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SMALL BUSINESS SUSTAINABILITY:

Insights & Implications

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Delivered in partnership
with Small Business Britain

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FOREWORD

I do not think you can have a conversation about small business in 2022 without talking about sustainability. This conversation is only going to get bigger and more critical. The challenge of climate change looms so large, and the actions taken are so far off what is ultimately needed, this is going to increasingly be the focus for all business as we continue through 2023 into the next decade and beyond.

This is why Small Business Britain now puts sustainability at the heart of what it does, and why the Sustainability Basics programme in partnership with Oxford Brookes Business School has been so important. Getting over 1,300 businesses (so far) on the way to better understanding, better engagement and greater action in sustainability is not just important, it is existential.

The insight from the survey and programme participants, highlighted in this report, has been both eye-opening and encouraging for me. Businesses are far more engaged than you would believe from headline statistics or reading news headlines. Small businesses do a lot, often in an unstructured way. But they are incredibly well-meaning and the passion to do the right thing and create a better world is alive and kicking in the huge variety of businesses operating in the UK.

This passion needs to be supported and directed, however, to ensure that it converts to action that has impact. Small businesses have a massive impact collectively on the nation's carbon emissions, so actions taken really need to work. Working together – whether that is with other small businesses, in big business supply chains or outreach, or with Government support – is going to be critical to making this happen. None of us, organisations or businesses, can do this in isolation.

The recommendations in this report really highlight the need for collaboration and a positive, supportive approach. There may not be a perfect answer to every question, but we do much better when we work together to find the solutions. Innovation in sustainability is absolutely alive and kicking in small businesses, and other stakeholders in the economy would do well to understand that this collaboration can benefit both ways. Big business can learn from the small business agility to change, and we know from experience that many are already making the most of that education.

More than anything, this report highlights the great opportunity there is out there; opportunity for doing better, achieving more, accelerating progress and super-charging change. We can, together, deliver on this opportunity. I am excited, with Small Business Britain, to get going.



Michelle Ovens, CBE

Founder

Small Business Britain

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I. EXECUTIVE SUMMARY

The climate emergency is becoming increasingly pressing, threatening our way of life. It is important that we consider ways to reduce our impact on the environment from all angles. While sustainability is an important grand challenge, it also provides business opportunity. Sustainability can also be good for business and offers a range of benefits including cost savings, improved reputation, brand development and increased customer trust. These benefits have been explored amply in the large corporate context, however, small businesses make up a huge majority of all businesses in the UK economy. This report therefore adds to the burgeoning evidence of attitudes towards environmental sustainability in UK small businesses. In this report, we focus in particular on the transition to carbon neutrality through the UK government Net Zero strategy.

The report presents the findings from a survey of small businesses undertaken between 31st January and 18th February 2022, which was completed by 1,025 small firms. Building on the findings of the survey and taking into account other published research, this report also presents policy and practice recommendations, designed to accelerate the role that small business can play in achieving sustainability goals, both for their own business and also as part of the wider effort to achieve Government targets.



I.1 KEY FINDINGS

The survey analysis and desk research have identified a number of actionable insights which relate to three core themes summarised below.

I.1.1 Small business, big challenge

Only around one in ten small businesses (9%) identify 'responding to environmental challenges' when asked to state their biggest business issues. This pales into insignificance compared to driving growth (60%), making a profit (38%) and acquiring sales (37%). However, other research shows that sustainability can be a driver of growth and profitability. **The message that growth in sales and profit can be driven by sustainable business practices has yet to land with this important business group.**

The interconnectivity of issues such as rising prices and difficulties in supply chains with sustainability should be highlighted to small business decision makers to show how putting sustainability at the heart of the business can help not just with the obvious green challenges but also with day to day operational issues. **Policymakers and the small business ecosystem need to demonstrate that sustainability is not only the 'right' thing to do, but that it is the foundation of future business growth.**

What is holding small business back in becoming more sustainable is a combination of internal resource constraints (both financial or staffing), coupled with a lack of understanding of what actions should be taken. This gives a clear steer for policy makers and those delivering sustainability support. **Policy should focus on reducing or removing the key barriers to implementing sustainable business practices; internal resource, financial resource and building understanding. In addition, external finance is an important factor in helping small businesses advance their sustainability goals.**

Small businesses are often not in control of all their operating environment meaning that the ability of small businesses to contribute to sustainability goals is often reliant on others, such as commercial landlords, meaning policy needs to be broadened to include such actors and facilitators. **Collaboration will be an important factor for many small businesses when implementing sustainable business practices, encouraging small business leaders to think about their ability to influence stakeholders to create change.**

There is a significant degree of inconsistency in the availability of grants and other funding to support the implementation of sustainability measures. **These inconsistencies need to be removed, and barriers to accessing funding lowered, to maximise opportunity.**

I.1.2 Awareness and engagement

When asked about the UK Government's commitments to Net Zero, we found that **over half of small business are either unaware of or do not understand the UK government's net zero commitments, indicating the scale of the task in educating small businesses about the challenges of carbon neutrality.**

Our results also show that whilst the smallest businesses (employing fewer than 10 people) were just as likely to be aware of the Government's intention for the UK to be net zero on carbon emissions by 2050 but they were less likely than larger respondents (employing more than 10) to indicate that they understand it. **The smallest businesses are the least likely to understand the Government's intentions in relation to Net Zero, indicating that awareness raising amongst this very large group is a priority.**

These findings raise interesting and important questions about how key messages around net zero, the importance of climate change as a driver of economic and social change and the policy response to it are being communicated to small businesses, and whether the implications are being understood. **Raising awareness and building understanding should be central to sustainability policy responses.**

1.1.3 Activity and action

A large proportion of small businesses are progressing with some form of sustainability activity, including optimising energy consumption and increasing recycling (56%) and reducing use of plastic packaging (53%). **However, only a small proportion have taken formal approaches to setting targets for emissions (6%) or measuring emissions (4%). A lack of capacity is a limiting factor for many.**

The survey presents evidence of the reliance that small businesses have on other, often larger businesses within their supply chain, when attempting to reduce their own impact on the environment. **Action up and down supply chains will be crucial to maximising the benefits of sustainable business practices, and this will inevitably also involve larger businesses as well as small business partners.**

There is a willingness and recognition amongst many businesses that action is needed to lower carbon emissions but there is often a gap in their understanding about how to translate this into practical steps within their business, even those that have adopted very simple operating models. **Raising understanding of how sustainable business practices can be adopted by the very many businesses with simple operating models is key.**

The survey found that there are a wide range of measures which are relevant to a large proportion of small businesses, such as switching to renewable energy, reducing travel and reducing energy consumption, and also a set of measures which are more limited in the number and types of small businesses to which they apply. **Measures that are relevant to all small businesses need to be widely promoted and encouraged. Others, which require a particular set of circumstances to be relevant, should be much more targeted.**

There is **huge potential within the small business community to make a significant contribution to sustainability goals** and to build stronger, more profitable and more resilient businesses from a sustainability foundation. However, they need help through a range of policy and support levers to understand these measures and put them into practice within their businesses.

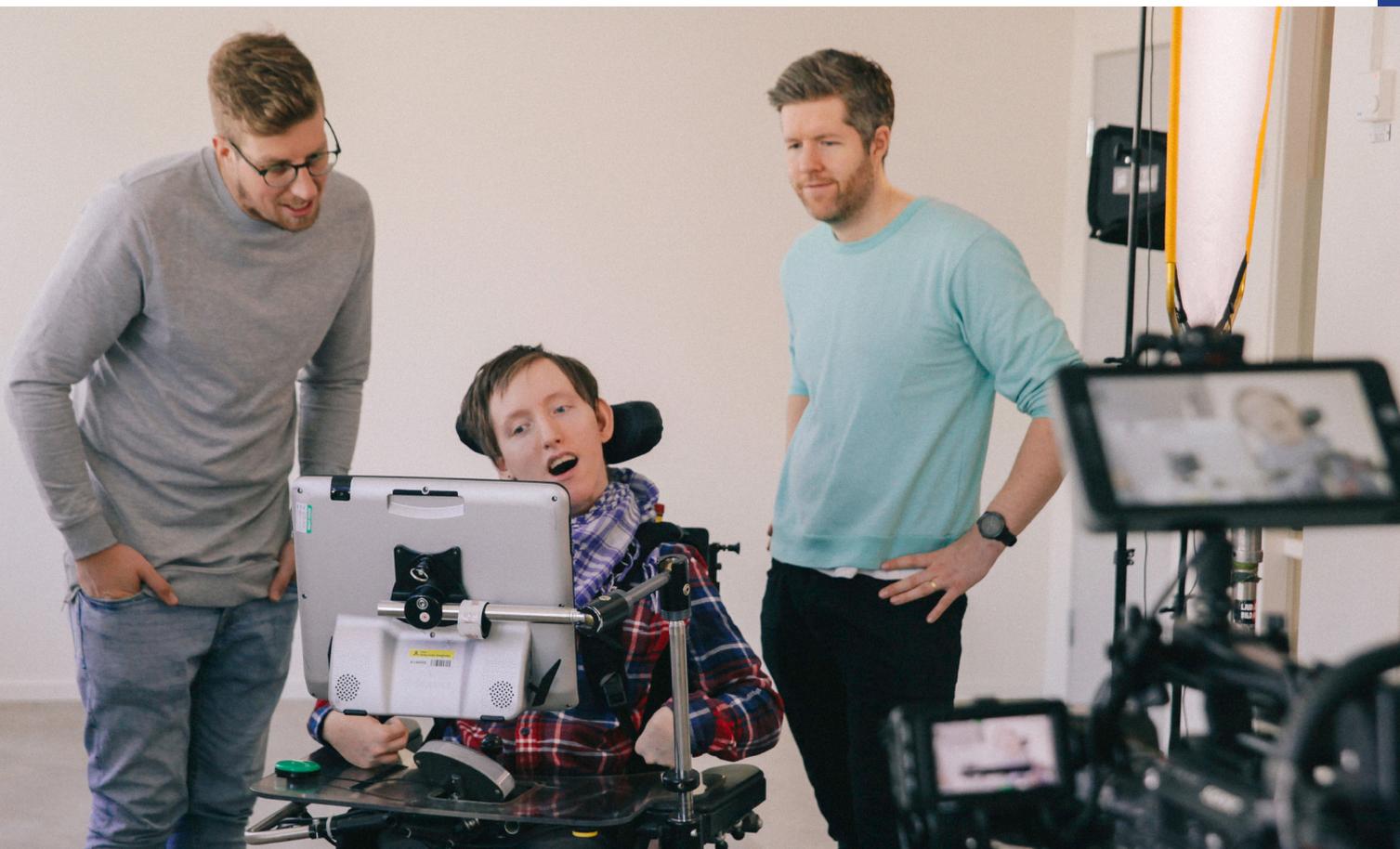


Photo credit: Vanilla Films/Unsplash

1.2 RECOMMENDATIONS

The findings and insight developed in this study and based on our survey of small businesses have highlighted a number of key policy and practice recommendations which could be developed to support positive, meaningful action to prepare and equip small businesses to implement sustainable business practices. These are set out in Table 1 below. Building on some of these findings, Small Business Britain and Oxford Brookes Business School have created the Sustainability Basics Programme – a free 6 week, online, synchronous (with catch up online) training programme to raise awareness of what small businesses can do, and the business opportunities available to them.

