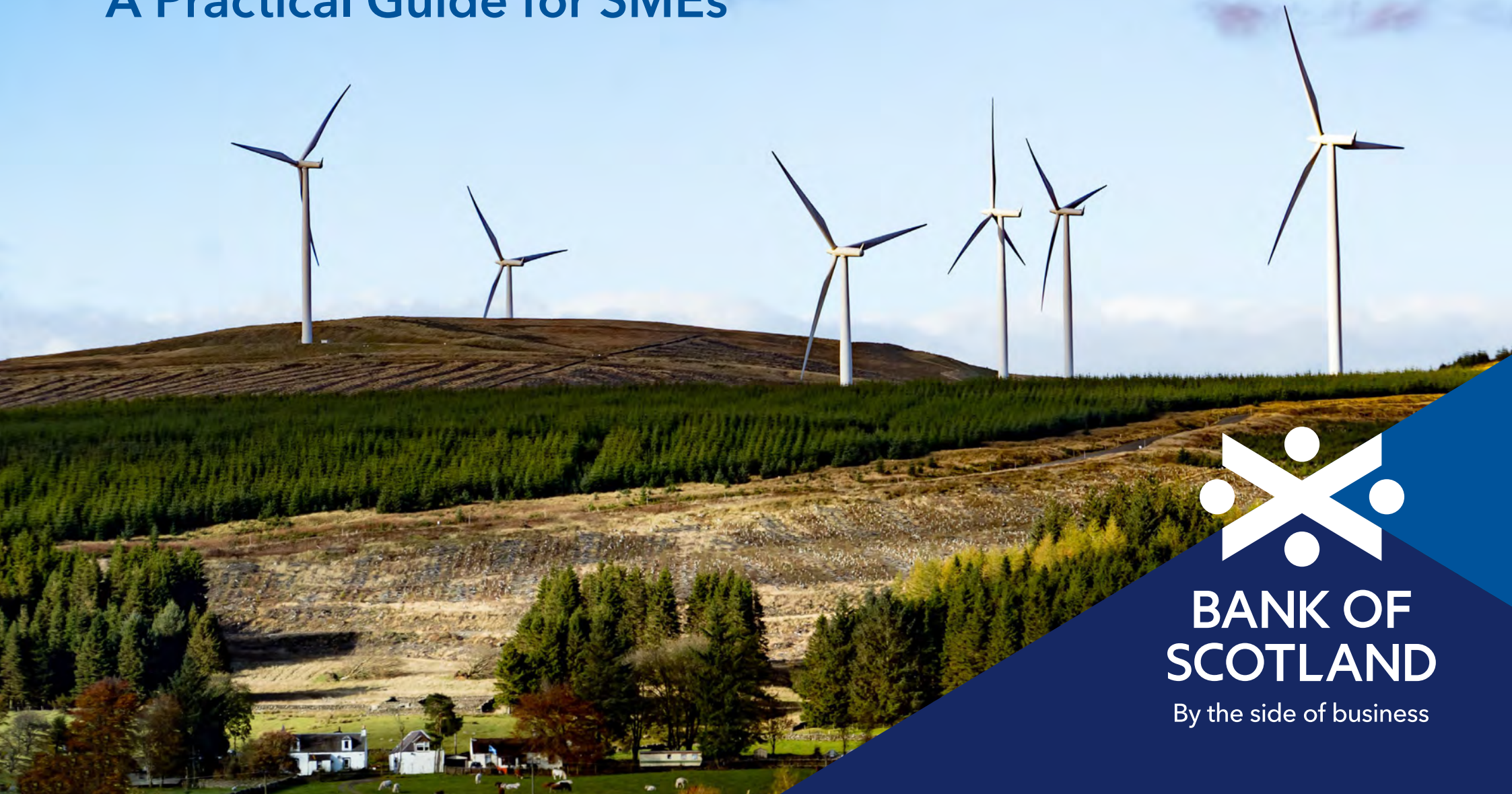


# From Now to Net Zero

A Practical Guide for SMEs



**BANK OF  
SCOTLAND**

By the side of business

# From Now to Net Zero: A Practical Guide for SMEs

## Net Zero in Action



Carmichael Homes


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Mackie's of Scotland

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When you see the  icon click on it to reveal more information

# Foreword



**Paul Gordon**

Managing Director  
SME & Mid Corporates,  
Bank of Scotland

Climate change poses a risk to every aspect of our lives and the life of the planet, threatening to wreak havoc to the natural environment, to communities and livelihoods and the economy. Reducing carbon emissions and achieving Net Zero is essential.

The journey to Net Zero<sup>1</sup> is a long one. Stretching years or decades into the future, the transition of our economy to a sustainable footing will be the most momentous change in business and industry of our generation.

But this is not a journey we need to make alone. **All businesses are on the same road - no business can reach Net Zero by themselves, and no business can afford to be left behind.**

The challenge of decarbonisation can appear particularly daunting coming as it does in the wake of the Covid-19 pandemic - a period in which many businesses fought for survival.

Yet the pandemic has also demonstrated the resilience and agility of Scottish business. Many of us found untapped reserves of energy, creativity, and business acumen. Amid the adversity there were opportunities.

To talk of a 'can-do spirit' is a cliché, but we make no apology for using these words, because they are the right ones. It is a spirit that bodes well for the future and for the journey to sustainability.

SMEs must play a vital role in sustainability, because of their significance to the UK economy. SMEs account for 99% of UK business, three fifths of employment and half of the total turnover of the UK's private sector.<sup>2</sup>

In a post COP26 world, we cannot lose sight of the critical nature of the move to Net Zero and the vital role that SMEs will play.

Our ambition is to be a leading bank in supporting these businesses along the road to Net Zero.

To deepen our understanding of how we can best support SMEs, we have spoken to more than 1,000 businesses and experts from across the UK for this report alongside our ongoing conversations with our customers. Our research has given us a comprehensive picture of where SMEs are on their journey, and of their views and concerns about what Net Zero means for their business.

<sup>1</sup> For a full explanation of Net Zero see page 9  
<sup>2</sup> <https://www.fsb.org.uk/uk-small-business-statistics.html>

