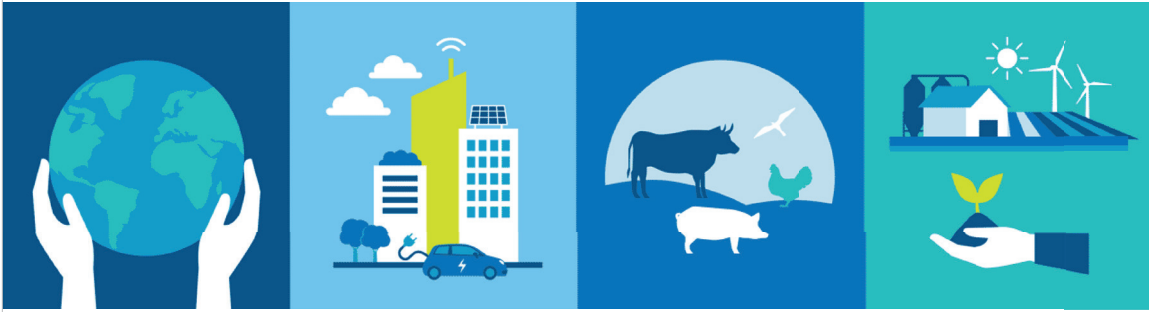


# Costs and Competing Priorities Slow Climate Action for Small and Mid-Sized Businesses: Survey



**Susan McGeachie**  
Head, BMO Climate Institute



A survey of North American small and medium-sized businesses (SMEs) showed respondents are very or somewhat concerned about the impacts of climate change, but other macroeconomic priorities and the high costs of climate mitigation mean few have plans in place to fight it, according to the results of a climate change poll commissioned by the BMO Climate Institute.

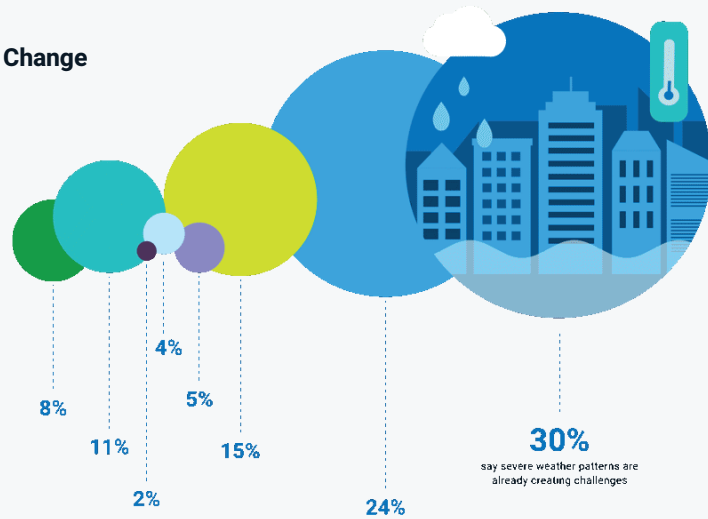
The BMO Climate Institute survey of SME executives' views on climate change found that 69 percent of responding executives expect the physical impacts of climate will disrupt operations over the next five years, and almost a third say severe weather patterns are already creating challenges.

## Physical Impacts of Climate Change

# 69%

of responding executives expect the physical impacts of climate will disrupt operations over the next five years\*

- 8% Don't know
- 11% Will not impact my business
- 2% More than 15 years from now
- 4% Between 11-15 years from now
- 5% Between 6-10 years from now
- 15% Between 4-5 years from now
- 24% Within the next 3 years
- 30% Already impacting my business



Despite experiencing the consequences of climate change today or over the short term, only 28 percent of U.S. businesses have a plan in place to address it. The number is even lower in Canada, where small and mid-sized businesses with a climate plan falls to 24 percent. What's more, even if businesses felt they could make a difference in addressing climate change, many are either unsure where to begin or are focused on more immediate macroeconomic challenges to justify the cost.

# Only 28%

of U.S. businesses have a plan in place to address climate change, despite experiencing the consequences today or over the short term

SMEs account for more than 99 percent of businesses in the United States and over 98 percent in Canada. They employ approximately 70 percent of the total workforce and have been responsible for creating more than half of net new private sector jobs over the past few decades. Yet, despite being the engine of the economy, these companies receive very little support from government and other external partners to mitigate risks resulting from climate change or capitalize on new opportunities in the shift to a low carbon economy.

