



Corporate Sustainability Performance 2024

ANNUAL ETHIFINANCE
SMALL & MIDCAP ESG RATINGS ANALYSIS

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Executive summary

This comprehensive report analyses the sustainability performance of approximately 1,900 European small and mid-sized enterprises (SMEs), drawing from Ethifinance's 2024 ESG Rating assessment of company data from 2023. The analysis reveals key sustainability trends and performance patterns across 11 industry sectors and seven European geographic regions, providing valuable benchmarks for SME sustainability practices.

Key findings

Overall scores

- European SMEs achieved an average ESG score of 53 out of 100 points in our 2024 evaluation, marking a 4-point improvement from the previous year's average of 49 points and an 8-point improvement from 2022. This upward trajectory builds on the positive momentum documented in our previous [report](#), demonstrating that small and mid-sized enterprises across Europe are increasingly prioritizing sustainability initiatives and strengthening their ESG practices year over year.
- Companies that actively participate in Ethifinance's voluntary rating dialogue demonstrate significantly stronger ESG performance, scoring an average of 12 points higher than non-participating companies and 9 points above the overall rated universe. This substantial performance gap suggests that engagement in the rating process correlates with enhanced sustainability outcomes, potentially reflecting greater organizational commitment to ESG practices and more sophisticated reporting capabilities.

ESG pillars and topics

- The Environmental pillar recorded the most substantial progress, advancing 13 points since 2022, while the Governance, Social, and External Stakeholder pillars achieved moderate gains of 6-8 points each. This environmental performance surge stems from increased focus on enhanced reporting, measurement methodologies, and EU regulatory initiatives.
- The Governance pillar (63/100) consistently stands out as the strongest pillar, while the Social pillar (38/100) consistently scores the lowest over the last three years.
- Topic scores span a wide range from 23 to 78 points out of a 100, with "Biodiversity" ranking lowest and "Operation of governance bodies" achieving the highest performance. This 55-point gap underscores that companies continue to grapple with complex biodiversity challenges, while governance benefits from being a well-established sustainability domain supported by robust European regulatory frameworks
- Environmental topics demonstrate the most substantial improvements since 2022, with "Energy and Greenhouse Gases" and "Water Management" driving this upward trajectory. This strong performance reflects climate issues emerging as urgent business priorities, intensifying regulatory and investor pressure, and water management's direct impact on operational costs.
- The five topics with the strongest score progressions (*Relationship with suppliers, Water management, Energy and Greenhouse Gases, CSR policy and extra-financial issues, Environmental policy and management system*) were already among the ten highest-scoring topics in 2023, demonstrating that well-performing topics continue to build momentum and extend their lead.

Regional perspective

- EU companies consistently outperform their non-EU counterparts (UK, Switzerland, and others) across all ESG pillars, with the most pronounced advantage in the Social pillar at 12 points.

- Overall, the performance gap between EU and non-EU companies has narrowed since last year, with governance scores reaching parity at 63 points for both groups. This convergence likely reflects the expanding influence of EU regulations, which incentivizes non-EU firms to adopt European governance standards to maintain market access and competitiveness.
- Portugal (63), France (62), and Spain (61) achieve the highest average scores, while Luxembourg (47), Germany (47), and Switzerland (48) record the lowest performance. Southern European companies have maintained their position as the strongest sustainability performers for the second consecutive year, likely driven by their greater engagement in the rating process and stronger commitments to sustainability reporting.

Sector analysis

- In terms of sector performance, the Automotive (62), Materials (59), and Real Estate (57) continue to rank at the top, while Financials (48) and Health Care (48) score lowest.
- Automotive, Professional & Commercial Services, and Transportation & Logistics sectors show the most significant improvement in overall scores in 2024: The automotive sector has experienced a 13% increase in both environmental and social scores between 2023 and 2024, likely due to stricter emissions standards and circular economy mandates.
- The Financials industry has one of the highest improvements in the environmental score with a 19% increase between 2023 and 2024, reflecting the continuing trend to integrate climate and other environmental factors in investment and financing decision making across Europe.

ESG controversies

- Social issues accounted for 60% of controversies in 2024, followed by governance (30%) and environment (10%). The most contentious topics include "Anti-competitive practices" (25% of governance controversies), "Water pollution" (26% of environmental controversies), and social issues like "Cyber-attacks," "Deceptive marketing," "Product Safety Issues," and "Sub-standard working conditions" (each at 11% of social controversies).
- Companies from Southern Europe show a higher controversy involvement compared to the EU average, while Nordic companies have the lowest rates in 2024.
- Automotive (55%), Leisure (52%), and Transportation & Logistics (44%) have the highest controversy involvement rates while Capital Goods (7%), Real Estate (8%) show the lowest rates, suggesting these sectors face fewer reputational and regulatory risks from environmental, social, and governance issues.

Introduction

EthiFinance's ESG Ratings team combines in-depth sector knowledge with broad sustainability expertise to generate ratings, research, and data on over 2,400 companies annually, including approximately 1900 small and mid-cap companies. With our historical specialization in small and midcap companies, our expertise and extensive company dialogue enable us to provide clients with a consistent, comprehensive database.

Goals and scope of this report

In this report, we showcase the current sustainability performance of European small and mid-sized companies analysed in the course of 2024. We provide 3-year trends, alongside sectoral, geographical and company size related analyses.

Our analysis has been carried out for 1934 enterprises within EthiFinance's overall ESG Rating universe¹. These are companies with a market capitalization of up to €10 billion as of the end of 2023. The 2024 evaluation is based on information provided by these companies in their 2024 annual reporting, mostly using data for the fiscal year 2023.

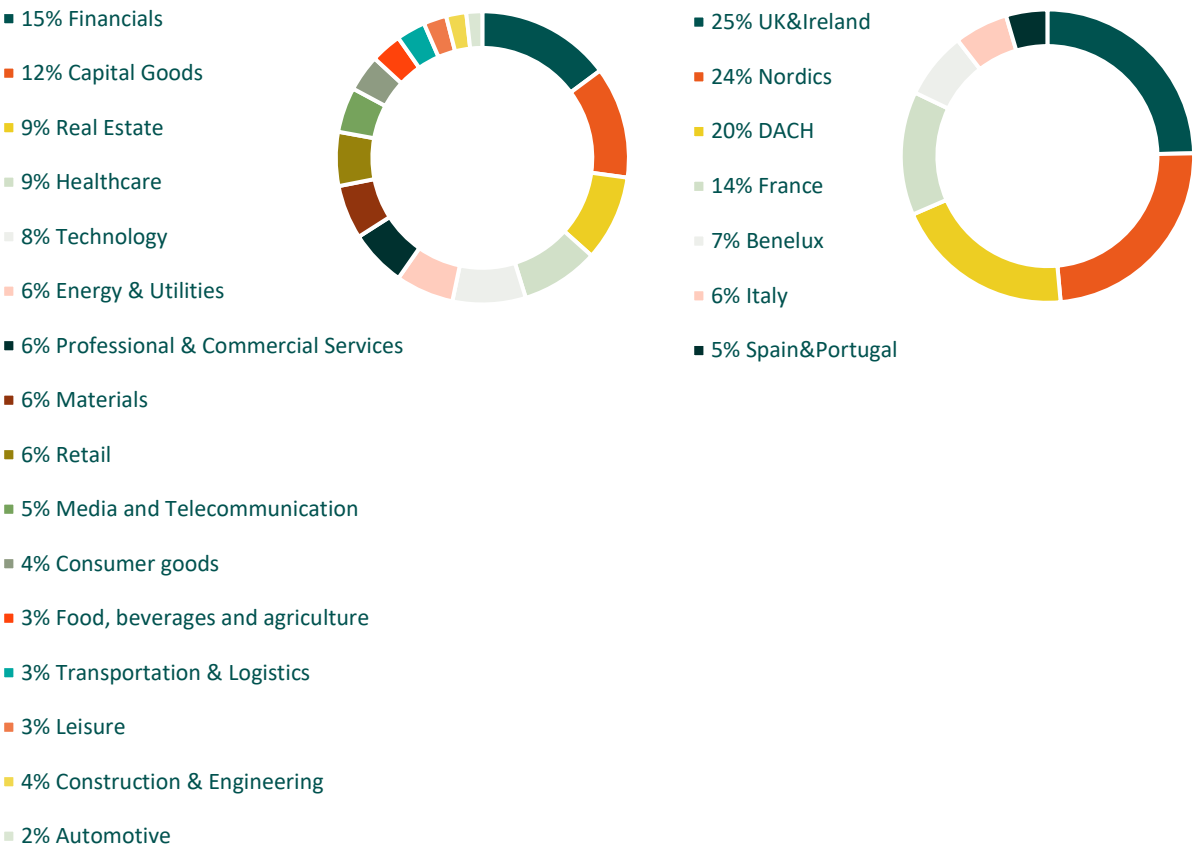


Chart 1: 2024 EthiFinance ESG Ratings analysis: sectoral and regional

¹ The large caps covered by EthiFinance have been excluded from this analysis.

ESG Rating Methodology

Through our ESG Ratings, we assess the extent to which companies manage the ESG risks and issues that are material to them from a double materiality perspective—that is, both from a financial and from an impact- and stakeholder-oriented standpoint. Our overall results are expressed through an absolute rating score on a scale from 0 to 100. This score indicates the degree to which ESG risks are effectively managed by each evaluated company.

Our ESG ratings are based on 140 individual ESG indicators, which are structured into four key pillars, Environmental, Social, Governance, and External Stakeholders, as shown in *Chart 2* below. The four major pillars are further broken down into 18 topics, as illustrated in the graphic below. The visual categorizes the specific topics we analyse—for example, biodiversity and greenhouse gas (GHG) emissions under the ‘Environmental’ pillar, business ethics and corporate social responsibility (CSR) policy under ‘Governance’, working conditions and health and safety under the ‘Social’ pillar and cybersecurity and relationships with suppliers under ‘External Stakeholders’—highlighting the comprehensive nature of our methodology.