## Foreword (continued)

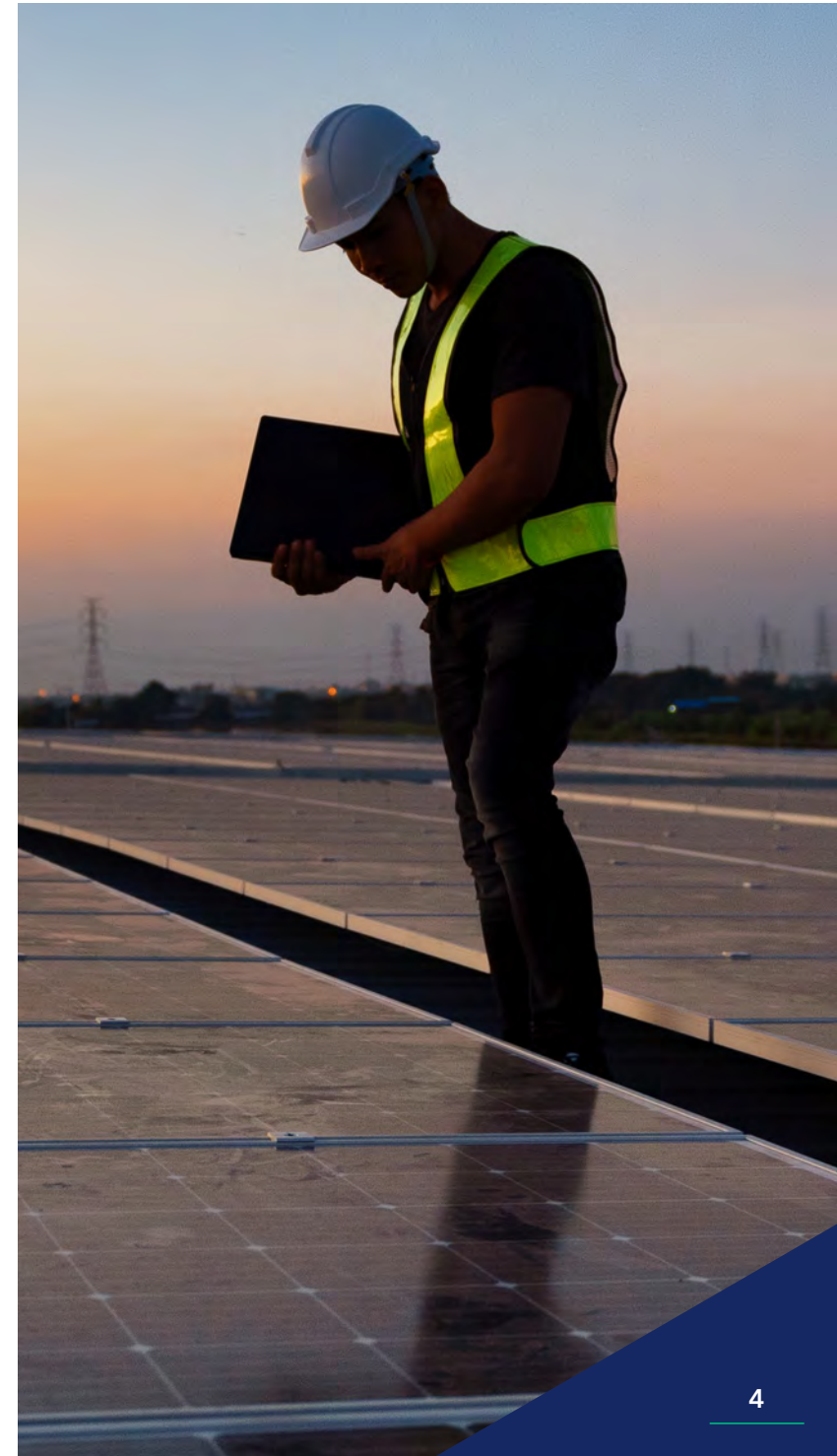
We have learnt an enormous amount - about the enthusiasm of many businesses for Net Zero and the opportunities they see, and about the uncertainty they feel and the barriers they face.

The pursuit of Net Zero has the potential to drive rising investment, innovation, job creation and earnings, so as well as presenting the challenges along the way, we are also presenting a guide that can help SMEs unlock that potential.

Additionally, from amid the data, the thoughts and insights of SMEs and experts, we believe there is an abiding theme: **the journey to Net Zero is a shared endeavour.** Sustainability will be achieved through sharing ideas and knowledge and collaborating with business partners up and down supply chains. Even rival businesses will find mutual benefit in helping their sector progress towards Net Zero.

At the heart of our programme for helping business decarbonise is our Sustainability Hub, and this report will provide links to many other tools and resources.

We are determined to play our full role in this collaborative effort, all the way from here to Net Zero.



# Executive Summary

Achieving Net Zero by 2045 will require a transformation of business across Scotland and indeed around the world, but it is an urgent task if we are to avoid the worst impacts of climate change. Our research and conversations with SMEs are key to our effort to deepen our understanding of the challenges and our mission to help navigate the way ahead together.

The findings of this report are in many ways highly encouraging. Most SMEs (firms with fewer than 250 employees) have recognised the importance of sustainability to the natural environment and to their future success. Many say they have already started on their journey to Net Zero.

## **But while there is a will to act, the way forward is not always clear.**

Some SMEs, particularly the smallest businesses, are daunted by the knowledge they need to acquire before they can take any action.

And of course, the journey to Net Zero will involve investment and finance. Almost 40% of firms cite the costs and fear of low returns on investment as a significant barrier to action. The responsibility of the financial sector to help SMEs with their sustainability journey is undeniable.

Our conversations with SMEs have proved just as valuable, perhaps more so, than the statistics. We listened to the views and concerns of SMEs of all sizes and sectors across the UK and their insights can be found throughout this report.

50%

of SMEs have committed to reaching Net Zero or have already done so

34%

of SMEs have introduced measuring and monitoring of their environmental impact

42%

believe committing to Net Zero will help reduce costs and waste in their business

52%

of SMEs say protecting the environment is a benefit of committing to Net Zero

## Executive Summary (continued)

The concluding section of our report is designed to address these questions, not only for those SMEs at the start of their journey to Net Zero, but for businesses at whatever stage they have reached.

Combining our research with expert insights from industry and academia and, most importantly, the discussions we have had with SMEs themselves, we have drawn up **a five-step guide**:

