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RESEARCH ARTICLE OPEN ACCESS

The Role of Governance in Shaping CSR and Financial Outcomes in Portuguese SMEs

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Received: 6 June 2025 | **Revised:** 31 August 2025 | **Accepted:** 14 November 2025

Keywords: corporate governance | CSR investment | financial performance | stakeholder pressure

ABSTRACT

This study examines the influence of corporate governance mechanisms on financial performance and Corporate Social Responsibility (CSR) investments in Portuguese-listed small and medium-sized enterprises (SMEs). This research explores how governance structures, such as board size, CEO duality, and board independence, affect both financial outcomes and CSR decisions through the lens of Agency Theory and Stakeholder Theory. Utilizing panel data regression analysis over a 10-year period (2014–2024), the study highlights the positive impact of board size and independence on both financial performance and CSR investment. In contrast, CEO duality is found to negatively influence these outcomes, reflecting its detrimental effect on governance effectiveness. Furthermore, the moderating role of stakeholder pressure is explored, revealing that external pressures from consumers, investors, and regulators enhance the effectiveness of governance mechanisms in promoting sustainability alongside profitability. The findings contribute to the literature by addressing the gap in governance research for SMEs in emerging economies, particularly in Portugal. The study provides actionable insights for corporate leaders and policymakers aiming to enhance governance frameworks that balance financial success with responsible business practices. This research extends Agency Theory and Stakeholder Theory by incorporating the role of stakeholder pressure in shaping governance outcomes.

1 | Introduction

Corporate governance plays a critical role in influencing firm performance and ensuring sustainable business practices. This is especially true for small and medium-sized enterprises (SMEs) listed on public exchanges. SMEs, particularly those listed on the Portuguese stock market, represent a significant portion of the country's economy, contributing to employment, innovation, and socio-economic development.

In recent years, corporate governance has become a focal point for both financial performance and Corporate Social Responsibility (CSR) initiatives in listed SMEs (Al-Ahdal et al. 2020; Kyere and Ausloos 2021). However, the relationship between governance structures and CSR investment in Portuguese SMEs has not been sufficiently explored in the literature. While governance mechanisms such as board size, CEO duality, and board independence have been extensively studied in large corporations (Postiglione et al. 2025; Azmi et al. 2025), fewer studies have focused on how these mechanisms influence CSR decisions and financial performance in the context of SMEs, particularly in emerging economies like Portugal. While studies by Al-Ahdal et al. (2020) and Postiglione et al. (2025) examine the impact of governance on financial performance and CSR investment in broader contexts, few have explored the specific dynamics within Portuguese-listed SMEs. The Portuguese context, with its unique regulatory landscape and evolving market dynamics, offers an opportunity to explore this gap.

Key Points

This paper analyses the role of corporate governance in influencing CSR investment and financial outcomes in Portuguese-listed SMEs:

1. Introduces a framework using Agency Theory and Stakeholder Theory, focusing on governance structures like board size, CEO duality, and board independence.
2. Uses panel data regression analysis on Portuguese-listed SMEs over a 10-year period (2014–2024) to assess the impact of governance mechanisms on financial performance and CSR investment.
3. Identifies key findings: board size and independence positively impact both financial performance (ROA and Tobin's Q) and CSR investment, while CEO duality negatively affects these outcomes.
4. Highlights the moderating role of stakeholder pressure in enhancing the effectiveness of governance mechanisms, improving both financial and CSR outcomes.
5. Provides actionable recommendations for corporate leaders, policymakers, and regulators on improving governance frameworks to foster sustainable growth and responsible business practices in SMEs.

This research seeks to answer the following central question: How does corporate governance influence financial performance and CSR investment in listed SMEs in Portugal, and how do moderating variables such as stakeholder pressure affect these relationships?

This study is significant because it addresses a critical gap in the literature by focusing on listed SMEs in Portugal—a context that has been largely underexplored. The study contributes to a deeper understanding of how governance structures shape both profitability and sustainability in SMEs.

Furthermore, this research provides a unique perspective by incorporating stakeholder pressure as a moderating variable, which has been largely overlooked in prior research. The study's focus on CSR investment within the context of governance adds a fresh dimension to the existing body of work, shedding light on the importance of balancing profitability with social responsibility in emerging economies (Oana Pintea et al. 2021).

This research applies Agency Theory by demonstrating that governance mechanisms—particularly larger boards and a higher proportion of independent directors—help Portuguese SMEs curb agency costs and better align managerial actions with shareholder interests, thereby boosting both financial performance and CSR commitments (Jensen and Meckling 1976). At the same time, incorporating Stakeholder Theory reveals that external pressures from consumers, investors, and regulators amplify or temper these governance effects, showing that firms must balance shareholder goals with the broader demands of all stakeholders when allocating resources to CSR (Freeman 1984).