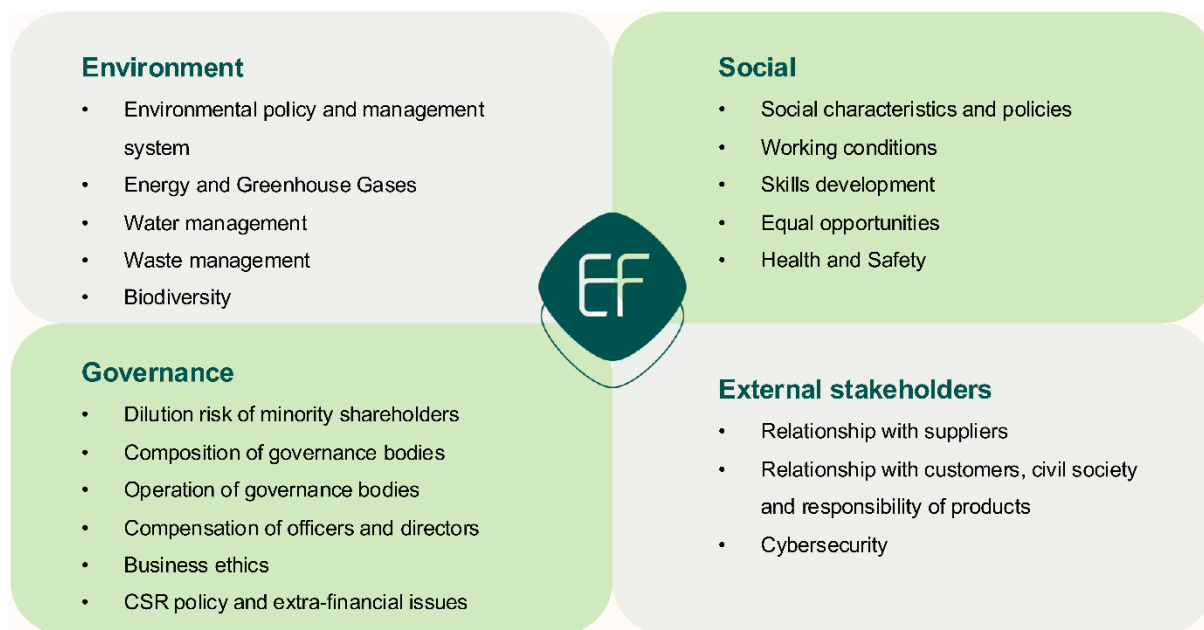


Chart 2: Ethifinance ESG Ratings pillars and topics

Our ESG Ratings analyst team monitors ESG controversies for all companies in our rating universe. This involves identifying and analysing significant allegations, scandals, or contentious issues surrounding the companies under our coverage. Our process includes a qualitative analysis to determine the severity level for the company and its stakeholders. We have defined five controversy severity levels:

- Neutral
- Not significant
- Significant
- High risk
- Critical risk

For more detailed information on our assessment methodology, please refer to our methodology document available on our website ([Ethifinance ESG Ratings methodology](#)).

Macroeconomic context

Unlike 2022—which was marked by an unprecedented inflationary shock and only the initial stages of monetary tightening—2023 represented a turning point for the European economy. The ongoing conflict in Ukraine continued to shape the continent’s geopolitical and economic agenda. Although pressure on European energy markets eased relative to the peaks reached in 2022, the war remained a persistent source of uncertainty regarding costs, external trade, and regional stability.

In 2023, Europe showed a distinctly two-speed recovery. On one side stood the "North", more exposed to industrial slowdown and the waning of global trade. Germany ended the year with a GDP contraction of 0.3%, weighed down by its industrial base, the weakening of global demand, and elevated energy costs. France recorded a 1.6% expansion, driven primarily by resilient external demand, while private consumption remained constrained by reduced purchasing power amid a still-challenging inflationary environment. By contrast, the “south” showed greater resilience, supported in large part by the strength of the services sector—particularly tourism. Spain posted a solid 2.7% GDP growth, propelled by strong international tourism and robust domestic demand. Portugal grew by 2.6%, and Greece by 2.3%. Ireland, however, experienced a technical adjustment, with GDP contracting by 5.5%, mainly due to distortions linked to the activity of large multinational corporations.

On the inflation front, the shift was also significant. After ending 2022 with a headline inflation rate of 9.2%, the euro area closed 2023 at 2.9% year-on-year, consolidating the disinflationary trend initiated in the final quarter of the previous year. On a full-year average basis, the decline was somewhat more moderate—from 8.4% in 2022 to 5.4% in 2023. Energy prices, which had been a destabilizing factor the previous year, now contributed negatively to the headline figure. A gradual moderation was also observed in both industrial goods and services. However, core inflation—which excludes the most volatile components—remained elevated, ending the year above 4%, well above the European Central Bank (ECB)’s medium-term target.

This macroeconomic landscape prompted a clear response from the European Central Bank. After raising the deposit facility rate to 3.5% in June, the ECB continued its tightening cycle, reaching a peak of 4.50% at the end of the year. The U.S. Federal Reserve followed a similar path, taking its federal funds rate to a target range of 5.25%–5.50%, the highest level since 2001.

Overall, 2023 was not a year of full recovery, but one of transition and adjustment. The European economy demonstrated a degree of resilience yet also revealed persistent structural vulnerabilities. In essence, the year marked a shift from emergency response measures to a phase of consolidation—paving the way for the long-awaited normalization of monetary policy in 2024, within a context of heightened geopolitical uncertainty.

2023 Corporate sustainability performance analysis

Overall ESG scores

The average score for all companies included in our 2024 ESG Ratings evaluation is 53 out of 100 points. More than 60% of the rated European small and mid-sized firms achieve scores between 30/100 and 60/100. Only 11% scored above 70/100, while 8% scored below 30/100. Chart 3 shows the overall distribution of ESG ratings across our small and midcap universe.

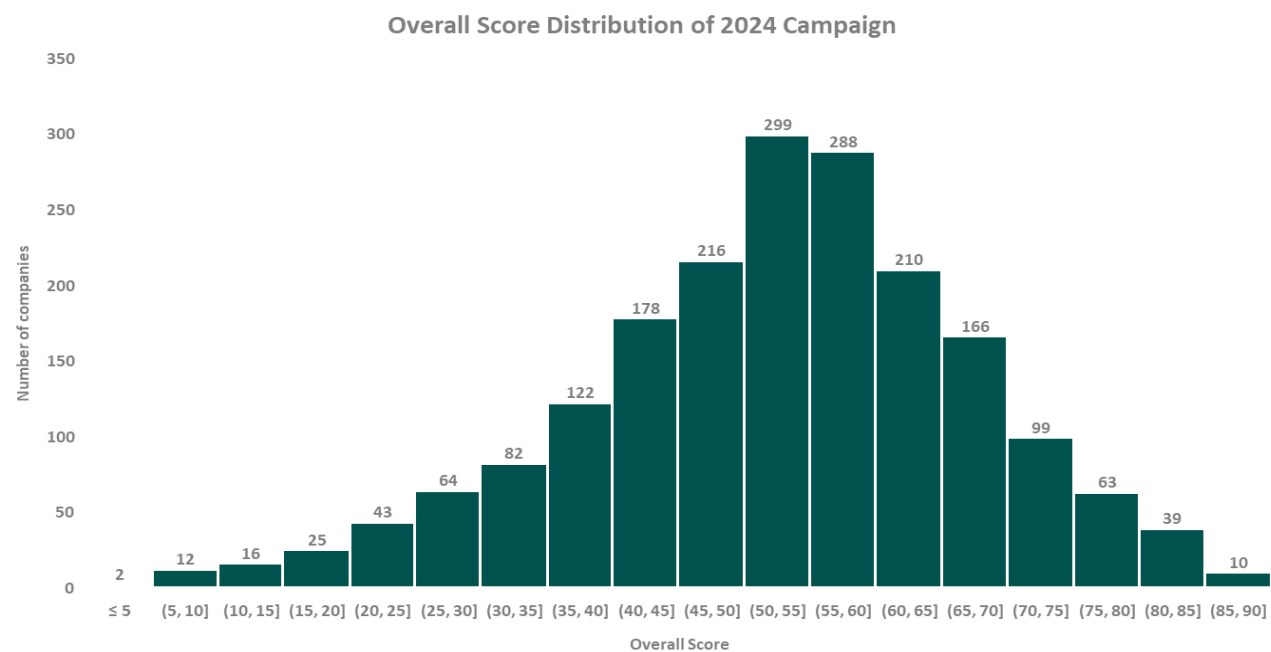


Chart 3: 2024 ESG Ratings distribution of overall scores

Chart 4 illustrates the steady upward trajectory of overall scores over the past three years. Since 2022, the average overall score has increased by 8 points, with the 'Environmental' pillar showing the most significant improvement with 13 points. The 'Governance' and other pillars have seen moderate gains ranging from 6-8 points. Notably, the 'Social' pillar demonstrates both the lowest average score and the smallest year-over-year improvement, highlighting an area where companies have made less progress relative to other ESG pillars.

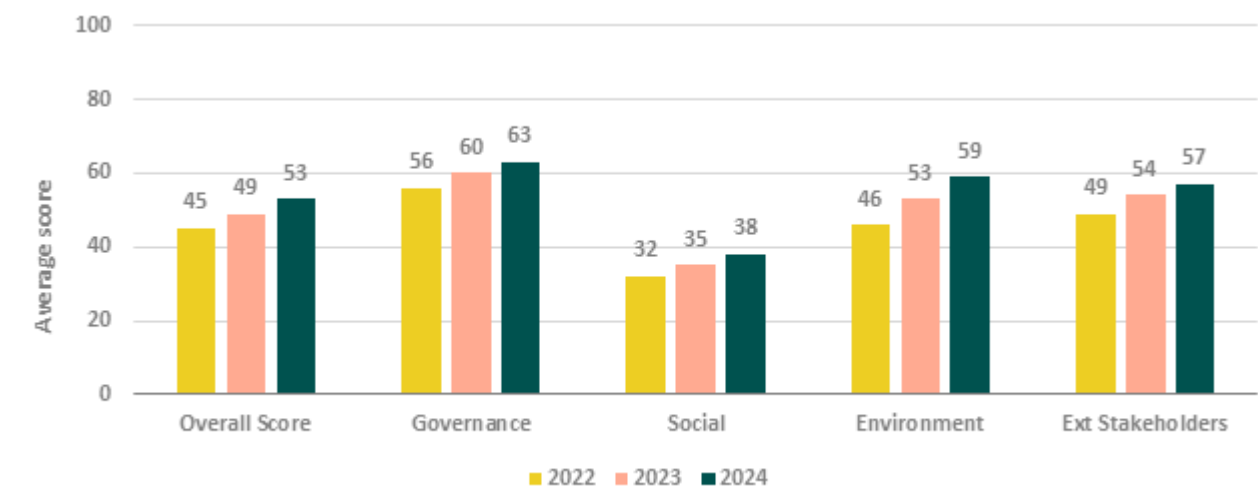


Chart 4: Annual average ESG pillars scores progression

From a thematic perspective, our analysis reveals significant variation in average scores across the four major pillars. Governance has consistently ranked highest over the three-year period, followed by external stakeholder issues and

environmental metrics. In contrast, 'Social' issues persistently receive the lowest scores, indicating a systematic gap in corporate performance within this dimension. We explore the reasons behind this pattern in the following section.