Table 1: A breakdown of our recommendations

STAKEHOLDER GROUP	RECOMMENDATIONS
Small businesses	<p>Prioritise internal opportunities to reduce environmental impact throughout business practices and processes</p> <p>Work with suppliers to identify and target sustainability goals</p> <p>Identify processes controlled by others that relate to your business and work with them to improve sustainability</p> <p>Work with customers to better understand their sustainability goals and how you might help them achieve them</p> <p>Invest time and resource in understanding environmental impact and where immediate sustainability gains can be made</p>
Business support practitioners	<p>Design business support on sustainability that recognises capacity constraints in small businesses</p> <p>Target the pathway to sustainability action: awareness, then understanding, then action</p> <p>Identify relevant pull and push factors for different sectors and build these into programmes</p> <p>Teach small businesses about how sustainability can impact business performance and stimulate growth</p> <p>Build links with small businesses through organisations, federations and other representative groups to build trust and smooth communication</p>
Big business	<p>Focus on developing pull factors which can reach down into supply chains</p> <p>Develop a deeper understanding of the sustainability challenges of small suppliers</p> <p>Support small suppliers to adopt new practices and deliver change</p> <p>Use their communication channels to share insight and best practices</p>
Government	<p>Ensure support for sustainability is effectively communicated and barriers to adoption are as low as possible</p> <p>Develop and simplify funding mechanisms to encourage adoption of sustainable business practices – including recognising sustainability in applications</p> <p>Build sustainability into business support schemes</p> <p>Consider encouraging take up through taxation</p> <p>Place sustainability at the heart of policy across different departments and at different levels of government</p> <p>Design funding for economic development and regeneration that explicitly 'bakes-in' the achievement of sustainability goals</p>

2. INTRODUCTION

Recent years have seen a growing focus on sustainable business practices as the effects of the status quo on pushing planetary boundaries become clearer. Concepts such as the Triple Bottom Line, introduced around the turn of the millennium, encapsulated the concept that a business's ultimate success should be measured not just by the traditional financial bottom line, but also by its social/ethical and environmental performance. Since then, the growing climate emergency has further accelerated interest and focus on business sustainability.

A key policy in the UK Government's sustainability agenda is its Net Zero Strategy, which places business at the heart of efforts to deliver net zero goals. However, it also recognises that businesses will not play their full role without support, whether that be in the form of raising awareness, providing advice and guidance around making green choices or regulation.

Small businesses are vital to the success of Government's efforts to achieve net zero and drive growth through green technology and opportunities. They account for 99% of UK businesses, three fifths of employment and half of the private sector's total turnover¹. Smaller businesses also account for around half (43 -53%) of the UK's greenhouse gas emissions from business and around a third (29-36%) of total UK emissions once households and the public sector's contributions are considered². The importance of small businesses in achieving sustainability goals has been recognised by Government itself; in May 2021 it launched the Together for our Planet 'Business Climate Leaders' campaign in the run-up to the UN Climate Summit COP26 in November 2021. This campaign aimed to encourage small and micro businesses to commit to cutting emissions in half by 2030 and to net zero by 2050.

The research and insight regarding small business awareness of sustainability goals, understanding of how they relate to their own business activities and actions to implement them is limited. It is critical to get small businesses involved and engaged in sustainability but there is limited understanding of what this means in practice and how it can be encouraged. In recognition of this gap, Oxford Brookes Business School has been working with Small Business Britain to investigate awareness, understanding and action around sustainability within the UK's small business community.

The survey ran from 31st January to 18th February 2022 and was completed by 1,025 small businesses across the UK. This report presents the findings from that survey and presents policy and practice recommendations, designed to accelerate the role that small business can play in achieving sustainability goals, both for their own business and also as part of the wider effort to achieve Government targets.

¹ Bank of Scotland, 2021, *From now to net zero – a practical guide for SMEs*. <https://business.bankofscotland.co.uk/assets/pdf/bos-smes-from-now-to-net-zero.pdf>

² British Business Bank, 2021, *Smaller businesses and the transition to net zero*. https://www.british-business-bank.co.uk/wp-content/uploads/2021/10/0026_Net_Zero_Report_AW.pdf

2.1 SURVEY DESIGN AND DELIVERY

The survey questions were developed from desk research looking at similar studies that have been conducted; for example, a report by Aura Innovation Centre³ on the future of Net Zero in the Humber region.

The survey was launched in collaboration with Small Business Britain and participants were invited to take part in the survey both directly through emailed invitations, and indirectly via social media (using Small Business Britain's social media channels).

In total, 1,025 small businesses responded to the survey. Not all businesses responded to every question in the survey, meaning that the response sample is below 1,025 for some questions. The response sample for each question (and therefore each table or figure presented in this report) is indicated by the total (n) below each table/figure.

2.1.1 Respondent characteristics

Analysis of the characteristics of the 1,025 respondents reveals the following:

- **Almost all respondents are micro businesses – 53% are staffed by just the business owner; 38% employ 2–9 people (this is similar to the wider SME population⁴)**
- **29% are in the Café, Restaurant & Retail sector**
- **43% of respondents are located in three regions: London (11%), the South East (19%) or the South West (13%) (which is roughly similar to the density of general population of SMEs⁵)**
- **76% have been running for three or more years whilst 8% have been running for less than 12 months**
- **Of 916 respondents who reported turnover, 27% have turnover of less than £10,000 and a further 29% have turnover of less than £50,000**

2.2 IDENTIFICATION OF CORE THEMES

This report presents findings drawn from the survey responses and combines these with relevant desk research to provide a richer understanding of small businesses' attitudes and actions towards sustainability. The report is structured around three key themes, as follows:

1. **Small businesses, big challenges**
2. **Awareness and engagement**
3. **Activity and action**

Each of these themes is explored in more detail below.

³ Aura Innovation Centre, 2021, *Humber Future Net Zero Survey*. <https://aura-innovation.co.uk/wp-content/uploads/2021/09/21384.005-FNZ-Report-template-Small-file10.pdf>

⁴ BEIS, *Business population estimates for the UK and regions 2021: statistical release*. <https://www.gov.uk/government/statistics/business-population-estimates-2021/business-population-estimates-for-the-uk-and-regions-2021-statistical-release-html#headline-statistics>

⁵ *ibid*

3. SMALL BUSINESSES, BIG CHALLENGES

Unprecedented levels of disruption to the operating environments of the UK's small businesses have placed them in challenging situations. We asked small businesses to identify the biggest issues facing their business (up to three) from a broad list of issues including growing the business, COVID-19 issues, skills and training, and responding to environmental challenges. This process of prioritisation showed that the biggest issue facing respondents is growing the business, reported by 60% of respondents. More than one in three reported issues with making a profit (38%) or customer sales (37%) – as shown in Table 2. Businesses with 10 or more employees also tended to identify recruitment and retention as a key issue. Around 1 in 10 respondents (9%) identify responding to environmental challenges as a key issue, with a similar proportion reporting skills/training and complying with regulations as key issues.



Table 2: Key issues facing the business

WHICH OF THESE ARE YOUR BIGGEST ISSUES?	n	%
Growing the business	550	60%
Making a profit	346	38%
Customer sales	342	37%
Covid-19 related issues	274	30%
Uncertainty about the future	273	30%
Access to funding	203	22%
Understanding how technology can help the business	146	16%
Recruiting and holding onto the right talent	133	15%
Managing your finances	127	14%
Finding the right suppliers	117	13%
Skills and / or training	86	9%
Complying to regulations	86	9%
Responding to environmental challenges	78	9%
Other	82	9%
Total	915	100%

Source: Oxford Brookes Business School / Small Business Britain sustainability survey

Interestingly, Brexit featured highly in the 'other' comments box with associated supply chain issues with the raising costs also featuring heavily in the comments. The impact of rising energy/fuel costs have become much more acute since the survey was carried out, showing just how volatile the operating environment is, how adaptive small business needs to be, and explains why environmental challenges might fall down the priority list. Rising costs are likely to reduce margins and impact small business' ability to invest in their business, which itself could become a direct threat to the introduction of sustainability approaches, technologies and processes.

Example 'other' responses include the following:

- *"Brexit - very few core materials in any industry are made in the UK, meaning almost everything ships from the EU, causing MONTHS of delays and increased costs."*
- *"The effects of leaving the EU outweigh all the others, particularly supply issues and additional red tape."*
- *"National driver shortage"*
- *"Increased fuel costs!"*
- *"Rising costs - electric, banking heating, wages etc"*

Research conducted on the broader business community's (large and small businesses) perception of sustainability suggested that 90% of financial decision makers in businesses saw environmental sustainability as an important issue for their business and sector⁶. This survey was primarily focused on sustainability this suggests that the wider business community is likely to indicate that sustainability is important when they are specifically asked about it, but for small businesses it recedes significantly when compared to the range of other, more pressing and vital issues which they deal with on a daily basis. Another interesting finding from the Lloyds research is that 45% of respondents indicated that the Covid-19 pandemic had made them think more about the environmental impact of their businesses, suggesting that the business population is becoming more alert to this issue and potentially receptive to initiatives which aim to help them navigate it.