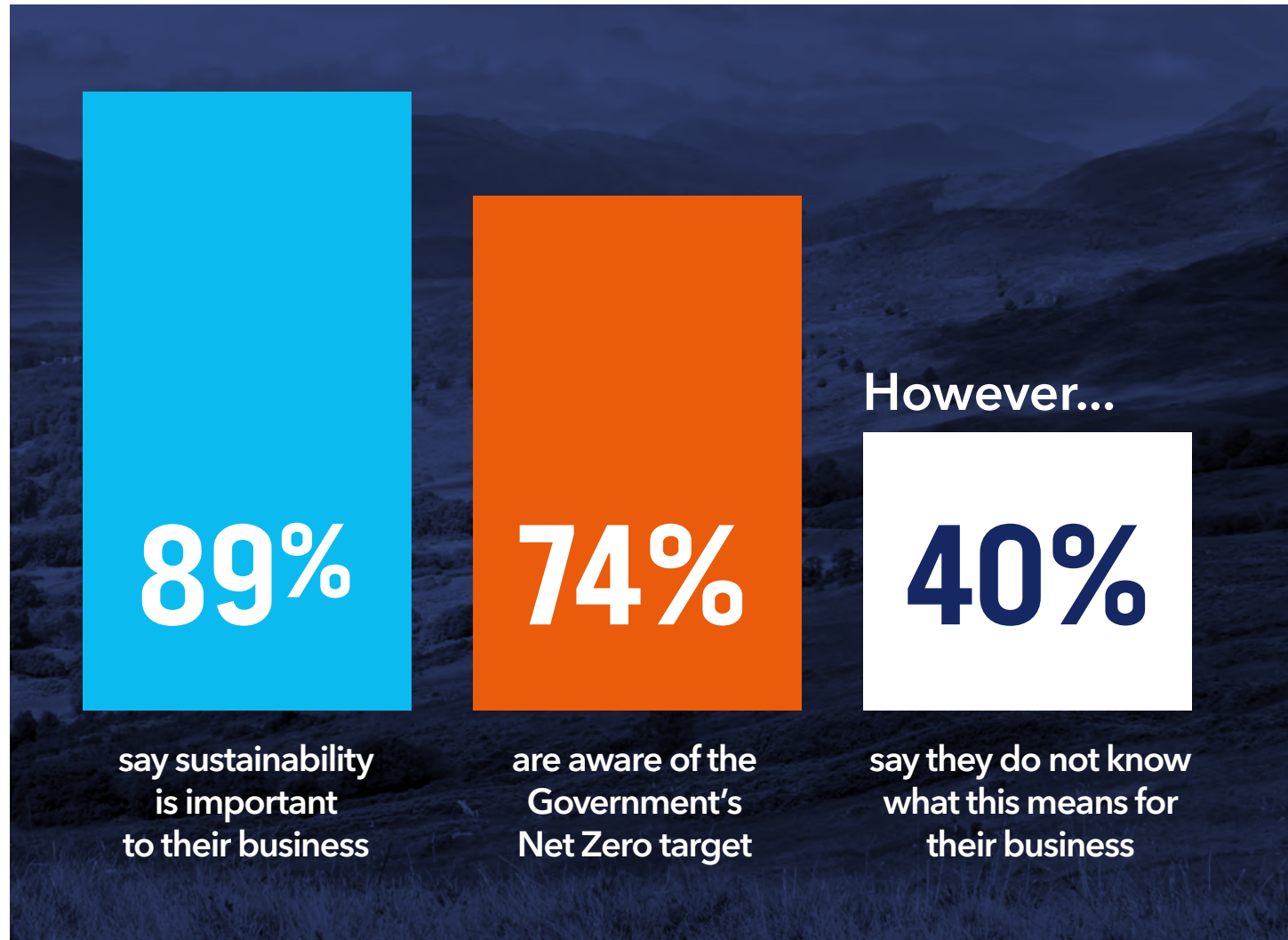


# The Journey to SME Net Zero

## Sustainability - the vital role of SMEs

The Covid-19 pandemic proved more than any statistics ever could that SMEs are essential to the products and services on which we all depend, and for millions of jobs across the Scottish economy.

SMEs will be no less vital in the transition to Net Zero and meeting that target will also be essential to the survival of their businesses.



## The Journey to SME Net Zero (continued)

### Our Methodology

Bank of Scotland commissioned Yonder to understand the perspectives of SMEs on sustainability issues and the challenges they face on their road to Net Zero. The research approach included four distinct stages, combining expert insight from industry and academia as well as the viewpoint from SMEs themselves. It covered a survey of more than 1,000 SME business leaders across the UK; in-depth interviews with 10 sustainability experts; six focus groups with SME business leaders and follow-up conversations with individual business leaders. Alongside the formal research we have also interviewed our sustainability-trained relationship managers and our customers.

The headline findings from our research are clear: **SMEs recognise the importance of sustainability, but they face significant barriers when it comes to turning their ambition into a reality.**

With climate change high on the public policy agenda and in the minds of the public, businesses with a vision and strategy for sustainability are more likely to be successful businesses - meeting the requirements of regulation and the demands of consumers. Two-thirds of SMEs in Britain regard the move to a greener economy, not just as a challenge to be met, but as a positive opportunity for growth.<sup>3</sup>

They are right to see opportunity. The journey to Net Zero will itself be a significant growth area of the economy. Up to 400,000 people already work in the green economy and this is expected to rise

to as much as 2.5 million people. The Government's Climate Change Committee has estimated that the total investment needed between now and 2050 is £1.4 trillion.<sup>4</sup> Scotland is also in the strongest position to drive the growth of the green economy in the UK, according to the UK Green Growth Index.<sup>5</sup> The nation leads the Growth Index (80.6) by a significant margin and is best-positioned to support the UK's green economy based on its existing green infrastructure and future potential.

A commitment to sustainability and Net Zero is a crucial step for business and one that many have already taken. But whatever the stage of a business's sustainability journey it is worth revisiting the objectives and the range of definitions that can make setting clear targets a challenge.

<sup>3</sup> [https://www.oecd.org/greengrowth/GGSD\\_2018\\_SME%20Issue%20Paper\\_WEB.pdf](https://www.oecd.org/greengrowth/GGSD_2018_SME%20Issue%20Paper_WEB.pdf)

<sup>4</sup> <https://www.lloydsbankinggroup.com/assets/pdfs/who-we-are/green-economy/green-growth-opportunities-for-uk.pdf>

<sup>5</sup> Scotland set to lead UK's green economic growth - Lloyds Banking Group plc





## The Journey to SME Net Zero (continued)

### What is Net Zero?

Greenhouse Gas Emissions (GHGs) are a significant contributor to global warming and carbon dioxide (CO<sub>2</sub>) is the principal greenhouse gas emitted by human activity.

Greenhouse gases trap heat in the earth's atmosphere and so warm the planet, leading to climate change. How those changes affect different parts of the world vary, but climate change poses significant threats to communities around the globe, threatening floods, droughts, rising sea levels and extreme weather. Along with other environmental impacts such as pollution and material waste, it also poses a threat to the natural environment and biodiversity.

The UK Climate Change Act of 2008 first established targets for the UK to reduce greenhouse gas emissions. The Paris Agreement of 2015, signed by 195 countries, set a target of keeping the increase in global average temperature to well below 2°C above pre-industrial levels, and to aim to limit the increase to 1.5°C.

The Climate Change Act 2019 commits Scotland to Net Zero emissions of all greenhouse gases by 2045. This is tougher than a Net Zero carbon target, which commits only to balancing carbon dioxide emissions. A zero emission building means that no greenhouse gases are emitted by it.<sup>6</sup>

Net Zero means reducing emissions as far as technically possible and balancing the residual emissions by removing greenhouse gases from the environment. How far, and how fast, emissions can be reduced varies by sector, but it will require all businesses to make significant reductions in their carbon footprint.

Emissions are classed into three groups, called Scope 1, 2, and 3.

- ▶ **Scope 1**  
Covers direct emissions from owned or controlled sources - e.g. emissions from facilities or vehicles.
- ▶ **Scope 2**  
Covers indirect emissions from the generation of purchased electricity, steam, heating and cooling that is consumed by your business.
- ▶ **Scope 3**  
Includes all other indirect emissions that occur in a business's value chain - e.g. purchased goods and services, travel, waste disposal and from customers using the business's products and/or services.

All three emission scopes combine to create a business's carbon footprint and need to be addressed as part of the journey to Net Zero, with Scope 3 emissions often being the most significant, but also the most difficult for businesses to reduce.

To achieve Net Zero organisations will need to reduce their emissions as far as technically feasible, and take actions to balance their remaining emissions by investing in activities that remove carbon from the atmosphere - known as carbon offsetting. Some businesses may choose to offset their carbon emissions along their journey to Net Zero. If all emissions are balanced in this way, the business can be described as 'carbon neutral'.



<sup>6</sup> <https://www.gov.scot/news/reaching-net-zero-1/>

## The Journey to SME Net Zero (continued)

### State of the SME Net Zero Nation

In lieu of a national SME Net Zero tracker, we asked business leaders where they were on the journey to Net Zero. Their feedback showed a real diversity both of action and of understanding.