Thematic ESG analysis

Governance topics still ahead, environment topics on the rise

As displayed in *Chart 5*, the average scores by topic range from 23 to 78 with “Biodiversity” having the lowest and “Operation of governance bodies” having the highest average score. “Dilution risk of minority shareholders”, “Energy and Greenhouse Gases”, “Water Management”, and “Cybersecurity” rank amongst the highest topics in terms of scores. Notably, these high-scoring topics align with the mandatory Principle Adverse Impact (PAI) indicators required by SFDR, which likely explains their strong performance.

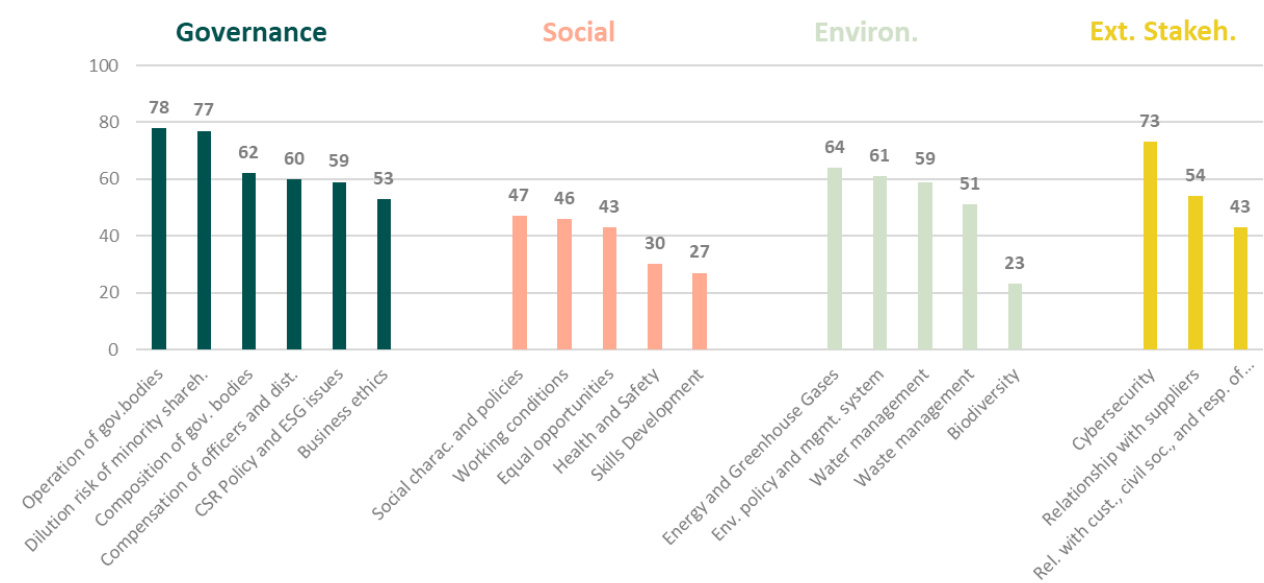


Chart 5: 2024 evaluation average score by ESG topic

Chart 6 highlights the five topics demonstrating the strongest score progressions year-over-year. Notably, all five are also ranked among the ten highest average scores in 2023, indicating that already well-performing topics continue to improve.

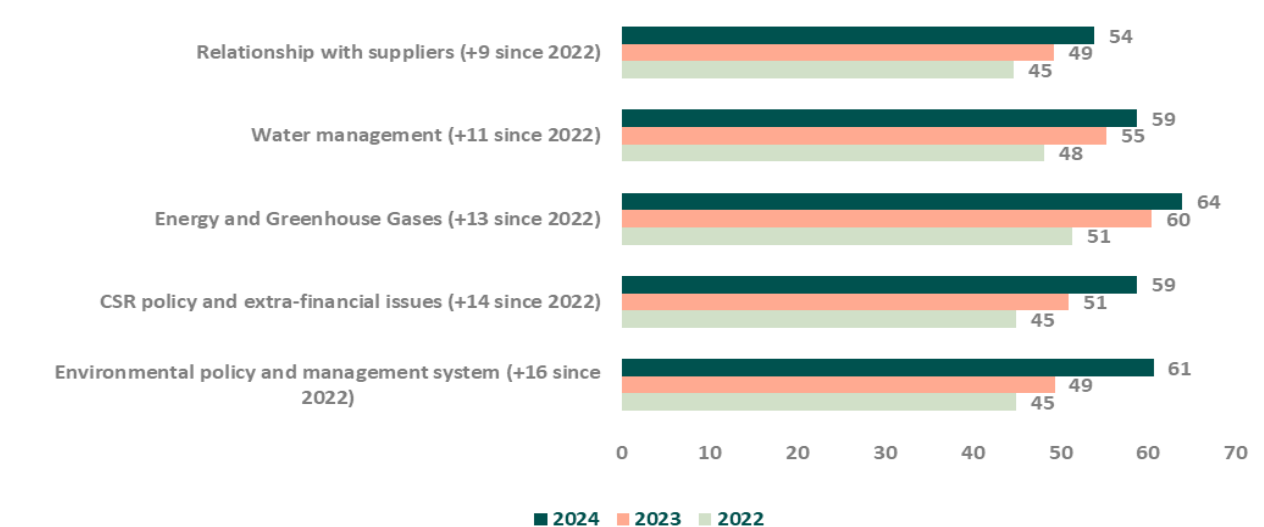


Chart 6: Highest score progression by ESG topic

Environmental topics show the most substantial improvements compared to 2022, with 'Energy and Greenhouse Gases' and 'Water Management' leading this upward trend. As observed in the previous year, these environmental advancements stem primarily from companies' intensified focus on enhanced reporting and measurements.

The acceleration of regulatory initiatives at the European level regarding climate change has significantly contributed to these score increases. These EU-level policies have effectively motivated companies to quantify and disclose their environmental footprints, as well as establish concrete reduction targets across various dimensions.

The score progression also reveals increased efforts to reduce energy consumption. Companies are improving energy efficiency and shifting toward renewable sources, likely driven by growing government commitments to clean energy policies and regulatory frameworks. Our analysis confirms this trend, showing total energy consumption decreased from 1,297 GWh in 2021 to 1,066 GWh in 2023 across reporting companies. However, electricity consumption increased significantly from 230 GWh to 1,101 GWh during the same period. This indicates a strategic shift toward electrification, as companies replace fossil fuels with electricity to reduce emissions and comply with environmental regulations.

Although Scope 3 emissions show a dramatic rise from 3,601,686 tCO₂e in 2021 to 7,921,117 tCO₂e in 2023, this is largely attributable to the preparation for and implementation of new European reporting standards (CSRD and ESRS) requiring more comprehensive disclosure of value chain emissions rather than actual performance deterioration. This enhanced transparency in emissions reporting, while initially showing higher reported values, ultimately supports more effective climate action by providing a more accurate baseline for future reduction strategies.

In the context of the European Green Deal, renewable energies play a central role in the shift towards clean energy. Directives such as the [Fit for 55 package](#) in 2021 and the [REPowerEU Plan](#) in 2022 have driven the more ambitious revision of the [Renewable Energy Directive](#) and the [Energy Efficiency Directive](#) in 2023, with the aim of increasing renewable energy and energy efficiency targets in Europe.

It is also worth noting the progress in the 'Water management' score over the past two years, which evaluates water consumption and the discharge of priority substances. This improvement is largely driven by the [Sustainable Finance Disclosure Regulation \(SFDR\)](#), which requires investors and financial institutions to disclose sustainability-related data—prompting companies to enhance their own reporting practices. Similar to broader environmental policy efforts, an increasing number of companies are prioritizing measurement, reporting, and reduction of water consumption and wastewater treatment. This trend is further accelerated by both regulatory frameworks and upcoming compliance requirements.

Regional perspective

Southern Europe at the forefront

From a regional perspective, our data shows certain differences in the average sustainability performance of companies across Europe. As shown in *Chart 7*, Portugal, France and Spain show the highest average scores, while Luxembourg, Germany and Switzerland present the lowest scores.

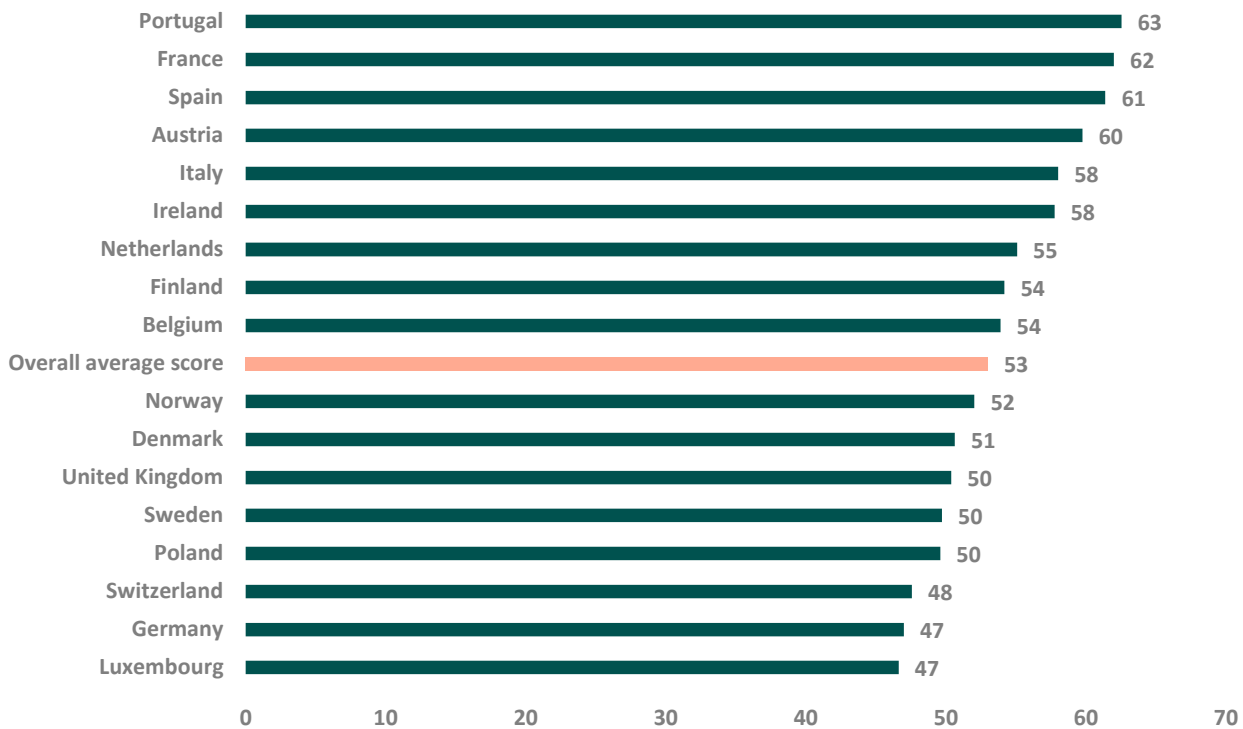


Chart 7: 2024 Campaign average scores by country²

One explanation for French companies' higher rankings is their longer ratings history with Ethifinance ESG Ratings, leading to greater participation in rating dialogue and consequently higher scores. This dynamic is explored further in the next chapter. Similar patterns appear in Portugal, Italy, Austria, and Spain, which show higher dialogue participation rates and correspondingly higher scores. France also pioneered sustainability reporting with the 2001 "[Loi NRE³](#)" (New Economic Regulations Law), which mandated ESG reports for large, listed companies. This established voluntary ESG reporting as common practice in France well before it became standard across Europe.