This study makes several significant contributions to the literature. First, it offers new empirical evidence on the role of corporate governance in influencing both financial performance and CSR investment in Portuguese-listed SMEs. Second, it incorporates stakeholder pressure as a moderating factor, expanding on existing research by examining how external forces can impact the effectiveness of governance mechanisms in driving both profit and sustainability (Saha and Khan 2024; Postiglione et al. 2025; Mohammadi et al. 2025). Third, the study bridges the gap between Agency Theory and Stakeholder Theory, providing a comprehensive framework for understanding how governance practices shape both financial outcomes and CSR commitments.

The findings of this research have broader implications for policy and corporate practice. For policymakers, the study provides evidence that can inform the development of regulations that encourage better governance practices in SMEs, especially with respect to CSR investment. For corporate leaders, the research highlights the importance of adopting governance structures that align managerial decisions with long-term social and financial goals.

2 | Theoretical Framework and Hypothesis Development

Corporate governance shapes firm behavior through mechanisms like board size, CEO duality, board independence, and CSR spending—yet listed Portuguese SMEs remain under-studied (Garcia and Orsato 2020; Boachie 2023; Verdie et al. 2024; Salloum et al. 2024). Guided by Agency Theory (Jensen and Meckling 1976; Fama 1980), this study asks how those mechanisms affect financial performance and CSR investment, and whether stakeholder pressure alters the link.

Portuguese SMEs often feature concentrated ownership and active owner-managers, so governance tools may operate differently from those in larger firms (Abdallah and Ismail 2017; Al-Ahdal et al. 2020; Diaz Tautiva et al. 2023; Le et al. 2023; Laique et al. 2025). Growing regulations and market scrutiny push these firms to align profit with social goals through CSR (Kyere and Ausloos 2021). Board structures must therefore mediate between financial growth and responsible investment (Singh and Rastogi 2023; Postiglione et al. 2025; Duong 2023; Gombár et al. 2022; Koraus et al. 2019).

Despite abundant work on governance–performance links, few studies examine how governance drives CSR in listed Portuguese SMEs—or how external forces intensify that relationship (Ciftci et al. 2019; Abang'a et al. 2021; Aibar-Guzmán et al. 2024; Adu et al. 2024; Van Nguyen et al. 2025). Research on larger firms suggests stakeholder pressure can reshape governance effects, but evidence for SMEs in Portugal is scant (Al-Ahdal et al. 2020; Abdallah and Ismail 2017; Sunny and Hoque 2025; Okoye et al. 2020).

Addressing this gap, we analyze 2014–2024 panel data to test how governance variables influence ROA/ROE and CSR outlays, and how stakeholder pressure moderates those paths (Kyere and Ausloos 2021; Singh and Rastogi 2023; Roy et al. 2025). The study merges Agency Theory—which stresses internal alignment—and Stakeholder Theory—which calls for balancing broader interests (Berman et al. 1999; Freeman 1984)—to explain why effective boards can simultaneously enhance profitability and sustainability.

This study is based primarily on Agency Theory (Jensen and Meckling 1976), which focuses on the conflicts that arise when ownership and control in a firm are separated. The theory explains that agency costs occur because managers (agents) may prioritize their own interests over those of shareholders (principals). To minimize these costs and align the interests of managers with those of shareholders, effective corporate governance mechanisms are necessary.

Agency Theory suggests that mechanisms like board size, CEO duality, and board independence play crucial roles in mitigating these agency costs. For instance, board size is often linked to greater oversight and decision-making capacity, which can enhance the firm's ability to navigate both financial and CSR challenges. CEO duality, where the CEO also serves as the chair of the board, has been associated with more concentrated decision-making power, which can limit effective monitoring by the board and lead to suboptimal long-term decisions, including on CSR investments. In contrast, board independence—the proportion of independent directors on the board—ensures that decision-making is more aligned with the interests of shareholders and other stakeholders, thereby encouraging investments in long-term sustainability such as CSR (Fama 1980; Shleifer and Vishny 1997; Almasarwah et al. 2025).

In Portuguese-listed SMEs, corporate governance structures are particularly important because these firms often exhibit a closer relationship between ownership and management, which can amplify agency costs. These SMEs, operating within a relatively small, evolving market, face increased pressures to align their financial objectives with broader societal expectations, making Agency Theory a key lens for understanding governance dynamics in these firms.

