

The small business sustainability report 2023

Insight and analysis from
Novuna Business Finance

March 2023

Tomorrow. **Together**

Executive Summary

Despite a third of businesses having plans to be net zero, the cost of living crisis has been a setback

- While a third of businesses have an 'active plan' to be net zero, almost one in two (45%) don't have a formal plan in place to date.
- Achieving net zero might be a distant plan for some smaller businesses, but the vast majority (85%) are also taking practical steps today to address the sustainability challenge.
- A third of small businesses are now looking for alternative 'green' options for day-to-day activities. This includes reducing waste, increasing recycling, switching to renewable energy sources, encouraging cycling or walking-to-work initiatives and finding less carbon intensive business models.
- The cost of living crisis did push back net zero as an immediate business priority in 2022 as financial worries dominated. That said, the cost cutting did usher in green benefits, with nine out of 10 small businesses saying the crisis has forced them to become greener businesses going forward.
- Top sustainability plans for 2023 are to: review energy usage of the premises (26%); improve working conditions and contracts for all employees (25%) and to switch to greener forms of transport (20%).
- Many small businesses are planning to maintain the lower business travel usage adopted during the pandemic. This not only applies to business flights but to day-to-day commuting. This is delivering

environmental benefits, in terms of reduced emissions, as well as creating cost savings for many enterprises.

78% are "Greening" their supply chain

- More than eight in 10 small businesses (82%) recognised that 'greening' supply chains was an important issue — and one that could make a significant impact when it comes to reaching net zero targets.
- 78% of business leaders say sustainability is now a priority in the supply chain.

Lack of support and cohesion a major frustration

- Four out of five small businesses said that other businesses, regulatory bodies, industry networks and local and national governments could do more to support them.
- More than a fifth of small businesses said there was not enough action being taken in their own business community to reduce carbon emissions.
- The majority of small businesses (54%) think the responsibility for reducing emissions and achieving carbon neutrality lies firmly with themselves, either as individuals or as a business.

With the climate crisis front of mind, sustainability is one of the most pressing priorities for small businesses in 2023.



As the engine room of the economy, the importance of their buy-in, advocacy, and contribution to the UK's move to net zero must not be under-stated.

To date, the views and contribution of the small business sector have not been central enough to the business and policy debate on sustainability. Many small business owners don't know where to turn for guidance and information—and many have struggled to maintain a focus on net zero whilst grappling with the economic ravages of Covid followed by a seismic cost of living crisis.

Despite all this, thousands of UK small businesses are taking positive steps under their own steam to support the climate agenda, to look after their people, and to protect their financial strength.

Now is a time to listen. Over the last year, Novuna Business Finance has invested in market research to give us the opportunity to understand the views of small business owners around the UK—their views on sustainability generally, their approach to net zero, and the steps they are taking to help tackle climate change. We have asked small business owners about the perceived barriers, and the opportunities they want to explore. We have examined how they involve their staff in positive programmes, and we have asked them what support they need from others. This report presents findings from this research and, in doing so, gives small businesses a voice on the most pressing issues of the day.

Novuna Business Finance takes seriously its responsibilities to support society and to make a positive and sustainable difference to people's lives. The fight against climate change – and the push towards a more sustainable world – are challenges that involve everyone working together. Everyone needs to have their voice heard and to have their positive work recognised. We hope the insight shared in this report contributes to a better understanding of small businesses, the crucial role they play in supporting sustainability—and the support they need to achieve more.

Geoff Maleham
Managing Director
Novuna Business Finance



About Novuna Business Finance

Novuna Business Finance provides business asset financing to small to medium sized enterprises (SMEs) and to bigger corporations across the UK. Asset financing includes hire purchase, finance lease solutions, stocking and block discounting provided through brokers, vendor organisations, manufacturers and direct to the business community.

Novuna Business Finance is committed to supporting society and the communities in which it operates to make a sustainable difference. The business focuses on markets where it can contribute towards the UN's Sustainable Development Goals and provide innovative solutions that require high service levels and a commitment to customer care. The company's aim is to make customers aware of more sustainable asset choices, and to work with suppliers, where possible, to help identify more sustainable solutions.

With an asset portfolio of more than £1.6bn, the business is active across multiple sectors from transport and agriculture to construction and manufacturing and was awarded Best Service from an Asset Based Finance

Provider at the 2022 Business Moneyfacts Awards.

The business is also supporting the Group's multiple sustainable energy projects and purchased a £10m equity share in Gridserve Holdings Ltd, the parent company of Gridserve Sustainable Energy Ltd.

Discover more at:

<https://www.novuna.co.uk/business-finance/>

Methodology

The research for this report was conducted by YouGov and MaruBlue in March, May and November 2022 as a piece of research looking at year-ahead plans.

For all the research, a nationally representative sample of more than 1,000 decision makers and owners of UK small businesses surveyed.

The research was conducted online.

Chapter One

The need for change

Small businesses are an essential part of the UK economy, driving growth and innovation. They have a vital part to play as the UK moves towards a lower carbon and more sustainable future.

