Net Zero Barometer Report 2023

By Royal Charter

Foreword

Last year our Net Zero Barometer came straight out of the highs of COP26. Yet in spite of commitments made and lofty goals set, the UN's Emissions Gap Report, published towards the end of last year found we are still likely to see temperatures rise by a dangerous 2.4°C. As UN Secretary General Antonio Guttierez stated: "global and national climate commitments are falling pitifully short."

Even so, now on the road to COP28, this third survey* of over 1,000 SME leaders in the UK gives me cause for optimism. The number of business leaders recognizing the importance of net zero has tripled in the last three years – a remarkable shift – and we're able to see a growing commitment from businesses of all sizes to decarbonizing by 2050, along with their confidence that it is possible to turn ambition into action.

As we hit the implementation phase of decarbonizing, this is extremely significant. It's also clear from this year's barometer that small businesses need guidance and support to develop strategies and to take action. At a time where the attention of many SME leaders is being diverted by the effects of the war in Ukraine, the subsequent energy crisis, and its impact on the cost of living, businesses need help to navigate a path that is both credible and realistic.

To take action and drive progress towards a sustainable world, SMEs want to understand both where they are on this journey, and what that transition means specifically for them. They will benefit from a clear glide path as to how they're going to achieve net zero, not only in their own operations, but also in their supply chains. With incoming changes in legislation around non-financial reporting requirements, this will only become more pressing. BSI are developing a standard for later this year that will help businesses to form the strategies they need.

While legislation and guidance from the Government is always helpful, the call to action for small businesses increasingly comes from their customers and clients. This year for the first time we also surveyed over 1,000 consumers on their attitudes towards businesses and the environment. Consumers, especially in the younger generations, were clear: they favour brands and companies with genuine green credentials and are even willing to pay more for their products and services.

The good news is there's plenty of potential for organizations to leverage their actions on net zero now to stay in the supply chain, to benefit their bottom lines, and to work for the greater good.

We believe with the right guidance – including the use of standards – SMEs are more than able to rise to this moment. I'm confident the data and insights in this report, along with the recommendations we make at the end, will aid them on that journey.

Scott Steedman
Director-General, Standards
BSI

*This was an independent survey by Perspectus Global

Executive Summary

Since we launched our annual Net Zero Barometer three years ago, organizations of all sizes have had to navigate significant challenges: first Brexit, then the COVID-19 pandemic, and now the impact of the war in Ukraine, the pressure on energy, and the resultant cost-of-living crisis.

The race to reach net zero has been a constant throughout. As we conducted the research for our last edition, the COP26 climate summit, which took place in Glasgow in November 2021, was sharpening the minds of those in government and in business of the need to set and achieve ambitious targets. Both the UK Government and the devolved administrations renewed their commitments in the run-up to COP26 and strengthened their goals – aiming to reduce emissions by 78% by 2035, and to become net zero by 2050. Since then, COP27 has initiated an implementation phase as businesses recognize their critical role in the success of a just net zero transition.

In the UK, small and medium-sized businesses are particularly crucial. Businesses with under 250 employees contribute more than £2 trillion in turnover to UK economy[1]. For this report, once again, we surveyed just over a thousand senior decision-makers in businesses employing 500 people or fewer, from all over the UK, to understand their knowledge of what's required to reach net zero, and their confidence about achieving it. We also, for the first time, surveyed more than a thousand consumers to better understand the public's expectations of businesses in the pursuit of this goal.

The collective impact businesses of this size can have is significant. Whether it's the record highs of last year's temperatures, or the impending changes in non-financial reporting requirements, there's much to motivate businesses to move forward on decarbonizing. Add to this our findings that consumers have an expectation SMEs will make a difference for environmental good, and it's clear, the time for action is now.

[1] www.businessleader.co.uk/new-study-finds-smes-contribute-more-than-2-trillion-in-turnover-to-uk-economy/

Our key findings were:

01

Awareness of net zero targets and their importance has almost tripled

This year 82%[2] of business leaders told us that sustainability and net zero was important to their business practice – twice that of two years ago. The number claiming full awareness of the meaning of net zero and true understanding of The Climate Change Act has also doubled in the last two years, from 21% to 43%.

02

This translates into a good level of confidence, but it's not always matched with strategic action

A third (32%) described themselves as 'extremely confident' that they know how to reach net zero, and 47% said they were 'slightly confident'. In particular, business leaders who had purchased standards to help them reach net zero were more likely to be confident (36% were extremely confident, compared to 30% of those who haven't purchased a standard). Yet, while just over half (52%) of the leaders consulted had a policy on net zero of some sort, only 20% are measuring the progress towards net zero in a standardized way.

03

Cost remains the main obstacle towards taking action on net zero, though many can now identify cost benefits as a major reason to make efforts in this area

As expected, the geopolitical context is having an impact, with the cost-of-living crisis cited by 63% of respondents as the biggest factor that could inhibit progress, followed by the energy crisis (50%). Over half believed clean energy subsidies (56%) and grants for new projects (52%) from the Government would help their organization reach their targets. Understandably for those feeling the squeeze, the prospect of reduced costs linked to becoming more sustainable was cited by two fifths (39%) of businesses as one of the main benefits of actively working to promote net zero.

[2] 82% of business leaders told us that sustainability and net zero was important, up from three in ten who believed their business had a responsibility to remove or reduce direct carbon emissions in 2021.

04

Business will have to pull together to make net zero achievable

Government intervention alone is not enough. While lowered emissions (39%) and complying with carbon legislation (37%) were named as benefits of taking action, a third (33%) of SME leaders said that managing to set up a sustainable supply chain was their biggest barrier. No business stands alone in this endeavour, and it will take collective action to overcome the difficulties many have of finding sustainable suppliers, as well as addressing a lack of clarity about the carbon accounting of supply chain links.

05

But there's a competitive edge to be gained by businesses who do pursue net zero

Almost a third (31%) of SME leaders believed that one of the benefits of net zero was that it enhanced their organization's image and reputation with customers and stakeholders. This instinct was confirmed in the new part of our survey, where nearly three quarters (73%) of consumers said they'd be prepared to pay more for an item or service that came from a company with good environmental credentials and a real commitment to hit net zero. It's clear that beyond meeting the legislated targets and any broader benefits of reducing emissions, there's a market opportunity for SMEs that embrace decisive action.

