



Centre for the New Midlands

The Path to Sustainability for SMEs

Roundtable report, July 2024

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Foreword

I am delighted to chair this roundtable on behalf of our partners, the Centre for the New Midlands.

Sustainability West Midlands is an independent, not for profit organisation that has championed sustainability across the West Midlands for over two decades. Improving our sustainability as a region has never been more relevant than it is today, and it is incredibly important that this topic remains central to the policy discussion as we move forward. However we cannot merely rely on policy makers if we are to achieve widespread change and collaboration is essential if we are to deliver our objectives, such as the regional target of net zero by 2041, as well as making sure our businesses are resilient to the future climate. Central to helping us achieve this target will be the actions of Small and Medium sized Enterprises (SMEs), who make up the backbone of our economy. Discussions like today are imperative to understand the priorities of SMEs and how we can better aid their shift to a more sustainable business model. Today's roundtable brings together industry leaders with a wealth of knowledge from across the region, who have the ability to provide real actionable insight to this important conversation.

Roundtable Chair:

Anna Bright, Sustainability West Midlands



As a commercial bank who puts sustainability at the heart of what we do, we are always looking at how to improve our social impact as well as the social impact of our customers and business partners.

Proudly headquartered in Birmingham, we are a bank that focuses 100% on social impact and have lent over a billion pounds to companies, charities and organisations that are making some form of positive social impact. In the UK we have 10,000 customers who deposit money with us because they want that money to be put to good use, helping communities across the UK.

Understanding the needs of business is paramount to what we do, and the more we understand regional businesses and their priorities, the better we can aid them in their own journey to a sustainable future. To be able to help SMEs on their journey we need to understand the unique challenges that they face, and what barriers may stop or hinder them from engaging in more sustainable business practices. We have been partners with the Centre for the New Midlands for over 2 years now, and we are delighted to have worked with both the Centre and our friends at Sustainability West Midlands to deliver this roundtable, bringing together many key business leaders from across the West Midlands.

Colin Fyfe, CEO, Unity Trust Bank



1. Context: Why are we holding this roundtable on the Path to Sustainability for SMEs, and why now?

Two years ago, the UK hit a record 40 degrees Celsius. Infrastructure buckled. Train lines went down, and Kings' Cross was completely disconnected from the rest of the UK. A fifth of elective surgeries were cancelled and there were about 3000 excess deaths in that month alone as a result of heat waves. These events occurred about a month after the climate change committee said there was a chance that we would hit 40 degrees on the current pathways that we were on.

In the West Midlands area that summer the Environment Agency declared a drought here. Our groundwater and reservoir reserves are relied on by 6 million people here in the West Midlands, and it is these acute risks that climate change poses. This means we need to think not just how to get the infrastructure, local authorities and the public on board, but how can we get SMEs to play their part in the sustainability journey.

There is also the intersection of environment and social. The University of Birmingham's report on air quality in the West Midlands declared that 2.9 million were affected by poor air quality, leading to six months less of average lifespan and 2000 deaths a year. This further highlights the need to do everything we can to move the dial on reducing energy consumption, moving away from high emission activities and actions that are polluting the environment are critical. SME's can be a huge force for supporting this transition, even if some of the primary reductions are likely to come from infrastructure, energy, and transport.

So how can we help our SME's and our communities to get ready for the future impacts of climate change? There is a need to consider behaviour change and how we can all play a role. How can we mitigate these issues not only to help SMEs to decarbonise, to think about their pollution, to think about waste and water, but also how can we protect them from the future impacts of climate change and help them to adapt and be resilient?

Joshua Meek, Chief Impact Officer, Unity Trust Bank



2. About the discussion

On 18 July 2024, the Centre for the New Midlands held a roundtable on The Path to Sustainability for SMEs at Marco Pierre White's at The Cube in Birmingham, attended by 20 senior leaders representing the public, private and not-for-profit sectors from across the West Midlands region.

There were 4 key questions that were under consideration:

1. What are the challenges for SMEs embarking on, or advancing, their journeys towards sustainability?
2. Are there opportunities and advantages presented for SMEs by starting their sustainability journey today rather than waiting?
3. How can we support SMEs to adapt to the future risks from climate change as well as mitigating (reducing their emissions)? What support do SMEs need to 'future proof' for climate shocks, technology obsolescence and transition?
4. What support do SMEs need from policy makers, financial services and service providers to strengthen their enterprises and ensure we meet the regional target of net zero by 2041?



This report is based on the responses provided by the participants of the roundtable, and surmises the points raised into cohesive themes. The goal was to give an insight and to highlight potential issues and opportunities for SMEs pursuing a path to sustainability, as well as what support they may need. The discussion was further broken down into four interrelated topics and questions drawing on the participant's own experiences.