As data shared in this report will reveal, small businesses do recognise the significance of the climate emergency, the need to engage with broader community-based sustainability programmes, and the need to support their people and to protect financial strength. Further, they understand that reducing carbon emissions does not just make sense for the planet—it makes good business sense too.

This chapter takes a more granular look at the priorities and concerns of small businesses in the UK over the last year.

Higher fuel bills are driving a green agenda

Small businesses are not immune to the global crosswinds currently battering the economy. Over the past few years, small businesses have had to react first to a global pandemic and then to the challenges of a cost of living crisis – both contributing to operating costs, rising prices, and supply chain disruption.

Despite these massive contextual challenges, many small businesses are moving forward with sustainability plans and – for some – the need to mitigate rising costs, particularly around higher energy bills and fuel costs, has pushed green issues higher up the business agenda.

Businesses have been particularly badly hit by the energy crisis, with utility and fuel bills

quadrupling over the last two years¹, and far less generous government support available for businesses than for households and consumers.

As a result, most small businesses are now reviewing fuel use, with nine out of 10 SMEs saying this crisis will force them to become greener businesses.

37% looking for different energy deals and suppliers

34% have started monitoring their energy use

29% are already using less energy

This trend is particularly marked among older business owners, who are reviewing their energy use to control and reduce costs. Small businesses in the media, marketing and sales sector, and the property industry also intend to use less energy, with this being more widely seen in urban-based businesses than rural ones.

These energy-use reviews are prompting a significant minority of businesses to consider renewable energy options. Overall, 12% of all smaller enterprises are intending to switch to more renewable energy sources in response to rising fuel bills; however, within the SMEs, a far higher proportion of Scottish businesses (18%) and those in the media, marketing and transport sectors (20% each) are considering this option. Business start-ups are also more likely to be taking this option than more established businesses.

¹ <https://www.fsb.org.uk/resources-page/new-analysis-shows-10-000-increase-in-small-business-utility-bills-ahead-of-spring-statement.html>

Sustainable business goals

Rising fuel costs are helping to push green issues higher up the business agenda. Small business owners may not see climate change as the most pressing immediate threat to their business, but it is clear that sustainability – in its widest sense – is becoming a more important issue.

This research shows businesses are becoming more concerned about their environmental impact and their social footprint, with many recognising the need to support staff, customers, and their local communities.

Table 2: Which areas of sustainability are more important for your business, compared to a year ago

Not surprisingly, energy usage is more important to enterprises today than a year ago, with many firms reviewing suppliers, looking at renewable options and also economising on electricity, gas, and water use.

This is clearly an area where a virtuous circle is emerging: and doing the right thing environmentally is also economically beneficial. Businesses may primarily be cutting energy use to save money, but this also has the potential to deliver longer-term environmental benefits.

A similar picture emerges around switching to greener forms of transport. Cutting business travel may deliver immediate cost savings, but it also reduces a company's carbon footprint, and, in the case of cycling, or walk-to-work programmes, can help increase health and well-being benefits for employees.

Reviewing energy usage of the premises	26%
Improving working conditions and contracts for all employees	25%
Having a positive social impact in my immediate community	22%
Switching to greener forms of transport	20%
Improving policies and facilities towards packaging and waste/ recycling for products and services	19%
Creating jobs locally	18%
Contributing to local green initiatives e.g. picking litter, community green energy initiatives (funding or involvement)	18%
Investing in new equipment and sustainable infrastructure	17%
Monitoring and reducing our harmful impact on the community (toxins in water etc.)	16%
Investing in local suppliers/contractors	16%
Improving governance, accountability, and risk management	15%
Investing in recycling facilities for our business	14%
Being part of an ethical supply chain	12%
Investing in markets with the strongest profitability opportunity	5%

Building sustainable workforces

Sustainability is not just about 'green' issues. The second and third biggest issues identified by small businesses reflect their social impact.

This may be due to many business owners' experience of running their company through the Covid-19 pandemic, which underscored the importance of a healthy and happy workforce in driving business success. Employees remain a vital resource for small businesses, even more so in an economic environment which has seen staff shortages across many industries.



Given these factors, it is perhaps not surprising that one in four (25%) business owners state that improving working conditions and contracts for their staff is a more pressing priority than it was a year ago. This is just fractionally behind the numbers looking to review energy usage—showing staffing levels can be as crucial to profitability as controlling rising fuel costs.

Small business owners aren't just looking after their own business interests either: more than one in five (22%) said having a positive social impact in their immediate community was also more important than a year ago.

Many small businesses played a vital role in their communities during the pandemic and may be seeing first-hand the effect that the cost-of-living crisis is having across their local area. Supporting local communities is an important way of giving something back, and investing in the local areas potentially helps businesses grow and flourish in the future.

Sustainability priorities for different businesses

These trends can be seen across the UK small business community, but certain issues are particularly important for some sectors of the economy.

When it comes to investing in staff, businesses in the medical and healthcare sectors, property, and legal profession were most likely to say improving working conditions was a priority for them compared to the national average. This may reflect recruitment challenges in these areas.

Small businesses in Wales, the West Midlands and Yorkshire and Humberside were twice as likely to be reviewing energy use than businesses based in London where just 17% said this was now more important than it was a year ago (compared to a

national average of 26%). However, there was very little difference between rural and urban-based businesses on this issue.