Subsequently, we have compared the average scores of companies inside and outside of the European Union (EU). Our data reveals that EU companies consistently outperform their non-EU counterparts across all ESG pillars, with the most pronounced difference appearing in the social dimension (12 points). *Chart 8* illustrates this performance gap, with EU companies scoring 42 points in the social pillar compared to just 30 for non-EU firms. However, non-EU companies have narrowed the overall performance gap since last year from 6 to 4, primarily through advancements in governance practices. This improvement is largely attributable to higher scores in the topics 'CSR policy and extra-financial issues' and 'Business ethics'.

The chart confirms that governance scores have reached parity at 63 points for both groups, while significant disparities persist in other pillars—particularly in social practices (42 vs. 30) and external stakeholder engagement (59 vs. 53).

² Greece's average score is not represented in the ranking due to its limited coverage by Ethifinance in 2023, with only one company included.

³ The "Loi NRE" is the French Law on "Nouvelles Régulations Économiques" (New Economic Regulations). Adopted in 2001, it had introduced a series of provisions to promote transparency and accountability in the corporate sector, as well as to strengthen shareholder rights. It included measures related to financial disclosure, corporate governance, and employee participation in business decision-making.

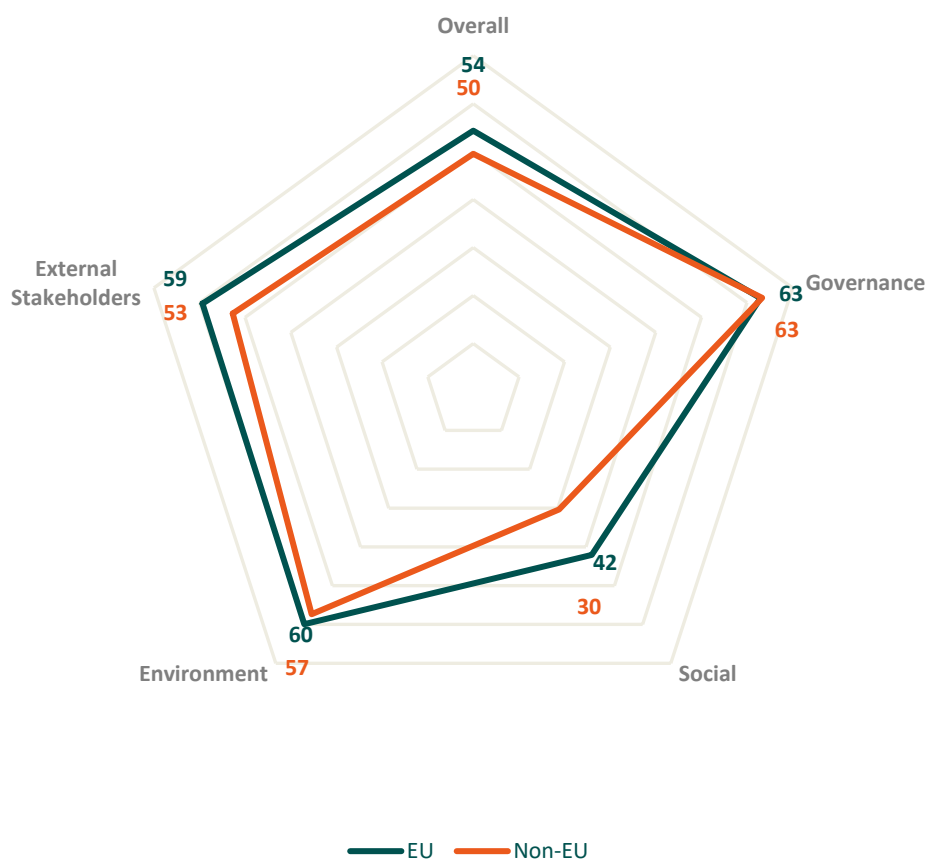


Chart 8: Average scores by ESG pillar between EU and non-EU companies

Within the Social pillar, EU companies excel primarily in 'Skills development', 'Health and Safety', and 'Social characteristics and policies', while non-EU companies narrow the gap in 'Working conditions' and 'Equal opportunities'. Environmental scores also show a notable difference (60 vs. 57), contributing to the overall performance gap (54 vs. 50). This persistent pattern reinforces the observation that EU firms maintain their leadership position in ESG implementation and transparency, likely influenced by the region's more established regulatory framework.

Rating dialogue

Participation continues to pay off

EthiFinance systematically invites the rated companies to participate in the rating process, which allows us to increase the amount of information gathered and thus the overall quality of our analysis. This is particularly important for small and mid-sized companies, which on average provide less systematic and less publicly available sustainability related information. In 2024, 22 percent of the rated companies participated in the rating dialogue as shown in *Chart 9*. *Chart 10* then shows that companies that participated in the rating dialogue scored on average 12 points higher than those that did not participate, and 9 points higher than the overall universe of rated companies.

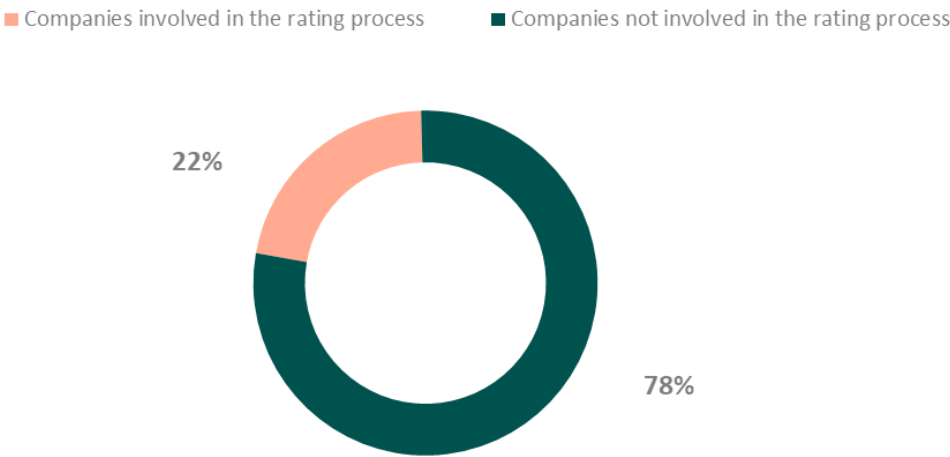


Chart 9: 2024 overall participation rate in ratings dialogue

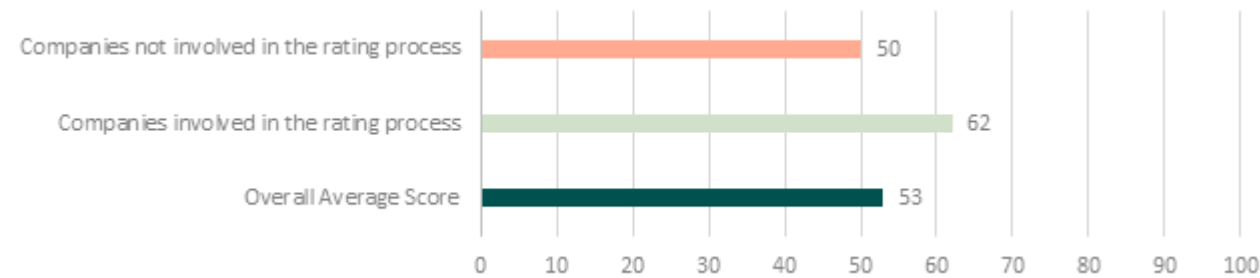


Chart 10: Overall ESG scores based on participation in ratings dialogue

France leads with the highest response rate at 62%, as shown in *Chart 11*. This likely reflects our longstanding ESG ratings activity in France, compared to other European countries where companies have only been included in our ratings universe since 2021. At the other end of the spectrum, the Nordic countries, UK, and Ireland show the lowest participation rates, all below 11%. Year-over-year trends reveal mixed patterns across regions: while participation in the DACH region and Nordics decreased by 3 percent compared to 2023, Italian companies showed a 2 percent increase and Benelux companies increased by 1 percent.

Within the DACH region specifically, participation varies significantly by country. Germany demonstrates the strongest engagement with 58% of companies participating in the rating dialogue process, followed by Switzerland at 32%, and Austria at 10%.

While these regional variations within Europe are notable, the broader trend shows declining engagement across EU companies overall. As shown in *Chart 12*, dialogue participation among EU companies decreased from 32% in 2023 to 28% in 2024—a 4 percentage point decline. This contrasts with non-EU companies, which maintained stable participation at 11% over the same period. The overall participation rate consequently fell by 2 percentage points from 24% to 22%, driven primarily by the reduced engagement among EU-rated companies.