Key Insight: The message that growth in sales and profit can be driven by sustainable business practices has yet to land with this important business group.

⁶ See: <https://www.edie.net/survey-4-in-10-uk-smes-unsure-how-to-prepare-for-net-zero/>

That environmental sustainability falls down the list of priorities suggests that the messages around the need for sustainable business practices still need to be emphasised. While some small businesses perceive benefits from sustainable business, the level of understanding of benefits needs to be increased. The interconnectivity of issues such as rising prices and difficulties in supply chains with sustainability should be highlighted to small business decision makers to show how putting sustainability at the heart of the business can help not just with the obvious green challenges but also with day-to-day operational issues. The challenge is to educate small firms as to how important the sustainability agenda is to all the issues that their business faces and the benefits that can accrue. At the same time, there is an opportunity to educate them about the risks of inactivity.

Key Insight: Policymakers and the small business ecosystem should highlight sustainability is at the foundations of good business and that not only is this the ‘right’ thing to do, but that often it will benefit business growth and profitability too.

3.1 BARRIERS TO REDUCING CARBON EMISSIONS

It is not only important to understand the challenges that small businesses face and where sustainability sits in the order of priorities. It is also key to understand the barriers that stand in the way of action and progress relating to a particular challenge. In this way, policy makers and those designing and implementing support for small businesses can target their efforts to remove or reduce these barriers.

Our research (set out in Table 3) shows that the main barriers faced by small businesses when trying to reduce carbon emissions relate mainly to finance (41%), time (30%) and internal resources available (26%) as well as understanding what action needs to be taken (23%) or the benefits that becoming more sustainable can bring to the business. These results demonstrate that what is holding small business back in becoming more sustainable is a combination of internal resource constraints (both financial or staffing), coupled with a lack of understanding of what actions should be taken. This gives a clear steer for policy makers and those delivering sustainability support.

Key Insight: Policy should focus on reducing or removing the key barriers to implementing sustainable business practices; internal resource, financial resource and building understanding.

Table 3: Barriers to reducing carbon emissions

WHICH OF THE FOLLOWING PREVENT YOUR BUSINESS FROM TAKING ACTION ON REDUCING CARBON EMISSIONS?	n	%
Access to finance	373	41%
Lack of time	276	30%
Lack of resource internally	233	26%
As a business, we do not understand what action to take	211	23%
The return on investment is not sufficient	128	14%
Ensuring our supply chain also meets our sustainability standards	123	13%
Lack of best practice / standard across the sector	110	12%
Technological barriers	71	8%
It is low on the list of priorities for the senior leadership team	56	6%
I don't understand the benefits	33	4%
Lack of interest	26	3%
Other	161	18%
None of these	130	14%
Total	915	100%

Source: Oxford Brookes Business School / Small Business Britain sustainability survey

The importance and validity of these findings is supported by the fact that they echo findings of other published research studies. Research by the British Business Bank⁷ identifies barriers that are “multiple, complex and specific to the business”. The report identifies more than 20 different barriers, the most common of which are costs (35%), feasibility (32%) and lack of information (12%). Research by the Bank of Scotland identified three barriers to achieving net zero that SMEs consistently face: finance (insufficient budget, high cost, low return on investment - 39%), control (challenge in reducing emissions external to their own business - 36%), and assessment (difficult to measure their environmental impact - 30%). This study also demonstrates that some SMEs perceive benefits from sustainable business practices, such as protecting the natural environment for future generations, achieving costs savings and/or waste reduction and improved reputation, brand image, trust or credibility. However, it also included that awareness of benefits needs to be built across the wider population of small businesses.

Building on the Bank of Scotland findings, the survey results also provided insight into the factors which lead businesses to identify the key barriers to sustainability outlined above. Our results also identify factors in relation to control, for example. Small businesses operate business models which often mean they feel they have little control over important factors which link to sustainability, as demonstrated by the ‘other’ responses to the question on barriers listed below:

- *‘2 person business in a rented space, so not much we can do except recycling...’*
- *‘All my business is conducted on Zoom, I have no shop/office/transport’*
- *‘Based on my location working from home I don’t have eligibility to a lot of government schemes’*
- *‘Emissions related to building and energy are in control of landlord’*
- *‘Grade II listed building that is rented so not easy to adapt’*

These responses demonstrate that many small businesses, when asked to consider barriers, will identify external factors which prevent action. In our view, this further evidences the need to broaden the understanding of what sustainability means and can deliver for small businesses. It also emphasises how important it is that other actors in the economy are also facilitated in playing their role in achieving sustainability and facilitating others that rely on them to do so (for example, commercial landlords).

Key Insight: The ability of small businesses to contribute to sustainability goals is often reliant on others, such as commercial landlords, meaning policy needs to be broadened to include such actors and facilitators.

The Bank of Scotland⁹ has identified a number of push factors in SME sustainability behaviour including cultural change and shifts in public opinion (for example, demand from customers for more sustainable practices) and regulation, including the impact on the SME supply chain on requirements for large corporations to disclose and reduce their carbon footprint. Pull factors identified include new commercial opportunities from net-zero and employees valuing sustainability and expecting action.

The challenge is to identify ways to minimise these barriers as well as increasing understanding of what action needs to be taken. For sustainability to become a priority for small businesses they need help with the extra money, time and resources required to implement the required changes. Awareness of the commercial opportunities that sustainable business practices (new product innovations, customer demand) can bring to a business may help address some of these issues.

Key insight: Although some small businesses are aware of, and are able to identify the benefits of sustainability, policy needs to be developed that rapidly enhances such understanding at scale.

⁷ British Business Bank, *op cit*

⁸ Bank of Scotland, *op cit*

⁹ British Business Bank, *op cit*

3.2 HOW WOULD SUSTAINABILITY BE FUNDED

As discussed above, whilst some small businesses are aware that sustainable business practices can lead to cost savings as one of the benefits, many also indicate that a barrier to implementing them is the cost of doing so. In recognition of this issue and in order to explore it in more depth, we asked small business owners where they might find funds to finance sustainability projects. Table 4 shows that the most common source of funding for sustainability projects is or would be funds from within the business (54% of respondents), followed by local (44%) and national Government grants (37%). Just over one in ten businesses (11%) identified that the source could be 'sharing resources or funds with other businesses'. Although our survey did not explore this, we assume that this refers to circumstances where small businesses share resources, premises or some other factor that relates to their business with other businesses. This suggests that for these businesses, collaboration will be important in implementing sustainable business practices that require investment (and potentially other forms of such practices too). This finding ties to the comments above regarding the reliance on other actors that small businesses report when identifying barriers.

Table 4: Sources of funding for sustainability funding

HOW DOES, OR WOULD, YOUR BUSINESS FUND SUSTAINABILITY PROJECTS?	n	%
Funds within the business	464	54%
Local Government grants	381	44%
National Government grants	322	37%
Sharing resources or funds with other businesses	97	11%
Business loan	94	11%
Private funder or lender	59	7%
Crowdsourcing	48	6%
Specialist funder or lender	45	5%
Academic research grants	39	5%
Other	62	7%
Total	860	100%

Source: Oxford Brookes Business School / Small Business Britain sustainability survey

Key insight: Collaboration will be an important factor for many small businesses when implementing sustainable business practices.

Our findings show the importance of external funding to the implementation of sustainable business practices. However, the funding landscape is becoming increasingly complex and fragmented. The Local Government Association, for example, acknowledges this as an issue for businesses in navigating the availability of funding, with a "proliferation in the number of small grants [which] unlike core funding programmes... are often very specific, very short-term and competitively accessed, limiting what councils can deliver"¹⁰. Consequently, businesses need to exert more effort to identify and bid for funding, and this presents a barrier in itself.

That said, other research¹¹ indicates that around 1 in 10 (11%) smaller businesses had accessed external finance to support actions towards net zero and around a fifth (22%) are prepared to do so in the next five years. This means that for a significant proportion of the small business community, there is a willingness to seek or consider seeking external finance to support sustainability.

Key insight. External finance is an important factor in helping small businesses advance their sustainability goals.

¹⁰ See <https://www.local.gov.uk/fragmented-funding-complex-local-authority-funding-landscape>

¹¹ Bank of Scotland, *op cit*

Our research also found challenges in relation to identifying and accessing funding, some of which are expressed in the 'other' responses to the question of how sustainability projects might be funded. For example, one business stated that they would seek a 'grant if available but they are not for home-based businesses' whilst another stated that they would 'try to do for free or use own funds, but we don't have time to apply for grants or loans'. The challenge of applying for grants was also emphasised by another business stating that it was 'difficult to find user friendly grants due to timescales and red tape'. Others are more sanguine about the prospect of finding financial resources to implement sustainable practices, with one indicating that they 'don't and won't have funds, so anything that I do would have to be cost neutral or cost saving'.

Key insight. Funding mechanisms, whether grants or loans, need to be easily accessible and available to all small businesses regardless of location.

More than half of small businesses would seek to fund sustainability projects (54%) themselves whilst around 40% would seek a local or national Government grant. In a post-pandemic economy where many businesses are in financial recovery mode, and when the grant landscape is difficult to navigate and resource-intensive to respond to, the small business community faces numerous practical challenges in implementing sustainability projects. Those designing economic and fiscal policy need to understand that these factors place a brake on achieving sustainability goals, whilst schemes that do exist require better promotion to allow small businesses to access them more efficiently and effectively.



4. AWARENESS AND ENGAGEMENT

Survey respondents were asked about their awareness of the Government's intention for the UK to be net zero on carbon emissions by 2050. The results show that a significant majority of small businesses (88%) are aware of this intention, as shown in Figure 1.