Improving employee working conditions is more of a concern for urban-based businesses, where 28% said this was now more important, compared to 19% of rurally based SMEs. This may reflect a more mobile workforce in the city, where staff who are not happy with conditions or contracts can find alternative employment more easily.

However, when it comes to having a positive social impact on their immediate community, rural businesses were more likely to cite this as more important than urban SMEs.

Barriers to change

Despite the pressing economic challenges of the last 12 months, the UK's SMEs clearly want to become more sustainable, and a range of related issues are now rising up the business agenda.

So why aren't businesses doing more to address many of these issues? Is this just a case of not having the money to invest in new initiatives or are there other inhibiting factors?

The research results are illuminating, showing that while finances do play a major part, other issues are frequently highlighted—including a knowledge gap regarding sustainability, and the desire for more support from government and the business community.

This insight should be important for policymakers, who want to drive change in the business sector, ensuring more relevant information campaigns and better-targeted support for specific industries or regions.

Table 3: Barriers to becoming more sustainable businesses

We don't have the budget	24%
We have more pressing priorities like keeping the business afloat	21%
We need more incentive/support from the government	19%
Lack of understanding on the issues	17%
We don't know how we could do it profitably	16%
The investment we planned is on hold as we deal with rising costs	15%
We don't have a head of sustainability in the business	15%
We don't know how to measure our impact of sustainability	14%

As the table above shows, the major barrier for small businesses is money: with a quarter saying they don't have the budget and another fifth of SMEs facing more "pressing financial priorities," including the immediate challenges of keeping the business afloat.

However, almost one in five business owners (19%) said they needed better incentives or support from the government, while 17% said that they did not understand enough about some of the issues involved, and that this lack of knowledge was holding them back. Further, more than one in 10 (12%) said they did not know where to go for support or trusted advice on these issues.

Regional variations

Again, these industry-wide figures mask considerable variation. Budget is a far more pressing problem in certain regions, cited as the major barrier by four out of 10 (40%) business owners in Scotland, and three out of 10 (31%) in Wales—both higher than the national average.

But this was not the main barrier identified by small businesses in either the North East or Northern Ireland. In both regions, business owners were more likely to see a lack of incentives from government as the single biggest issue holding them back.

Around three out of out of 10 businesses in Northern Ireland and the NE (33% and 31% respectively) said this was the main reason they had not done more—far higher than the average of 19%.

Similarly, businesses in specific sectors were more likely to cite a lack of government incentives as a significant barrier. Almost a third (29%) of smaller enterprises in the manufacturing space, for example, said this was a problem—more than those citing budgetary constraints. Meanwhile, one in three (27%) small businesses working in media, marketing & advertising, and the medical and healthcare sector highlighted this as an issue.

These two sectors were also more likely (when compared to national averages) to cite a lack of knowledge as a major obstacle to adopting more sustainable business practices. Business owners in the science and tech space, particularly, identified lack of knowledge as a barrier (36%), the second most common reason given for failing to press forward with sustainability reforms.

The research shows that when it comes to being better informed, business decision-makers don't just want information on the environmental benefits of more sustainable business practices like recycling, reducing waste or switching to greener transport. Rather, they state that one of the main barriers is understanding how they can embrace sustainability profitably—in other words, knowing when doing the right thing also makes good business sense. Many state they want more help when it comes to measuring both the environmental and financial impact of their actions.

Government policy-makers and business networks, who address these issues in relation to the specific needs of small businesses, have the opportunity to make a real difference to business practices across the UK, helping the country meet its legally-binding net zero targets.

"The economic and political uncertainty that has framed most of the last year has directly impacted many small businesses - making it more difficult to plan ahead. We can certainly understand why economic considerations would be the biggest concern for businesses at this time.

That said, despite the immediate economic distractions, progress on sustainability has been made by the UK's small business community—as many recognise that net zero is not something they can afford to neglect. However, to do more, small businesses need support, and the next chapter will review the big question—who needs to shoulder the responsibility for driving further change."

Sean Jones, Head of Sales,
Novuna Business Finance

Chapter Two

Who is responsible for driving change in the business sector?

When it comes to building more sustainable businesses the over-riding issue is the climate crisis.

The research clearly demonstrates that businesses are aware of their environmental responsibilities, and the key role they play in reducing climate emissions, helping to tackle climate change, and ensuring the UK meets its net zero targets.

This chapter takes an in-depth look at how small business owners are approaching this challenge, and what further support they require from suppliers, the wider business community, and local and national government.

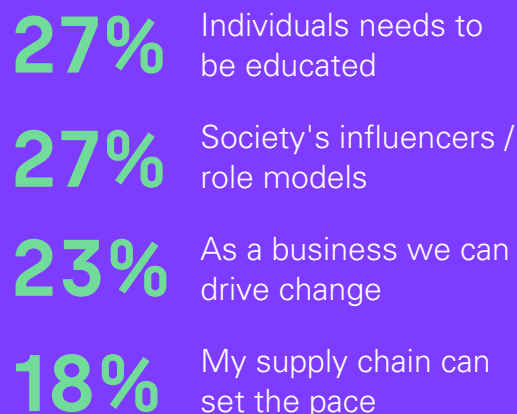
Small businesses leading the way on climate change

Despite the global nature of the task ahead, most businesses (54%) think the responsibility for reducing emissions and achieving carbon neutrality is theirs, either as individuals or as a business.