73% of consumers would be prepared to pay more to company's with a real commitment to net zero

Though the context continues to be challenging, and the obstacles to reaching net zero are real, the Net Zero Barometer indicates a commercial advantage for organizations that make strides in this direction. Ultimately, while setting and achieving targets might meet legal obligations and create a pleasing public image, the core advantage to SMEs on this journey is economic. Reaching net zero is not only the right thing to do – there are concrete gains to be made on the way.

Chapter 1: Current landscape

The last three years have not been straightforward for organizations in the UK or around the world. In 2021, over two-thirds of SME leaders we surveyed told us that their organization's commitment – or planned commitment – to net zero had been affected by the COVID-19 pandemic: survival was the name of the game.

The following year that had radically changed, with 65% of SME decision-makers telling us they'd accelerated their efforts to operate at net zero as a result of the pandemic. Nevertheless, since then, a cost-of-living crisis and the energy crisis precipitated by the war in Ukraine have all added layers of complexity to business owners.

Even so, this year's survey found the vast majority (90%) of business leaders and founders are currently confident[3] about the future. And when it comes to net zero, we also see a continued rise in confidence.

90%

of business leaders are confident about the future.

[3] How confident are you about the future of your business over the next 12 months? Very confident – 40%, Quite confident - 50%

Progress has been made

The Climate Change Act commits the UK Government by law to reducing greenhouse gas emissions by at least 100% of 1990 levels by 2050 – in other words, net zero. The ambition has scaled up from the original legislation in recent years, and the UK is now also committed to reducing emissions by 78% by 2035.

The vast majority of those we surveyed (88%) are aware of this target, with 43% claiming to be fully up to speed. Our 2021 barometer found that only three in ten believed their business had a responsibility to remove or reduce direct carbon emissions resulting from their organization's activities. Encouragingly, this year 82% of business leaders told us that sustainability and net zero was important to their business practice, with 33% saying it's very important, and 78% say their organization has taken a proactive approach to demonstrate its commitment to reducing its greenhouse gas emissions.

Three-quarters of small businesses believe achieving net zero by 2050 is feasible as things stand, while a greater proportion – 87% – are committed to reaching net zero by 2050. Almost four in five businesses (79%) have some level of confidence about how they are going to reach this target, with almost a third (32%) feeling extremely confident.

"There has been a sea change in attitude and understanding of net zero and there is a genuine intention from companies to get on board. Companies now know that they need to get a handle on their carbon burden."

Dr Paula Owen
Environmental and Sustainability Specialist, Green Gumption

But there's more to do

However, the picture of how this confidence is translating into action is rather more mixed. The results of our survey suggest that while there is genuine will to transition, the way forward is not necessarily clear in the minds of SMEs.

Many small businesses have taken action on 'quick wins', obvious and easily enacted changes that lead towards net zero: 44% have reduced their waste, 39% have reduced their energy consumption, 38% have switched to LED lightbulbs, with others moving to clean energy sources (25%), insulating their buildings (23%), and installing their own renewable energy source (16%).

"There is a gap between intention and activity," says Professor Ian Thomson, Director of the Centre for Responsible Business, Birmingham University. "These companies all say that sustainability is important to them, yet if you look at emissions in this country, they're still rising, and the future doesn't look good."

While action on 'quick wins' is commendable, real progress will depend on more significant steps being taken across the board.

Yet when it comes to more strategic action that will effect change over the medium to long-term, movement is lacking. In contrast to the high proportions of confidence in the ambition for net zero, only a fifth (21%) of small businesses have made that ambition concrete in a net zero policy, just 17% of respondents have published a policy, and only a fifth are also measuring their progress towards net zero in a standardized way.

The three most popular strategic actions, each taken by almost a quarter of those we surveyed, were things like running training for staff on net zero targets and initiatives (24%), using standards to help reach net zero targets (24%), or promoting green achievements to customers and suppliers (24%). Meanwhile, 17% – a significant proportion equal to some 929,900 small businesses – had taken none of the actions we suggested, demonstrating that many SMEs are struggling to turn ambition into action.

In truth, the net zero transition is complex, industry specific, and even company specific, given local manufacturers will have different markets and requirements to, for example, a multi-national. Last year's barometer highlighted both a gap in knowledge and in understanding. Where there has clearly been progress on the understanding of net zero, it is possible that for many businesses, their awareness and enthusiasm takes a knock once they engage with the reality of what they need to do to achieve it, even if evidence suggests the long-term gains may outweigh short-term costs.

As Dr Paula Owen, environmental and sustainability specialist and founder of consultancy Green Gumption, explains: "There has been a sea change in attitude and understanding of net zero and there is a genuine intention from companies to get on board. Companies now know that they need to get a handle on their carbon burden. Many have cut carbon emissions as a baseline. But I think there's confusion about how you can achieve net zero. At the moment, there's probably an over-confidence that companies will achieve net zero because there's an over-reliance on carbon credits and offsetting green tariffs to get them over the line. I worry that many of these firms have only really scratched the surface."

"Perhaps it doesn't make sense for the rationale of a small business day-to-day to account for all their carbon," says Thomson. "I find it amazing that if you look at the actions people have taken to reduce carbon only 44% of the businesses had looked into waste reduction and 39% into energy reduction – both will clearly save you money."

SMEs are enthused about reaching net zero; now they need to work out how:

Net zero policy

- 21% have a net zero policy
- 17% have published net zero policy
- 18% have a net zero policy everyone in their company is aware of
- 16% have a net zero policy of which some staff are aware

Standards and certification

- 24% are using standards to help them reach net zero targets
- 16% have applied for certification of their green initiatives
- 16% have acquired standards for their green initiatives

Seeking advice

- 23% have attended training related to reducing carbon emissions
- 16% have attended events or conferences about reducing carbon emissions
- 14% have used a net zero expert or consultant to help them put together a net zero company policy

Chapter 2: Challenges and opportunities for SMEs

A challenging landscape

As previously stated, in earlier Net Zero Barometers we found evidence that global events can excuse or even increase the likelihood of inaction on net zero from business.

Even though the British summer of 2022 was the fourth warmest on record, and the first year the daily maximum temperature was recorded in excess of 40°C in the UK, for organizations it appears the shocks of the war in Ukraine – disrupted supply chains, soaring energy prices, and record inflation – may have pushed net zero down the priority list.