As well as asking about awareness of these ambitions, the survey also asked respondents whether they felt they understand what net zero means and involves. The results show that 46% said they were aware and understand the ambitions, whilst a further 42% indicated that they were aware of this ambition but did not understand it. Lastly, the results confirm that 12% of small businesses surveyed were not aware of the net zero ambition. These results are useful in segmenting the small business population into the three groups; (1) those that are aware and understand, (2) those that are aware but do not understand, and (3) those that are not aware. Figure 1 provides an indication of the scale of each of the segments, which is useful to those planning support initiatives to help small businesses introduce and implement practices consistent with the UK Government's Net Zero strategy. We conclude, therefore, that amongst our sample, there is an 'awareness gap' affecting 12% of small businesses and an 'understanding gap' affecting 42% of small businesses. Between these two groups, over half of small businesses (which amounts to over 2.6 million businesses¹²) are unable to move forward because of either a lack of awareness or a lack of understanding, demonstrating the scale of the challenge in educating small businesses about sustainability.

Wider desk research provides supporting evidence of this lack of awareness and lack of understanding. For example, the Bank of Scotland¹³ found that three quarters (74%) of SMEs are aware of the Government's Net Zero target but two in every five (40%) do not know what this actually means for their business. Similarly, research undertaken on behalf of Lloyds Bank¹⁴ reports that a quarter of respondents were not aware of the UK's net-zero commitment and 40% of respondents did not know what net-zero meant for their business, with many respondents unable to cite any potential benefits. Another important finding from the policy making perspective is that the British Business Bank¹⁵ found that over half of firms (56%) reported that they had taken no action to improve their knowledge and capability with regards to achieving net-zero.

¹² Based on an estimate population of small businesses (employing 10 or fewer, for example) totalling 5.33 million. Source: ONS Business Population Estimates 2021

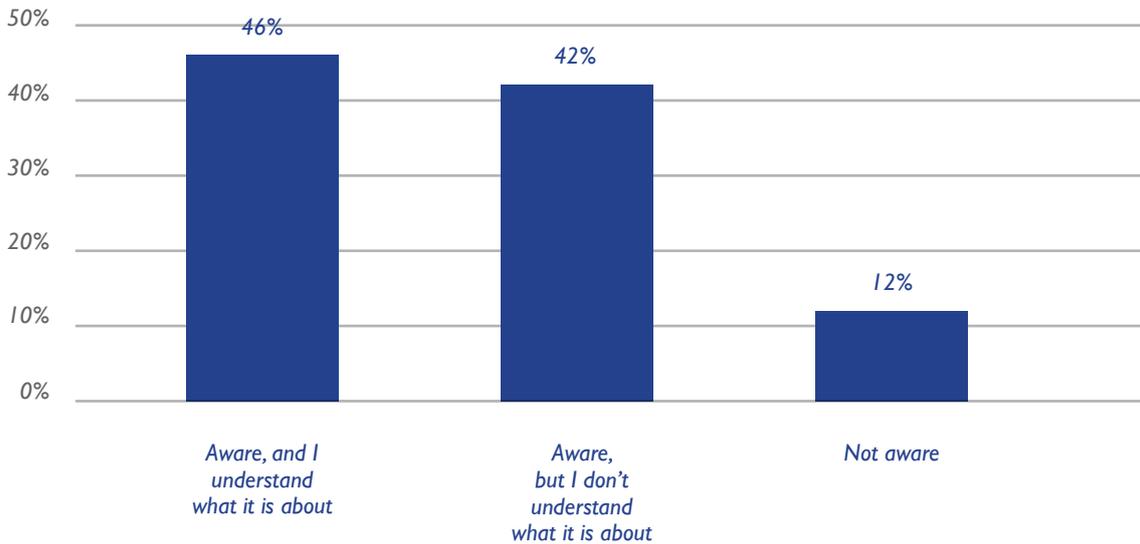
¹³ British Business Bank, *op cit*

¹⁴ Oxford Economics, July 2021, *Green growth: opportunities for the UK, a report for Lloyds Banking Group*, <https://www.lloydsbankinggroup.com/assets/pdfs/who-we-are/green-economy/green-growth-opportunities-for-uk.pdf>

¹⁵ British Business Bank, *op cit*

Key insight: Over half of small business are either unaware of or do not understand the UK government’s net zero commitments, indicating the scale of the task in educating small businesses about sustainability.

Figure 1: Awareness of the Government’s intentions for the UK to be net zero on carbon emissions by 2050



Source: Oxford Brookes Business School / Small Business Britain sustainability survey (n = 913)

The results also show that whilst the smallest businesses (employing fewer than 10) were aware of the Government’s intention for the UK to be net zero on carbon emissions by 2050, they were less likely than larger respondents (employing more than 10) to indicate that they understand it. There are also some differences in awareness and understanding by sector; for example, businesses in Information and Communications were most likely to say they understand Government’s intention.

Key insight; The smallest businesses are the least likely to understand the Government’s intentions in relation to Net Zero, indicating that awareness raising amongst this large group is a major priority.

These findings raise interesting and important questions about how key messages around net zero, the importance of climate change as a driver of economic and social change and the policy response to it are being communicated to small businesses, and whether the implications are being understood. It would appear from our results that there is a long way to go before even a majority of small businesses can claim to understand the government’s sustainability goals. There appears to be a disconnection between world events, governments’ responses to those events and the environment in which small businesses operate. This disconnect must be addressed if real progress on sustainability is to be made across the small business community.

The challenge, therefore, is to continue to keep growing awareness levels of net-zero as well as educating firms as to (i) the implications for their business, (ii) how their business can benefit from carbon reduction practices and (iii) how to plan for, fund and implement such practices.

Key insight: Raising awareness and building understanding should be central to sustainability policy responses

5. ACTIVITY AND ACTION

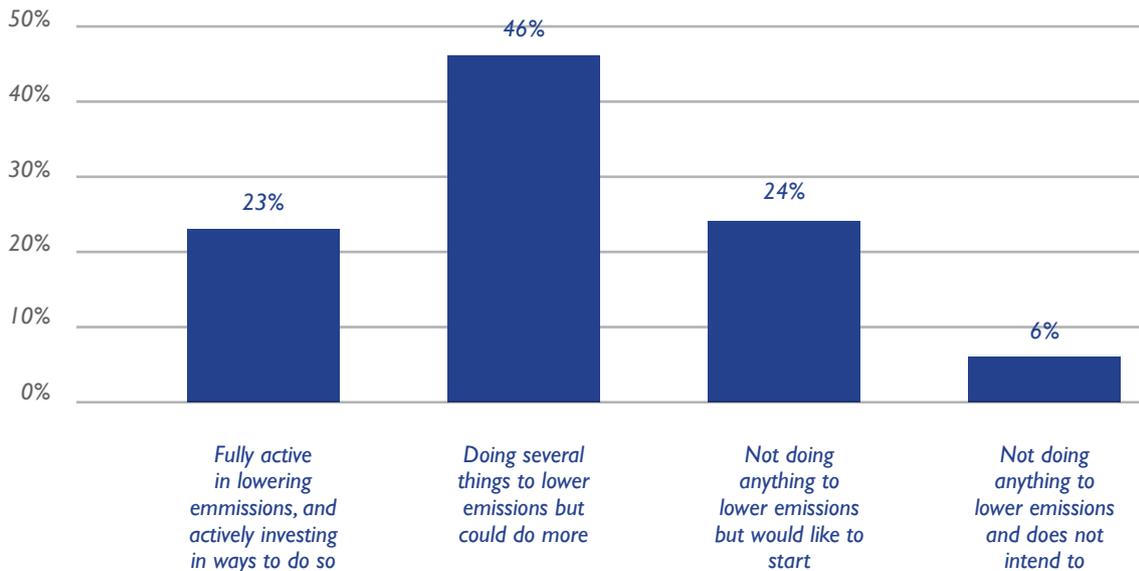
The survey respondents were asked about their current carbon-reducing activity and their plans for their future activities.



5.1 CURRENT ACTIVITY TO LOWER CARBON EMISSIONS

Figure 2 shows that 69% of businesses were actively lowering their carbon emissions, where 23% said they were fully active in doing so and actively investing in reducing emissions and a further 46% said they are taking some action but could do more. The survey also found that 24% of respondents indicated they were not currently taking action, but would like to do so, whilst just 6% said they were not taking action and had no intention to do so. This pattern did not appear to vary notably according to business size within the small business community.

Figure 2: Current activity towards lowering carbon



Source: Oxford Brookes Business School / Small Business Britain sustainability survey (n = 913)

Table 5 shows that the most common actions taken by small businesses to reduce their carbon emissions are improving business processes (e.g. optimizing energy and resource use within the business operation, reusing, recycling waste – 56%) and reducing plastics and harmful materials in packaging (52%). These results support findings of other research projects which examine similar issues. For example, Bank of Scotland¹⁶ reported that SMEs are engaging with a wide range of activities relating to the environment, the most common of which include recycling and reducing water (77%), reducing energy consumption (64%) and complying with environmental regulations (64%). However, more than one in ten businesses (11%) identified none of the actions specified in the response list.

¹⁶ British Business Bank, *op cit*

Table 5: Business activity towards lowering carbon

WHICH OF THE FOLLOWING HAVE YOU DONE, OR ARE CURRENTLY DOING?	n	%
Improving business processes (optimizing energy and resource use within the business operation, reusing, recycling waste)	512	56%
Reducing plastics and harmful materials for packaging	490	53%
Installing energy efficiency measures (insulation, LED lighting, efficient air conditioning systems)	357	39%
Reducing transport emissions (fleet and vehicle management, and/or business travel, travel to work, sourcing a local supply chain)	285	31%
Moving to a renewable energy supplier	228	25%
Considering the carbon impact of our suppliers	218	24%
Encouraging our supply chain to reduce their emissions (e.g. selecting suppliers on the basis of their carbon credentials)	178	19%
Creating projects, products or services that lower emissions	175	19%
Has an environmental management plan	67	7%
Has a target for lowering its emissions	58	6%
Produces renewable energy (such as using solar panels)	57	6%
Measures its total emissions	36	4%
Has ISO 14001 environmental quality standard	6	1%
None of the above	102	11%
Total	918	100%

Source: Oxford Brookes Business School / Small Business Britain sustainability survey

The desk research undertaken for this study paints a very similar picture regarding the carbon reducing activities of small businesses. Research carried out by the British Business Bank¹⁷ indicates that most smaller businesses were at a very early stage of their net zero journey with three quarters (76%) yet to implement comprehensive decarbonisation strategies and half (54%) reporting that they were not ready to prioritise decarbonisation. Almost all firms (94%) reported having taken some form of action relating to achieving net-zero, with most being simple actions such as installing a smart meter. A very small proportion (6%) of smaller businesses reported that they had measured their carbon footprint in the last 5 years which suggests that there is a small but important group of small businesses that are taking sophisticated and structured approaches to understanding their impact in order to inform action to improve their sustainability. Our survey finds a similar proportion of small businesses implementing formalised approaches, with 7% having an environmental management plan and 6% having targets for reducing emissions.