Perhaps not surprisingly, younger business owners and those running younger businesses believe they are most likely to make a real difference when it comes to tackling climate change. Similarly urban businesses, and those working across the retail, medical and manufacturing sectors were also more confident than average about this issue.

Small business owners were asked who was likely to make the biggest difference in meeting the net zero challenge. The top four answers – shown above right – reveal a strong preference for individuals and businesses, rather than government bodies and regulators’ organisations.

Who can make the biggest difference to climate change?



Working together to tackle climate change

Small businesses might be leading the way, but they need to be supported by action from government and the wider business community.

Four out of five small businesses said that other businesses, regulatory bodies, industry networks, and local and national governments were frequently falling short.

Table 4: Organisations not doing enough to combat climate change

Regulatory bodies	85%
Small business clubs/networks	85%
Individuals within your organisation	83%
Other small businesses in my community	82%
Local MPs	82%
National Government and key departments	80%
The council/local government	80%
Local big businesses	78%

When it comes to driving change though, SMEs were more likely to perceive local big

businesses educating young people as making more of a difference than national or local government—as the figures below indicate.

Who are the perceived change agents?

- Local big businesses 22%
- Schools and colleges 21%
- National Govt 20%
- Local council/Govt 20%
- SMEs in my community 18%

SMEs want to see more concerted action on a range of issues—and many businesses remain frustrated and dismayed at the insufficient progress being made.

A primary concern is that many competitors are not taking the net zero agenda seriously and are failing to take steps to reduce their own carbon emissions. This could make SMEs’ own efforts to reduce carbon emissions less effective.

This concern was cited by almost a quarter of small business owners — with 16% saying they know businesses within their sector may be profiting by not adopting stricter green measures.

Table 5: Top frustrations with the wider business community

There are too many businesses that don't seem to be taking carbon emissions seriously	24%
Businesses tend to do their own thing rather than work together	23%
There is not enough happening in my community to reduce carbon emissions	22%
It's not clear whether there are initiatives within the community that all businesses can support	21%
It is not made a big enough priority by business clubs and networks	17%



These frustrations are particularly keenly felt in some specific sectors and industries. Small businesses working in science and technology were especially aware of these problems, with almost half (45%) of the enterprises in this sector concerned that rival firms were not taking the net zero agenda seriously. Meanwhile, almost a third of SMEs in the transport and distribution sector cited this as an issue for them. Both sectors were also far more likely to say that firms in their industry did their own thing, rather than working together on issues like climate change, potentially hampering efforts to deliver effective industry-wide solutions.

The frustrations aired by many smaller business owners, clearly show a desire for more collective action with stronger leadership from local networks and business clubs.

More than a fifth of smaller businesses said not enough action was being taken to reduce carbon emissions in their own business community. This was a particular issue for the medical and health services, and for the transportation and distribution sectors, with a third of business owners in these areas stating this was a concern.

Meanwhile, a fifth of small businesses said there was often insufficient clarity about initiatives that all businesses within their sector could support. This issue was a particular problem for those in the professional services sector, cited by 30% of finance and accounting firms, 25% of legal firms and 23% of those in the property sector.

Greener supply chains

Small business owners want to see more concerted action from government and regulators on climate change. Many believe this would result in a more joined-up approach across their industry that could tackle some of the specific challenges small businesses face in meeting their own net zero targets.

One area where this is particularly needed is the drive to build greener supply chains. More than eight out of 10 businesses (82%) recognised that 'greening' supply chains was an important issue—and one that could make a significant contribution to achieving net zero targets.

Currently firms are typically reporting their own carbon emissions—often known as Scope 1 and Scope 2 emissions. But increasingly they will also be required to report on the emissions from their

suppliers—known as Scope 3 emissions. Smaller businesses may not be required to report on these at present, but many enterprises are evidently keen to get ahead on this issue: with 78% of business leaders stating sustainability was now a key priority in the supply chain.

In addition, many small business owners are keen to drive up environmental standards at the companies they deal with.

22% of businesses want companies they deal with to adopt similar standards to themselves on carbon emissions/ net zero.

17% of businesses said they now assess the green credentials of firms before they decide to do business with them.

15% of respondents state they will only continue to work with suppliers who reduce emissions and improve their carbon footprint.

However, while these are encouraging figures, it should be noted that 14% of small businesses admit they turn a blind eye to suppliers who ignore green standards.

Greener supply chains is one area where SMEs would like to see more leadership from the wider community: almost a third of businesses (28%) said the government could give clearer guidelines on how to improve the sustainability of supply chains. This figure rises significantly for certain industries, including the transportation & distribution and hospitality and leisure sectors.

In addition to setting their own standards for their supply chain, business owners are also reacting to the demands of others, with almost one in five enterprises (18%) stating they had changed their own practices to meet the environmental demands of their own customers and suppliers.