A small number of businesses told us they were already at Net Zero. At the other extreme some are not even considering Net Zero in their business plans. But the vast majority say they lie in between - they are committed to Net Zero and are working on how to achieve that goal.

// SMEs have all got a role to play, but it's not a project that you finish this year. It's potentially going to keep you busy until 2050. //

Adam Leaver, Head of Client Services:  
Ecometrica

## Has your business committed to a Net Zero target?



## The Journey to SME Net Zero (continued)

### Many different paths

This diversity in Net Zero status is in part explained because there is no single path to Net Zero. The transition journey will be different for each sector and each business and will depend on a huge range of factors such as what raw materials are involved in production, how intensively it uses energy and how long and complex its supply chains are.

**But for many organisations the opportunity is as significant as the challenges.**

It may require:

- ▶ adapting products and processes to be less energy-intensive and more sustainable
- ▶ diversification, for example moving away from fossil fuel activities towards alternative lines of business
- ▶ supply chains to be re-examined to reduce dependence on non-sustainable supplies or to focus on shorter transportation distances

- ▶ launching into new areas or significantly expanding some existing activities, creating the need for investment but also an opportunity to grow
- ▶ investing in the re-skilling and training of employees in the skills needed for sustainable products and services

Research by Oxford Economics<sup>7</sup>, commissioned by Lloyds Banking Group, suggests construction, motor trades and transport will be the most affected by the transition to Net Zero, but few if any businesses will be untouched.

// It's a massively exciting moment. It is a green industrial revolution and the transformation of every single corner of our economy. Anyone under 40 will still be in the workforce when the UK Government target falls due in 2050. This is a really exciting part of the future. If you're a small business and you're ambitious and entrepreneurial, then why would you not want to be involved in the most exciting part of the transition? //

NGO/Think Tank

## The Journey to SME Net Zero (continued)

### Drivers for change

Businesses of all sizes, including SMEs also face significant risks if sustainability targets including Net Zero are not met, either by their own business or by the wider economy.

These risks take three key forms:

- ▶ **Transition risk** - the impact from any changes in regulation, markets or technology from the global transition to a lower-carbon economy.
- ▶ **Physical risk** - damage and disruption caused by weather events or the availability of natural resources.
- ▶ **Reputational risk** - unsustainable business practices can cause negative publicity and damage brand value, customer loyalty and investor confidence.

SMEs are being both pushed and pulled towards Net Zero with forces bearing down on them from both inside and outside their own organisations.

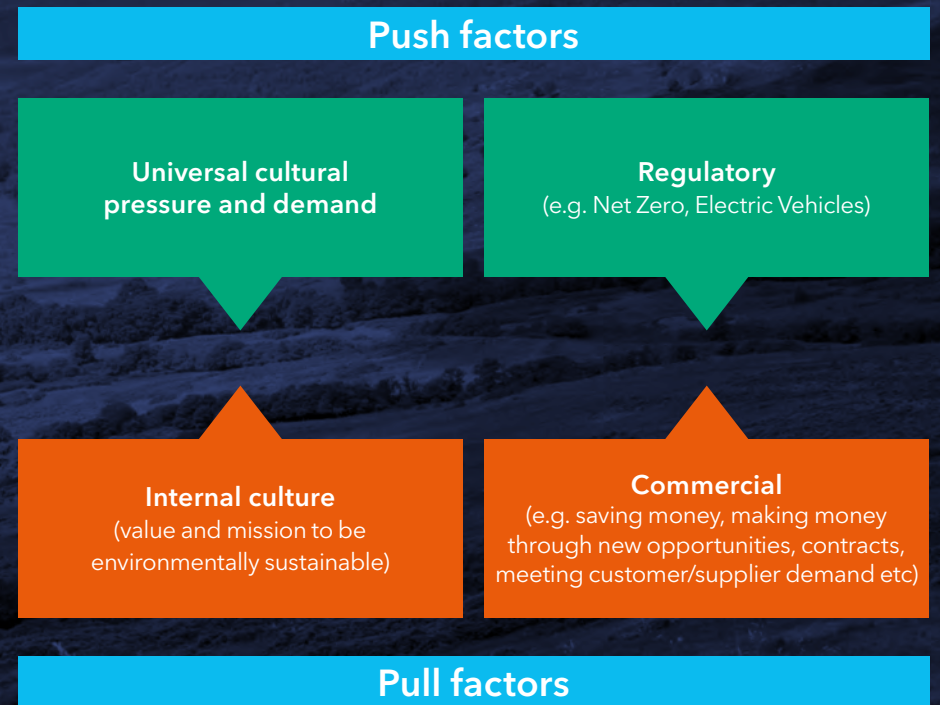
### From drivers to action

Action by SMEs is essential to achieving a sustainable future. SMEs have the commercial incentives, the will and the commitment to pursue their sustainability goals. Find out more about realising the commercial benefits on page 19.

And yet the equation is still not complete. Achieving these goals and reaping the rewards remains a challenge for many SMEs.

We need to examine more closely what Net Zero means for SMEs and the barriers they face.

**PUSH factors** include cultural change and shifts in public opinion and regulation. Public opinion increasingly recognises the importance of sustainable industry in preserving the environment, leading to customers demanding more sustainable practices. Alongside this, regulatory pressures on large corporations to disclose and reduce their carbon emissions will also have effects on suppliers including many SMEs. One recent example of this was the announcement by supermarket chain Morrisons that it wanted its farming supply base to be Net Zero by 2030.<sup>8</sup>



**PULL factors** include commercial opportunities and employee value. For many businesses, a journey to Net Zero can create new opportunities to thrive and grow, which we explore in more detail in this report. Change will also come from within businesses as employees and potential employees at all levels increasingly expect action on sustainability.

<sup>8</sup> Morrisons says farming supply base will be zero carbon by 2030 - Supply Management (cips.org)

# Sustainability – the SME Perspective

## The Barriers to SME Net Zero

SMEs face numerous challenges in achieving Net Zero and many relate to challenges in their industry or even to their own unique business. But our research found three consistent barriers: finance, control, and assessment.

SMEs may be particularly concerned about the payback time for investment in decarbonisation and other sustainability initiatives. Getting buy-in from inside the business for green initiatives can be a challenge without visibility on the return on investment.

The introduction of carbon-taxes might make the business case for investment in decarbonisation more convincing and quantifiable which could strengthen the case for that investment.

Clearer guidance on upcoming regulation would also inject urgency into decarbonisation strategies, providing deadlines and pinch points that again would strengthen the investment case.



## What is the principal barrier to your pursuit of Net Zero?



### Finance

Insufficient budget; high cost;  
low return on investment:

**39%**



### Control

Difficulty in reducing emissions  
outside of own operations:

**36%**



### Assessment

Hard to measure  
environmental impact:

**30%**

## Sustainability – the SME Perspective (continued)

### Time on your side?

Beyond those practical barriers, there are many more which are symptomatic of who SMEs are and how they operate.

The time horizon for Net Zero is itself a potential hurdle. The year 2045 appears so far in the future for many that it seems out of reach. A long-term strategic vision is extremely ambitious even for a global corporation, for SMEs it feels both impractical and unrealistic. Shorter term targets or staging posts along the way could create more urgency and provide milestones by which businesses could assess their progress.