The BMO Climate Institute commissioned this survey to seek a deeper understanding of how small and medium-sized businesses – fundamental participants in a successful energy transition – view climate change and its associated challenges and opportunities. The results reveal that many smaller companies lack the knowledge of where to begin when developing a climate strategy. As a bank whose ambition it is to be our clients' lead partner in the transition to a net-zero economy, we are focused on supporting our SME clients in the transition by helping future-proof their businesses and thrive in the evolving climate landscape.

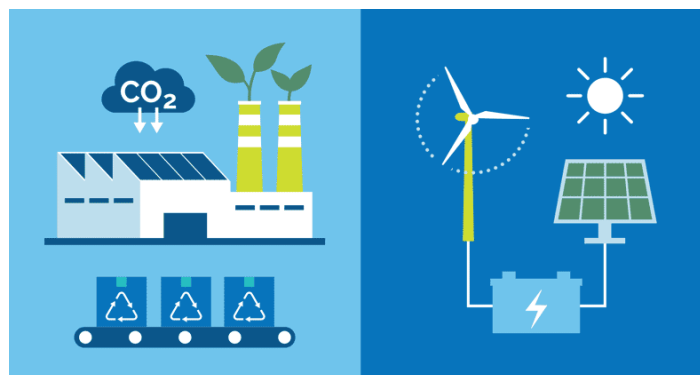


Conducted by Pollara on behalf of the BMO Climate Institute, the online survey was conducted with 605 business leaders in the United States and Canada for companies with between five and 500 employees. Research was conducted between Oct. 18 and Oct. 21, 2022.

This survey was conducted at a time when more and more large corporates are calculating and taking action to manage the greenhouse gas emissions throughout their entire supply chain. Either through collaborative disclosure initiatives or on their own, large companies are increasingly asking their suppliers to report their GHG emissions. This data enables companies to calculate, monitor, disclose and, ultimately, reduce the carbon intensity of their products.

Few executives (19 percent in the United States and 15 percent in Canada), however, view greenhouse gas reduction and other transition risks as the top climate-related impacts on their business. A larger share of respondents perceive climate change through the lens of severe and unpredictable weather patterns (44 percent of respondents).

Half of U.S. businesses that said they are considering a strategy are doing so because it's important to reduce their environmental footprint and combat the adverse effects of climate change. A quarter of executives said they were not taking any steps to address climate change because they feel their actions will not make a difference on climate change. Others said their businesses do not negatively impact climate change and a small percentage said they did not have time to plan.



## Carbon Pricing is a Key Economic Factor

The survey results suggest that the connection between climate change and business strategy is not entirely clear to many leaders of small and medium-sized businesses. They are, however, keeping an eye on carbon pricing – 19 percent of American businesses and 30 percent of their Canadian counterparts said GHG costs are already having an impact on their economic performance. If those costs aren't impacting them now, many expect they will soon. Another 27 percent of U.S. businesses and 24 percent of Canadian companies expect carbon pricing to be a challenge within the next three years.

## Customer Driven

There are many reasons behind a business's decision to enact a climate plan, and our survey showed that customer expectations were high on that list for those who have put a plan in place. Of those businesses that have a climate plan, 36 percent (U.S.) and 35 percent (Canada) said it was to meet customer expectations, which appeared either on par or higher than other considerations, including government regulations. Unsurprisingly, therefore, some businesses that do not have a climate plan in place said it was because their customers did not expect it of them.

Notably, almost a third of U.S. businesses with climate plans have them because they expect it will improve their profitability and/or share value. On both sides of the border, 21 percent of respondents said investor expectations influenced their decision to adopt a climate change policy.

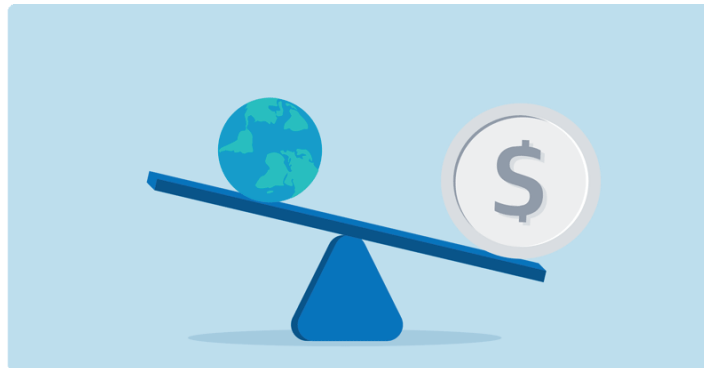
These findings demonstrate that economic and commercial factors are the most important drivers to advancing climate action.