The cost-of-living crisis was seen by nearly two thirds (63%) of business leaders as the biggest geopolitical event that could set back their net zero commitment, followed by the energy crisis (50%). A third (34%) named uncertainty over the Government's commitments to the 2050 net zero target as a barrier to them achieving it, but this must be weighed against the similar percentage (33%) who said legislation is their biggest driver in the transition to net zero.

63%

said the cost-of-living crisis could set back their net zero commitment.

Small businesses face specific obstacles

That's the big picture. But no single SME is the same as another, and there are also challenges they face that are both organization-specific and unique to each sector. Cost, supply chain, senior leadership buy-in, and a desire for good guidance continue to be factors affecting business's ability to set and achieve meaningful targets.

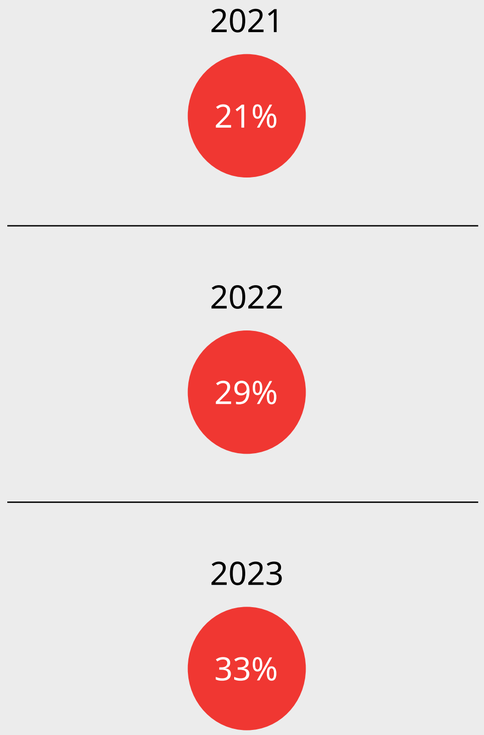
The proportion of SME leaders worried about the cost of achieving a net zero commitment is largely unchanged from last year – 43% of businesses cited it as an obstacle this year compared with 45% in 2022. Businesses are calling for extra financial support to make their ambitions a reality: 56% believe clean energy subsidies from the government would help their organization reach net zero, and 52% are looking to government for grants for new projects.

The percentage naming supply chain as a significant barrier to their net zero ambitions has gone up. In 2022, 29% cited supply chain as an obstacle to decarbonizing versus 33% in this year's survey – specifically respondents told us they experience difficulties in finding suppliers with net zero credentials, and a lack of oversight of net zero elsewhere in the supply chain.

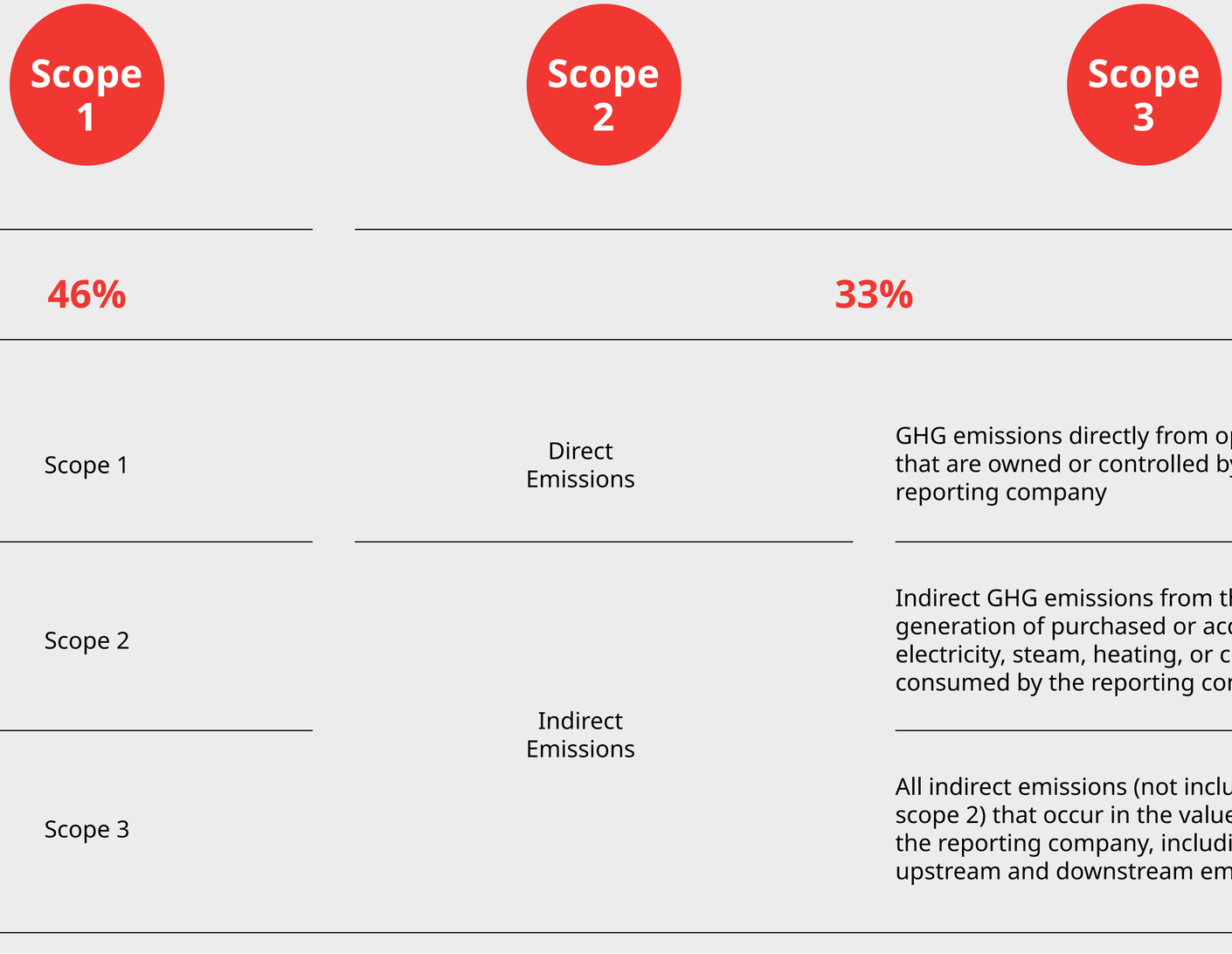
33%

cited supply chain as an obstacle to decarbonizing.