The sense of an unforeseeable timescale may be doubly acute in the wake of Covid-19, a period in which SMEs' time horizons shortened dramatically – many businesses spent 2020 managing the crisis from month-to-month or even day-to-day.

**//** SMEs are so caught up in today, recovering from the pandemic and considering the longer-term impacts on our economy, that sometimes sustainability is seen as a 'nice to do'. But we know we need to support them in increasing their knowledge and understanding of why looking forward to tomorrow is so important now. **//**

**Douglas Spowart, Relationship Director,  
Social Housing & Commercial Real Estate,  
Bank of Scotland, Edinburgh**

But while some see the 2045 target date as distant and unreal, some feel that the time is too short. Speaking to SMEs as part of our research we found this issue of time horizon came up repeatedly.

**//** They moved the date, so it is earlier I think in Scotland. That's good, but it does seem to keep moving around. Then there was the new date for electric vehicles. I'm not entirely sure how set in stone it all is.

**//**

**Construction company, Scotland**

Paradoxically, the truth may well be that SMEs have both too much and too little time to think about the 2045 target date. The challenge may seem too big and too far away to be a priority, meaning that some delay planning for Net Zero. They might end up leaving it too late to meet the challenge, and almost certainly too late to turn it into an opportunity.

**//** You've got to embrace the targets, otherwise you'll just end up kicking the can down the road. **//**

**Mark Griffin, ITT Hub, Binswood Media**

**//** I would say to SMEs, if you want to be in business in 10 years' time you need to take this as one of your top five strategic priorities. Or you will not be in business. **//**

**Ed Craig, CEO, Carbogenics**

## Sustainability – the SME Perspective (continued)

### Too quick on the draw?

While some SMEs face the difficulty of addressing very long-term targets, others have acted swiftly in various areas of sustainability. Action is better than inaction and rapid initiatives can be the start of a longer journey. But there are risks from acting too swiftly in the hope of making short-term gains.

Such measures are often carried out as distinct tasks or projects. This can deliver improved sustainability, but it can also lead to a lack of joined-up strategy. One-off siloed projects such as introducing solar panels or recycling bins are positive steps, but to deliver the maximum gains in sustainability they need to be elements in a longer-term strategy, with milestones and targets along the way.

Our research found that most firms are currently focusing on swift initiatives that deliver these 'quick wins'.

All these examples are positive and will deliver sustainability gains. However, it is significant that the list is topped by straightforward recycling measures. Reducing waste is a positive step for sustainability, but when it comes to carbon emissions, it usually has a minimal impact on an organisation achieving Net Zero. Meanwhile, longer-term initiatives that may have greater impact on Net Zero targets, such as sourcing renewable energy and applying circular business models, are

much less common. It is particularly notable that only 34% of businesses are measuring and monitoring their environmental impact.

Quick wins are not a bad thing and are typically the result of ideas coming from within, but longer-term thinking that is part of a wider strategy will deliver greater impact.

Yet these higher impact initiatives are all areas where SMEs are at a disadvantage compared to larger corporations. They urgently need greater support, including knowledge and expertise, to build the most effective Net Zero strategies.

### Money makes the world go green

A key factor that may attract businesses towards short-term quick wins in sustainability is their ability to invest for the long haul. Long-term strategies require long-term financial planning and an ability to wait for investments to deliver returns.

Great ideas for sustainable initiatives require investment to scale up and advances in plant or machinery that might deliver environmental benefits. To set a business on course to meet Net Zero, may require both patience and deep pockets.

## Which of the following activities does your company engage with when it comes to the environment?

Recycling and reducing waste	77%
Reducing energy consumption	64%
Complying with environmental regulation	64%
Setting an environmental policy	46%
Encouraging cycle-to-work and/or low emission alternatives for commuting	39%
Working with suppliers to reduce their environmental impact	38%
Sourcing renewable energy	36%
Staff education or employing dedicated environmental personnel	35%
Measuring and monitoring environmental impact	34%
Applying circular business models that extract maximum value from all resources including waste	26%

# SME Sustainability Solutions

There are solutions to the challenges faced by SMEs in approaching sustainability and Net Zero, but they require action and initiative at all levels from trade bodies to government and banks.

In our research and conversations with SME leaders we have identified three approaches that can bring focus and motivation to the sustainability journey.

- ▶ Sector focus
- ▶ Supply chain collaboration
- ▶ Realising the commercial risk and benefits

## Sector focus

One of the challenges frequently cited by SME business leaders was a lack of guidance or understanding about how the journey to Net Zero applies to their sector. Each business is unique, but within each industry there are common issues that can and should be addressed at a sector level.

We heard similar concerns from SMEs in finance, health and social care, software development and many other sectors. What they needed were sector-specific plans, preferably with defined targets and guidance. For Net Zero to be achieved, critical mass and a shared endeavour is key.

There are, however, successful initiatives across some sectors which can provide a model:

- ▶ The National Farmers Union has set a goal of reaching Net Zero across UK agriculture by 2040 and has drawn up guidance for its members on how they can play their part in this ambitious target.<sup>9</sup> Our sustainable agriculture hub provides expert resources including a comprehensive report with practical steps to support your transition, sector factsheets and links to carbon calculators designed specifically for farmers.
- ▶ The automotive industry has been given clear guidance by the UK Government that sales of new petrol and diesel vehicles will be banned from 2030.

- ▶ There are initiatives set up to tackle specific aspects of sustainability and Net Zero such as the UK Plastics Pact which provides guidance on reducing the production and use of harmful plastics.
- ▶ The Scottish Parliament has voted in favour of a deposit return scheme for Scotland, meaning that Scotland will soon be the first part of the UK to introduce a deposit return scheme for drinks containers which will come into force by July 2022.
- ▶ The Courtauld Commitment<sup>10</sup> focuses on the food supply chain from manufacturers to food retail and hospitality. This initiative provides guidance on specific actions that businesses in these sectors can take to reduce food waste and carbon emissions.
- ▶ Similar initiatives have been launched by the UK water industry and the British Retail Consortium.

These initiatives provide valuable models. It is clear from our research that many SMEs need solutions like these in their own sectors. However while valuable relevant information is critical, there is a risk of fragmentation of information and understanding over time.





## SME Sustainability Solutions (continued)

### Supply chain collaboration

The target of Net Zero reaches far beyond the activities of businesses in their own operation. Scope 3 emissions are defined as those created outside a business' immediate activities, typically in their supply chain.

In this area many SMEs will be looking in two directions. On the one hand they will be purchasers and will want to examine the Net Zero credentials of their suppliers. At the same time, many will also be suppliers to other, often larger, organisations. In both cases many SMEs may not feel they have sufficient influence outside their own operations. Equally, many may not regard Scope 3 as being part of their responsibility. But this is why collaboration is so important.

Suppliers that reduce their direct net emissions are in effect also helping their customers reduce their own Scope 3 emissions. Rather than being a site for conflict, this represents an area where a virtuous circle can be created. Sharing information on best practices along the supply chain is one obvious step that can have significant impact and of course, in some cases, financial incentives may be appropriate.

