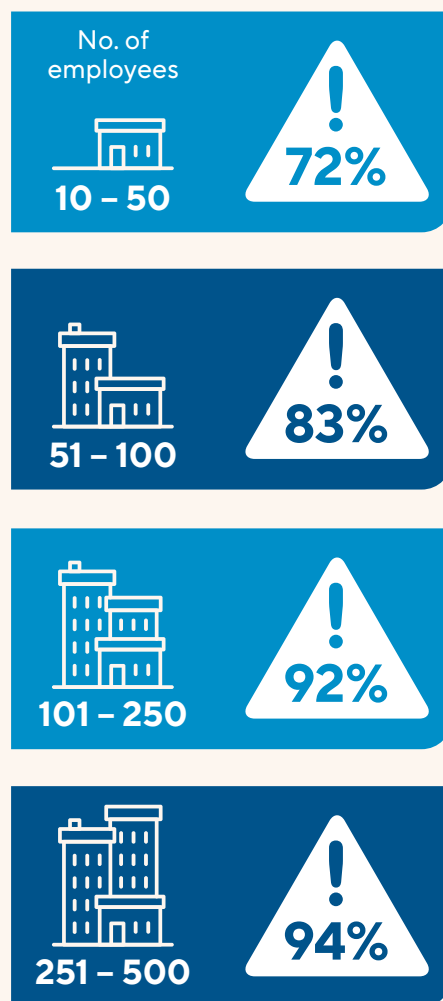
Despite the advantages, introducing sustainability practices naturally come with an element of risk. When simply asking whether respondents felt they will lose business in the future if they do not introduce sustainability practices now, 62% said 'Yes'. Then considering the scale of their concerns, business leaders were asked how big of an issue might this be, of which 87% responded that they believe this to be a medium to high risk. When breaking this down further high risk was felt most amongst the medium sized organisations (94% from those with 251-500 employees).

Interestingly one of the biggest concerns of introducing sustainability practices was being perceived as an organisation that greenwashes (52%). For the purpose of this study, we defined greenwashing as leading people to believe the organisation is doing more to protect the environment than they are realistically achieving. Now a commonly used term, greenwashing can be rife amongst organisations who are not aware of the implications of investing in questionable and limited sustainability practices. What was more concerning is that 61% believed that greenwashing was already common in their sector and 57% even suggested that it is common within their own organisation. This demonstrates that even for those who have started introducing sustainability practices, there is a real lack of confidence in the quality of such initiatives.



Size of Risks

Those who felt most at risk to loss of business if they do not introduce sustainability practices:



Moving Forward

This research highlights that there is more for SMEs to learn in terms of how they can move forward with their sustainability practices in a credible and robust way. We outline these 5 top tips to help you get started on your journey to Net Zero Carbon:



1

Set Real Objectives

Aiming to reach Net Zero Carbon for your organisation is a long-standing commitment that requires clear and real objectives. You first will need to consider your starting point to understand what it's going to take to achieve your goals. Establishing your carbon footprint with credible and robust data means you can set a measurable roadmap to Net Zero Carbon. It will also mean you'll have full confidence and understanding of the realistic timeframes and significance of each step along the way.

99% of leaders personally care about sustainability but only **15%** have achieved Carbon Neutral



2

Get Ahead

One thing that was confirmed by the SMEs surveyed, is that brand is integral to maintaining market value. Although we are all on the same mission, there is an element of competitiveness for those who start early with their sustainability practices. As 54% said to have seen an improvement in their brand's reputation and 36% have seen greater sales revenues as a result of introducing more sustainability practices it's clear how important it is to try and get ahead. When you understand that reaching Net Zero Carbon is a long-term goal you will not only be able to set out a more realistic roadmap, but you will also be able to create urgency across your organisation to start now. And as you continue to grow and adapt you will also benefit from the knowledge and learnings gained over time which will help you refine your sustainability practices and improve your credentials as a leader for tackling climate change.