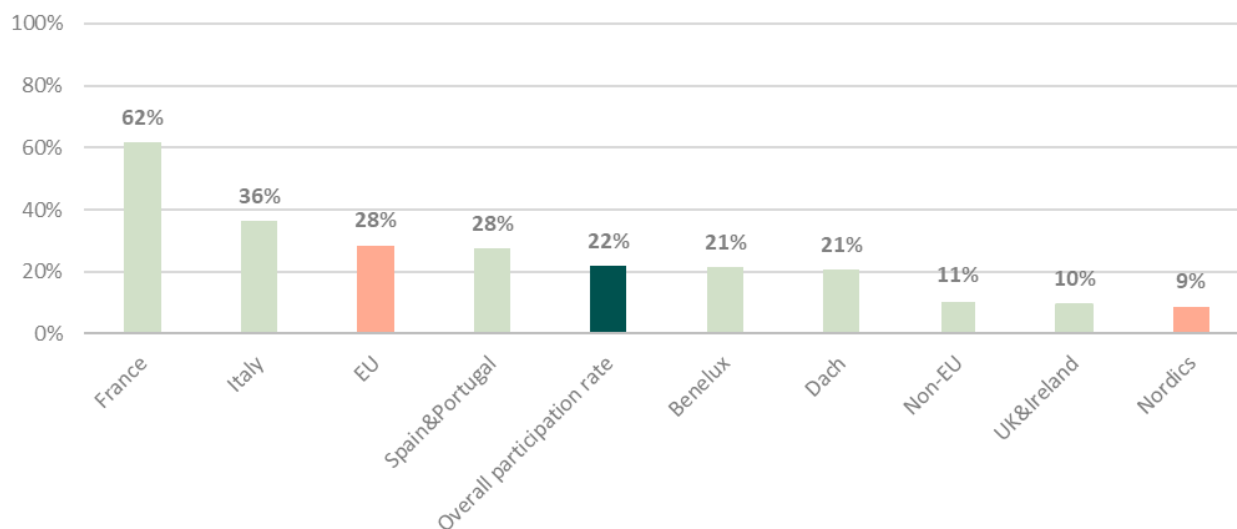


Chart 11: 2024 participation rate in the ratings dialogue by region⁴

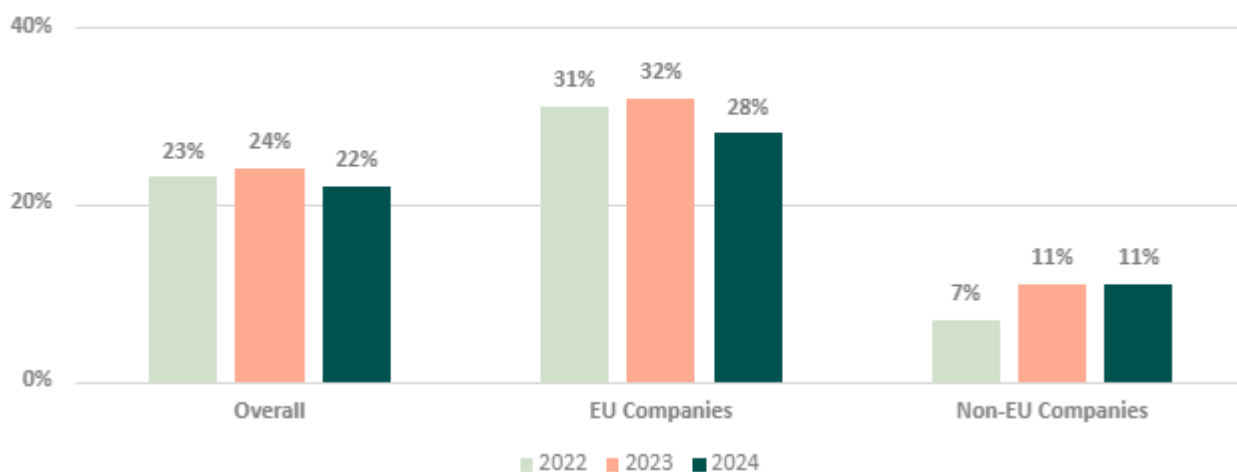


Chart 12: Progression of the participation in the ratings dialogue (EU vs. non-EU companies)

⁴ For more graphical clarity, we have regrouped some countries into regional clusters.

Sector analysis

ESG Across Sectors: Contributions to ESG Pillars

Chart 13 presents the average ESG ratings across 16 sectors, revealing subtle yet meaningful performance variations.

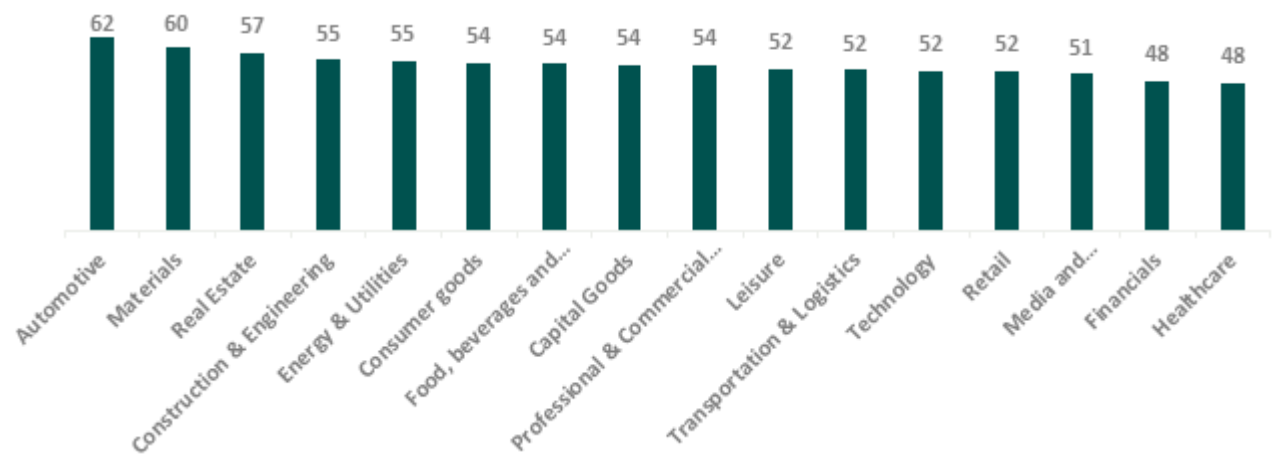


Chart 13: 2024 average scores by sector

Automotive (62), Materials (60), and Real Estate (57) emerge as the top performers, suggesting these industries have developed more robust environmental and governance frameworks. Conversely, Financials (48) and Health Care (48) occupy the lowest positions, indicating significant opportunities to enhance their sustainability practices. The relatively tight clustering of most sectors demonstrates a broadly consistent adherence to ESG standards, though with distinct performance differences that highlight industry-specific sustainability challenges and priorities.

Which sectors contribute the most across the four pillars is highlighted by Chart 14. Automotive, Materials, and Real Estate consistently perform well, with Automotive leading the way across all pillars.

Across all sectors, Social pillar performance is consistently weaker, with no sector achieving an average score above 48. In contrast, both the Governance and External Stakeholder pillars show more evenly distributed results. Interestingly, the sectors Professional & Commercial Services, Technology, and Capital Goods lead within the External Stakeholder pillar despite not being ranked highly in other pillars. This cross-pillar variation indicates that each industry has distinct ESG strengths and vulnerabilities that are highly dependent on the specific ESG dimension.

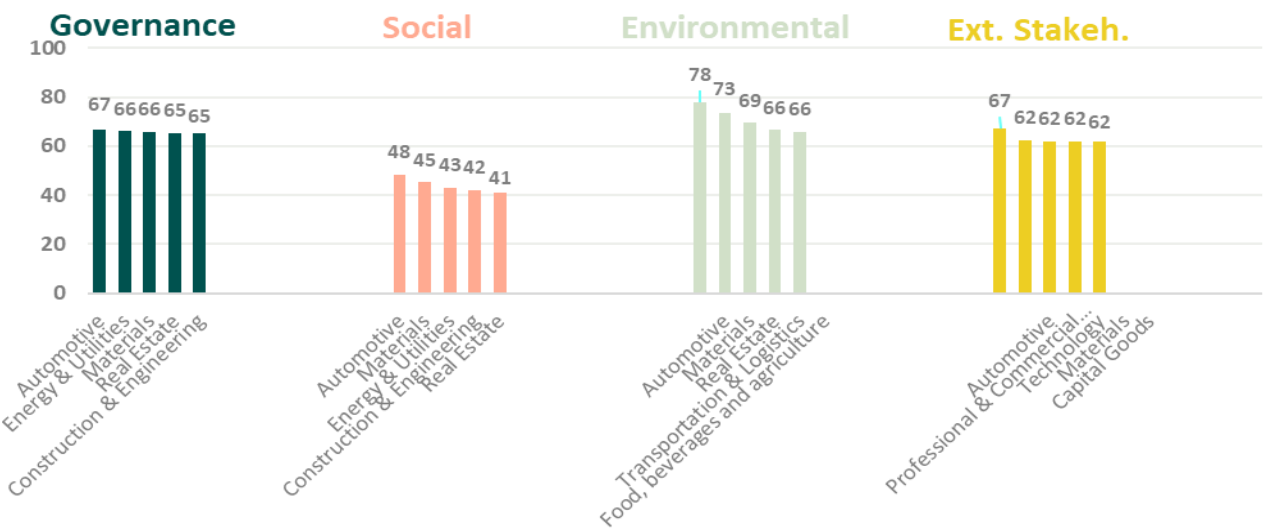


Chart 14: Top performing sectors by ESG pillar

The ranking of sectors by overall average scores has remained relatively constant over the last three years, as illustrated in *Chart 15*. Automotive, Materials, and Real Estate sectors consistently performed the best, while Healthcare and Financials sectors consecutively ranked the lowest.