Supply chain is a growing obstacle to SMEs net zero ambitions:



Whether due to a lack of progress on net zero in the supply chain, or a clear way of ensuring any net zero claims are credible and measurable, the subsequent lack of transparency has an obvious impact on how businesses reduce their Scope 3 emissions – those that occur up and downstream in the value chain of a reporting company. For many this will make the critical difference between whether they're able to reach net zero or not. As pressure grows on businesses to fulfil the net zero requirements of non-financial reporting, organizations who can demonstrate their progress with clear carbon accounting will increasingly become an asset to the supply chains of other businesses, with the potential both to win contracts and grow the bottom line.



Tackling climate change calls for a culture change

It would be easy to conclude that the onus is on the Government to drive change through legislation. But reaching net zero is also about information and guidance. For all those wanting financial support from the Government, there are others who want information and to learn: 28% said educational projects would help them reach net zero and just over a fifth (22%) believe they could achieve it with more information.

22%

believe they could achieve net zero with more information.

Given the confidence and appetite for action on sustainability businesses have gained over the past few years, if the right information is there, SMEs could have significant power to shift the national dial. This will mean more than legislation or funding. Increasingly there's demand for change from consumers and the workforce within each sector, albeit that each sector will have to address challenges such as the lack of carbon traceability in supply chains, or leadership that is disengaged from the task, in a way that makes sense to that industry.

Nevertheless, the general picture is clear: net zero will only be successful if this endeavour becomes integral to every decision, every transaction, and every innovation – in other words if it is woven into the fabric of every organization in the UK to create a new culture of enterprise.

Chapter 3:
Sector case studies

A closer look:
Three sector case studies

Building on the responses of our survey, we've taken a closer look at the state of play in three specific sectors – construction, FMCG, and retail – focusing on the complexities, challenges and opportunities of decarbonizing.

Construction:

The burden of responsibility in a complex and competitive sector is slowing the pace of change

Although more than three-quarters (77%) of SME business leaders in construction said sustainability and net zero was important to their practice, this was the lowest of all the sectors we surveyed, below the average of 85%. Just over a fifth (22%) of these leaders thought it was unfeasible for them to become net zero by 2050.

22% of SME leaders in construction believe net zero by 2050 is unfeasible.

These are troubling figures, given the construction sector has a crucial part to play in contributing to the UK's net zero goals. At present, the built environment contributes some 40% of the UK's carbon emissions[4], comparable to the 39% of global energy related carbon emissions: 28% is operational – the energy used to heat, cool and power buildings – the remaining 11% is from materials and construction.

Construction is one of the more complex industries to decarbonize, having to reckon with both operational carbon – things like heating and cooling, and electrical supply, which is sizable – and embodied carbon – embedded within the products used in the sector, which is much harder to tackle. For example, 8% of world emissions come from concrete[5] and another 8% from structural steel[6].

As with other industries, cost and supply chain are significant barriers. Yet for 29% of SME leaders in construction there's a third obstacle to reaching net zero: lack of clarity on what net zero means and a lack of guidance.

As Anthony Burd, Head of Built Environment, BSI, explains: "Operational carbon is currently controlled already under building regulations, whereas embodied carbon isn't. There are solutions, including low carbon concrete, but as an industry that's been heavily regulated in the past, it often waits to be regulated before it will move on. Many in the industry need a clear path that marks out how to get from where they are now to where they need to be."

[4] www.raeng.org.uk/news/construction-sector-must-move-further-and-faster-to-curb-carbon-emissions-say-engineers
[5] www.nature.com/articles/d41586-021-02612-5#ref-CR3
[6] ww3.rics.org/uk/en/modus/natural-environment/renewables/the-75-per-cent-problem--decarbonising-steel-production-.html

In our survey, 27% of small business leaders in construction had purchased a net zero standard compared to the average of 24%, perhaps a sign of that desire for clarity and support. But the variety of different initiatives across industry can make it overwhelming for businesses wanting to get this right. “We have the standards for assessment of impacts and a lot of preparation tools, but no agreed targets” says Clare Price, Built Environment Sector Lead, BSI. “While the industry itself isn’t resistant to moving towards net zero, without targets that challenge or even force the industry to change, the risk is that we continue to see the inertia of business as usual.

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Clare Price
Built Environment Sector Lead, BSI

Yet to take all this as evidence of a lack of will or desire to decarbonize would be to misread the data: Construction SMEs have many more measures in place to achieve net zero than other sectors, with 51% having taken action to reduce waste and 44% to reduce energy use, alongside above average efforts to use recycled materials and reduce emissions from transport.

Construction SMEs have many more measures in place to achieve net zero than other sectors, with 51% having taken action to reduce waste and 44% to reduce energy use.

‘The construction industry is heavily regulated in the UK, and building regulations set a minimum standard. Most builders don’t mind implementing net zero practices, as long as their competitor also has to,’ adds Burd. In other words, the will is there, but at present clear targets and a legal level playing field are critical if small and medium construction firms are to move ahead.

Legislation aside, a quarter of those we surveyed highlighted that pressure from their customers was driving change in their business towards decarbonizing. Over a fifth (22%) cited pressure from their clients to do the same.

Burd explains: “The bigger backdrop is the benefit it can bring. Whether you measure in carbon abated or pounds saved, a better performing building will bring you both. This is important, because regulation aside, there’s nothing stopping clients setting higher standards as part of their brief. Progressive clients have the potential to pull businesses forward faster than perhaps regulation would make them go, and that can only be a good thing.”

FMCG:

Consumer-driven progress will be window dressing without company culture change

The fast-moving consumer goods (FMGC) sector is an example of one in which people are often well-trained in net zero, but a lack of senior management buy-in coupled with the impact of the cost-of-living crisis means this is not translating into a pace of change you might expect.

Of all the sectors we surveyed, consumer influence was the highest here: 40% of FMCG small businesses are moving to net zero due to pressure from their customers, while 40% now have a net zero policy in place (double the average). Three in ten have purchased a net zero standard, compared with the overall average of 24%, and over half (56%) expect to reach net zero by 2030, suggesting greater optimism than was seen across the board.

40% of FMCG small businesses are moving to net zero due to pressure from customers.

Almost half (49%) of the sector had offered staff training relating to net zero, again a higher proportion than any other sector, and almost double the overall average of 24%, Yet 40% of the sector said they believed that lack of clarity was their biggest barrier to net zero and 30% told us they struggled most with senior management buy in.