44% say introducing sustainability practices will improve their brand's reputation but **50%** have not yet started reducing their carbon footprint



3

Understand Offsetting

There seemed to be much confusion around offsetting as it can be a challenging area of sustainability to understand and so, the main things to focus on is *when* and *how* offsetting should be applied. Offsetting should be considered once an organisation has done everything in its power to measure and reduce its emissions. Once an SME has achieved these great milestones, they can then introduce not only credible and robust offsetting schemes, but also diverse schemes that include additional benefits that are tailored to your sustainability objectives.

83% claim to have offsetting schemes in place but **70%** say they don't know a lot about offsetting schemes in general



4 Verify and Certify

As budgets are tight, investing in the right sustainability initiatives are going to be vital for SMEs. You will gain reassurance and confidence that your sustainability spend is worthwhile and long-lasting when verifying and certifying your steps via credible, robust and internationally recognised standards. There are several industry standards to look out for that can help you build trust in what you are investing in, so it is important to identify which consultancies adhere to all of these standards. Working with a reliable partner and certifying your journey with a recognised certification body like [Natural Carbon Solutions](#) means you can guarantee your sustainability initiatives are foolproof.



5 Don't Hold Back

The fear of being considered a greenwasher may prevent organisations from introducing sustainability initiatives. However as 87% of leaders said there is a risk of losing business in the future if not introducing such practices, there is a danger of letting this hold you back. If there is a lack of knowledge and understanding within the organisation on where to start it's understandable that you may want to tread cautiously, but by implementing the previous steps you can proceed with confidence. It is a learning curve for all SMEs, but by demonstrating your willingness to commit to credibility and longevity with your sustainability practices you will gain the trust of all your stakeholders. With this confidence, you will be able to share your roadmap and commitments publicly and benefit from the boost in reputation, revenue and potential investment opportunities.

77% believed that their impact would not just be a drop in the ocean but **43%** say they don't have the budget for sustainability initiatives

52% fear being considered a greenwasher but **57%** believe that greenwashing is already common in their organisation



References:

1. Gov.uk - Business Population Estimates 2019
2. British Bank - Smaller businesses and the transition to net zero 2021
3. Bloomberg - Almost a 525% increase in capital flowed into ESG linked products since 2015 and ESG assets are expected to hit \$53trillion by 2025.

Get in Touch

If you'd like to know more about how your organisation can reach Net Zero Carbon, get in touch at **020 7043 0418** or email us at **info@eightversa.com** and our friendly experts can support you no matter what stage you are at.

About Eight Versa

Eight Versa is a multi-disciplinary sustainability consultancy who work across all sectors to provide comprehensive assessments of current environmental performance and strategic direction to achieve positive measurable impacts. We have an extensive range of proven experience in sustainability strategy, environmental assessment, and technical analyses. By working closely with organisations to provide carbon footprinting, we can utilise the offsetting and certification services of our sister company Natural Carbon Solutions to credibly verify your actions.

www.eightversa.com

About Natural Carbon Solutions

Natural Carbon Solutions is a certification body with comprehensive and third party verified carbon footprinting and offsetting standards. It integrates multiple global and national standards to create a holistic footprinting methodology which is relevant for all sectors, anywhere in the world. Whether for an organisation, building, product or event, the clarity and practicality of our four-step process enables a carbon footprinting and reduction journey for anyone. We also host a bespoke offsetting portfolio comprising of premium carbon credits that not only sequesters carbon but provides measurable long-term gains for the environment such as enhanced biodiversity and other ecosystem services.

www.naturalcarbonsolutions.co.uk

About Arlington Research

Arlington Research is a full-service independent market research agency. We provide clients from around the world with robust data via quantitative research, in depth exploration via qualitative research, and audits on what's out there already via desk research. All our team are director level and focused on providing intelligent analysis and creative insight that help our clients bring their story to life. They were commissioned by Eight Versa to conduct this research and support with the analysis and creative insight to form this paper.

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