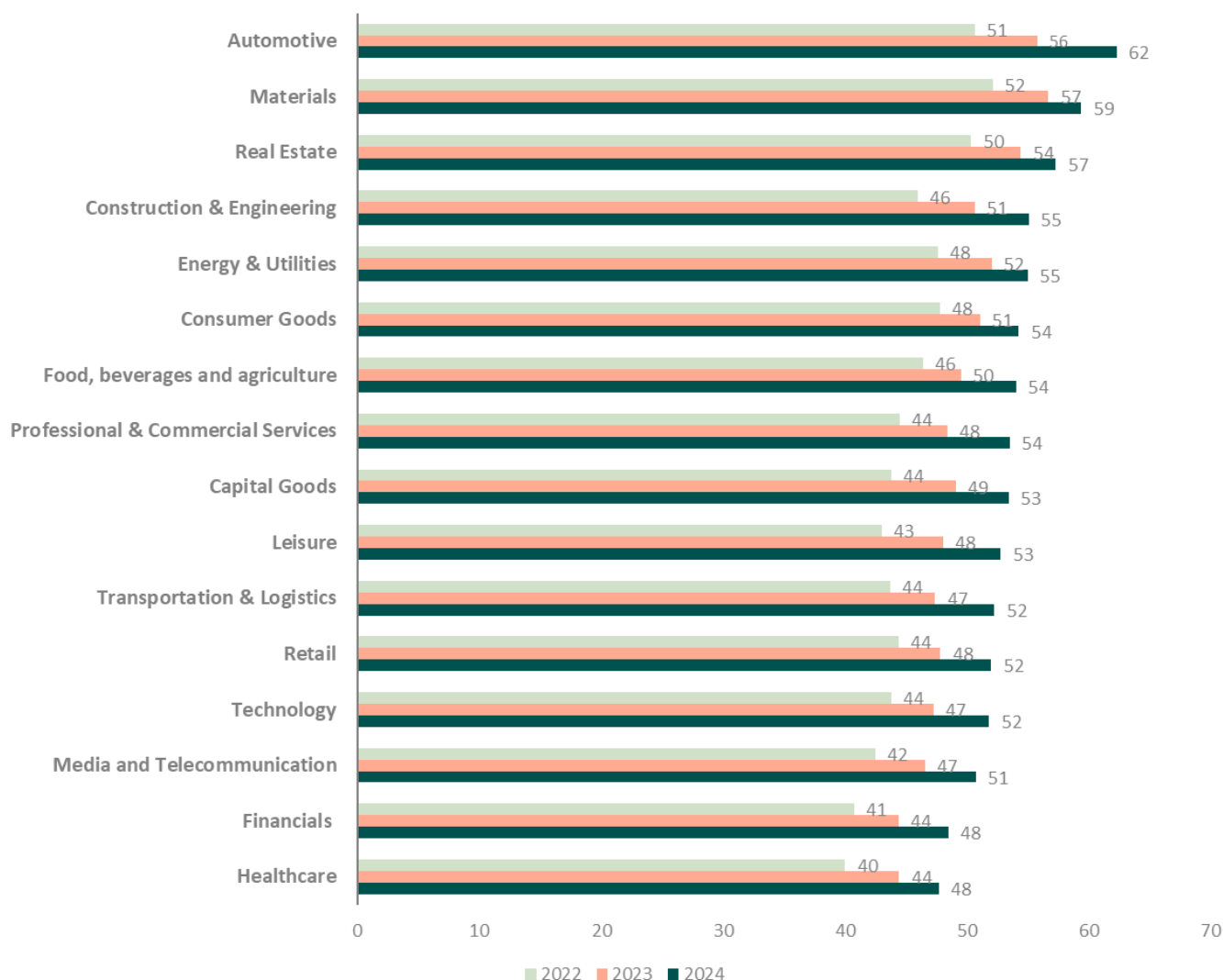


Chart 15: Annual progression of overall scores by sector

The most significant improvement in overall scores in 2024 compared to 2023 can be seen in the Automotive Sector, which improved by 6 points. This was followed by Professional & Commercial Services and Transportation & Logistics sectors, both showing increases of around 5 points.

This rise correlates with average score improvements particularly in the environment and social pillars between 2023 and 2024, as displayed in *Chart 16*. The Automotive sector experienced a 13% increase in its average environmental and social scores during this period.

The increase in the environmental score may be attributed to stricter regulations on emissions and fuel efficiency, pushing automakers to adopt greener technologies and sustainable manufacturing practices using renewable energy in production and reducing waste. The automotive companies within our sample have also shown improvements in their responsible purchasing practices and auditing of their suppliers and subcontractors based on social and environmental criteria.

The Financial sector's 19% increase in environmental scores between 2023 and 2024 can be attributed to increased disclosure requirements, including the EU SFDR, and stronger measures against greenwashing

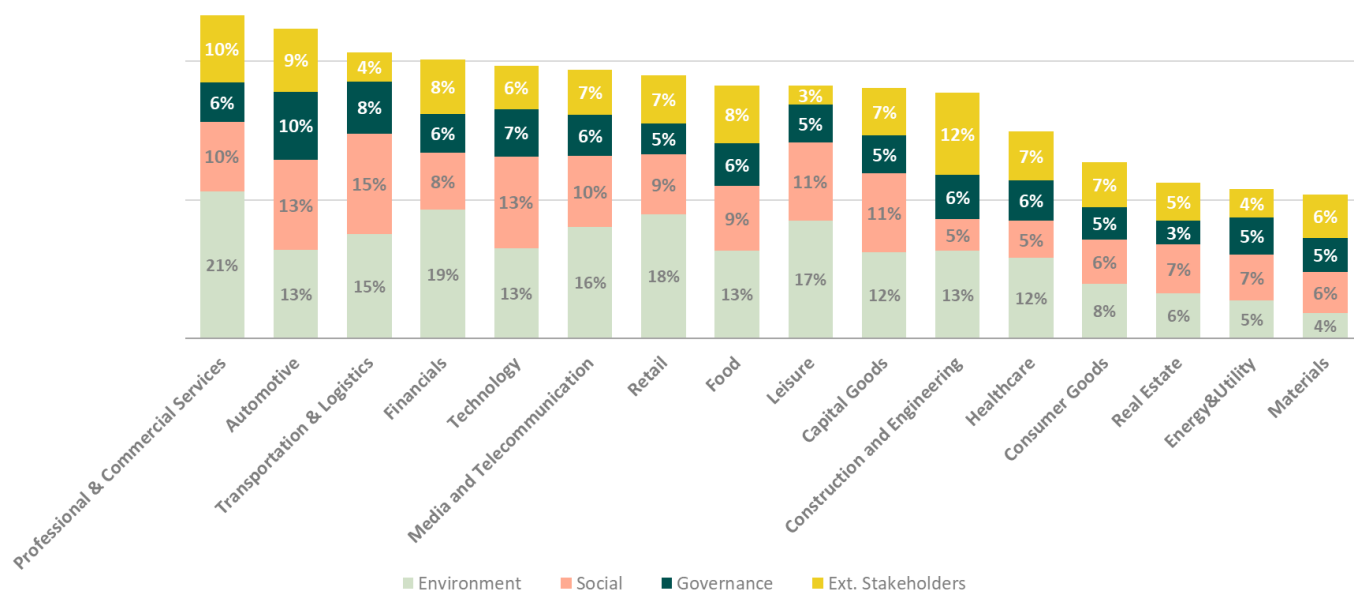


Chart 16: Increase in scores by ESG pillar between 2023-2024

Company size

Large Caps Maintain Their Lead, But Small Caps Are Gaining Ground

When adding 317 additional large companies to our comparative analysis, the analysis reveals that these outscore the mid- and small sized firms of our initial sample by 4 and 10 points respectively (see *Chart 17*).⁵ When looking at the annual evolution of the average scores by company size (*Chart 18*), large corporations have shown a similar improvement in their sustainability performance compared over a two-year period to the previous year. However, the one-year increase from 2023 to 2024 was stronger for large and small firms (+4) compared to mid-sized ones (+3).

This performance dynamic should also be viewed through Ethifinance ESG Ratings' differentiated approach, which adjusts expectations based on company size. Larger firms (≥500 employees, ≥EUR 40M turnover, or ≥EUR 20M assets - aligned with NFRD 2017) are expected to demonstrate ESG progress beyond basic reporting, while smaller firms are primarily assessed on transparency and ESG maturity. This tailored methodology reflects Ethifinance's expertise in proportionally evaluating small and mid-sized companies.

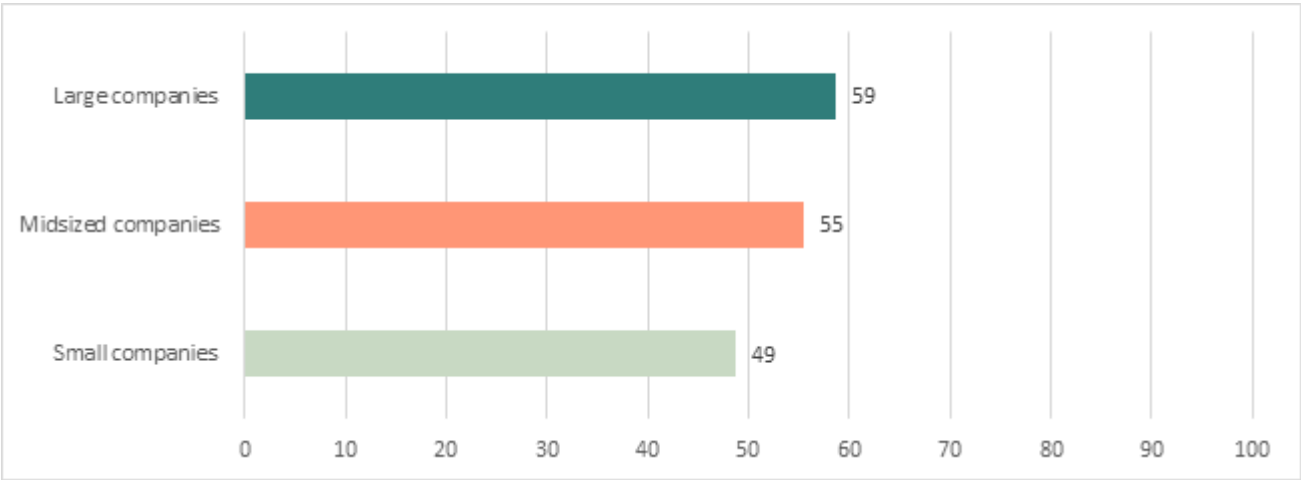


Chart 17: 2024 average overall scores by company size

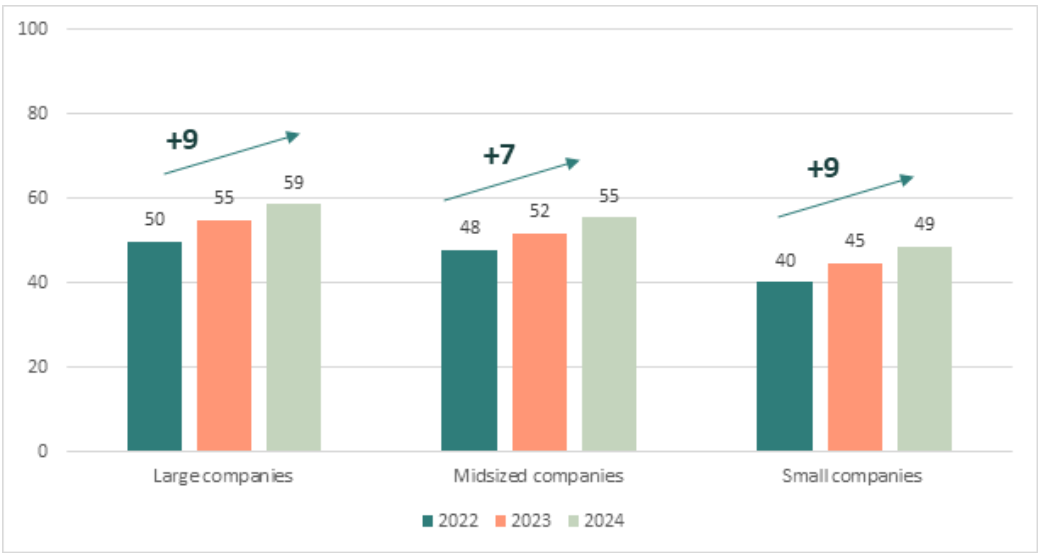


Chart 18: Progression of the average overall score by company size.

