

Ensuring a Just Transition for Small and Medium Enterprises

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Challenge Statement

Small and Medium Enterprises (SMEs) are critical to achieving climate action goals. They account for 13% of global carbon emissions; consuming 50% of commercial and industrial energy¹. However, they face a range of challenges in comparison to larger businesses.

SMEs are neglected in policy decision-making, including for sustainability and climate action. They tend to lack the knowledge and resources required to act on climate and sustainability goals. They also tend to be considered as a homogeneous group when they are extremely heterogeneous. This is problematic for both deciding who gets included in decision making (e.g. prioritising particular sectors; not making sufficient effort to ensure diverse business owners are included), as well as for what policy looks like (e.g. basing policy on the needs of well-represented sectors, like the manufacturing sector).

These multiple policy shortcomings not only fail to adequately address an important source of carbon emissions, but also create potential inequalities

for SMEs: for instance lack of access to energy rebate schemes available to large consumers, even for SMEs whose operations are energy-intensive. There is also a risk that this lack of attention to small businesses contributes to green backlash.

Regionally, SME climate action and sustainability initiatives have been trialled over at least the last decade. Targeted programmes have been funded through European Structural Funds and the UK Shared Prosperity Fund. The region's colleges and universities have also provided initiatives to support innovation and skills development, and several business sustainability networks have sought to harness possibilities for peer support between businesses. However, provision has been fragmented, and has only reached a very small proportion of the 45,000 South Yorkshire SME population.

While there is not yet a regionally coordinated approach to addressing this challenge, businesses and policy stakeholders in the region recognise the need to act. For example, Sheffield City Council is currently developing its Business Decarbonisation Routemap to address the gap in joined up strategy

for SME climate action. Developing policy-relevant solutions for SME climate action, using a just transition lens, therefore addresses an important regional need.

Research Response

Our research sought to address these regional and global challenges by providing a new framework for understanding SME climate action, and to support the development of solutions to support SME transitions.

The research involved stakeholder interviews in five places (South Yorkshire, Belfast, Edinburgh, Oxfordshire, Swansea Bay) and case studies of five sectors: steel supply chains, construction trades, horticulture, hairdressing, and restaurants. These sectors were chosen to explore diverse types of industry facing different climate action pressures. In total we conducted 167 interviews, alongside a detailed policy review.

Evidence and Outputs

Through our research we gathered detailed insights of how a wide range of SMEs in different

sectors are facing the climate action challenge. The key findings are summarised below.

- **SME decarbonisation is a 'relational' concern.** That is, we need to understand the diverse sets of relationships SMEs are engaged in – from landlords of their premises to customers to accountants - to provide effective SME decarbonisation policy. Each of these relationships creates different pressures, challenges and opportunities for SME climate action².
- **SMEs and the decarbonisation challenges and opportunities they experience are extremely diverse.** Our findings underscored the huge variety of challenges that different SMEs face, which needs to be better reflected in policy solutions. For instance, a medium-sized steel firm has very different needs to a hairdresser with 1-2 employees, but both will need to decarbonise their operations to achieve UK climate goals. It also means acknowledging that different organisations and different levels of operation (e.g. local, regional, national, international) will need

¹ Hampton, S., Blundel, R., Eadson, W., Northall, P. and Sugar, K. (2023) [Crisis and opportunity: transforming SME governance for net zero](#). Global Environmental Change

² Eadson, W., Hampton, S., Blundel, R., Apostolopoulou, E., Latter, B., Witherley, D., Hardy-Jones, B., and Sugar, K. (2026) [Just business? Rethinking the role of SME climate action through a just transition lens](#). Energy Research and Social Science