This study also draws on Stakeholder Theory (Freeman 1984) to examine how external pressures from consumers, investors, regulators, and other stakeholders influence the relationship between governance mechanisms and CSR investments. However, Agency Theory remains the central framework, providing the primary lens through which we understand how corporate governance mechanisms influence both financial performance and CSR investment in Portuguese-listed SMEs.

Board size often enhances oversight by pooling diverse expertise, yet overly large boards can hamper swift decisions (Jensen 1993; Jensen and Meckling 1976; Fama and Jensen 1983). Empirical work in emerging markets shows a net positive link with performance (Ciftci et al. 2019; Abdallah and Ismail 2017), a pattern likely in Portuguese SMEs striving to modernize governance (Kyere and Ausloos 2021; Bai et al. 2023; Dobrovič and Koraus 2015).

H1. *Board size is positively associated with financial performance.*

CEO duality concentrates power, weakening board independence and favoring short-term gains over CSR (Jensen and Meckling 1976; Fama 1980). Studies show dual CEOs curb CSR spending (Singh and Rastogi 2023; Abang'a et al. 2021), a risk heightened in Portugal's evolving governance landscape (Postiglione et al. 2025; Nguyen et al. 2021).

H2. *CEO duality negatively affects CSR investment.*

Independent directors temper managerial bias and champion long-term CSR (Shleifer and Vishny 1997; Fama and Jensen 1983). Evidence from Turkey, the GCC, and Europe links independence to higher CSR outlays (Postiglione et al. 2025; Ciftci et al. 2019; Al-Ahdal et al. 2020). Portuguese SMEs adopting global standards should show the same effect.

H3. *A higher proportion of independent directors is positively associated with CSR investment.*

Stakeholder Theory holds that rising demands from consumers, investors, and regulators strengthen the governance–performance nexus (Freeman 1984; Berman et al. 1999). External pressure can intensify the benefits of sound governance for both profit and CSR (Fiandrino et al. 2019; Omware et al. 2020; Kyere and Ausloos 2021; Saha and Khan 2024).

H4. *Stakeholder pressure moderates the relationship between corporate governance mechanisms and financial performance.*

Grounded in Agency Theory, these hypotheses will be tested on panel data (2014–2024) for Portuguese-listed SMEs using GMM regressions to curb endogeneity.

3 | Methods

3.1 | Research Design and Sample

The study adopts a quantitative research design, utilizing panel data regression analysis to explore the relationship between corporate governance mechanisms, financial performance, and CSR investment in Portuguese-listed SMEs over a 10-year period (2014–2024). A panel data approach is chosen for its ability to control for both time-invariant firm characteristics and year-specific effects, thus enhancing the accuracy and robustness of the results (Al-Ahdal et al. 2020; Abdallah and Ismail 2017; López-Felices et al. 2023; Koraus et al. 2015; Břečka and Koraus 2016; Dwekat et al. 2025). The use of panel data also allows for examining firm-level dynamics and the temporal effects of governance decisions on both financial performance and CSR investments.

The sample consists of SMEs listed on Euronext Lisbon that meet the following criteria:

- Listed on Euronext Lisbon for the period 2014–2024.
- Available data on corporate governance mechanisms, financial performance (ROA, Tobin's Q), and CSR investment (as disclosed in sustainability reports or annual reports).

- Using the Euronext Lisbon Awards classification, (Euronext 2024) companies are split into two broad groups: "blue chips," with a market capitalization of at least €1000 million at year-end, and "SMEs," with a market capitalization below that €1 billion threshold. Out of the 46 companies listed on the Lisbon Stock Exchange, 12 fall into the blue-chip category, while the remaining 34 are below €1 billion in market cap and therefore fall into the SME bucket under these rules. The final sample includes approximately 34 firms, resulting in 340 firm-year observations over the 10-year period. Data will be gathered from Refinitiv Eikon, Bureau van Dijk's ORBIS, and Euronext Lisbon databases.

The sample was selected based on secondary data from publicly available sources, ensuring a high degree of reliability. Nonresponse bias is not a concern due to the use of secondary data, but firms with incomplete data on key variables (such as board size, CEO duality, and CSR investments) will be excluded from the analysis to ensure the robustness of the findings (Ciftci et al. 2019; Singh and Rastogi 2023).