⁵ The size of companies is defined through their market capitalization at the end of 2023.

- Large companies: Companies with a market capitalization of over €10,000 million.
- Mid-sized companies: Companies with a market capitalization between €10,000 million and €500 million.
- Small companies: Companies with a market capitalization of less than €500 million.

Evaluation of controversies

As illustrated in *Chart 19*, companies from Southern Europe demonstrated higher levels of controversy involvement during the 2024 reporting period compared to the EU average. Conversely, companies from Nordic countries recorded the lowest controversy involvement rates across all regions analysed.

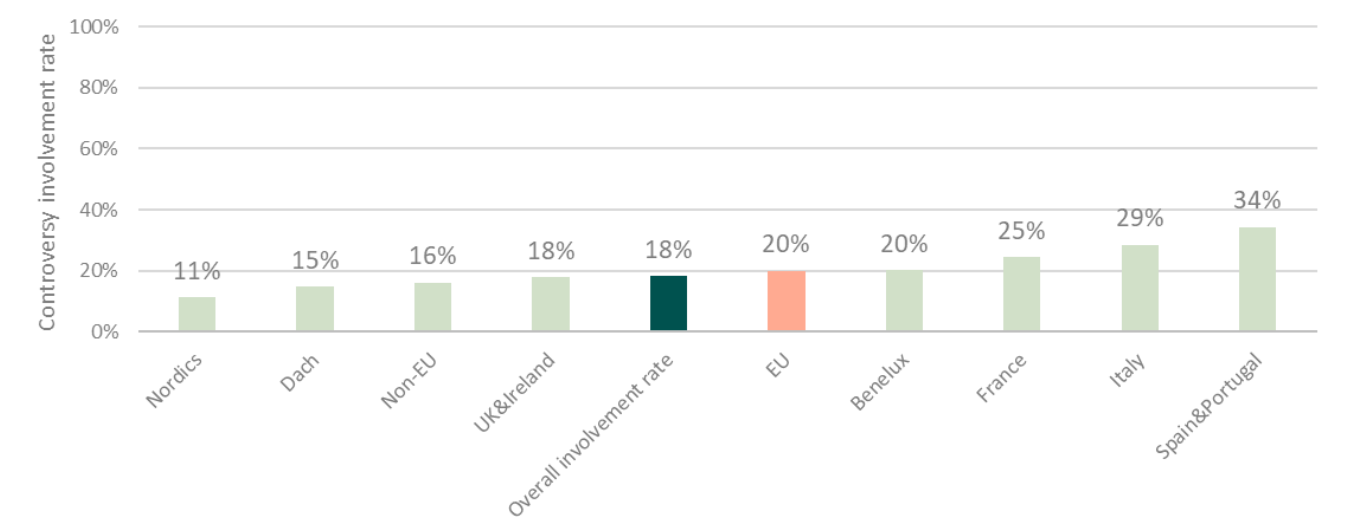


Chart 19: Percentage of companies involved in controversies by region

Regarding the average severity of controversies, *Chart 20* reveals relatively consistent patterns across regions, with no major differences observed. While DACH countries showed slightly below-average severity levels, Italian companies experienced higher-than-average severity ratings, followed by UK & Ireland companies in the 2024 rating period. The overall average controversy severity rate for all rated companies was approximately 2 out of 5, classified as "not significant."

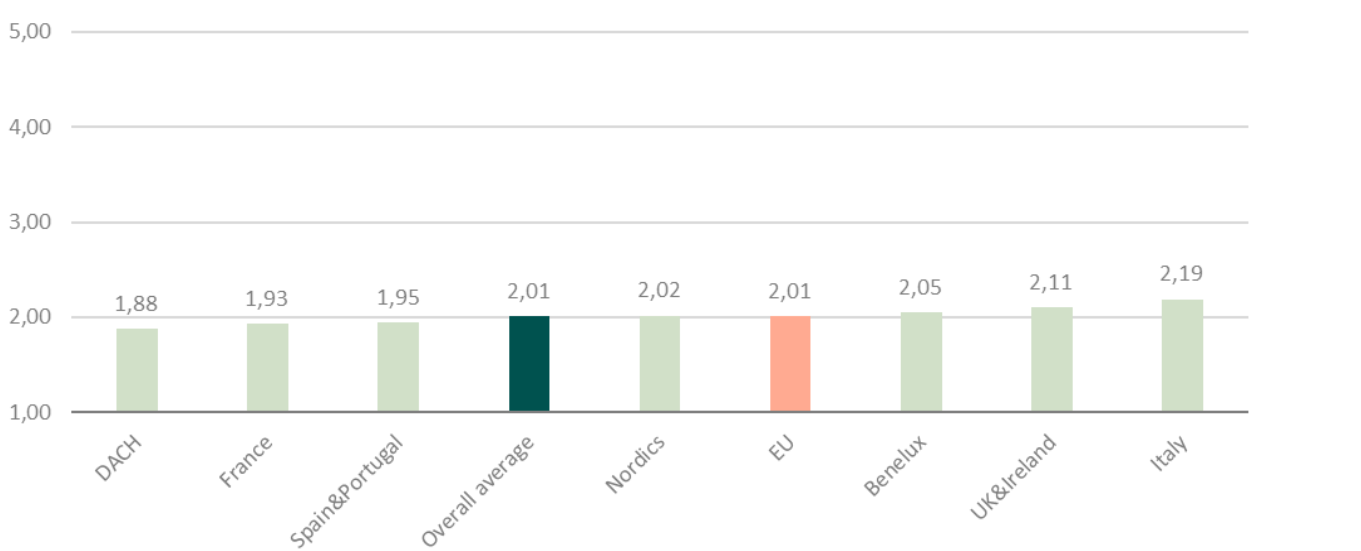


Chart 20: 2024 average controversy severity rating by region^{6Z}

Chart 21 demonstrates the controversy involvement rate, a critical factor in ESG ratings, across 16 sectors. A higher involvement typically reduces overall scores. Capital Goods (7%), Real Estate (8%), and Technology (14%) exhibit the lowest rates, indicating relatively minimal exposure to ESG-related controversies. In contrast, Automotive (55%), Leisure (52%),

⁶ The average controversy severity by country is calculated by evaluating the average severity level for each company in each country, and then averaging it by country.

⁷ The detailed explanations of the five severity levels of controversies from Ethifinance's analysis methodology can be found in the 'Presentation' section of this document.

and Transportation & Logistics (44%) lead the rankings, reflecting a significantly higher frequency of controversial incidents.

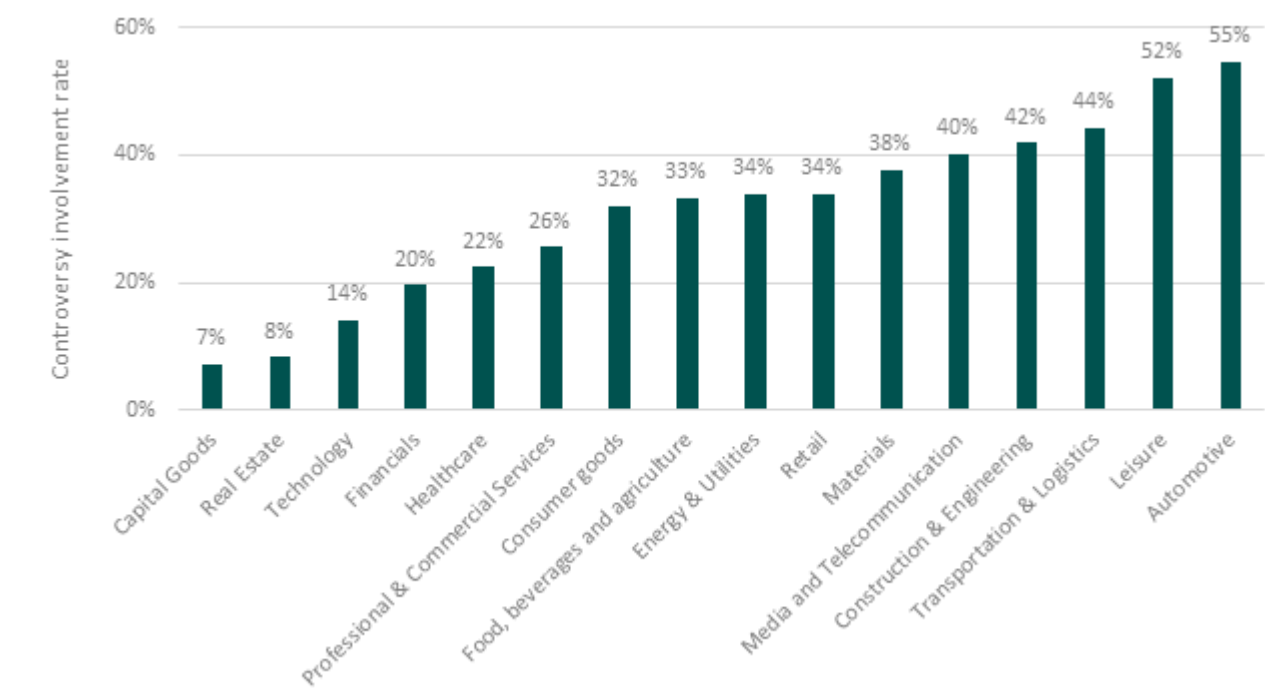


Chart 21: 2024 controversy involvement rate by sector

An analysis of the five sectors with the highest controversy involvement rates reveals distinct patterns of risk exposure across ESG pillars, as shown in Chart 22. Social controversies emerge as the dominant ESG issue across all five sectors, representing between 46% and 80% of all controversies. The Automotive sector shows the highest proportion at 80%, followed by Transportation & Logistics at 75% and Leisure at 70%.