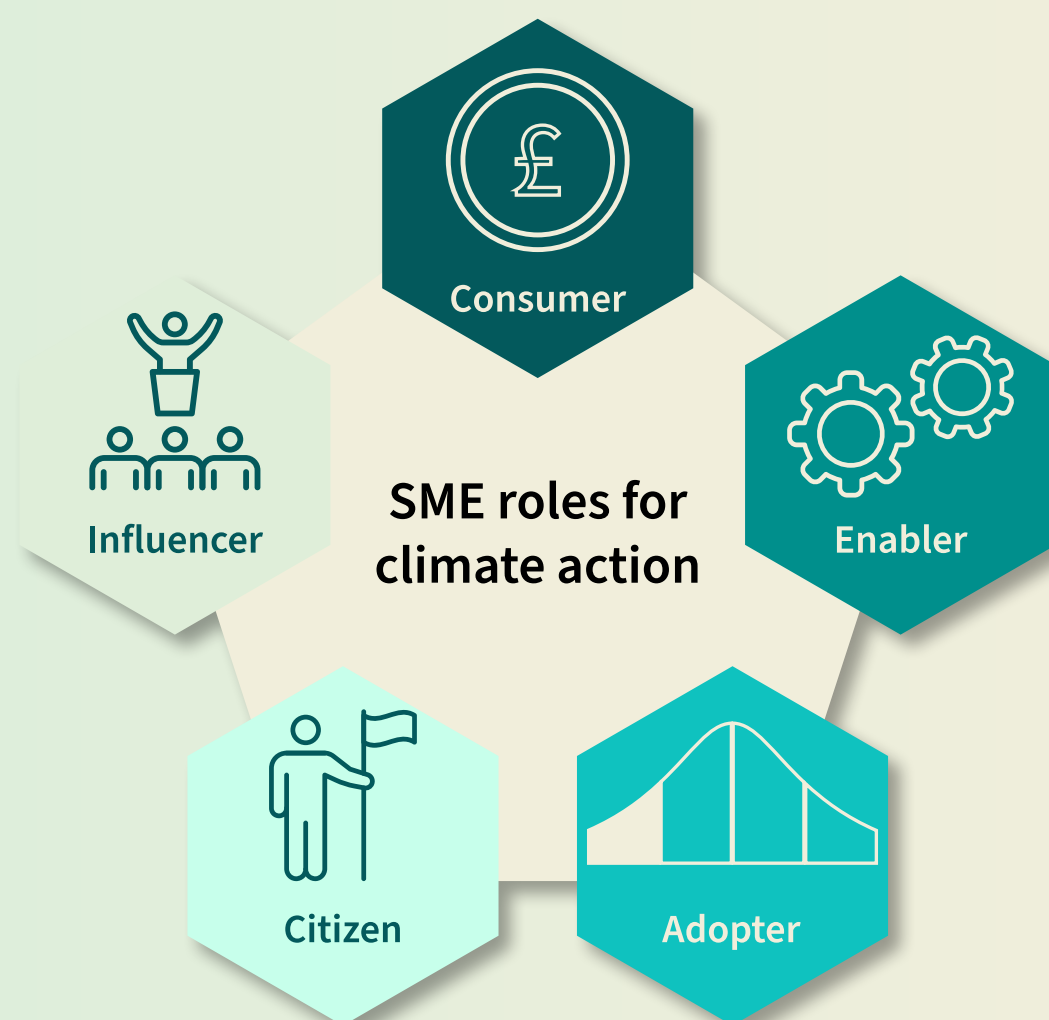


Figure 1: SME roles for climate action. Source: Hampton, S. Eadson, W., Blundel, R et al. (2024) Where Next for SMEs and Net Zero? London: UK Energy Research Centre (UKERC). Available at: <https://doi.org/10.5286/UKERC.EDC.000976>

to coordinate to effectively support business decarbonisation. This includes coordination between sector bodies, place-based providers and other support organisations³.

- **Businesses play a variety of roles in climate action.** While local, regional and national policy tends to focus on SMEs as consumers of energy, they also enable transition through the provision of goods and services, support adoption of new technologies and practices, act as climate citizens to support others to act, and influence the actions of others (see Figure 1). Effective SME decarbonisation policy will recognise and target actions focused on each of these roles⁴.
- **SME decarbonisation is a question of just**

transition. We need to account for SMEs' different levels of vulnerability, capabilities and characteristics. Vulnerable and marginalised SMEs (e.g. based in or led by people from marginalised communities) are not well served by SME support and policy⁵.

- **New approaches to SME engagement are needed.** Sophisticated, tailored and comprehensive approaches to engaging with different SMEs is critical to meeting the SME climate challenge. It is especially important to develop strategies to engage with vulnerable and marginalised SMEs⁶.
- **Going deeper, broader and faster.** It is essential that policy solutions focus on rapidly deploying decarbonisation technologies and

³ Ibid

⁴ Hampton, S., Byfuglien, A., Eadson, W., Latter, B., Hardy-Jones, B., Sugar, K., & Blundel, R (2025) [Multiple roles for business action](#). iScience 28(12)

⁵ Eadson, W., Hampton, S., Blundel, R., Apostolopoulou, E., Latter, B., Witherley, D., Hardy-Jones, B., and Sugar, K. (2026) [Just business? Rethinking the role of SME climate action through a just transition lens](#). Energy Research and Social Science

⁶ Eadson, W., Hampton, S., Blundel, R et al. (2024) [Seven principles of place-based net zero policy for SMEs](#). UK Energy Research Centre.

solutions, expanding support tools beyond advice and grants to reach a greater range of SMEs, and move towards support that focuses on comprehensive review of business models and practices rather than technology investments only⁷.