3. What are the challenges for SMEs embarking on, or advancing, their journeys towards sustainability?

Throughout the discussion our participants highlighted some significant issues that SMEs faced which are potential barriers to engaging with sustainable business practices. These issues and potential solutions are highlighted below:

3.1 Where to start can be a daunting issue for SMEs

Whilst there are SMEs which are certainly interested in starting their journey to sustainability, where they should begin can often be unclear. How do they assign their resources in a meaningful way so that they do not end up trying to do a bit of everything and achieving nothing? SMEs may have a multitude of priorities to be more sustainable, how do they decide which priority they should focus on?

The advice on this matter was to start with one sustainability priority and build from there. If you have multiple priorities, all of the priorities are likely worthy of attention, but making a clear start in one area will help the business layout a further path to sustainability and the ability to incorporate the rest. Taking measures to be more energy efficient, retrofitting to reduce heat loss, switching to lower emission vehicles to reduce air pollution, minimising business waste, and using more sustainable packaging and other resources, are all great initial focuses for a business to start on their path to sustainability. Often simply beginning the journey is as important, if not more important, than where you start. This is especially true as a collective if we are to hit national sustainability targets.

3.2 Access to advice they can trust is another key issue

In a world saturated with information, it can be difficult for SMEs to know where to turn to access advice which they are confident enough to act on. Our participants spoke on the need to signpost SMEs effectively to reputable sources so they can access the necessary information, however getting SMEs to trust this advice can prove problematic. SMEs can be cautious on acting on advice from entities that are set to profit on said advice given, therefore the advice needs to come from more independent and trusted advisors.

A main source highlighted for trusted advice by the participants were sector peers and competitors, which leads on to the next point.

3.3 SMEs trust advice from within their sector rather than external opinions

Businesses particularly within the manufacturing sectors tend to look towards peers and competitors for advice and insight. Often these insights are gained informally from peer-to-peer interactions and networking. Their competitors operate in a similar environment to themselves and are seen to be more relatable than an external source. Businesses are also more likely to be hesitant to external solutions that have not been adopted by the wider industry.

This highlights the need to bring sectors along regarding sustainability. There needs to be support and incentives in place for peer learning and networking so that, when a solution is successful (or not), there can be sector-based learning. Failure to engage effectively could leave some sectors isolated, with less progress on sustainability than others. This may also require an attitude change to the enablers of learning (WMCA, local authorities, advisory institutions, etc.) about where best to focus their efforts to effect change.

3.4 SMEs' primary focus is to survive rather than on sustainability

In a challenging economic environment fraught with the rising costs that SMEs have been susceptible to in recent years, it is natural that businesses would be focused on their own survival above all else. It is often assumed that businesses are looking to improve their sustainability, however this is not always the case; a lot of the SMEs starting their sustainability actions are driven by cost savings through energy savings. Even after the raw act of survival an SME may be focused on other priorities such as expansion or profit maximisation.

There needs to be a clear and honest business case for sustainability that businesses can get onboard with. What is the return on investment? What is the benefit? Why should it be a priority? These are the key questions SMEs will be asking themselves, and compelling answers will need to be provided to convince more SMEs down a path to sustainability.



3.5 Unclear Government policy and regulation discourages SMEs from investing in sustainable alternatives

Whilst the Government favours a path towards net zero as set out in the Climate Change Act 2008, changes in activity and policy have been destabilising and the path to 2050 is unclear. Large infrastructure projects such as the electrification of the grid are often discussed, yet policy is often non-committal and changeable. The changes in policy over the petrol and diesel car ban with successive governments is an example of how changeable policy can be in this area, as are ULEZ zones that vary from city to city. The regulatory environment is also problematic as it is often geared towards larger corporations rather than SMEs (take the NHS supplier environmental requirements for example). Complex regulation can also be a further barrier to investment, leading to businesses taking the easiest option rather than the most sustainable.

Businesses rightly do not want to invest vast sums in a technology which could quickly become unfavourable, and they need clear political and regulatory policy to be able to plan effectively. A straightforward regulatory environment, with a clear commitment and road map designed with SMEs in mind from the government, would go a long way to providing SMEs with the confidence to invest in more sustainable alternatives.

3.6 Experiences or stories of additional and unknown costs prevent SMEs from starting their journey

An issue raised regarding the manufacturing sector was that businesses who had invested in sustainable infrastructure, such as solar panels, had experienced unforeseen costs during and after their implementation. The stories of these experiences act as significant discouragement to businesses attempting to decarbonise and become more sustainable.

Transparency and helping businesses to understand the full costs of implementing and operating innovative technologies needs to be at the forefront of the conversation with SMEs. Only by removing the cost uncertainty can we give often cost-conscious SMEs the confidence to invest in more sustainable technologies and practices.