Construction & Engineering stands as the only sector where governance controversies (49%) slightly exceed social controversies (46%), highlighting unique corporate governance challenges within this industry. Environmental controversies remain minimal across all sectors, being entirely absent in both Automotive and Media & Telecommunication (0%) and reaching their peak in Construction & Engineering at only 6%.

This sectoral variation demonstrates how industry characteristics fundamentally shape ESG risk profiles. While social controversies maintain consistent prominence across sectors, environmental risks remain nearly absent for many industries.

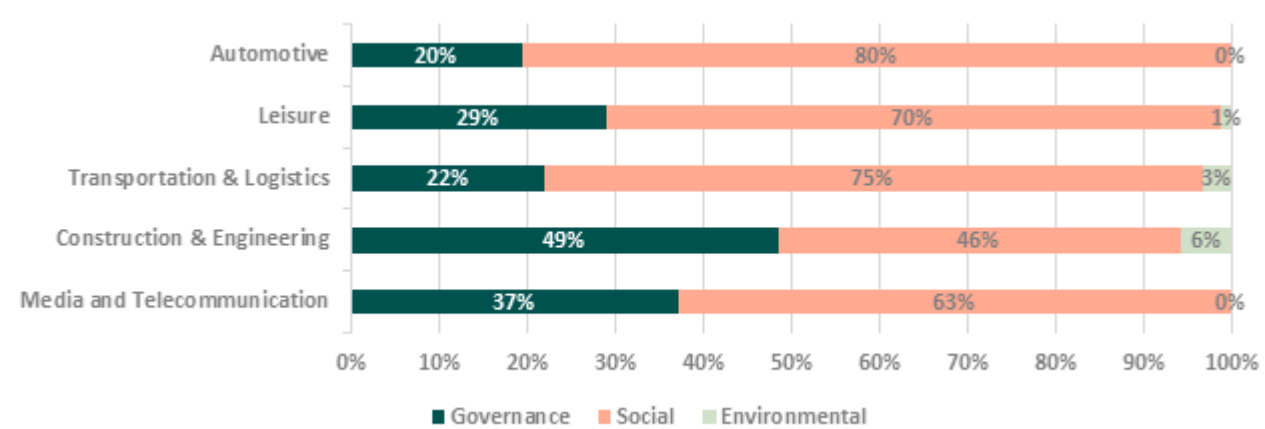


Chart 22: Controversy rate by ESG pillar of five sectors with the highest controversy involvement rates

Examining all controversies across all sectors, social issues emerge as the most prevalent controversial topic. On average, social issues account for 60% of controversies in 2024, followed by governance (31%) and environmental concerns (10%). *Chart 23* further supports this finding, showing that four of the five most recurring controversial topics are social issues, with "Anti-competitive practices" being by far the most contentious topic.

Notably, none of the top 10 most frequent controversial topics relate to environmental concerns, with "Water pollution" being the only environmental issue appearing just outside the top 10 rankings.



Chart 23: 2024 top controversial topics

Charts 24-26 present the most recurring controversial topics within each ESG pillar. Among governance-related issues, "Anti-competitive practices" predominates, representing 25% of total governance controversies, primarily involving companies' participation in cartels. "Corruption and bribery" follows as the second most common governance issue, accounting for 13% of all governance-related controversies.

Within environmental controversies, 26% relate to "Water pollution," followed by "Air Pollution" at 15%. A significant finding reveals that half of all water pollution-related controversies involve UK-based companies, aligning with reports highlighting the substantial increase in sewage discharges and water pollution incidents in the UK. This pattern reflects the impact of stringent UK regulations, including the Water Environment Regulations 2017 and the Control of Pollution Act 1974, which establish high water quality standards and impose severe penalties for non-compliance. Companies in the energy and utilities sectors show the highest incidence of water pollution-related controversies, followed by those in the materials sector.

Social issues demonstrate more even distribution across topics, with "Cyber-attacks," "Deceptive commercial marketing or advertising practices," "Product Safety Issues," and "Sub-standard working conditions" each representing 11% of social controversies, followed by "Restructuring/Mass Layoffs" at 10% occurrence in 2024.

The analysis reveals continuing trends from previous years, with social and governance issues maintaining their dominance in corporate controversy landscapes, while environmental controversies remain relatively limited despite increased regulatory focus. This pattern underscores the ongoing challenges companies face in managing stakeholder relationships and maintaining ethical business practices, while environmental compliance appears more successfully managed across most sectors.

GOVERNANCE

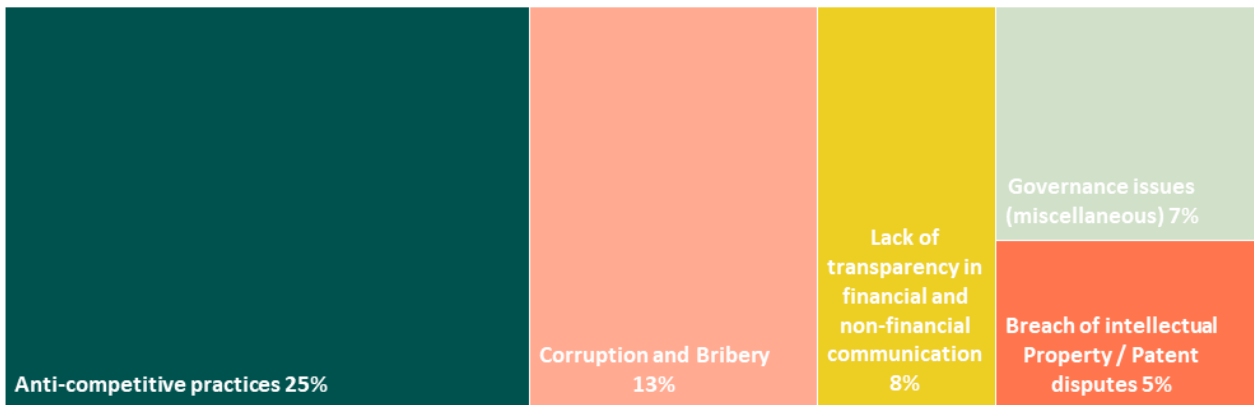


Chart 21: 2024 top Governance-related controversial topics

SOCIAL



Chart 22: 2024 top Social-related controversial topics

ENVIRONMENTAL

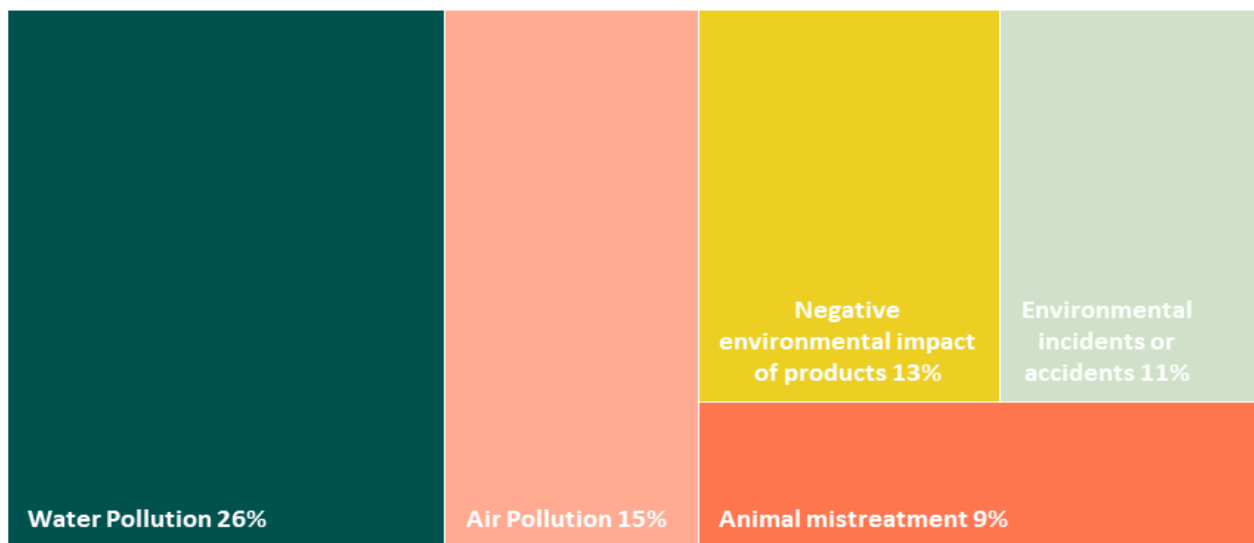


Chart 23: 2024 top Environmental-related controversial topics

Conclusion

The 2024 ESG analysis of European small and mid-sized companies demonstrates continued progress in sustainability performance, reinforcing trends observed in previous years. With an average score increase of 4 points to 53/100, companies are maintaining their upward trajectory in ESG implementation.

Key trends from 2023 have been sustained and strengthened in 2024. The Environmental pillar continues to lead improvements with a remarkable 13-point increase since 2022, driven by enhanced climate reporting, regulatory compliance, and renewable energy adoption. Governance remains the strongest performing pillar, while Social issues continue to present the greatest challenges for companies across all sectors.

Regional patterns persist, with Southern European companies maintaining their leadership position and EU firms consistently outperforming their non-EU counterparts. The automotive, materials, and real estate sectors retain their top rankings, while the financial and healthcare sectors continue to lag behind.

Perhaps most significantly, the correlation between active participation in the rating dialogue and performance remains strong, with participating companies scoring 12 points higher on average. This underscores the value of engagement and transparency in driving ESG advancements.

The controversy analysis reveals stable patterns, with social issues dominating at 60% of all controversies, followed by governance concerns. Environmental controversies remain minimal, either suggesting that companies are successfully managing environmental compliance despite increased regulatory scrutiny or indicating a lesser media coverage on environmental misconducts.

Looking ahead, several trends warrant attention. The persistent underperformance in social pillar scores across all sectors suggests this area requires focused improvement efforts. The narrowing performance gap between EU and non-EU companies, while positive for overall European sustainability standards, highlights the influence of regulatory harmonization. Additionally, the concentration of environmental improvements in already high-performing topics indicates that companies may need to broaden their focus to address lagging areas like biodiversity, which remains the lowest-scoring topic at just 23 points.

Overall, the findings confirm that European small and mid-sized companies are making steady, measurable progress in their sustainability journey, building upon the foundation established in previous years while adapting to an evolving regulatory landscape.

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Contact



📍 Ethifinance SAS
153 Boulevard Haussmann
75008 Paris

☎ +33 1 39 62 13 22

✉ contact@ethifinance.com

🌐 www.ethifinance.com