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EXECUTIVE SUMMARY

Conversion, not Complementarity: Why Small Firms Need Capacity to Act on Climate

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1. Executive Summary

Small and medium-sized enterprises make up most of the UK's firms, most of its private-sector jobs and a large share of its business emissions, so their behaviour is central to reaching Net Zero. Yet a familiar pattern shapes how that behaviour is understood: most small firms say the environment matters, but far fewer measure their emissions or take concrete steps. Policy has generally read this say–do gap as a shortfall of commitment or capability to be topped up, and has assumed that different kinds of support — finance, innovation and environmental engagement — reinforce one another when combined. This study argues that both assumptions mis-diagnose the problem.

The research advances a simple idea: priority and action are two different states, and what separates them is not how sincerely a firm holds its priority but whether it has the organisational capacity to convert that priority into action — the administrative machinery, specialist attention and slack that larger firms have and the smallest firms do not. To test this, the study compares two independent, official UK surveys side by side: the Longitudinal Small Business Survey (around 50,600 firms, 2015–2024), which records what firms actually do, and the British Business Bank's Business Finance Survey (around 9,999 firms, 2021–2025), which records what they prioritise. Comparing the two in parallel makes it possible to measure the gap between priority and action without relying on firms to report both in the same questionnaire.

The findings are consistent and, in places, counter-intuitive. The gap between saying and doing narrows sharply as firms grow, showing that it is gated by capacity rather than commitment: the smallest firms are willing but unable to act. Combining capabilities does not multiply their effect — finance, innovation and engagement each help on their own, but they do not reinforce one another, and finance and innovation actually work against each other in small and medium firms. Firms move into action when external prices make inaction costly, as they did after the 2022 energy-price shock, rather than in response to exhortation. Owner demography does not explain the gap, and once firms act they tend to keep acting through established routines.

For policymakers and funders, the central message is that the priority is already there; what is missing is the capacity to act on it. Support should be targeted by firm size and aimed at building conversion capacity in the smallest firms — shared measurement infrastructure, low-cost carbon-measurement tools and access to specialist help — rather than at raising a commitment that already exists or bundling measures together on the assumption of a synergy the evidence does not support. Used deliberately, price signals that make inaction costly, paired with the capacity to respond, are likely to achieve more than awareness-raising alone.

Key Findings at a Glance

- The say–do gap on climate is gated by organisational capacity: it narrows sharply as firms grow, and the smallest firms are willing but unable to act.
- Environmental capabilities do not compound — finance, innovation and engagement each help alone, but finance and innovation substitute for one another in small and medium firms.
- Climate action rises with external price pressure: the 2022 energy shock lifted action, concentrated in energy-cost-sensitive measures such as energy efficiency.
- Owner demography, including minority-led ownership, does not explain the gap in the way legitimacy or "greenwashing" accounts predict.
- Action is sticky: once firms act they tend to keep acting, driven by routine rather than by their original motivation.

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