// Suppliers are going to be asking more questions around sustainability. And that issue around communication and engagement with your customers is also pretty key, I think. //

**Adam Leaver, Head of Client Services, Ecometrica**

// I can see that change is on the horizon as clients are starting to ask for our environmental policies in the requests for proposals (RFPs) more and more. //

**E-learning Content Producer, Scotland**

## SME Sustainability Solutions (continued)

The role of larger corporations will also be important. In their own journey to Net Zero they will be examining their supply chains and have the power to drive change through collaboration as well as dictat. Guidance from customers, either to their business or aimed at their sector, will be an important element in galvanising and enabling SMEs to make the changes needed.

**//** Now everybody from large corporations to individual consumers wants to know who they are buying from. As a result, creating sustainable supply chains is a key driver of businesses waking up to how they operate more sustainably day-to-day. It's driving decision making and influencing recruitment and retention too, so being able to articulate and demonstrate the action you are taking is crucial. **//**

**Stephen Owens, Relationship Director & Sustainability Director, Bank of Scotland, Greater Glasgow Area**

Improving sustainability along supply chains creates mutual benefits for everyone involved. Suppliers who compete well on sustainability criteria can expect to gain an edge over those who do not. Those higher up the supply chain improve their own sustainability by working with and incentivising their suppliers to be sustainable.

**The journey to Net Zero is not a zero-sum game. As one SME told us, it should be a win-win.**



**Many large corporates have ambitious Net Zero targets to meet by 2045 and as part of that it's incredibly important that larger businesses bring their SME supply chains with them on their ESG journey. The combined carbon footprint of SME suppliers is on average 5.5 times greater than their large corporate counterparts a study by environmental charity CDP has found.<sup>11</sup> For this reason, it is incumbent on larger corporates to support their SME suppliers and help them transition to more sustainable foundations. This is crucial if businesses – and the UK as a whole – are to meet increasingly ambitious sustainability targets.**

## SME Sustainability Solutions (continued)

### Realising commercial benefits

The push towards Net Zero stems from the urgent need to protect the environment, and when we spoke to SMEs, they put this squarely at the top of the list of benefits that sustainability would bring. But businesses also recognise a range of other benefits that will flow from the transition to a more environmentally friendly economy.

### Top benefits of sustainable business practices according to SMEs today



protecting the natural environment for future generations



cost savings and / or waste reduction



improved reputation, brand image, trust or credibility



increased ability to comply with regulations



supporting the wellbeing of local communities



employee wellbeing, engagement and attracting talent



meeting customers' expectations



attracting new investment

## SME Sustainability Solutions (continued)

The business and commercial benefits of sustainability will never topple the environmental benefits from the top slot, but recognising the commercial benefits of sustainability will be one of the most powerful forces that will drive the journey to Net Zero.

As our research shows, direct cost savings and waste reduction are well understood, but these are only the most obvious commercial benefits. The commercial rewards for meeting customer expectations are likely to be extremely significant, because it combines two factors. Firstly, the end consumer demand for sustainable products and services is rising.

// Consumers are much more interested in this than before so that affects your reputation, but it also affects the amount you sell. Consumers want to know that businesses are doing the right thing and they will reward those that do and punish those that don't, so there is a reputation and a brand issue but there's that simple sales imperative. //

**Mike Scott, Environment Journalist,  
Carbon Copy Communications**

The second factor is the expectations and demands of business customers who are themselves seeking to improve their sustainability. The journey to Net Zero can create a virtuous circle in business-to-business (B2B) relationships, with whole supply chains and whole sectors reaping the benefits.

// It should be a win-win for everyone. In the plastics industry we have an image problem, and so both end consumers and our corporate clients are demanding more sustainable solutions, we are really focused on delivering these. //

### **Manufacturing company, Scotland**

Sustainability will also be crucial in attracting talent to business, improving employee wellbeing, enhancing business reputations and attracting investment.

The benefits of sustainability are best regarded in the round. Improved sustainability, and ultimately meeting Net Zero, form a matrix of benefits that feed and support each other. Reducing costs, improving competitiveness, boosting reputations, attracting investment and talent, attracting new customers - each and every one of these benefits is mutually supporting.

In the same way that sustainability reaches into every corner of a company and flows through every relationship, supply chain and customer interaction, the benefits of improved sustainability also flow through every aspect of a business.

The more we all recognise how sustainability is part of the fibre of business and enterprise, the stronger the motivation to embrace change.

The challenges of sustainability are an opportunity for renewal, both for the planet and for business and industry.

# Roadmap to SME Net Zero – A practical five-step guide

The overwhelming majority of SMEs recognise the importance of sustainability in the future success of their businesses. But different businesses are at different stages on that journey and at every step there are fresh challenges and new questions.

Our research showed us distinct sequential steps on the path to Net Zero, and while some may leapfrog, we've created a five-step plan to help SMEs move from awareness to action and ultimately, their version of Net Zero success.

## Five steps to SME Net Zero



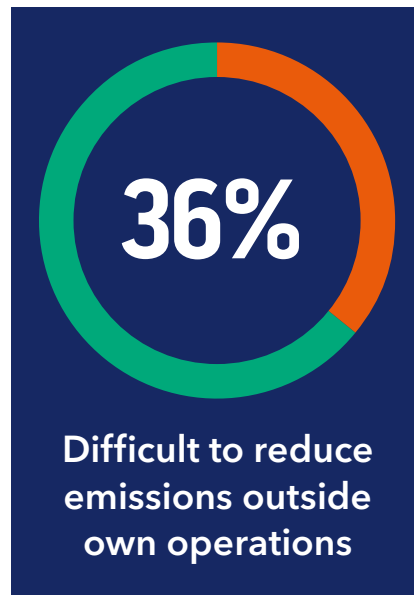
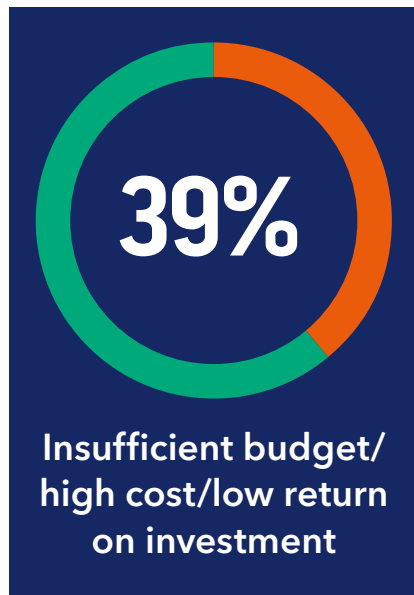
Wherever you are on the journey, you can dive into our guide at the appropriate step and find ideas and guidance. We have also included links to other resources that can help on the road, from both Bank of Scotland and other organisations.

# 1. Getting Started

If you are a SME which is getting started, you are in the majority. You'll likely recognise the benefits of sustainability to your commercial success and preparing for the future, but are also facing barriers to action.

You are likely to identify those barriers as around knowledge, control, finance and time.

## Top barriers to action



// We don't have a team for this type of thing, the responsibility would probably fall to me as finance director... where do I even start? //

E-learning Content Producer, Scotland

# 1. Getting Started (continued)

## Information is the key

SMEs already on the journey, and the experts we spoke to as part of this research, focused on accessing relevant detailed information on the practical realities of Net Zero as the best way to get started.