## Tough Sell in Tough Times

The Paris Agreement's goal to limit global warming to 1.5 degrees Celsius was seen as an ambitious undertaking when it was adopted by 196 countries in 2015 and the U.S. in 2021. While some have perceived this as overly ambitious, 45 percent said the goals governments and regulators have been putting in place to meet climate targets are achievable.

Still, getting more small and medium-sized companies to act on climate change mitigation measures could be tough. Many executives surveyed said they are too preoccupied with near-term challenges – inflation, supply chain and labor issues – to implement climate strategies.

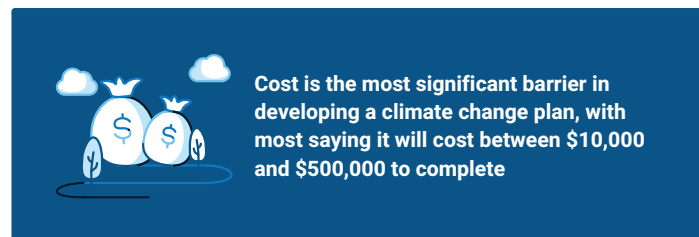
More than 90 percent of business leaders in the U.S. and Canada said they are concerned or somewhat concerned about inflation and rising interest rates. In the U.S., four in five business leaders (80 percent) ranked supply chain bottlenecks as the next biggest concern, while climate change ranked on par with labor shortages amongst roughly 70 percent of executives. In Canada, climate change was further down the priority list at 71 percent, behind labor shortages (80 percent) and supply chain challenges (77 percent).



## Where to Begin

In addition to competing priorities, some SME leaders who are not taking steps to address climate change don't know where to begin (27 percent in the U.S. and 15 percent in Canada). Some of the biggest barriers to adopting a climate change strategy include costs, a lack of clear government objectives and insufficient internal resources, the survey showed. While larger companies can afford to carve out departments and tap external help to develop and implement climate policies, small and medium-sized businesses don't have the same capacity.

A quarter of U.S. business leaders, and 28 percent of their Canadian counterparts, cite cost as the biggest deterrent. Cost expectations, however, span a wide range, with 25 percent of businesses expecting that a climate change strategy would cost between \$10,000 and \$100,000, while another quarter expect a price tag of up to \$500,000.



## Getting Help

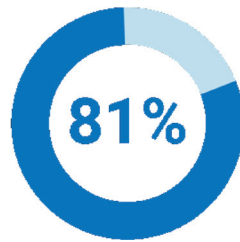
With some 40 percent of SMEs in the process of developing a plan to address climate change, support from governments and other external partners is an imperative.

Achieving climate policy goals requires the same level of urgency used to mitigate the economic impacts of the COVID-19 pandemic, during which time the government leveraged financial institutions to administer government-backed COVID relief loans. Lack of a coordinated strategy between governments and financiers makes it more difficult for SMEs to identify and access climate-related financing programs.

Only 19 percent of SME executives said they feel strongly supported by government to establish and pursue climate plans. In Canada, this drops to nine percent.

Not all support must come from government. The survey found that many SME leaders see opportunities to partner with their financial institutions to overcome some of the challenges preventing them from developing actionable climate plans; seven in 10 businesses on both sides of the border said financial institutions could help them better align their business with climate change objectives. In the U.S., 27 percent of SME leaders said their financial institutions are already playing this role, compared to 17 percent for their Canadian counterparts. Almost half of business leaders feel financial institutions could do more.

In the U.S., more than 80 percent of small and medium-sized businesses say they are either very or somewhat interested in any insights they could get from their banks on how to address climate change, including discounted loan programs to help cover associated costs. A similar sentiment was shared by Canadian SME leaders.



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A key challenge for both the U.S. and Canada in achieving national climate change goals is that we're still lacking the right economic incentives to both decarbonize and invest in more resilient operations, particularly when the costs associated with addressing climate change are highly uncertain. These challenges create a divergence between corporate strategy and decarbonization trajectories, especially for SMEs.

**Susan McGeachie**, Head of the BMO Climate Institute

### The BMO Climate Institute

Established in 2021, the BMO Climate Institute is a centre of expertise bridging policy, science and finance to help shape the market for climate solutions. The Institute strives to solve climate-related challenges to unlock opportunities with a focus on decarbonization, resilience and climate justice.



\*Data <2% not labeled