Table 6: How SMEs are making their supply chains greener

We are particularly interested in the sustainability of materials and are moving away from buying non recyclables/single use/materials with climate negative production processes	26%
I expect businesses I deal with now to follow similar standards to us on carbon neutrality	22%
We have had to change our practices to meet the environmental demands of our customers and suppliers	18%
We assess the green credentials of firms before we decide to do business with them	17%
We have insisted that our suppliers improve their carbon standards to continue doing business with us	15%

"It is evident that small businesses are implementing change in their businesses and insisting on change within their supply chain—whether it be assessing sustainability goals before agreeing to collaborate, or urging those who are current partners to improve their own practices.

"There is always a focus on the role big businesses can play in driving forward the climate change agenda—but our own data suggests the valiant efforts of smaller enterprises should not be overlooked. Many of them are acting as true change agents in the broader supply chain, and their influence may well prove to be far greater than their relative size."

Joanna Morris, Head of Insight at Novuna Business Finance

Chapter Three

Future-proofing tomorrow with positive action today

Sustainability is not just about doing the right thing. For small business owners it is about future-proofing their business, enabling it not only to survive but also to thrive in a changing world.

This chapter focuses on the concrete steps businesses are taking today to address these issues.

Small businesses are clear that the climate crisis is the number one environmental issue, and many are trying to reduce carbon emissions as a result. In total, nine out of 10 small businesses (89%) are taking steps to reduce carbon emissions—with more than one in 10 (13%) stating that they are already a net zero business.

Central to their efforts is the understanding that reducing carbon emissions does not just make sense for the planet—it makes good business sense too.

One of the key findings of this report was that a quarter of SMEs (23%) believe there is a “strong business case” for reducing carbon emissions—whether this means cost savings by reduced energy use, or getting an edge on rivals in meeting supplier or customer demands for more sustainable products and services.

The business case for going greener was strongly marked in certain industries, with almost four out of 10 smaller businesses in the transport and distribution and real estate sectors recognising these benefits. Firms in the legal, IT and telecoms and media, marketing and advertising sectors were also more likely to recognise strong business benefits to cutting emissions, when compared to the national average.

Regionally, businesses based in urban areas

are more likely to recognise the business benefits of cutting emissions, with firms in the North East particularly likely to highlight this. However, this is not universal. In Wales, just 14% of small businesses said that there were business benefits to going net zero—although many acknowledged the environmental necessity of such a move.

Table 7: The net zero challenge for small businesses

We are already a net zero business	13%
We have an active plan and target to be a net zero businesses	31%
We've taken small steps but have no formal carbon reduction plan in place	45%
Carbon reduction is not important to us, and we have no measures in place	11%

While most small businesses have taken steps to reduce emissions, there is still considerable progress to be made. As the main table shows, while a third of businesses have an ‘active plan’ to be net zero, almost one in two (45%) don’t yet have a formal plan in place.

Juggling resources may often be a key issue. Note that while 23% of small businesses say they know there are benefits from working to net zero emission targets – not least to meet investors’ and customers’ expectations – a quarter say that they feel guilty they are not doing enough.

However, it seems significant that more small businesses are carbon neutral today (13%) than the 11% who say reducing carbon emissions is not important and they have no measures in place.

Which businesses are getting ahead on net zero—and who is falling behind?

Progress is more advanced on this issue in certain industries, with a higher number of small businesses in certain sectors already carbon neutral businesses.

Industry sectors where small business is already net zero:

Legal	20%
Hospitality and leisure	19%
Real estate	18%

There are regional differences too, with 20% of businesses in the East Midlands describing themselves as net zero now—the highest of any region in the UK.

Unsurprisingly, younger businesses were more likely to be achieving net zero, as they may not have had legacy issues to address.

More than a third of businesses less than a year old (33%) described themselves as carbon neutral organisations, compared to just 9% of those that have been around for 10 to 20 years. This figure fell to just 7% for businesses that had been going for 20-plus years.

It is not just the age of the business that is important, the age of the business owner and their political proclivities may also affect their attitudes towards net zero and reducing carbon emissions.

The research shows that a high proportion of older business owners said that they had no measures in place to reduce carbon emissions. This statement applied to 17% of

those aged 55 to 64 and 23% of those aged 65 or more. In contrast, just 6% of business owners aged 35-44 were in this group, and only 7% of those under 24, showing that the net zero agenda is potentially a far bigger issue for millennials and those in generation Z entering the workplace.

Perhaps unsurprisingly, business owners who vote Liberal Democrat or Green are most likely to be net zero now (18% and 15% respectively).

Embracing sustainability—businesses action today

Achieving net zero might be a distant goal for some small businesses, but the vast majority (85%) are also taking practical steps today to address the sustainability challenge.

Beyond reducing carbon emissions, businesses are also investing in people, and helping drive change across local communities and wider business networks.

As the table below shows, a third of small businesses are now seeking alternative 'green' options for day-to-day activities. These include reducing waste, increasing recycling, switching to renewable energy sources, encouraging cycling or walking-to-work initiatives, and finding less carbon-intensive business models.