- **The role of government and public sector intervention is changing.** There is a growing array of private sector support platforms and businesses. This means reflecting on the best role for local, regional and national intervention. Our research suggests now is the time to expand emerging roles that create the conditions to scale-up markets for SME decarbonisation, such as setting standards, coordinating efforts, procurement requirements, and tightening net-zero regulation for SMEs; and to start to design policies that will steer these markets as they mature, such as consumer protection, compliance and evaluation⁸.

In response to these findings we have produced two frameworks for policy action.

We developed a new operational framework which allows us to pinpoint how businesses experience different challenges in relation to decarbonisation (Figure 2). Each section of the framework includes a range of sub-fields which can be used as a diagnostic tool at the individual business level as well as to identify broad SME population groups.

The framework can be used by policymakers and support providers to:

- Identify, reach and support the most vulnerable businesses by triangulating dimensional, sectoral and organisational challenges.
- Identify intervention points within individual sectors, places or groups of businesses with shared organisational characteristics through using the framework as a diagnostic tool.

⁷ Hampton, S. Eadson, W., Blundel, R et al. (2024) [Where Next for SMEs and Net Zero?](#) London: UK Energy Research Centre (UKERC).

⁸ Hampton, S. Blundel, R., Eadson, W., et al. (2023) ['Crisis and opportunity: Transforming climate governance for SMEs'](#), Global Environmental Change, 82, p. 102707.

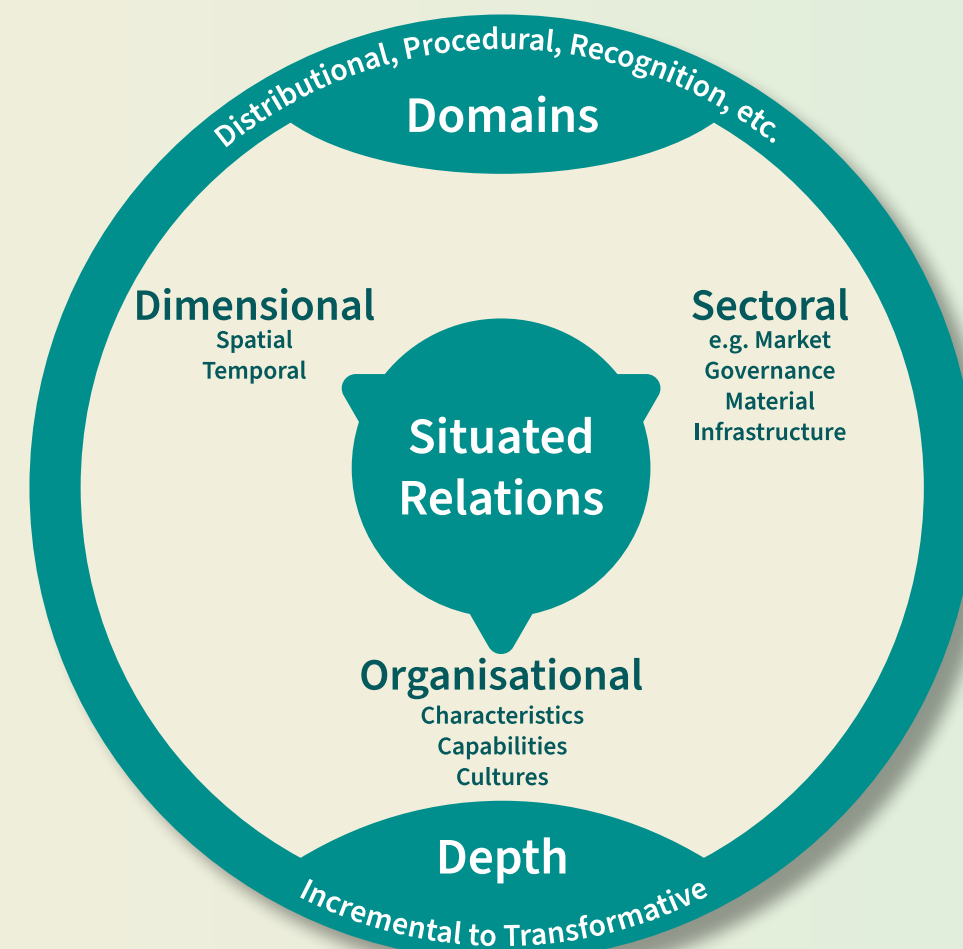


Figure 2: Just Transition Operational Framework. Source: Eadson, W., Hampton, S., Blundel, R., Apostolopoulou, E., Latter, B., Witherley, D., Hardy-Jones, B., and Sugar, K. (2026) [Just business? Rethinking the role of SME climate action through a just transition lens](#). Energy Research and Social Science

