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EXECUTIVE SUMMARY

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Drivers and Performance Outcomes of Net Zero practices: Evidence from UK SMEs

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This report examines the environmental practices that small and medium enterprises (SMEs) adopt in order to meet the net zero emission targets set by the UK government. Up to now scholars have focused most of their attention on large corporations and new start-ups. Hence, we know very little about the approaches taken by existing SMEs with regards to net zero. Here, our focus is threefold: (a) we examine a large range of net zero practices, which span across technological and organisational business domains; (b) we investigate the external and internal [to the business] drivers of net zero practices; and (c) we analyse the performance outcomes of net zero practices. We employ a novel dataset of 1019 SMEs, which was collected during the COVID-19 crisis in the UK. The results of the econometric estimations have important policy and managerial implications. We find that *environmental regulations/taxes* and *customer demand for low-carbon products/services* are the key external drivers of inducing SMEs to commit to net zero. Furthermore, we demonstrate that the internal firms' motivation to *improve their image and reputation* is a significant driver for adopting net zero practices. We also provide new insights into the performance outcomes of net zero practices in general, pointing out in particular that, technological net zero practices improve the environmental performance of SMEs, whilst organisational practices affect environmental performance indirectly by complementing technological changes in the during the production process or the introduction of low carbon products/services. Finally, even in the context of the COVID-19 pandemic, our results indicate a strong statistically significant relationship between both technological and organisational net zero practices and business performance, proxied by employment growth.