Firstly, there is an urgent need for information on how businesses can address typical emission challenges in their operations, for example in energy efficiency and conservation.

Secondly, that information will ideally be sector relevant. What initiatives are already underway across their sector? What regulatory pressures are coming down the track? Information-sharing with peers and along supply chains is a potentially valuable resource.

## How Bank of Scotland can help

We have drawn together the essential information for SMEs getting started on the journey to Net Zero. Whether you need to understand what sustainability means for your business, or how to re-engineer your business for the sustainable future, we can help you get underway.

## Next steps

Once equipped with the information needed to get started on the sustainability journey, you can move to the next stage. Swift action can be a dynamic step - quickly demonstrating the benefits of sustainability and energising your business for the journey ahead - but for the journey to be a success you will need to begin to assess your business's current environmental impact. Where are you now, where do you want to get to, and by when?

View our useful resources 

**//** I think the first step I would do is to encourage them to find the right level of information - to understand what Net Zero means for them and what the opportunities and risks are to their business. The second thing I'd say is, start having conversations with your clients and your own supply chain and your investors about what their view is on this and how they can help you. **//**

Munish Datta, Director of Membership & Partnerships, UK Green Building Council

## 2. Short-Term Wins and Employee Engagement

Many businesses have already taken decisive steps towards sustainability and Net Zero, aiming for quick wins and seeking to engage staff in a sustainable culture. If you are at this stage, it is likely that the initiatives you are implementing are aimed at achieving rapid commercial gains through cost savings and quick reductions in carbon footprint.

One of the most direct and straightforward steps that a business can take to reduce its carbon footprint is to switch to a renewable energy provider and this is a great starting point for your journey to Net Zero.

You may have set up a working group to examine Net Zero and to investigate solutions and initiatives that can be quickly implemented or be looking at grants or finance to fund these initiatives.

SMEs at this stage will already be seeing the benefits of action. Whether it is an improving reputation, having an edge over the competition when bidding for business or benefits to the bottom line.

The gains may as yet feel piecemeal and incidental. It is time to go further.

### Building a strategic plan

Individual actions and initiatives are a key step on the journey, but if you are at this stage, you will be

looking to do more. The next step is to start combining individual actions into a longer-term strategy.

Information is again a key aspect of this step, but there is always the risk of overload. At the same time there may have been failures: not every initiative will prove to be a success and sometimes commercial reality intervenes and understanding that this is a learning journey for all organisations should help break down barriers.

Having made the first steps toward Net Zero, it is now about building a roadmap to measuring, monitoring and impact.

### Next steps

Businesses that are implementing initiatives, reaching out to other organisations and beginning to see sustainability as part of their business plan are on the verge of the biggest step on their journey to Net Zero – making sustainability a measured target.

How Bank of Scotland can help 

Further guidance can be found from these organisations: 

// Every day I can see that sustainability is growing in importance for all the businesses I work with. But it is competing for time and attention with all of their other priorities too. Sustainability is a topic that lots of SMEs are learning as they go, so we aim to share our knowledge, expertise and the great work that we see other SMEs investing in, to help us all move along the journey. We know there is an opportunity to be sustainable and business minded – these things go hand in hand. //

Stephen Owens, Relationship Director & Sustainability Director, Bank of Scotland, Greater Glasgow Area



# 3. Measure, Mobilise, Monitor

Measuring and assessing your current environmental impact and putting in place a system to monitor progress is the most fundamental driver of long-term sustained change in the journey to Net Zero.

If you are at this stage, you will be:

- ▶ **measuring** your carbon footprint
- ▶ using those insights to **mobilise** your plan - which often involves setting targets and deadlines
- ▶ **monitoring** your impact going forward

Making these business decisions and commitments can be driven by push and pull factors. You may be operating in a sector where targets have been set and guidance is readily available, or you may have realised a commercial opportunity and be plotting your way to success.

This stage may also be the moment to establish your own interim targets, deciding on milestones that you plan to reach at a certain date. As well as providing clear targets to assess your progress, objectives that are closer than the final 2045 deadline will provide momentum and urgency to the journey.

There are, however, challenges. Sustainability goalposts are rarely fixed, not least because scientific analysis and technology are constantly evolving. There may be a lack of clarity from authorities about what is required and what measurement methods are suitable or approved.

## Professional expertise

At this stage, you are most likely to succeed if you call in external expertise or consultancy.

This may also be a moment to re-evaluate the roadmap - is it still right for the business and does it take account of these external factors?

// Measuring sustainability is very difficult to do and is a challenge many businesses face. There's huge opportunity and growth in this area, once there are better standards and guidance for how it should be done. //

**Stephen Owens, Relationship Director & Sustainability Director, Bank of Scotland, Greater Glasgow Area**

## How Bank of Scotland can help

Having completed our Sustainability Audit Guide in section one, you can now start measuring emissions on specific elements of your business.

Measure resources 

Mobilise resources 

### 3. Measure, Mobilise, Monitor (continued)

## “What gets measured, gets managed”

#### Peter Drucker, Management Consultant (1954)

Measuring and monitoring is the single most important step on the road to Net Zero. It marks the moment when sustainability has become a key business metric that can be fully integrated into the business model and strategy.

Our research found that 34% of SMEs already measure or monitor their environmental impact in some way.

Measuring and monitoring delivers several direct benefits:

- ▶ Providing clarity on areas to prioritise
- ▶ Monitoring progress towards goals
- ▶ Financial measurement of commercial benefits
- ▶ Opportunity for PR and promotion (Don't be coy - boast about hitting your targets!)

Measuring sustainability and progress towards Net Zero is a challenging task. Accessing accurate data may not be straightforward, particularly when looking into a supply chain to measure Scope 2 or Scope 3 emissions.

Measurement is also best carried out independently to provide cast-iron credibility and independent measurement may be required by regulators or other accrediting bodies. Finding the right external partner to assist with measurement can be a challenge, not least because it is a field that lies outside the core expertise of the business.

However, the challenges are worth overcoming for the benefits that measuring and monitoring can deliver.

Measurement and monitoring are the most important steps up that SMEs can make in their road to Net Zero. Peter Drucker's management advice that 'what gets measured gets managed' is one way of putting it.

One expert we spoke to as part of our research put it slightly differently, though perhaps no less eloquently.

/// It's a bit like being on a diet. If you don't get on the scales, you don't know how heavy you are. ///

**Mark Griffin, CEO, ITT Hub, Binswood Media**

# 4. Navigating the Road Ahead

If you are at step 4, then you are well on the way to Net Zero. Businesses at this stage have made a commitment to Net Zero, have a clear roadmap, have established clear targets and are measuring and monitoring their progress.

With all these elements in place progress will have developed a momentum of its own.

As well as knowing that your business is playing its role in the national and global journey to Net Zero, the commercial benefits are likely to be increasingly obvious. You may well have a reputation in your community or sector as a sustainability leader. Environmentally concerned consumers are attracted to your products and services, and other organisations in your sector and up and down your supply chain are eager to partner with you.

As a sustainability leader you may be able to extend your work more widely, mentoring other businesses that are earlier in their journey and building new business opportunities at the same time.