The 'other' responses to the question on action to implement sustainable business practices add further insight into the challenges faced by businesses and should be considered alongside the evidence on barriers presented earlier:

- *'All staff remote work from home so haven't considered anything relating to sustainability in the workplace'*
- *'We are not large enough to administer most of these'*
- *'Doesn't really apply to us - everything is remote/online/tech based'*
- *'Business is run from home which is already powered by renewable electricity and LED lighting'*
- *'Most out of our control as rent hourly premises'*

¹⁷ British Business Bank, *op cit*

There is also evidence that there are only a very small proportion of firms with a plan or any targets that are related to sustainability. If small firms are to contribute to achieving net zero then they also need to acquire the skills and knowledge to set targets and measure against those targets, in order to understand effectiveness and impact. Cost-effective tools which are simple to implement are required, to ensure that they are easy and efficient to adopt.

Key insight: Formalised approaches to measuring environmental impact have low adoption amongst small businesses, but a significant proportion are heading in this direction, meaning support to overcome barriers and make progress is a priority.

The challenge is therefore to educate businesses of all types and models about the activities they can take, even on a very small scale, that can reduce their carbon emissions. Moreover, the opportunity is to demonstrate how sustainability can support growth and business resilience and to introduce the tools and techniques that can help deliver those outcomes.

Key insight: A large proportion of small businesses are progressing with some form of sustainability activity, including optimising energy consumption, increased recycling and reducing use of plastic packaging but do not then have active targets.

Businesses with ten or more employees appear more likely to have taken action to reduce their emissions than smaller businesses; 13% of businesses operated solely by their owner had taken no action, compared with 7% of businesses employing 10 to 24 people and none of the respondents employing 25 or more. Capacity is therefore likely to be an important factor influencing small businesses' ability to take action to reduce carbon emissions.

Key insight: A lack of capacity is an important limiter of action to improve sustainability.

What we also found was further evidence of the reliance that small businesses have on other, often larger businesses, when attempting to reduce their own impact on the environment. For example, one respondent identified that they had little influence on the behaviour of a supplier that uses significant amounts of plastic packaging but had complained to that supplier voicing their concerns about the impact of such practices.

Key insight: Action up and down supply chains will be crucial to maximising the benefits of sustainable business practices, and this will inevitably also involve larger businesses, as well as smaller partners.

There is recognition amongst many businesses that action is needed to lower carbon emissions. A wide range of activities are being undertaken but there is a gap in understanding of how relevant these activities are to individual business circumstances and characteristics. Many businesses believe that their model means that such approaches are irrelevant, when in fact they have yet to grasp the relevance and understand how it applies to them. For example, the survey collected numerous comments from such businesses where factors such as operating the business or having staff work from home, or leasing premises were mentioned as reasons for inaction, as outlined above.

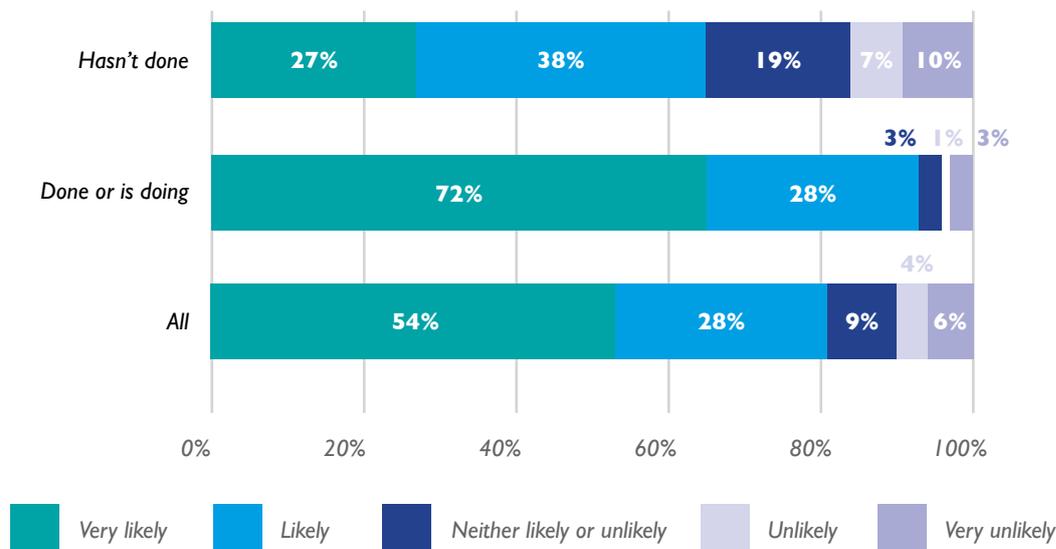
Key insight: Raising understanding of how sustainable business practices can be adopted across all operating/business models will be crucial to engaging those businesses that currently believe that sustainability does not apply because of how they run their business.

5.2 INTENTIONS FOR FUTURE ACTION

Our survey asked businesses to state the likelihood of them implementing a range of measures designed to reduce carbon emissions over the next 12 months, touching on ten key activity areas. The figures below look at three areas that have been selected because they provide important insight, whilst the Appendix contains charts which relate to all other areas.

Reducing plastics and harmful materials used in packaging were amongst the most likely measures to be implemented in the next 12 months, respectively identified as 'likely' or 'very likely' by 93% of respondents that were already undertaking this activity and 65% of those that were not (see Figure 3). This measure therefore can be considered to be a widespread activity in the field of sustainability and is likely to be one of the first measures adopted by businesses that are early on their sustainability journey.

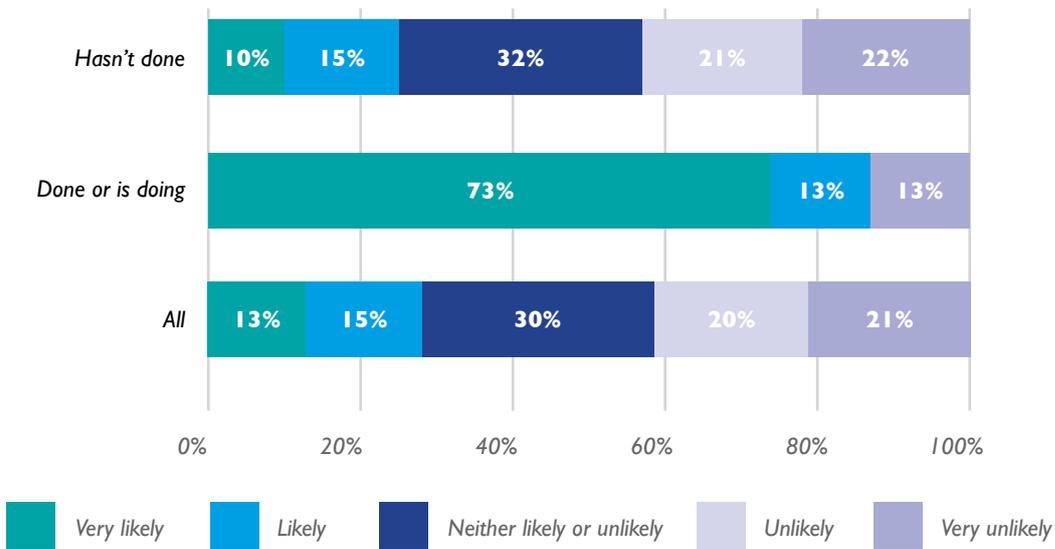
Figure 3: Likelihood of reducing plastics and harmful materials for packaging in the next 12 months



Source: Oxford Brookes Business School / Small Business Britain sustainability survey

Analysis of this survey question shows that measuring total emissions is an activity which is less likely to be adopted by businesses, despite it being demonstrably an important first step in taking more formalised and structured approaches to improving sustainability. Figure 4 shows that amongst businesses that have never measured emissions, around 25% of businesses believe they are likely to do so in the next 12 months. This shows a considerable willingness amongst small businesses to take a structured approach to understanding their environmental impact as an important step in implementing approaches to reduce it. Amongst businesses already taking this approach, almost 90% of businesses indicate that they are likely to do so again in the next 12 months, which indicates that this is a regular and ongoing practice for businesses already implementing this measure.

Figure 4: Likelihood of measuring total emissions in the next 12 months

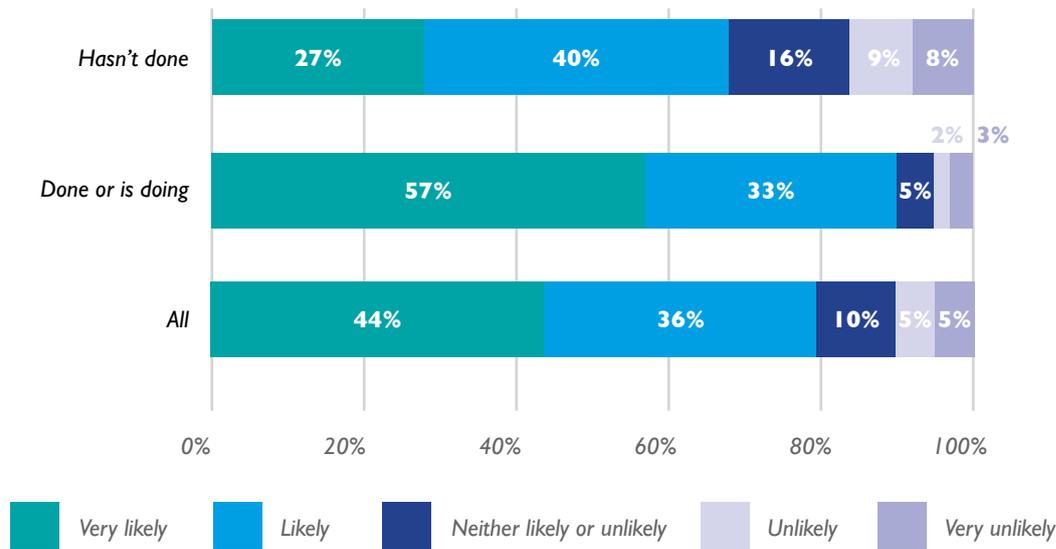


Source: Oxford Brookes Business School / Small Business Britain sustainability survey

The last measure commented on here is in relation to improving business processes, which is also a comparatively straightforward measure with likely fewer up front costs. Figure 5 shows that 67% of businesses not already undertaking this activity are likely to very likely to do so in the next 12 months, whilst 90% of businesses already implementing this measure indicate they will do so. Again, for those already implementing such approaches, the evidence indicates that this is seen as an ongoing process to continue to improve, rather than a singular activity which becomes irrelevant once completed for the first time.