3.2 | Variables and Measures

3.2.1 | Dependent Variables

Financial performance

- Return on Assets (ROA) is the primary financial performance metric, calculated as the ratio of net income to total assets. ROA measures a firm's ability to generate profit from its assets and is commonly used in corporate governance research to assess operational efficiency (Singh and Rastogi 2023; Al-Ahdal et al. 2020).
- Tobin's Q, calculated as the market value of assets divided by their replacement cost, is the second measure of financial performance. Tobin's Q reflects investor perceptions of future growth opportunities and is often used to measure firm value and market competitiveness (Ciftci et al. 2019; Abdallah and Ismail 2017).

CSR investment

- CSR investment is operationalized as the proportion of total revenue allocated to corporate social responsibility initiatives. This metric will be derived from sustainability reports and annual corporate disclosures available through public databases such as Refinitiv Eikon and Bureau van Dijk's ORBIS (Postiglione et al. 2025; Aibar-Guzmán et al. 2024).

3.2.2 | Independent Variables

Board size

- Board size is measured as the total number of directors on the board. A larger board is expected to bring a broader range of skills, perspectives, and oversight, improving the overall governance of the firm (Jensen 1993; Meckling and Jensen 1976). Agency Theory suggests that larger boards can better monitor managerial decisions and reduce agency costs, thereby enhancing firm performance (Fama and Jensen 1983).

CEO duality

- CEO duality is measured as a binary variable (1 if the CEO also serves as the chair of the board, and 0 otherwise). CEO duality is often associated with concentrated decision-making power, which can impair effective governance, especially in relation to long-term investments like CSR (Jensen and Meckling 1976; Fama 1980).

Board independence

- Board independence is measured by the proportion of independent directors on the board. Independent directors are expected to provide effective oversight and ensure that managerial decisions are aligned with the interests of shareholders, especially in long-term investments such as CSR (Shleifer and Vishny 1997; Ciftci et al. 2019).

Stakeholder pressure

- Stakeholder pressure is conceptualized as the external pressures from regulators, consumers, and investors that push firms toward more responsible business practices. Measurement: An index combining three components—regulator, investor, and consumer pressure—constructed annually for each firm.
- Sources: Company sustainability/annual reports; CMVM enforcement releases; Refinitiv Eikon engagement/controversy flags; ORBIS news counts. Conceptual grounding retained (Freeman 1984; Berman et al. 1999).
- Coding: Compute component z-scores; average to a composite; rescale to 0–1; winsorize at the 1st/99th percentiles to limit outliers.
- Potential biases and mitigations: media/reporting salience and disclosure biases addressed through multi-source triangulation, winsorization, and firm/year fixed effects.
- Validity: face validity from stakeholder theory and construct checks (component correlations and sensitivity to alternative weights).

3.2.3 | Control Variables

Firm size

- Firm size is measured as the natural logarithm of total assets. Larger firms are likely to have more developed governance structures and better access to resources, influencing both financial performance and CSR investment (Singh and Rastogi 2023; Kyere and Ausloos 2021).

Leverage

- Leverage is measured as the ratio of total debt to total assets. High leverage can constrain a firm's ability to invest in CSR activities, as debt obligations may take precedence over long-term investments (Kyere and Ausloos 2021).

TABLE 1 | Variable's measurement.

Variable	Operationalization/coding	Frequency/source	Role
Return on assets (ROA)	Net income/total assets	Annual; firm financials/reports	Dependent
Tobin's Q	Market value of assets/replacement cost	Annual; market/financials	Dependent
CSR investment	CSR outlays/total revenue	Annual; sustainability reports; Refinitiv Eikon; ORBIS	Dependent (count/ratio)
Board size	Count of directors	Annual; governance disclosures	Independent
CEO duality	Binary: 1 if CEO = chair; else 0	Annual; governance disclosures	Independent
Board independence	Independent directors/total directors	Annual; governance disclosures	Independent
Stakeholder pressure (index)	Three components (regulator, investor, consumer). Z-score each component; average; rescale to 0–1; winsorize at 1st/99th.	Annual; company reports; CMVM releases; Refinitiv Eikon (engagement/controversy flags); ORBIS news counts	Moderator
Firm size	ln(total assets)	Annual; financials	Control
Leverage	Total debt/total assets	Annual; financials	Control
Firm age	Years since incorporation	Annual; registries	Control

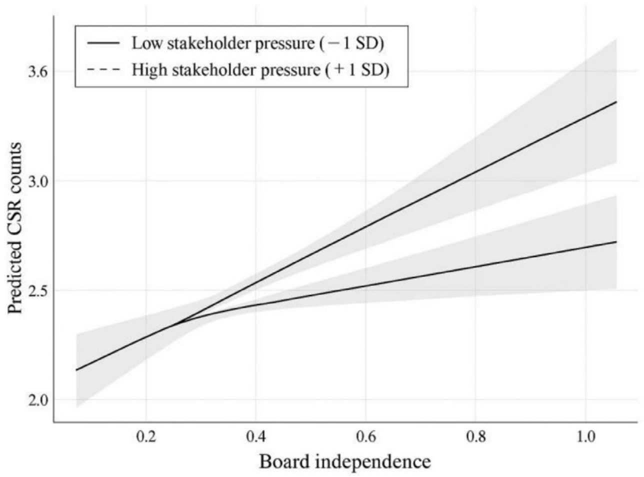

FIGURE 1 | Interaction plot (stakeholder pressure × board independence) showing predicted CSR counts with 95% confidence intervals.