- Recognise and make use of the different roles SMEs play (e.g. as employers, or as climate citizens) by considering their roles in relation to other businesses, organisations and communities.

Addressing the challenge of developing coordinated local and regional approaches to local and regional SME climate action, the research also involved identifying seven principles for developing more effective place-based support and interventions to catalyse decarbonisation (Figure 2). These were designed to be addressed by local authorities and Combined Authorities in partnership with other local stakeholders (e.g. universities and colleges, private sector support providers, community organisations).

What does this mean for the region?

South Yorkshire faces specific challenges to achieving coordinated and effective climate action.

Although there is movement towards developing new approaches to SME decarbonisation, the regional support landscape remains fragmented and – for example compared to Edinburgh and Oxfordshire in our study – is less well developed. SMEs in South Yorkshire face particular challenges: there is a large energy-intensive manufacturing base, which means that the overall SME decarbonisation challenge is greater than many other regions. It also means that its business environment is more fragile than many other regions because of the effects of industrial change over the last 40 years.

However, our research shows ways that the region can become a leader in SME decarbonisation action. The research provides operational tools and actionable policy recommendations to act as a framework for delivering a coherent strategy for SME climate action across South Yorkshire. This includes the following recommendations for regional and local government:

Develop a coordinated and consistent place-based approach which recognises the specific benefits of place-based action and where other approaches are better placed (e.g. working through sectors). This will require setting up and resourcing a regional strategic group for SME decarbonisation/sustainability delivery.

Use the SME just transition framework to develop deeper understanding of different points of vulnerability across the SME base, and – specifically - to develop **strategy to engage less-well-reached vulnerable SMEs**. Utilising different business intermediaries – ranging from accountants to places of worship – will be essential to reaching these businesses.

Working with existing coalitions like the SY Net Zero forum alongside community-based organisations, **develop a programme of SME climate citizens**, recognising the different roles SMEs can play.

Consider a **one-stop-shop** style approach to connecting businesses with local solution providers to drive local supply chain growth and capture the benefits of investment in decarbonisation within the region.

Incorporate a regional SME decarbonisation steering group which ensures a diverse cross-section of SMEs have a voice in regional decision-making on net-zero. This means ensuring that different sectors and communities are represented.

Tailor support programmes to different stages of the decarbonisation (and different roles that businesses can play), prioritising any capital funding for harder-to-treat challenges. That does not necessarily mean focusing on ‘innovation’ – many businesses we spoke to said that the focus on innovation for capital funding was a key barrier to accessing support. The nature of these challenges will vary between firms and sectors so it will be important to engage with sector-bodies and expertise to help identify these.

Utilise place-based strengths in skills delivery (universities and further education sector) to develop a regional programme of SME climate literacy and skills development (including targeted sector based approaches).

Recognise where place-based approaches are less effective. Be clear on the added-value of place-based action, and where – for example – sector-based organisations might be better placed to support and provide guidance.

More detail can be found in our reports which provide further action points for local and regional policy makers and stakeholders.

Next Steps

Our work on understanding challenges for effective SME climate action policy in the region can be the starting point for a programme of further activity, working in partnership with regional stakeholders.

There is a need to operationalise the frameworks into actionable SME climate action policy and practice for the region. The research has also opened up a range of further questions to address through further research and partnership-working. These include developing a deeper understanding of how policy and support organisations can better engage with vulnerable and marginalised SME population groups, and how to operationalise learnings into practice; work with SMEs to develop just transition plans, considering business models and support to workers; and further work to develop activity that supports SMEs’ role as ‘climate citizens’.

One piece of on-going research concerns the metals recycling sector, where SMEs face pressure to decarbonise, but also face challenges and opportunities caused by decarbonisation of steel production in the UK⁹. This has implications for SMEs and for their workers. In collaboration with sector reps and regional businesses, there is an opportunity to further this work to develop a future metals recycling sector action plan for the region, and beyond.