Our research suggests that these are not all 'top down' initiatives: while sustainability is now a C-suite issue, with a fifth of small business owners saying it is regularly discussed at board level, one in four firms are also seeking suggestions from employees on ways of doing business that are kinder to the planet and more rewarding for staff. A significant minority (14%) of enterprises are also supporting and empowering staff to work on their own green initiatives.

Table 8: The most frequent steps small business owners are taking to address sustainability in the workplace

We look for alternative green ways to do things	32%
We have a staff suggestions box	25%
Green issues get discussed at senior management level/board meetings	20%
Green incentives for staff (bike shares, WFH etc.)	19%
Educating the members of our organisation on the urgency of the matter—creating excitement for participation	18%
We audit our own carbon footprint	16%
We give staff members time off work for green initiatives	14%
We support environmental projects as part of our CSR	13%
We actively look for different partners	13%
We have set up a green council	12%
We lobby local government	11%
We lead the sector on changing green issues for the best	11%
We have appointed a sustainability officer/director	9%

Close scrutiny of the figures shows that younger businesses are, perhaps not surprisingly, taking a lead on this, with firms in the manufacturing, construction, and finance sectors most likely to be taking steps today to address the sustainability challenge.

Businesses where employees work from home tend to fall behind and are three times less likely to be taking action on these issues.

Focus for the months ahead

This research also asked small businesses which areas they were intending to improve in the next three months when it came to being a greener more sustainable business. Only one in 10 businesses (11%) said they were not looking to make changes, suggesting sustainability continues to be a priority for many SMEs despite ongoing economic difficulties.

Surprisingly, the most immediate focus wasn't environmental change but social impact: more than one in five firms (20%) stated they want to have a positive social impact on their immediate community. This was the most frequently cited priority for the near term, while the third most cited response was to invest in staff, by improving the working conditions and contracts of employees.

Companies are also prioritising policies which will see them reduce waste and improve recycling.

Given the inexorable rise of fuel costs, reviewing energy use was a high priority. It was the second most frequently cited priority, listed by a fifth of small businesses, and switching to greener forms of transport was mentioned by 17% of firms.

The top eight priorities for the months ahead are listed on the next page.

Table 9: Top sustainability priorities

Having a positive social impact in my immediate community	21%
Reviewing energy usage of the premises (water use, heating, renewable energy)	20%
Improving working conditions and contracts for all employees (treating employees fairly)	18%
Improving policies and facilities for packaging and waste/recycling for products and services	17%
Switching to greener forms of transport (cycling schemes, electric vehicles, public transport)	17%
Contributing to local green initiatives e.g., picking litter, community green energy initiatives (funding or involvement)	17%
Investing in new equipment and sustainable infrastructure	17%
Creating jobs locally	15%

Across these various categories, having a positive impact on the local community is particularly important for firms based in Scotland and the North East—where this was mentioned by more than a quarter of firms in these regions (27% and 26% respectively).

Positive social impact is an even higher priority for firms working in the legal profession and media, marketing and sales—almost four out of 10 firms listed this as their number one objective for the months ahead. Again, younger firms were likely to rate this as more important than more established businesses, although it was an important priority for most, regardless of how long they have been trading.

Conversely, this was a far less important priority for small businesses working across the property or agricultural sectors. Firms working in real estate were more likely to say that reviewing energy use or improving the recycling of packaging would be their main priorities for the month ahead.

Meanwhile, a third of agricultural firms want to improve the working conditions and contracts of staff and to switch to greener transport. These were the most cited

priorities in this sector, perhaps reflecting special challenges for the industry.

Business travel in a post-pandemic world

Many small businesses evidently want to be greener; changes made during the Covid-19 pandemic created new working patterns that have helped lower carbon emissions, particularly for business travel.

Many businesses, large and small, switched to home working and reduced the carbon emissions associated with staff regularly commuting to an office. Business travel to meetings and conferences, in the UK and beyond also fell dramatically, as many of these meetings and events were conducted online instead. Overseas business trips declined further because of global travel restrictions.

Travel restrictions have now largely eased, and there's been a more recent shift from working-from-home back to office hours, or at least hybrid working patterns—but many small businesses are planning to maintain the lower business travel usage adopted during the pandemic.



This not only applies to business flights but to daily commuting. Reducing business travel delivers environmental benefits, in terms of reduced emissions, and generates cost savings for some SMEs.

Although some small businesses expect to see business travel return to pre-pandemic levels, few are expecting travel to increase beyond this—despite the economy opening up again, and many anticipating future business growth.

Table 10: How small businesses are looking to reduce business travel

	Increase on pre pandemic levels as part of growing our business	Return to pre-pandemic levels	Maintain lower usage adopted during the pandemic	Not applicable—we don't use this type of business travel
Staff commuting to and from premises	15%	37%	34%	15%
Public transport to and from meetings	16%	29%	26%	29%
Company cars to and from meetings	14%	25%	29%	32%
Use of trucks and vans/larger vehicles as core to operations	12%	28%	25%	36%
Business flights	12%	20%	24%	44%

How is business travel changing?

Business owners are keen to keep business travel, company cars and business flights, at or below pre-pandemic levels. A higher number of small businesses expect to maintain the lower usage seen during the pandemic compared to those who expect usage to return to pre-pandemic levels or increase further in future.