But while the way ahead is mapped out there are still challenges. Measuring and monitoring will need to keep pace with your progress - at each step new initiatives will need the same rigour to be applied as when you first started out on this journey.

Your business will also have to keep pace with developments outside its own operations and supply chain. The rest of the world, including governments and regulators, are also on a journey and may adjust priorities and targets either across the board or specifically for your sector.

And, as we all know only too well after the last 18 months, there is always the unexpected. Broader impacts from the pandemic, Brexit or an entirely unforeseen event may distract or delay your progress.

Staying informed and keeping up the conversation with others on the journey is vital.

## How Bank of Scotland can help

Keep in touch with your relevant industry body or trade association, as they can be important sources of sustainability knowledge. Also, hearing from other businesses and their experiences might lead you to "adjust your course".

Find out more by clicking on the resources below:



# 5. The Heroes of Net Zero



## Mackie's of Scotland

**Mac Mackie, Managing Director  
Aberdeenshire**

Mackie's of Scotland make one of the nation's favourite ice creams. Two decades ago, Mackie's family business started on its quest to be the nation's greenest SME, long before sustainability issues were hitting the headlines. Through its 'sky to scoop' approach, the company makes all the ice cream on their Aberdeenshire farm, along with several ingredients and the packaging, and they power the business with their own renewable energy.

The company is already climate positive in that they generate over four times as much energy as they need to run the business. A huge part of the Mackie's sustainability drive is focussed on their determination to become 100% self-sufficient in renewable energy. The company have four wind turbines and a solar panel farm which together have 5MW capacity.

The farm offices are also heated by biomass and there are additional solar panels on the byre roof - powering the milking equipment. Mackie's were pioneers in early wind power and continue to advocate both their environmental and commercial benefits- selling excess electricity to the grid provides the company with a steady financial income, creates a reasonable payback period (est.5 years) and (having their own power) protects the company from rising energy prices.

Mackie's mission does not stop there, this year the company are about to complete their biggest project yet, a £4.5m project to create a new low carbon refrigeration system. An innovative combination of tried and tested technology, the new system replaces the old refrigerant gases with ammonia, a natural gas with zero climate warming potential and some carbon dioxide with a very low climate warming potential of 1. (About 4000 times less than the old refrigerant gases.) In addition, the system will use heat energy from a new biomass system via an absorption chiller.

The new system is projected to cut energy use and carbon emissions by up to 80%. The project's outstanding environmental credentials led to the award of a grant of £2.1m from the Scottish Government to enable creation of an exemplar low carbon system for other food and drink companies. Mackie's match funding for the balance of costs were made possible with the support of the Bank of Scotland's Clean Growth Finance Initiative.

This will be Scotland's first fully working, commercial-sized, biomass and absorption chilling demonstrator plant, and Mackie's hopes its success will inspire the Scottish fish, meat and dairy processing sectors to adopt similar energy-efficient technology.

SMEs represent 99% of all UK businesses and account for almost half of all business-related emissions. Mackie's are leading the march to arm other SMEs with the information and inspiration they need to support their journeys to Net Zero.

# Conclusion

The journey to Net Zero is urgent but complex. It combines both challenges and huge opportunities for SMEs. Those that ignore the issue, risk being left behind and will ultimately find their business cannot survive; those that embrace have the opportunity to turn sustainability into a commercial gain, delivering a competitive edge over less proactive rivals, enhancing their reputation, and potentially discovering whole new opportunities for business expansion.

There are many ways in which SMEs can help themselves and each other through vital collaboration in building not just sustainable companies, but sustainable supply chains and business communities.

But our research also shows that SMEs need more help.

With our experts and the SMEs themselves, we have identified key actions needed across government, industry and business that are specific to SMEs.

We are calling for more support for SMEs:

- ▶ from their sector trade bodies – providing clear and specific guidance on what the road to Net Zero looks like through the supply chain
- ▶ through collaboration with larger corporations, alongside their peer group, so that they can deliver change together
- ▶ with financial imperatives and support, that encourage action now even if the rewards aren't reaped today
- ▶ in understanding the commercial benefits and risks of the transition to sustainability, so that they can make rational decisions alongside the clear emotional ones
- ▶ from government and regulators, providing the push factors to make this happen.

SMEs are the heart of the Scottish economy. For the journey to Net Zero to be a success story for Scotland, it must be a success story for SMEs.



# How Bank of Scotland is helping

Given our position at the heart of the Scottish economy – supporting the transition to a sustainable, low carbon economy is one of our strategic priorities.

In order to deliver the low carbon future we need, the Scottish economy and its infrastructure requires significant transformation and the projects to do this, which will require financing. We have a unique opportunity to work with Scottish businesses to help Scotland's Net Zero transition, providing increased funding under green finance initiatives. We are also committed to supporting regional acceleration to ensure no part of the UK is left behind by the transition.

We have launched practical tools to support the transition to a lower carbon future, including:

- ▶ **The Green Buildings Tool** – an interactive digital tool that can help you identify energy-efficient investments in your buildings;
- ▶ **Sustainable Agriculture Hub** – providing expert resources including a comprehensive report with practical steps to support your transition, sector factsheets and links to carbon calculators designed specifically for farmers;
- ▶ **Clean Growth Financing Initiative** – discounted lending for green purposes.

We have a role to play not just in providing financing, but also helping our clients to understand the importance of the changes coming and how we can help them prepare for the transition too. Our relationship managers and many other colleagues in our Commercial Banking teams have received training in sustainability in partnership with the Cambridge Institute of Sustainability Leadership to provide support to businesses looking to transition to the low carbon economy.



# Methodology

Bank of Scotland commissioned Yonder to understand the perspectives of SMEs on sustainability issues and the challenges they face on their road to Net Zero. The research approach included four distinct stages, combining expert insight from industry and academia as well as the viewpoint from SMEs themselves.

- ▶ A quantitative survey of 1,053 SME Leaders within the UK, of whom 858 were from companies of 250 or fewer employees. SME Leaders were defined as financial decision makers, Directors and / or owners of the business. The sample excluded sole traders and micro-businesses (less than 10 employees). Respondents were asked a series of questions including general perceptions on sustainability, awareness of the Government's Net Zero target, barriers to achieving this target, and what information and support would enable more action towards a more sustainable future.
- ▶ Ten in-depth interviews with selected sustainability experts from academia, think tanks, journalists and NGOs (Non-Governmental Organisations). These discussions provided a deep understanding of their point of view on the topic and their perceptions of the challenges and opportunities for SMEs. As part of the interviews, we asked the experts to reflect on the findings from our SME Leaders survey, to consider the outcomes and identify potential solutions to the challenges faced by SMEs in becoming more sustainable.
- ▶ Six qualitative focus groups with SME Leaders in order to explore their motivations, experiences and behaviours, using both the SME Leaders survey findings and sustainability expert insight as a foundation for the discussions. The purpose of this stage was to explore broader motivations, behaviours and perceptions of SMEs in relation to sustainability and Net Zero.
- ▶ Eight follow up in-depth interviews with selected SME Leaders who participated in the focus groups. The purpose of these interviews was to gain a granular and personalised exploration of the SME perspective on Net Zero, including capturing a typical 'day in the life', and how Net Zero considerations either fit or conflict with the day-to-day realities of SMEs.



## Important information

All lending is subject to status.

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