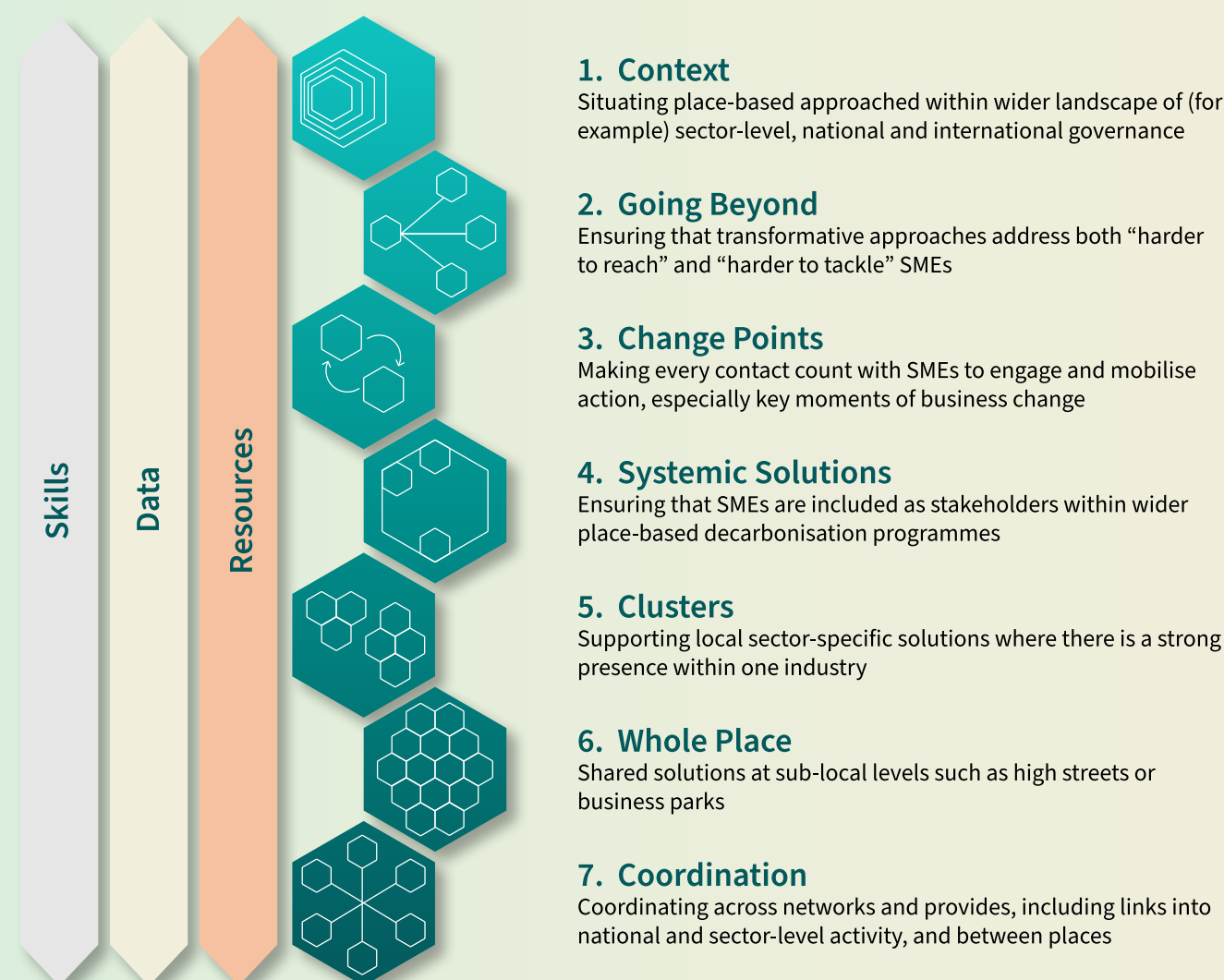


Figure 3: Principles of place-based net-zero policy for SMEs. Source: Eadson et al (2024) Seven principles of place-based net-zero policy for SMEs. SYSC & UKERC <https://doi.org/10.5286/UKERC.EDC.000975>

⁹ Eadson, W., Woodhouse, D., Leather, D. and Witherley, D. (2025) [Assessing the impact of potential restrictions on UK recycled metals exports](https://doi.org/10.5286/UKERC.EDC.000975). Centre for Regional Economic and Social Research

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