In total, 29% of small businesses expect to maintain a lower level of company car use, compared to just 14% who expect this to grow beyond pre-pandemic usage levels.

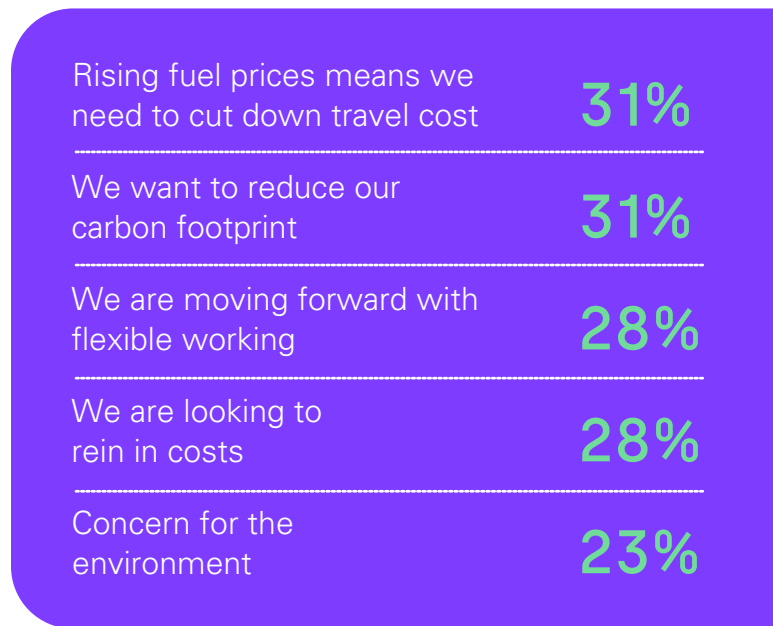
It is a similar picture for smaller businesses with a global reach: a quarter (24%) expect to maintain the reduced number of business flights that was seen during the pandemic when international travel ground to a halt. In comparison, only 20% are expecting business flights to return to pre-pandemic levels, and just 12% think they will exceed this level in future.

Going green or saving money: mixed reasons for the switch

The research shows that the motivation behind this switch is split: some businesses want to reduce their carbon footprint, and others want to reduce costs. In both cases, the numbers are fairly evenly balanced, as the infographic below shows.

A desire to improve working conditions may also be contributing to these wider structural changes. Many surveys show employees value the flexibility of working from home, at least for part of the week, and fewer journeys are being made for work.

For many small businesses, these interlocking factors lead to a virtuous circle, when doing the right thing for the planet and your people can also benefit a business's bottom line.