FMCG businesses are well-trained, but lack leadership

56% expect to reach net zero by 2030

40% have a net zero policy

30% have purchased a net zero standard

But

40% lack clarity on net zero

30% struggle with senior management buy-in

The concern might be that the challenges mean high levels of training and bought-in standards will not shift the dial. This also offers further evidence of cost as a driver for decision-making of senior leaders. After all, this comes at a time when 67% believe the cost-of-living crisis is most important to their customers, followed by 47% who state that the potential of a global recession weighs heaviest on their mind?

While, as we'll see later in this report, consumers told us they're more likely to be loyal to environmentally-focused brands, and even spend more on an item or service that comes from a company with a net zero commitment, as Sadie Dainton, Consumer Policy Manager, BSI explains, "the intent of the consumer may not be reflected in an SME's sales figures".

"It's hard for the consumer to make a choice between credible and factual claims without government regulation."

Sadie Dainton
Consumer Policy Manager, BSI

She continues: "It's hard for the consumer to make a choice between credible and factual claims without government regulation. Even the SMEs don't know which schemes to choose, but ultimately if they're only looking to use environmental claims as competitive marketing, consumers won't trust their claims."

Her advice is to embed net zero as an ethos within the company. "This is why often you don't see senior management buying in. It requires a wholesale change to become a good company, that behaves responsibly, and respects its environment and its suppliers. But this is how you become a trusted brand, and this will appeal to much more than just their existing customers."

67% of FMCG small business leaders believe the cost-of-living crisis is most important to their customers.

Retail:

Cost of living is hitting net zero hard but there is hope

Two years ago, the British Retail Consortium (BRC) announced hugely ambitious plans for the UK retail industry to reach net zero by 2040, with stores and warehouses powered by net zero electricity by 2030.

However, our survey found that retail SMEs, thousands of which are members of the BRC via trade associations, are struggling with this[7]. Finding suppliers with net zero credentials is crucial for a sector so reliant on supply chain, yet finding these and a lack of oversight in net zero elsewhere in the supply chain was reported as a barrier by 31%. Meanwhile, as the BRC admits that the sector's greenhouse gas emissions are 80% higher than all road traffic in the country, the concern is that businesses are not seizing the opportunity to decarbonize their deliveries, with only 17% of the SMEs we consulted having taken action to reduce their transport emissions, and only 19% having switched to electric vehicles.

31% of retail SME leaders reported finding suppliers with net zero credentials as a barrier.

Retailers are also the least confident sector when it comes to net zero: Only 66% believe it is feasible that they will be net zero by 2050 – lower than both the automotive industry (67%) and even construction (78%).

Retail is similar to FMCG in that there is sizeable pressure from consumers (38%, compared to a cross sector average of 29%) to achieve net zero targets. However, unlike FMCG, retail has fewer resources, and a more transient workforce. Only around a quarter of retail SMEs have a team or a single member of staff working on net zero, only 15% have bought standards, and 18% have no net zero policy at all.

[7] www.brc.org.uk/about/

"It's easier for SMEs to put purpose at the centre of their organization than it is for big businesses, and if retailers can prove themselves to be better, and more ethical, consumers will come to them."

Sadie Dainton
Consumer Policy Manager, BSI

Why such a lack of confidence from retail SMEs? Once again it comes down to cost. Named as the core obstacle for 45% of business leaders, retail is a sector where 80% of business leaders recognize the cost-of-living crisis as the most important issue for their customers, and over a quarter (27%) are choosing to prioritize business growth in response.

"Bigger businesses are the ones who are influencing the standards in this industry," says Dainton. "But you can't necessarily have the same expectations of someone who employs 500 or even a thousand people as you might of a big corporation." She points out that while 70% to 80% of the industry is made up of SMEs, it's the remaining percentage of large retailers who set the tone.

Nevertheless, what's small can be mighty and, as with those in FMCG, she sees a potential benefit for SMEs in this sector.

"It's easier for SMEs to put purpose at the centre of their organization than it is for big businesses, and if retailers can prove themselves to be better, more ethical, consumers will come to them. There can't be a circular economy without customer commitment. Take them on the journey, rather than marketing a product, and bring them into your commitment as a company."

Chapter 4: Gaining the green edge for growth

At its heart, when it comes to reaching net zero, for many SMEs it's about the bottom line. As we've said earlier, the cost of making the changes needed to decarbonize entirely by 2050 is named as the biggest obstacle for 43% of SME leaders this year, a statistic that has largely remained unchanged from our previous surveys of SME leaders – 44% named cost in 2021, 45% in 2022.

43% say the cost of making the changes needed to decarbonize entirely by 2050 is the biggest obstacle.

Yet, as experts have told us, there are benefits to the bottom line to be gained for SMEs who are proactive in pursuit of the net zero target. Regardless of size, there's a procurement advantage to be gained for businesses by having clear net zero policies in place and actions to demonstrate their performance in this area – in the UK and globally, as other countries also pursue the net zero goal. As we have also noted, organizations that are able to offer transparency and clarity of carbon accounting will increasingly find this is an asset when it comes to winning contracts. As SMEs, and indeed businesses of all sizes, look to reduce their Scope 3 emissions, suppliers with a demonstrable net zero record will have the edge on their competitors.

While Government legislation is still the major driver for a third of SMEs in terms of decarbonizing, a significant proportion reported experiencing pressure from their customers (29%), employees (25%), clients (20%) and investors (17%) to actively show their commitment to net zero. Almost a quarter (24%) have noted that changing consumer behaviour is also having an impact in this respect.

Increasingly, as larger organizations in both the public and private sector, and in the UK and internationally, also work towards their own net zero goals, SMEs wanting to supply them will have to be able to clearly demonstrate their progress and verify their net zero credentials. Already businesses hoping to win major government contracts have to commit to net zero by 2050 and publish clear and credible carbon reduction plans before they can bid[8], and research suggests the supply of goods and services to enable the global net-zero transition could be worth £1 trillion to UK businesses by 2030[9]. While it might seem costly in the immediate term, SMEs who are ahead of their competitors in this way, stand to reap the rewards in the medium- to long-term.