Figure 5: Likelihood of improving business processes to optimise energy and resource use in the next 12 months



Source: Oxford Brookes Business School / Small Business Britain sustainability survey

A useful mechanism to assess the propensity of small businesses to take up particular measures is to compare the likelihood of those businesses currently undertaking measures with those that are not; where the gaps are largest, it is fair to assume that the barriers to progress are most significant (whether these be practical barriers such as resource, or barriers in relation to understanding or perception).

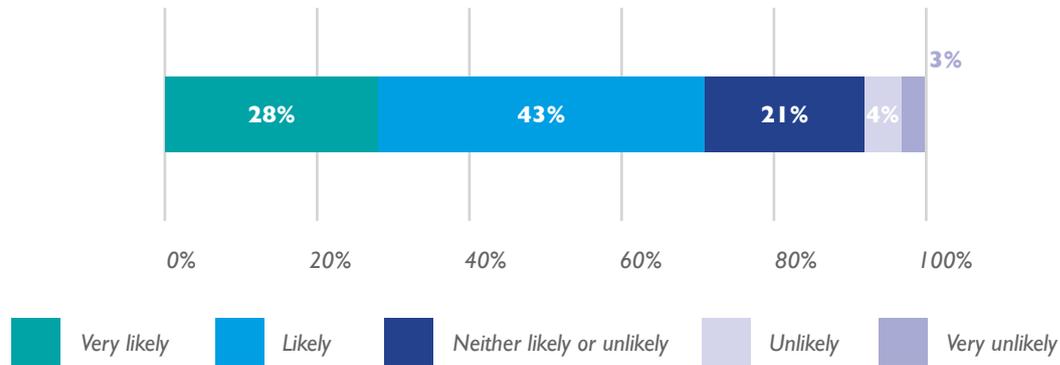
Producing renewable energy and measuring total emissions were areas where the likelihood gap between those already doing these things and those that were not were the largest. We infer from this that the barriers to progressing these two measures are therefore the largest, where producing renewable energy requires capital investment in technology (as well as the opportunity to install such technology, which requires access to and ownership of the relevant locations in which they could be installed) and measuring total emissions requires a formalised, technical approach which is either costly or presents barriers with respect to capability. Policy makers need to reflect such challenges in their approach to supporting sustainability business practice adoption, recognising that a wider range of measures are ubiquitously relevant, whilst others are not.

Key insight: Measures that are relevant to all small businesses need to be widely promoted and encouraged. Others, which require a particular set of circumstances, should be much more targeted.

5.3 LIKELIHOOD OF REDUCTIONS

Survey respondents were asked about the likelihood of doing more to reduce carbon emissions in the next two years. As shown in Figure 6, 71% of respondents said it was either 'likely' (43%) or 'very likely' (28%) that they would do more to reduce carbon emissions in the next two years.

Figure 6: Likelihood of doing more to reduce carbon emissions in the next two years



Source: Oxford Brookes Business School / Small Business Britain sustainability survey (n = 721)

There was little difference between businesses of different sizes. Businesses in the Construction sector appear notably less likely to want to do more to reduce their carbon emissions in the next two years than other sectors; only 57% of respondents in the Construction sector said it was 'likely' or 'very likely' that they would do more. This may be because they perceive that their business is doing sufficiently well at implementation reductions, or because they do not perceive benefits of doing so. Other research points to major barriers for the construction industry in achieving sustainability goals, including lack of customer demand and the costs of achieving sustainability¹⁸. This evidence also indicates that sustainable products are being 'value-engineered' out of use within construction projects, inferring that customers are to some extent unwilling to pay for sustainable solutions. All the industries are likely to face sector-specific barriers to sustainability and this evidence points to such factors within construction industry. This additional evidence supports the conclusion that within construction, small businesses are not experiencing the market pull factors that could increase sustainability, nor are they able to implement cost-effective sustainability solutions on behalf of their own business or their clients.

Key insight; Both 'push' and 'pull' factors need to be captured within the range of policy responses, so that businesses are encouraged to implement and respond to sustainability practices.

The results demonstrate that across the small business sector, there is an appetite for, and a recognition of the need for, doing more to reduce carbon reductions. However, it also demonstrates that there are variances across sectors, meaning that industry-specific factors need to be understood and considered when designing policy and practice. Further research indicates that there is also recognition that it isn't an easy task, with just over a quarter (28%) of SMEs stating that it will be extremely difficult to transition to a net zero economy¹⁹.

Key insight: the majority of small businesses are likely to do more to reduce carbon emissions in the next two years, but support will need to be implemented to facilitate transition to sustainable business practices.

¹⁸ NBS, 2022, *Sustainable Futures Report*. <https://www.thenbs.com/sustainable-futures-report-2022/>

¹⁹ Federation of Small Businesses, 2021, *Accelerating progress - empowering small businesses on the journey to net zero*. <https://www.fsb.org.uk/resource-report/accelerating-progress.html>

6. IMPLICATIONS FOR POLICY AND PRACTICE

Overall our research suggests that small businesses have ambition and are taking action on issues of sustainability and intend to do more. However, there are challenges that policymakers and business support intermediaries could help address. There is a disconnection between Government policy on Net Zero and awareness and understanding of UK Government sustainability policy in small businesses. Furthermore although small businesses are eager to do more to address sustainability in their business, sustainability is still perceived as a costly addition, rather than a foundational part of doing business. The message that sustainability offers business opportunities is still to land with small businesses.

From the insights suggested in sections 2-4 there are some clear takeaways. Firstly, that small businesses are ambitious towards sustainability, but are not yet fully harnessing the opportunities that come alongside sustainability. While some perceive sustainability as not relevant to their business model, many are already taking steps and others are able to identify benefits to their business, there is a need to increase engagement and encourage further action by showing the ways it can be beneficial to small businesses. Messages to be included in this are ways to engage the supply chain, funding sustainable practices in the short term can have long-term benefits, how to set targets with measurements to see change and that sustainability is not a 'bolt on' but the foundations of a future proofed, successful business. Much of the potential success of sustainability in small business will rely on collaboration, and there is a role for networks to build these relationships.

There is a role for policymakers to remove some of the barriers to implementation (typically resources like time, money and understanding), particularly through simplifying finance for sustainability in small business. The low level of understanding and awareness of the Net Zero strategy amongst small businesses shows a disconnection between the government policy on sustainability and small business – policymakers will need to engage with this significant group if the Net Zero target is to be met.

The findings and insight developed in this study and based on our survey of small businesses have highlighted a number of key policy and practice recommendations which could be developed to support positive, meaningful action to prepare and equip small businesses to implement sustainable business practices. Included are recommendations for government which are actionable at different levels of government (national to local) but consistency of approach is key. These are set out in Table 6 below.

In response to the findings of this research, Small Business Britain and Oxford Brookes Business School created the Small Business Sustainability Basics programme, responding to the need for increased understanding of how to achieve Net Zero as well as facilitating and inspiring action towards small business sustainability. The design of the programme was inspired by the need for free/low cost forms of support which are flexible around the lack of time that small business leaders may have.

Table 6: Policy and practice recommendations

STAKEHOLDER GROUP	RECOMMENDATIONS
Small businesses	<p>Prioritise internal opportunities to reduce environmental impact throughout business practices and processes</p> <p>Work with suppliers to identify and target sustainability goals</p> <p>Identify processes controlled by others that relate to your business and work with them to improve sustainability</p> <p>Work with customers to better understand their sustainability goals and how you might help them achieve them</p> <p>Invest time and resource in understanding environmental impact and where immediate sustainability gains can be made</p>
Business support practitioners	<p>Design business support on sustainability that recognises capacity constraints in small businesses</p> <p>Target the pathway to sustainability action: awareness, then understanding, then action</p> <p>Identify relevant pull and push factors for different sectors and build these into programmes</p> <p>Teach small businesses about how sustainability can impact business performance and stimulate growth</p> <p>Build links with small businesses through organisations, federations and other representative groups to build trust and smooth communication</p>
Big business	<p>Focus on developing pull factors which can reach down into supply chains</p> <p>Develop a deeper understanding of the sustainability challenges of small suppliers</p> <p>Support small suppliers to adopt new practices and deliver change</p>
Government	<p>Ensure support for sustainability is effectively communicated and barriers to adoption are as low as possible</p> <p>Develop and simplify funding mechanisms to encourage adoption of sustainable business practices – including recognising sustainability in applications</p> <p>Build sustainability into business support schemes</p> <p>Consider encouraging take up through taxation</p> <p>Place sustainability at the heart of policy across different departments and at different levels of government</p> <p>Design funding for economic development and regeneration that explicitly ‘bake-in’ the achievement of sustainability goals</p>

6.1 FURTHER RESEARCH

The research highlights the need for further research to enhance the ability of policy makers to design and implement effective support. These include:

