Enterprise Research Centre

POLICY BRIEFING

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

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Introduction / 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.

For policymakers and funders, the 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.

Key Findings

The say–do gap is about capacity, not commitment. Small firms that say the environment matters often do not act — but the reason is organisational capacity, not insincerity. The gap narrows sharply as firms get larger: medium-sized firms convert far more of their stated priority into action than the smallest micro firms, and this pattern strengthens once the figures are weighted to reflect the national small-business population. It holds across every test the study applies.

Capabilities do not add up when bundled. Finance, innovation and environmental engagement each improve productivity on their own, but they do not reinforce one another when combined. In small and medium firms, finance and innovation actually substitute for one another, so investing in both delivers less than either alone. This matters because firms expect the opposite: in a recent national survey, 78% of firms that considered how their investments interact expected them to reinforce. The data show no such synergy when climate change actions are considered.

Firms act when prices move, not when they are urged to. Climate action rose sharply after the 2022 energy-price shock, and the increase was concentrated in energy-cost-sensitive measures such as energy efficiency rather than spread evenly across all environmental behaviours. This is the signature of a price response: firms convert priority into action when doing so becomes financially unavoidable.

Who owns the firm does not explain the gap. The study finds no evidence that owner demography — including minority-led ownership — organises the say–do gap in the way "greenwashing" or legitimacy accounts predict. The large demographic gap those theories expect is simply not there.

Action, once taken, tends to stick. Firms that acted in one year are markedly more likely to act again, and this persistence appears to run through established routines rather than through the strength of the original motivation. Building capacity therefore pays a lasting dividend: once a firm can act, it keeps acting.

These conclusions rest on two independent official UK surveys compared in parallel — the Longitudinal Small Business Survey (around 50,600 firms) for what firms do, and the Business Finance Survey (around 9,999 firms) for what they prioritise. Around 31% of firms took at least one climate action over the period studied.

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, not in micro enterprises.
- 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.

Key Insight

The smallest firms are not less sincere about the environment — they are less able to act on it. Medium-sized firms convert substantially more of their stated priority into action than micro firms, a gap that widens once the data are weighted to the national small-business population. What looks like reluctance is, for most small firms, an unbuilt capacity to convert.

Conclusions and Policy Recommendations

Summary of Key Findings

The study asked why small firms so often say the environment matters yet fail to act, and whether combining different kinds of support makes them more effective. It finds that the gap is a problem of capacity rather than commitment, and that bundling support on the assumption that finance, innovation and engagement reinforce one another is not supported by the evidence. External price pressure, not owner disposition, is what moves firms into action, and once they act they tend to keep acting. Together these results shift the problem from persuading small firms to care towards building their capacity to convert that care into action.

Overall Conclusion

Small-firm climate action is better explained by capacity than by commitment. Support that assumes small firms simply need convincing — or that bundling measures together will multiply

their effect — is aimed at the wrong problem: the priority already exists, but the capacity to act on it does not.

Policy Recommendations

The findings carry three main implications for policymakers and funders seeking to accelerate small-firm climate action.

1. **Target support by firm size and build conversion capacity in the smallest firms.** Micro and small firms already hold the priority; what they lack is the machinery to act on it. Support should supply that machinery directly — shared measurement infrastructure, standardised low-cost carbon-measurement tools and access to specialist attention — rather than campaigns aimed at raising a commitment that is already present.
2. **Stop bundling support on the assumption of synergy.** Because finance, innovation and engagement do not reinforce one another, integrated packages that presume a multiplier effect are not supported by the evidence. Where finance is what moves outcomes, finance-led instruments — including energy-efficiency-linked lending — are a more defensible design than broad bundled programmes.
3. **Use price signals deliberately.** Firms move into action when inaction becomes costly, so fiscal and regulatory instruments that raise the cost of standing still — paired with the capacity to respond — are likely to achieve more than exhortation or awareness-raising alone.

Practical Recommendations

4. **Treat capacity, not commitment, as the priority.** For owner-managers, holding a green priority is not the same as acting on it. The more long-term productive investment is in the everyday machinery of conversion — emissions measurement, a clear internal process and external sources of knowledge — rather than in further signalling of intent.
5. **Use price shocks as windows, and share capacity where possible.** External cost pressures are the moments when action is cheapest to begin. Because the smallest firms rarely have spare capacity, business-support organisations and lenders can play a decisive role by supplying conversion capacity — measurement, expertise and process — as a shared service.

Directions for Future Research

Further work should observe firms' stated priorities and their actions within the same firms over time, so that the conversion step can be traced directly rather than inferred from two separate surveys. Place-based measures would allow the role of local infrastructure and networks to be tested, and a direct measure of reputational exposure would help distinguish firms that genuinely cannot act from the small number that may choose not to. Replication in other countries and for other behaviours would establish how widely the capacity-gating pattern holds.

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