[8] www.gov.uk/government/news/firms-must-commit-to-net-zero-to-win-major-government-contracts
[9] www.mckinsey.com/capabilities/sustainability/our-insights/opportunities-for-uk-businesses-in-the-net-zero-transition

The push to decarbonize is not just from government. SMEs feel pressure from

A generation game

For the first time this year, we took a view on SMEs from the consumer perspective. Almost a third (31%) of SME leaders believed that one of the benefits of net zero was that it enhanced their organization's image and reputation with customers and stakeholders, and our survey of around 1,000 consumers demonstrated this to be the case: Nearly three quarters (73%) said they'd be prepared to pay more for an item or service that came from a company with good environmental credentials and a real commitment to hit net zero – 22% said 'definitely', 51% 'possibly'.

73% of consumers said they'd be prepared to pay more for an item or service that came from a company with good environmental credentials.

This expectation appears likely only to grow in the coming years. Our survey found that 93% of those in so-called "Gen Z" (those born between the late 1990s and the late 2010s) are likely to be loyal to a climate friendly brand. But it is not purely younger consumers driving this; the proportion of those who look to businesses to be carbon neutral is high across the generational board: 79% of over 55s also claimed to be more loyal to brands that can demonstrate their commitment to tackling the climate.

Of course, much like SME leaders, consumers are also prioritizing value for money (73%) and factoring in inflation and the cost of living (66%) when making a purchase. Still, the third consideration cited by 48% of respondents was environmental concerns. Consumers of all ages are beginning to lead the way in terms of their expectations – savvy business owners will see the opportunity and seize it.

93%

of "Gen Z" are likely to be loyal to a climate friendly brand.

Loyalty premium

The opportunities are not restricted to ad hoc or one-off purchases – nearly nine in ten (88%) consumers said they would choose to purchase from a net zero organization over a non-net zero one, if price were no issue. When asked if they'd be prepared to pay more for an item or service from a company with good environmental credentials and a real commitment to hit net zero, only a fifth (20%) of respondents said no.

Even more strikingly, 83% of those polled said they would be prepared to sacrifice the quality or end result for improved eco-credentials (for example, buying a bamboo toothbrush that isn't as effective as a plastic toothbrush but is more environmentally friendly) – over half (53%) some of the time, and 30% said they always would. For those aged 18 to 24 these percentages were even higher – 97% said they would be prepared to compromise on quality; 44% said they would every time.

83% of consumers said they would be prepared to sacrifice the quality or end result for improved eco-credentials.

Of the 83% of consumers who told us they're more likely to be loyal to brands that are environmentally focused and working to reduce climate change, almost three-quarters (73%) said they were motivated by care for the environment, just over half (53%) said it made them feel like they're doing the right thing, 42% wanted to use their buying power to support the environment, and a quarter believed brands with real green credentials are 'inspirational and the way forward'.

Avoid the greenwash

In another poll of 2,000 consumers and business leaders BSI published earlier this year[10], it was clear that consumers care and expect companies to be taking action on the climate – almost half (47%) of consumers considered a company's purpose when making a purchasing decision and two-thirds (66%) told us they'd abandon a product or business that acted inconsistently with its purpose.

94% of consumers said proper verification of a business's environmental claims was important to them.

Critically, there is also an expectation that these actions will be both verifiable and held to clear, measurable standards. The majority of consumers (94%) told us proper verification of a business's environmental claims was important to them, with 57% saying it was extremely important. Two-thirds of these said verification mattered because it demonstrates businesses aren't just greenwashing, 58% said it gives businesses integrity, and 32% said verified standards provide a benchmark by which they can compare one company with another.

Credibility is increasingly crucial, while there is growing acknowledgement that a commitment to net zero can offer a competitive edge to businesses. Given the demographic trends in consumer behaviour, this is likely only to increase over time. The challenge for some organizations, as we've already explored, can be ascertaining which credentials are most credible and trustworthy, highlighting the importance of standards and clear legislative frameworks.

[10] www.bsigroup.com/en-GB/about-bsi/media-centre/press-releases/2023/january/66-of-consumers-will-abandon-hypocritical-businesses-shows-new-research/

Conclusion and recommendations

Another year closer to 2050, this third Net Zero Barometer confirms that the growing majority of SME decision-makers continue to understand the increasing need for progress towards net zero. More than that, they're often keen to do so.

But the risk is that uncertainty over how to decarbonize, and doing so in a challenging economic landscape, will put the brakes on what is an urgent task. Small businesses are looking for guidance on how to build greater sustainability into the fabric of their organizations, for transparency and co-operation with other businesses that are in their supply chains, and for clarity on how to move beyond offsetting to achieve net zero in a meaningful way.

The impetus is no longer merely a moral one, or even a legislative one – consumers and clients expect meaningful action towards our national net zero goals, and this will increasingly have an impact on the bottom line of SMEs.

At present, the commercial promise represented by the readiness of consumers who told us they will favour businesses that have made credible strides towards net zero over those who are still lagging, is not being fulfilled.

But the opportunity is there to be grasped. This year's report highlights the need for some key actions for the coming 12 months in order to close this opportunity gap.

Five recommendations for SMEs:

01

Shift the culture

Approach decarbonizing as an opportunity to accelerate progress towards a sustainable world and embed it into the wider organizational culture.

With 82% of SME business leaders now viewing the net zero target as important, this can now be matched by strategic action. But culture change takes more than good intentions. Guidance, such as the ISO Net Zero Guidelines as well as standards, can help small businesses set a strategy towards realistic net zero goals that is relevant to their particular needs and requirements.

02

Work together

For a third of SME leaders, setting up a sustainable supply chain is their biggest barrier. By accelerating engagement with supply chains, and working collaboratively upstream and downstream, businesses can achieve net zero goals together.

SMEs are already taking action in-house on reducing waste and energy usage, but we will be better placed to reach net zero if we make a collective effort. Businesses can achieve impact by looking beyond the four walls of their organization and collaborating with their suppliers to address Scope 3 emissions.

03

Use standards as the benchmark

With 73% of consumers willing to spend more with green companies, SMEs are now identifying cost benefits as a major reason to make efforts in this area. In a competitive market, organizations of all sizes can benefit from a level playing field in order to work together to achieve a sustainable world.

Being a first mover can be a risk for SMEs, so clear targets and a legal framework can play an important role. In addition, or in cases where regulation is yet to emerge, standards can provide a benchmark for organizations wanting to clearly demonstrate their net zero commitment while remaining competitive.