By understanding the concerns SMEs have towards transitioning to more sustainable business practices, we can then engage with them more effectively and help alleviate these concerns. If the UK is to transition to net zero then SMEs will be central to achieving this goal, as part of the discussion we must truly listen to and seek to understand their challenges.

4. Are there opportunities and advantages presented for SMEs by starting their sustainability journey today rather than waiting?

Whilst there are some concerns and barriers for SMEs in following a path to sustainability, there are certainly clear advantages if a business chooses to begin their journey today rather than holding off for a later date.

4.1 Supply chains are increasingly looking to become more sustainable

With a consumer preference for 'low carbon' and environmentally friendly products, large companies and Government contracts are increasingly requiring ESG performance in their bids. Substantial changes like the NHS greening requirements and the EU CBAM (Carbon Border Adjustment Mechanism) trial with key sectors coming online in 2026, herald a shift in this direction. In this environment SMEs that fail to adapt may lose out on future opportunities and could also be seen as a potential weakness when a supply chain is evaluated. An SME that undertakes a more sustainable business model can negate these risks, whilst the improved ESG credentials also become a selling point for prospective clients and partners who are looking for a more environmentally conscious supply chain.

4.2 Being energy efficient can bring significant cost savings

Recent years have seen a substantial rise in energy prices which have threatened the existence of SMEs. Investment in being more energy efficient is at the top of businesses' agenda, 7 in 10 businesses have already made strides to being more energy efficient (MAKE UK), which in turn reduces costs. An investment in energy efficient technologies is not only a positive step that a business can make to be more sustainable, but it also helps to increase profits in the longer run, making a powerful case for a more sustainable business model.

4.3 Sustainability is increasingly becoming more of a priority requirement for finance and investment

Large institutions are continually looking to reduce their own carbon footprint, this can be done by prioritising more sustainable projects to be involved in. Finance instructions like Unity Trust Bank are increasingly looking at a business's sustainability factor when considering lending. Access to finance is key for SMEs, and if being more sustainable means that a business has a better chance of securing lending, it would further help the business case for more sustainable business models.

4.4 A sustainable business is an asset when trying to attract younger talent

The younger generations of today are more environmentally conscious than ever, and businesses in less sustainable industries are increasingly seen as out of touch. Gone are the days of purely focusing on profit and expansion, today's graduates care about the social and environmental impact of their chosen profession. If businesses and industries are to attract and retain talented graduates, and garner a younger audience, they will need to show that they are contributing positively or else they could find it much harder to appeal to a younger demographic.

By embracing a more sustainable business model, SMEs gain substantial benefits. From lower costs and reduced business interruption, to improved finance prospects and being seen as a forward-thinking business that is ahead of the curve, there are compelling advantages for businesses that make the journey to sustainability sooner rather than later.





5. How can we support SMEs to adapt to the future risks from climate change as well as mitigating (reducing their emissions)? What support do SMEs need to ‘future proof’ for climate shocks, technology obsolescence and transition?

Climate change is a pressing issue globally, affecting everything from international supply chains to disruption in local infrastructure. SMEs are likely to be disproportionately impacted, lacking the knowledge and finances to act and adapt in comparison to larger businesses. We need to support SMEs during these challenging times, and the participants had these suggestions:

5.1 Advise SMEs how they will be directly affected by climate change, what their risk areas may be and how they can mitigate these issues

Over the last few years, Europe and the UK have been subjected to an extremely changeable climate. From water scarcity during heat waves to floods, this unpredictable weather massively impacts the general population and particularly SMEs who may be burdened by significant business disruption and costs.

Helping businesses to understand where they might be affected, whether that is by inadequate infrastructure or their property’s risk to a potential flood plain for example, would be a significant benefit to SMEs. Sharing effective modelling data on the region, and generally working together to understand the environment that they operate in, would be of a substantial benefit to SMEs to help mitigate these issues.

5.2 Provide advice in a language SMEs can understand and trust

Our participants mentioned a crucial point, that quite often the technical language and targets around climate change can be quite unhelpful and difficult for SMEs to understand. Discussion around a net zero target far off in the future and using technical language such as ‘1-in-100 year flood risk’ is not relatable to the average SME. Language needs to be gauged to how it impacts them specifically and why they should care, otherwise it is an abstract concept that they will overlook. If they have a target to focus on in the near term or can be informed how often a potential flood could impact them, they have a reason to care and act on this information.

5.3 Help SMEs to form a comprehensive plan to be more sustainable

As established previously, it can be difficult for SMEs to know where to start and how to develop their plan to sustainability. Often, they have limited knowledge and capacity to move forward effectively. Giving SMEs access to this knowledge and aiding them with a targetable plan for the near term would help greatly in being able to at least start this journey. If we put the SME at the heart of their own plan, asking them how they can contribute and create their preferred future, this would go a long way to encouraging SMEs to take immediate action.