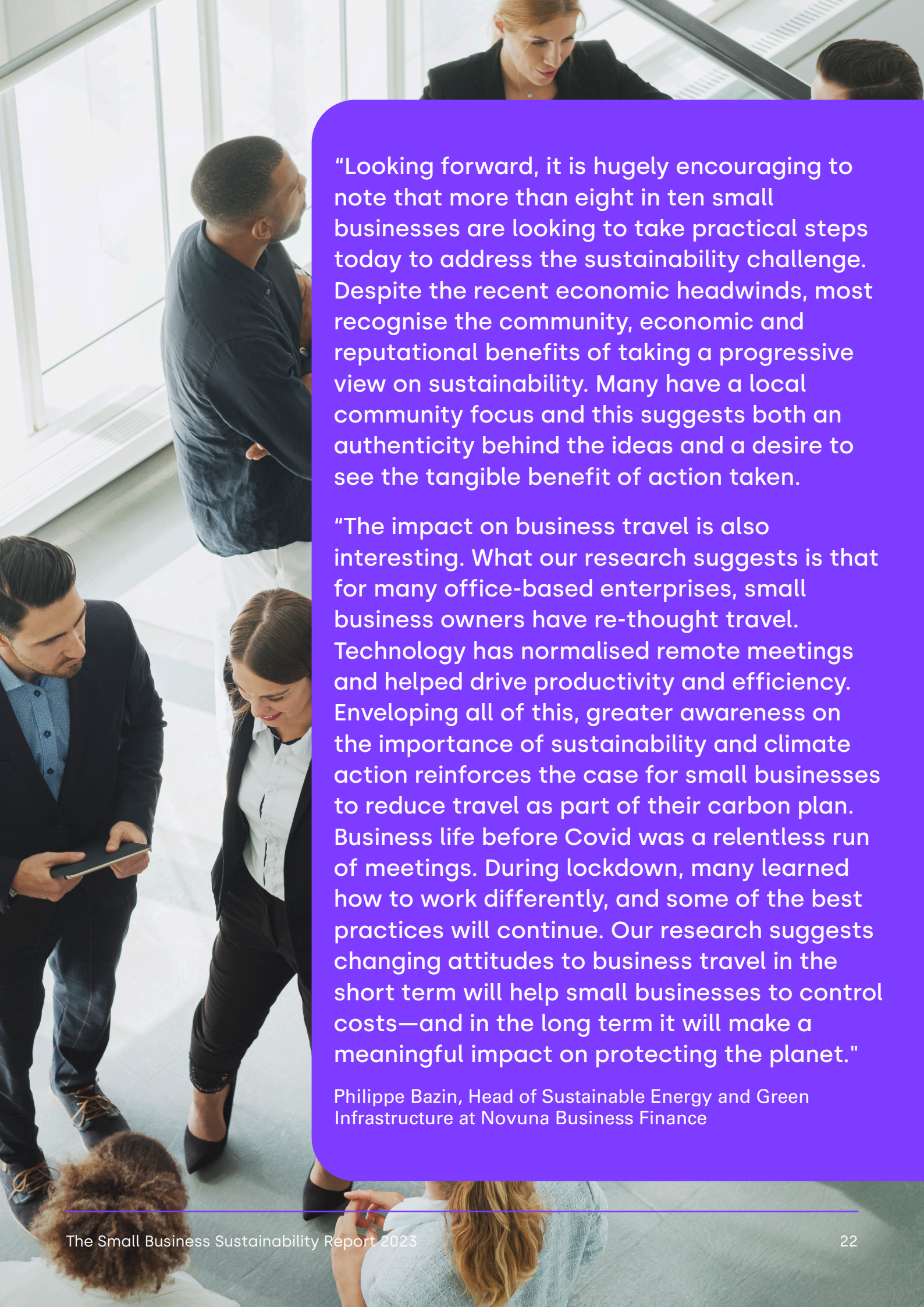


Different businesses, different driving factors

A closer look at these figures shows that there is often a different approach across sectors of the economy. Urban businesses, and older businesses are more likely to be making these changes due to cost considerations. More than twice as many older businesses cited cost as a factor, compared to younger ones.

At the other end of the scale, suburban businesses, and those that have been trading for less than five years are more likely to say they are making these changes for environmental reasons.

The business sector can also reflect a different approach. Media, medical, and property businesses are more likely to be making these changes for environmental reasons, while finance, healthcare, transport and distribution businesses are more likely to cite cost as an underlying cause.



"Looking forward, it is hugely encouraging to note that more than eight in ten small businesses are looking to take practical steps today to address the sustainability challenge. Despite the recent economic headwinds, most recognise the community, economic and reputational benefits of taking a progressive view on sustainability. Many have a local community focus and this suggests both an authenticity behind the ideas and a desire to see the tangible benefit of action taken.

"The impact on business travel is also interesting. What our research suggests is that for many office-based enterprises, small business owners have re-thought travel. Technology has normalised remote meetings and helped drive productivity and efficiency. Enveloping all of this, greater awareness on the importance of sustainability and climate action reinforces the case for small businesses to reduce travel as part of their carbon plan. Business life before Covid was a relentless run of meetings. During lockdown, many learned how to work differently, and some of the best practices will continue. Our research suggests changing attitudes to business travel in the short term will help small businesses to control costs—and in the long term it will make a meaningful impact on protecting the planet."

Philippe Bazin, Head of Sustainable Energy and Green Infrastructure at Novuna Business Finance

Conclusion

The first Small Business Sustainability Report has had no agenda—it was a starting point in an open journey of information gathering.

So much is unknown in terms of how UK small business owners interpret, support, or react to the global debate on sustainability. The COP events and much of the ongoing debate from governments and influencers around the world tend to focus on the role large corporates can play. Whilst understandable, the collective influence of the small business community should never be overlooked.

With this report, we were keen to ask questions, to listen, and to learn.

The findings present a picture of a small business community fully recognising the importance of a wide range of sustainability issues and acting on the need to become greener. This recognition goes beyond the business itself; many ventures have a strong sense of connection with the communities in which they operate—after all, the health and success of both is often inter-woven. Also, small businesses recognise the importance of tackling sustainability issues in their supply chain, which underscores the long tail of influence small businesses can have on the economy at large.

Looking ahead into 2023, many small businesses have plans to launch new programmes and initiatives – many involving their staff – which suggests a more inclusive and collegiate approach to tackling problems. This is all very positive because the size of some of the issues that need to be tackled

depends on everyone having a part to play. In this way, small businesses can be catalysts for change.

Set against these positives, chapter one of the report underlined what a challenging time many enterprises have had since the Covid-19 lockdowns and, more recently, the cost-of-living crisis. Although climate change and sustainability remained on the radar, immediate financial concerns had to be addressed, and there is strong evidence that climate change and sustainability became relatively less important, if temporarily. From this, the challenges that small business owners face become apparent. Smaller in size – and with less resources or investment capital – small businesses often have to juggle priorities, which means the barriers to maintaining a consistent line on an issue like sustainability can become more apparent.

This itself stresses the need for support. Small businesses across the UK are punching above their weight on many aspects of sustainability but many are doing it alone. They told us through the research that they struggle to know who to turn to for help and advice as there are no handy benchmarks and toolkits to work from. More can be done here—and Novuna Business Finance is fully committed to playing its part.

This report was an important beginning. We have gained valuable insights and uncovered some interesting surprises. We are committed to supporting small businesses on their sustainability journey and to backing established businesses that want to fulfill their potential as resilient, agile sustainable enterprises. We will do further research on the topics we have explored in this report, and from the insights we learn and the data we share, we will contribute to a fuller understanding of the journey small businesses are on to become leaders and role models for sustainability.