04

Become a trusted partner

Already businesses hoping to win major government contracts have to commit to net zero by 2050. As net zero becomes increasingly central to winning public and private sector contracts in the UK and further afield, SMEs have the opportunity to strengthen their long-term prospects by becoming trusted supply chain partners, ultimately benefiting individuals, organizations and the planet.

As other organizations seek to fulfil their net zero targets, SMEs can position themselves as part of the journey. Standards such as ISO 9001 and reputable schemes like Race to Zero provide credibility that will empower them and their networks to maximize these benefits.

05

Plot a course and chart the journey

Only 20% of SMEs are currently measuring progress towards net zero in a standardized way. While the ambition is to reach net zero, setting interim targets that mark off progress can help organizations stay on track, and can help build consumer trust and brand credibility.

The next step is to share progress, by publishing net zero policies, getting data verified by a third-party, such as The Carbon Disclosure Project, and being transparent about the actions that have been taken.

Appendices

Standards

Businesses leaders who had purchased standards to help them reach net zero were more likely to:

- Say that sustainability and net zero is very important to their business practices than those who hadn't (43% vs 30%).
- Be aware of the implications of the Climate Change Act (57% vs 39%).
- Say that they are confident they know how to reach net zero as a business – 36% said they were extremely confident vs 30% of those who haven't purchased a standard.
- Say it was feasible that their business would reach the net zero target (80% vs 72% of those who hadn't purchased standards).

BSI recognizes the role standards play in helping businesses achieve their goals. Since we launched our first Net Zero Barometer, we've added new standards to our roster in response to the demand we see from SMEs.

Standards Supporting Net Zero

Greenhouse Gas (GHG Management)

BS EN ISO 14064-1:2019
Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals

BS EN ISO 14064-2:2019
Specification with guidance at the project level for quantification, monitoring and reporting of greenhouse gas emission reductions or removal enhancements

PAS 2050:2011
Specification for the assessment of the life cycle greenhouse gas emissions of goods and services

BS EN ISO 14067:2018
Carbon footprint of products. Requirements and guidelines for quantification

BS EN ISO 14001:2015
Environmental management systems. Requirements with guidance for use

BS EN ISO 50001:2018
Energy management systems. Requirements with guidance for use

PAS 2060:2014
Specification for the demonstration of carbon neutrality

BS EN ISO 14064-3:2019
Specification with guidance for the verification and validation of greenhouse gas statements

BS EN ISO 14065:2013
Requirements for greenhouse gas validation and verification bodies for use in accreditation or other forms of recognition

BS ISO 14066:2011
Competence requirements for greenhouse gas validation teams and verification teams

Energy

BS EN IEC 61400-1:2019
Wind energy generation systems - Design requirements

BS EN 62446-1:2016+A1:2018
Photovoltaic (PV) systems. Requirements for testing, documentation and maintenance - Grid connected systems. Documentation, commissioning tests and inspection

BS EN IEC 62933 Series
Electrical Energy Storage (EES) systems

PAS 7062:2021
Electric vehicle battery cells. Health and safety, environmental and quality management considerations in cell manufacturing and finished cell. Code of practice

PAS 7061:2020
Batteries for vehicle propulsion electrification. Safe and environmentally-conscious handling of battery packs and modules. Code of practice

PAS 7060:2021
Electric vehicles. Safe and environmentally-conscious design and use of batteries. Guide

PD CLC IEC/TS 61980-2:2020
Electric vehicle wireless power transfer (WPT) systems - Specific requirements for communication between electric road vehicle (EV) and infrastructure

PD ISO/TR 8713:2019
Electrically propelled road vehicles. Vocabulary

BS EN IEC 61851 Series
Electric vehicle conductive charging system

PAS 1878:2021
Energy smart appliances. System functionality and architecture. Specification

PAS 1879:2021
Energy smart appliances. Demand side response operation. Code of practice

BS EN ISO 50001:2018
Energy management systems. Requirements with guidance for use

PAS 4444:2020
Hydrogen-fired gas appliances. Guide

Transport

BS ISO 8178 Series
Reciprocating internal combustion engines. Exhaust emission measurement - Measurement of gaseous and particulate exhaust emissions under field conditions

BS EN 17507:2021
Road Vehicles. Portable Emission Measuring Systems (PEMS). Performance Assessment

PD ISO/TR 15916:2015
Basic considerations for the safety of hydrogen systems

BS ISO 22565:2019
Road vehicles. Durability test method of starter relay for stop and start system

BS ISO 21782 Series
Electrically propelled road vehicles. Test specification for electric propulsion components

PAS 7060:2021
Electric vehicles. Safe and environmentally-conscious design and use of batteries. Guide

PAS 7061:2020
Batteries for vehicle propulsion electrification. Safe and environmentally-conscious handling of battery packs and modules. Code of practice

PAS 7062:2021
Electric vehicle battery cells. Health and safety, environmental and quality management considerations in cell manufacturing and finished cell. Code of practice

BS ISO 23828:2013
Fuel cell road vehicles. Energy consumption measurement. Vehicles fuelled with compressed hydrogen

BS ISO 23274 Series
Hybrid-electric road vehicles. Exhaust emissions and fuel consumption measurements

BS EN ISO 15118 Series
Road vehicles. Vehicle to grid communication interface

BS EN IEC 61851 Series
Electric vehicle conductive charging system - Electric vehicle requirements for conductive connection to an AC/DC supply.

PD CEN/TS 16614 Series
Public transport. Network and Timetable Exchange (NeTEx)

BS ISO 22737:2021
Intelligent transport systems. Low-speed automated driving (LSAD) systems for predefined routes - Performance requirements, system requirements and performance test procedures

BS EN 14243-1:2019
Materials obtained from end of life tyres - General definitions related to the methods for determining their dimension(s) and impurities

PD CEN/TS 16916:2016
Materials obtained from End of Life Tyres. Determination of specific requirements for sampling and determination of moisture content using the oven-dry method

BS ISO 23828:2013
Fuel cell road vehicles. Energy consumption measurement. Vehicles fuelled with compressed hydrogen

BS ISO 8178 Series
Reciprocating internal combustion engines.