5.4 Advise and highlight how an SME can cut their waste and emissions, including reusing and recycling

Similar to the general theme about access to usable knowledge, a business may want to take actionable steps but lack the expertise to even be aware of the options available. If a business lacks this guidance they may stick to the easy ‘low hanging fruit’, completely unaware of the innovative solutions on the market. Reusable building blocks for the film and TV industry were brought up as a progressive option to counter the excessive waste from creating bespoke movie sets for instance. Helping SMEs to ask the right questions, such as: what waste products can be reused and recycled, can excess heat or energy be used elsewhere, and can they shift to a higher quality permanent solution rather than successive temporary fixes, would really open SMEs up to the possibilities available to them. One participant even went as far to say that we should challenge businesses to consider if their industry is sustainable in the long term, and if not they should consider diversifying away from the sector.

Whilst climate change is a significant challenge to SMEs, there are ways we can help businesses to mitigate these issues. Given the right guidance SMEs can make decisions that will help to not only benefit them but also the region as a whole.

6. What support do SMEs need from policy makers, financial services and service providers to strengthen their enterprises and ensure we meet the regional target of net zero by 2041?

Net zero is a key target both regionally and nationally, and SMEs will have to play a significant role if the targets are to be met. Although SMEs are not alone, and there are numerous ways that we can aid them in a transition to a more sustainable future.

6.1 Provide a targetable roadmap backed up by clear regional and Governmental policy and support

Reaching net zero by 2041 in the West Midlands will require significant investment, however thus far planning and support has been changeable and unreliable. For businesses to buy into the project and invest accordingly, they will need to have confidence in the plan and its political stability, otherwise they will hold off until such stability and security arises. Policy needs to remain consistent, and the roadmap to the goal needs to be cohesive with targetable stages throughout, to truly give SMEs the confidence to buy into the 2041 net zero goal.

6.2 Give SMEs a real incentive to be sustainable

Whilst some of the potential benefits that an SME can get from beginning their path to sustainability has been covered in this report, they still lack a real incentive or external pressure to do so. Rather than simply dictating to an SME the advantages of being more sustainable, actually giving them a targeted incentive to act would be a powerful motivating factor. Policy makers could bring in wider sanctions for non-compliant business and industries, however improved access to finance and grants for sustainable investments would greatly help to bring SMEs onboard. Furthermore, prioritising SMEs that comply with sustainable requirements for contracts and further business, would create a genuine business case for change and encourage a more sustainable business culture across industries.

6.3 Guide SMEs to build their assets, operations, and plans with sustainability in mind

When expanding their business an SME may be focusing on the initial price, rather than the future cost of the building. A basic design and cheaper materials may seem to make economic sense in the immediate, however if the building is not energy efficient or resilient to the future climate it could cost the business significantly more in the long term. We need to make sure that SMEs have the guidance during the planning stage to be able to make these decisions effectively, to not only save money but also to lower emissions. Moreover, if businesses are given incentives to negate the added costs of higher quality materials, this would further encourage SMEs to make more sustainable decisions whilst investing in their infrastructure.

6.4 Sustainable messaging is key

Other than direct intervention, keeping the message about moving to a sustainable future in the public consciousness is imperative to incite change. Whether it is through policy makers, institutions, business sectors or even the creative and advertising industries, the message that we need to move to a more sustainable future needs to be consistently out there. Sustainability needs to be kept at the forefront of everyone's mind to profoundly change attitudes on a scale needed to achieve net zero. If businesses feel not only that they can make a difference, but that their change to more sustainable business model is to be celebrated and promoted, it will only help to further encourage businesses in their sector and beyond.



This roundtable provided some fascinating and imperative insights into not only how we can aid SMEs, but also gave a glimpse into their mindset, priorities, and the challenges that they face.

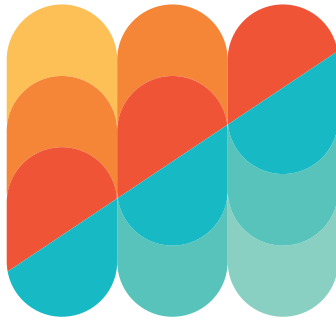
To ensure that our businesses are resilient, and that SMEs are brought on mass along on the journey to net zero, we will need to provide businesses with a compelling business case to be more sustainable, as well as both the economic ability and knowledge needed to act. There is an opportunity to place SMEs at the centre of the region's 2041 net zero plans, however they will need to be engaged with and informed effectively. Sectors cannot be left behind, and their concerns cannot be ignored. We need to both guide and be guided by SMEs and their quandaries.

Achieving the region's 2041 net zero target will require an immense effort and cannot be achieved without collaboration, it is in this respect that we need to continue to discuss how we can better engage with and support SMEs on their journey to sustainability.

We would like to thank all the participants of the roundtable for their time and their contributions to a very productive discussion.

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