- **Understanding the best mechanisms and channels by which awareness of net zero commitments are communicated to those businesses that remain unaware.**
- **Further segmentation of the ‘unaware’, ‘aware but don’t understand’ and ‘aware and understand’ groups to provide further insight as to the barriers that need to be overcome to move businesses through awareness, to understanding, to action.**
- **Understand the best formats for advice and support to engage small businesses, especially those that are especially resource constrained.**
- **Understanding how to sell the benefits of sustainability practices to small businesses in order for them to be seen as a foundation for success (a push factor) rather than a necessary requirement to meet some form of standard (a pull factor).**
- **Investigate in more detail how Brexit and Covid-19 recovery are influencing, positively and negatively, small business’ appetite for and ability to adopt sustainability approaches.**
- **Investigating different business and operating models and how these influence awareness, understanding and adoption of sustainability approaches.**



Photo credit: Brandy Kennedy/Unsplash

APPENDIX I: RESPONDENT CHARACTERISTICS – DATA TABLES

Table 7: Respondents by number of employees

SIZE	n	%
Just me	547	53%
2 – 9	385	38%
10 – 24	61	6%
25 – 49	18	2%
50 +	14	1%
Total	1,025	100%

Source: Oxford Brookes Business School / Small Business Britain sustainability survey

Table 8: Respondents by sector

SECTOR	n	%
Primary & Energy	10	1%
Manufacturing	71	7%
Construction	11	1%
Café, Restaurant or Retail	299	29%
Wholesale & Distribution	26	3%
Travel & Tourism	42	4%
Information and Communication	75	7%
Finance, Insurance & Real Estate	35	3%
Professional and Scientific	87	9%
Administration and Support Services	53	5%
Education and Training	26	3%
Health and Beauty	103	10%
Arts and Recreation	100	10%
Other Services	11	1%
Other	76	7%
Total	1,025	100%

Source: Oxford Brookes Business School / Small Business Britain sustainability survey. Note: 'other' responses have been recorded where possible.

Table 9: Respondents by country/region

COUNTRY/REGION	n	%
England (East Midlands)	76	7%
England (East of England)	74	7%
England (Greater London)	111	11%
England (North East)	34	3%
England (North West)	95	9%
England (South East)	198	19%
England (South West)	133	13%
England (West Midlands)	74	7%
England (Yorkshire and the Humber)	77	8%
Scotland	68	7%
Wales	72	7%
Northern Ireland	13	1%
Total	1,025	100%

Source: Oxford Brookes Business School / Small Business Britain sustainability survey

Table 10: Respondents by age of business

AGE OF BUSINESS	n	%
< 12 months	82	8%
1 - 2 years	166	16%
3 - 5 years	251	24%
6 - 10 years	219	21%
> 10 years	307	30%
Total	1,025	100%

Source: Oxford Brookes Business School / Small Business Britain sustainability survey. Note: 'other' responses have been recorded where possible.

Table 11: Respondents by turnover

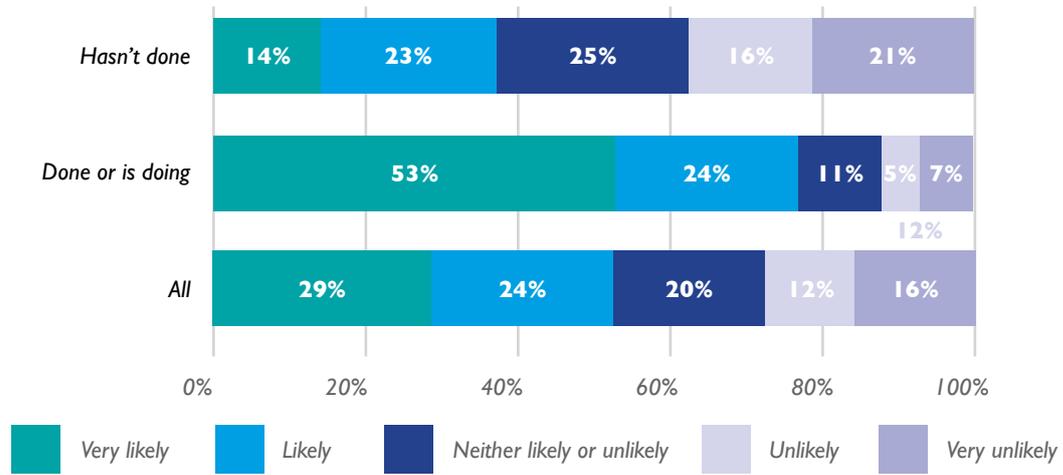
TURNOVER	n	%	%
<£10,000	243	24%	27%
£10,000 - £49,999	265	26%	29%
£50,000 - £99,000	134	13%	15%
£100,000 - £249,999	122	12%	13%
£250,000 - £499,999	77	8%	8%
£500,000 - £999,999	41	4%	4%
£1million - £2million	19	2%	2%
>£2million	15	1%	2%
No response	109	11%	–
Total	1,025	100%	100%

Source: Oxford Brookes Business School / Small Business Britain sustainability survey