BS EN 17507:2021
Road Vehicles. Portable Emission Measuring Systems (PEMS). Performance Assessment

PD ISO/TR 15916:2015
Basic considerations for the safety of hydrogen systems

Built Environment

BS EN 16798 Series
Energy performance of buildings. Ventilation for buildings

BS 8536-1:2015
Briefing for design and construction - Code of practice for facilities management (Buildings infrastructure)

BS 8536-2:2016
Briefing for design and construction - Code of practice for asset management (Linear and geographical infrastructure)

PAS 2035/2030:2019
Retrofitting dwellings for improved energy efficiency. Specification and guidance

BS 8895 Series
Designing for material efficiency in building projects - Code of Practice for concept and developed design

BS EN 15643 Series
Sustainability of construction works. Assessment of buildings

PD CEN/TR 15941:2010
Sustainability of construction works. Environmental product declarations. Methodology for selection and use of generic data

BS ISO 15392:2019
Sustainability in buildings and civil engineering works. General principles

BS EN 15978:2011
Sustainability of construction works. Assessment of environmental performance of buildings. Calculation method

BS EN 16309:2014+A1:2014
Sustainability of construction works. Assessment of social performance of buildings. Calculation methodology

PAS 2080:2023
Carbon management in buildings and infrastructure

BS EN ISO 14025:2010
Environmental labels and declarations. Type III environmental declarations. Principles and procedures

BS EN 15804:2012+A2:2019
Sustainability of construction works. Environmental product declarations. Core rules for the product category of construction products

BS EN 15942:2011
Sustainability of construction works. Environmental product declarations. Communication format business-to-business

PD CEN/TR 16970:2016
Sustainability of construction works. Guidance for the implementation of EN 15804

BS 9228:2021
Recycling of roads and other paved areas using bitumen emulsion, foamed bitumen or hydraulic material. Materials, production, installation and product type testing. Specification

PAS 8820:2016
Construction materials. Alkali-activated cementitious material and concrete. Specification

Manufacturing

BS ISO 20819-1:2020
Plastics. Wood-plastic recycled composites (WPRC) - Specification

BS ISO/IEC 30134 Series
Information technology. Data centres key performance indicators

BS ISO/IEC 21836:2020
Information technology. Data centres. Server energy effectiveness metric BS 8905:2011

BS 8905:2011
Framework for the assessment of the sustainable use of materials. Guidance

BS ISO 8887-1:2017
Technical product documentation. Design for manufacturing, assembling, disassembling and end-of-life processing - General concepts and requirements

PD ISO/TR 23891:2020
Plastics. Recycling and recovery. Necessity of standards

PD CEN/TS 17308:2019
Materials produced from end of life tyres. Steel wire. Determination of the non-metallic content

PAS 2395:2014
Specification for the assessment of greenhouse gas (GHG) emissions from the whole life cycle of textile products

BS EN 13677 Series
Reinforced thermoplastic moulding compounds. Specification for GMT

BS ISO 15040:1999
Composites. Prepregs. Determination of gel time

BS ISO 22821:2021
Carbon-fibre-reinforced composites. Determination of fibre weight content by thermogravimetry (TG)

BS EN 13431:2004
Packaging. Requirements for packaging recoverable in the form of energy recovery, including specification of minimum inferior calorific value

BS EN 13432:2000
Packaging. Requirements for packaging recoverable through composting and biodegradation. Test scheme and evaluation criteria for the final acceptance of packaging

BS EN 13429:2004
Packaging. Reuse

BS EN 13437:2003
Packaging and material recycling. Criteria for recycling methods. Description of recycling processes and flow chart

BS ISO 16759:2013
Graphic technology. Quantification and communication for calculating the carbon footprint of print media products

BS ISO 20690:2018
Graphic technology. Determination of the operating power consumption of digital printing devices

Digital

BS ISO/IEC 19395:2015
Information technology. Sustainability for and by information technology. Smart data centre resource monitoring and control

ISO/IEC TR 20913:2016
Information technology. Data centres. Guidelines on holistic investigation methodology for data centre key performance indicators

BS ISO/IEC 21836:2020
Information technology. Data centres. Server energy effectiveness metric

PD ISO/IEC TS 22237 Series
Information technology. Data centre facilities and infrastructures - General concepts

BS ISO/IEC 30134 Series
Information technology. Data centres key performance indicators

BS ISO 37101
Sustainable development in communities. Management system for sustainable development. Requirements with guidance for use

PD ISO/TS 37107:2019
Sustainable cities and communities. Maturity model for smart sustainable communities

PD ISO/TR 37121:2017
Sustainable development in communities. Inventory of existing guidelines and approaches on sustainable development and resilience in cities

BS ISO 37161:2020
Smart community infrastructures. Guidance on smart transportation for energy saving in transportation services

PD IEC/TR 62837:2013
Energy efficiency through automation systems

PD IEC TS 62872-1:2019
Industrial-process measurement, control and automation - System interface between industrial facilities and the smart grid

PD IEC/PAS 63178:2018
Smart manufacturing service platform. Service-oriented integration requirements of the manufacturing resource/capability

BS ISO 20140 Series
Automation systems and integration. Evaluating energy efficiency and other factors of manufacturing systems that influence the environment - Environmental performance evaluation data aggregation process

PAS 1040:2019
Digital Readiness. Adopting digital technologies in manufacturing. Guide

Healthcare

BS EN ISO 50001:2018
Energy management systems. Requirements with guidance for use

BS EN ISO 14001:2015
Environmental management systems. Requirements with guidance for use

Food

BS EN ISO 14001:2015
Environmental management systems. Requirements with guidance for use

PAS 2050:2011
Specification for the assessment of the life cycle greenhouse gas emissions of goods and services

PAS 2050-1:2012
Assessment of life cycle greenhouse gas emissions from horticultural products - Supplementary requirements for the cradle to gate stages of GHG assessments of horticultural products undertaken in accordance with PAS 2050

PAS 2050-2:2012
Assessment of life cycle greenhouse gas emissions - Supplementary requirements for the application of PAS 2050:2011 to seafood and other aquatic food products

PAS 2060:2014
Specification for the demonstration of carbon neutrality

BS 8001:2017
Framework for implementing the principles of the circular economy in organizations. Guide

BS EN ISO 22000:2018
Food safety management systems. Requirements for any organization in the food chain

To find out more about the guidance BSI offer, and the standards and products we have available, visit our website: bsigroup.com/netzero-uk

About this survey

A combination of desk research, qualitative and quantitative research was used to create this report. Overall, 1,003 online quantitative interviews of SME business leaders, and a further 1,029 UK-based adults, were undertaken in November 2022, with a follow up survey of ten further questions for business leaders completed in April 2023.

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