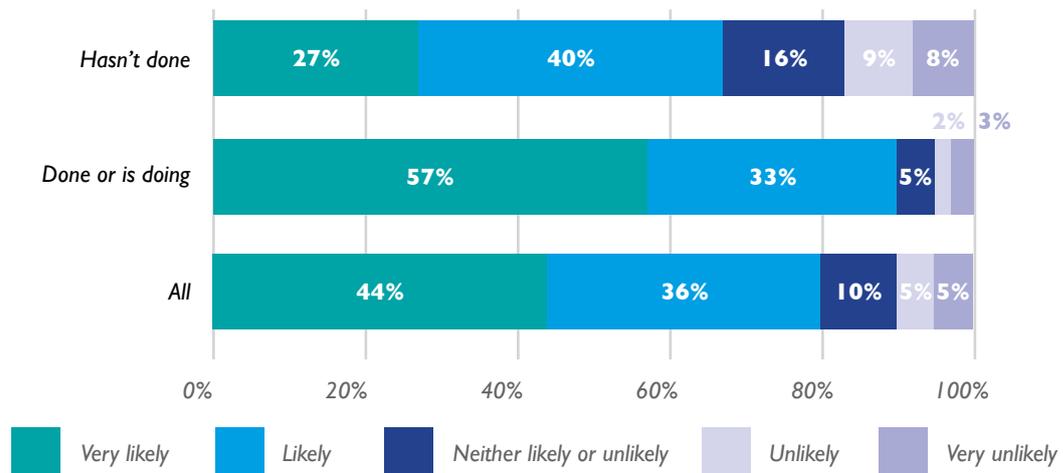
APPENDIX 2: ADDITIONAL CHARTS

Figure 7: Likelihood of implementing measures in the next 12 months

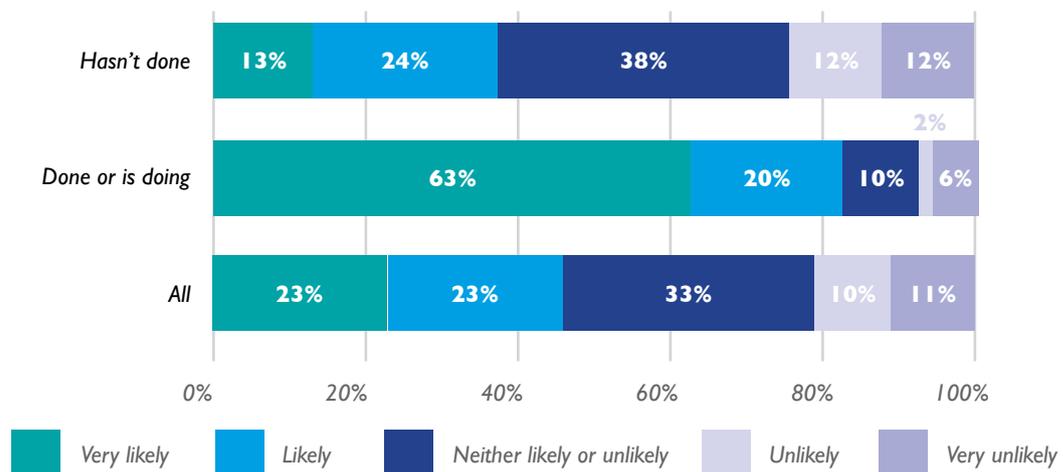
INSTALL ENERGY EFFICIENCY MEASURES



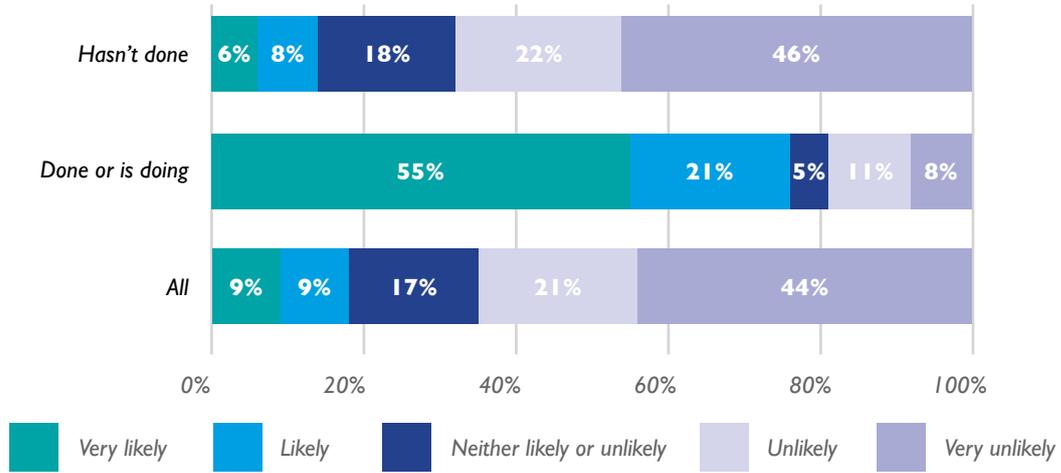
IMPROVE BUSINESS PROCESSES



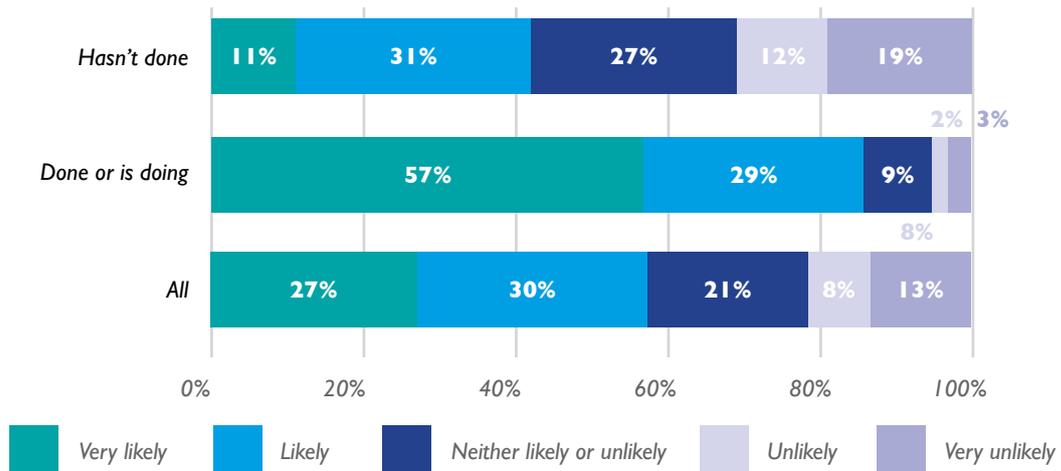
MOVE TO A RENEWABLE ENERGY SUPPLIER



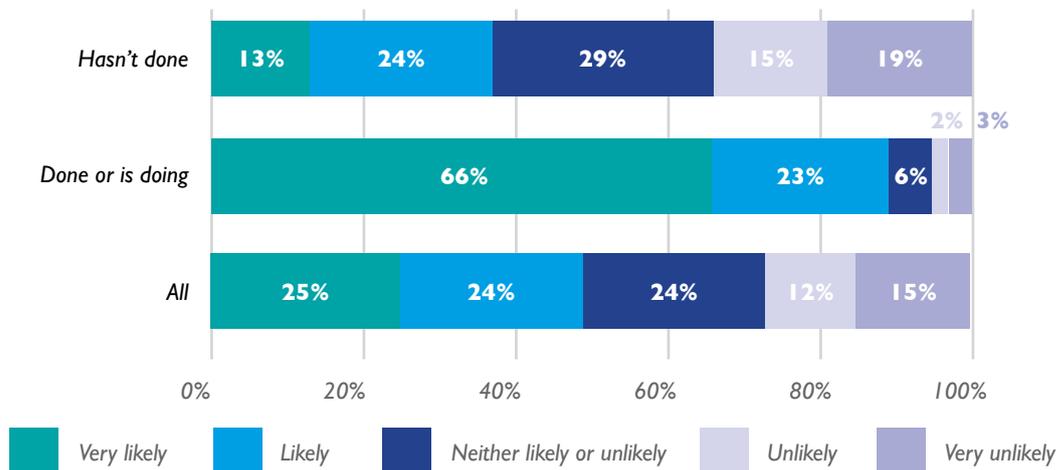
PRODUCE RENEWABLE ENERGY



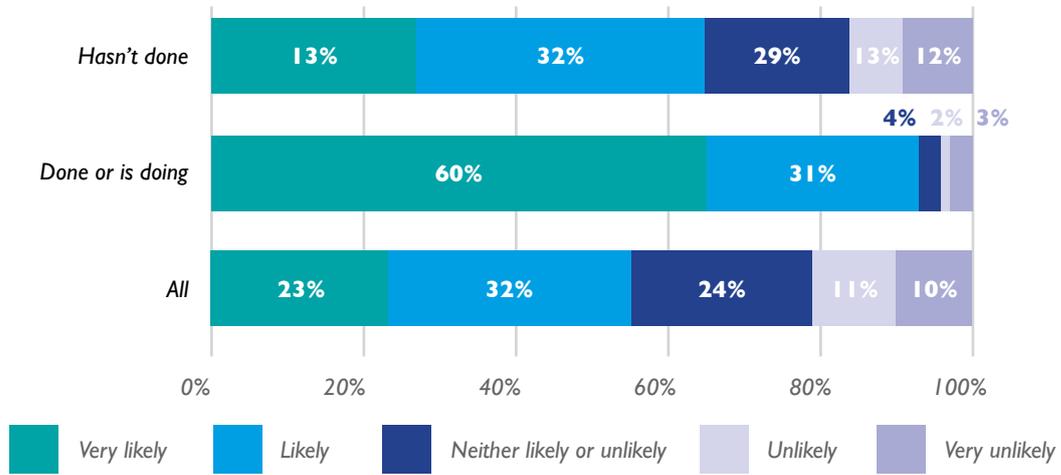
REDUCE TRANSPORT EMISSIONS



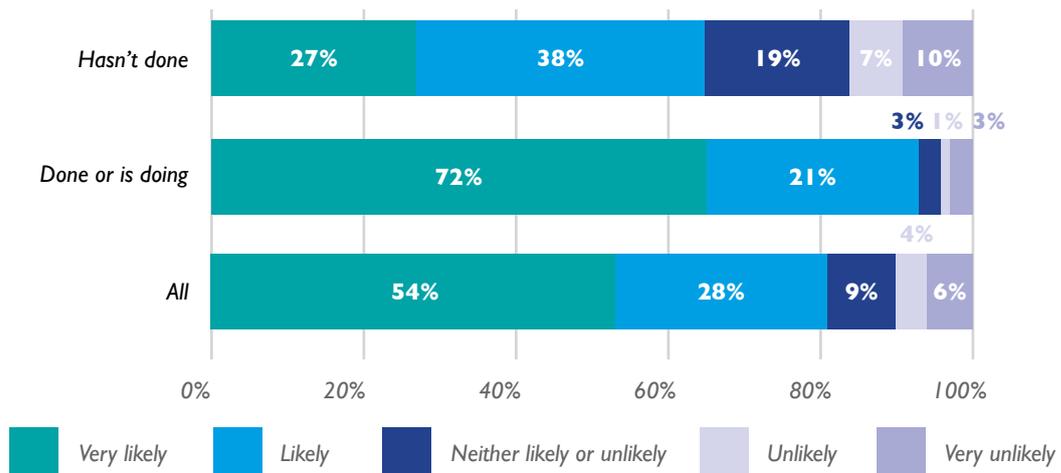
CREATE PROJECTS, PRODUCTS OR SERVICES THAT LOWER EMISSIONS



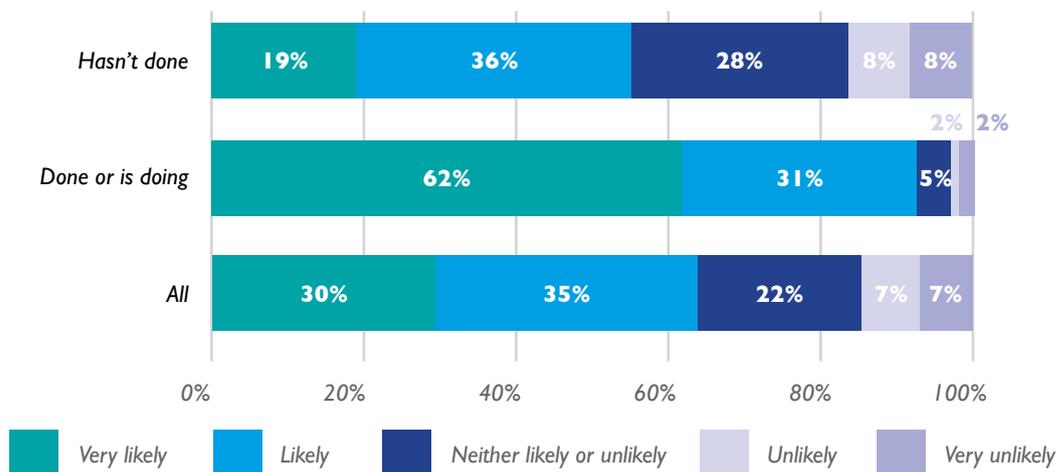
ENCOURAGE SUPPLY CHAIN TO REDUCE THEIR EMISSIONS



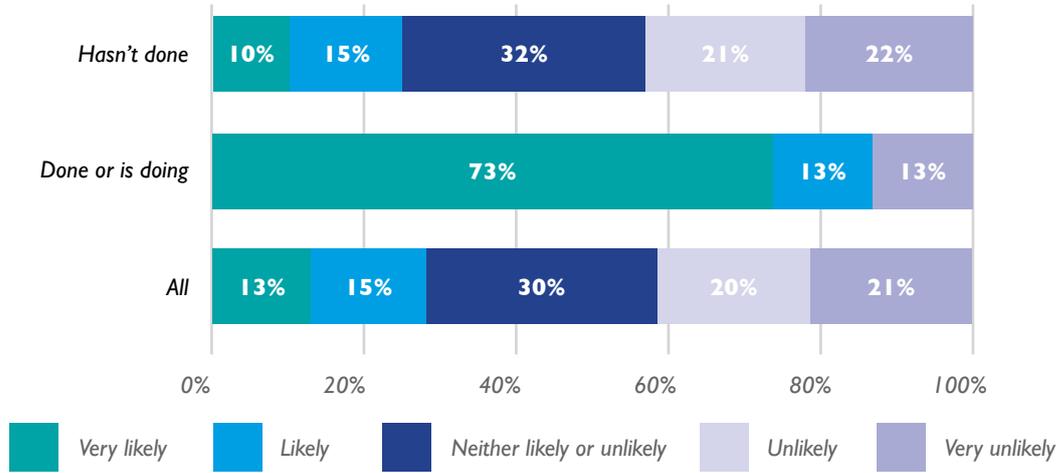
REDUCE PLASTICS AND HARMFUL MATERIALS FOR PACKAGING



CONSIDER THE CARBON IMPACT OF SUPPLIERS



MEASURE TOTAL EMMSIONS



Source: Oxford Brookes Business School / Small Business Britain sustainability survey



SMALL BUSINESS SUSTAINABILITY:

Insights & Implications