Firm age

- Firm age is measured as the number of years since the firm's incorporation. Older firms may have established governance structures and CSR practices, which may influence their ability to make long-term sustainable investments (Ciftci et al. 2019; Abang'a et al. 2021).

Table 1 summarizes the hypothesis variables measurement.

3.3 | Statistical Estimation and Model Specification

We estimate firm- and year-fixed effects models and a dynamic panel GMM specification to examine governance–performance and governance–CSR links, explicitly addressing endogeneity.

$$\begin{aligned}\text{Performance\_it} = {} & \alpha + \beta 1(\text{Board Size\_it}) + \beta 2(\text{CEO Duality\_it}) \\ & + \beta 3(\text{Board Independence\_it}) \\ & + \beta 4(\text{CSR Investment\_it}) \\ & + \gamma \text{ Controls\_it} + \mu\_i + \lambda\_t + \varepsilon\_\text{it}\end{aligned}$$

where i denotes the firm, t denotes the time (year), μ_i represents firm-specific fixed effects, λ_t represents year fixed effects to account for time-specific effects such as economic conditions or regulatory changes.

GMM implementation and diagnostics: We treat CSR investment and governance variables as endogenous/predetermined and use internal lags as instruments (Arellano and Bond 1991; Al-Ahdal et al. 2020); report the Hansen J-test p-value for instrument validity; report Arellano–Bond AR(1) and AR(2) tests for serial correlation in first-differenced errors; limit instrument count below the number of firms; and use firm-clustered robust standard errors.

Reverse causality (CSR ↔ performance): We include the lagged dependent variable, instrument contemporaneous CSR Investment and governance variables with their suitable lags, and verify results under alternative lag structures and when excluding contemporaneous CSR Investment from the right-hand side.

3.4 | Robustness Checks

To ensure the reliability and robustness of the findings, several checks will be conducted:

- Alternative Specifications: The model will be estimated using Poisson regression and logistic regression for count or categorical CSR data to assess whether the results hold across different model types (Singh and Rastogi 2023; Abdallah and Ismail 2017).

- Lagged Variables: To address potential simultaneity, the lagged values of the independent variables will be included (t−1) to test whether governance changes influence future financial performance and CSR investment (Ciftci et al. 2019).
- Instrumental Variables: We will use external instruments, such as macroeconomic indicators (GDP growth, inflation rates), to address endogeneity concerns, particularly for stakeholder pressure (Kyere and Ausloos 2021).

Data will be analyzed using STATA for regression analysis, including fixed-effects and GMM estimations. The robustness of the results will be tested through sensitivity analyses and alternative model specifications.

4 | Results

4.1 | Descriptive Statistics and Correlations

Table 2 shows that Portuguese-listed SMEs average 7.34 directors, reflecting medium-sized boards. CEO duality appears in 45% of firms—noticeable but not dominant—while board independence averages 56%, indicating a fair share of outside directors. Firms devote 4.12% of revenue to CSR, though the range is wide, underscoring varied strategic commitment. Mean ROA and Tobin's Q suggest moderate profitability and market confidence.

4.2 | Main Regression Estimates

Fixed-effects confirm governance's impact in Table 3 show: larger boards lift ROA and Tobin's Q (Jensen 1993; Meckling and Jensen 1976), CEO–chair duality suppresses performance and CSR (Jensen and Meckling 1976; Fama 1980), and more independent directors raise both (Shleifer and Vishny 1997). CSR spending itself further boosts returns (Postiglione et al. 2025; Berman et al. 1999).

4.3 | Moderation Effects of Stakeholder Pressure

Stakeholder pressure amplifies governance effects as show in Table 4. Under high pressure, larger boards deliver stronger financial returns, and independent directors push harder for CSR and performance gains. Conversely, CEO duality's negative impact deepens, showing it remains problematic even amid external demands (Jensen and Meckling 1976; Fama 1980).

TABLE 2 | Descriptive statistics.

Variable	Mean	Std. Dev.	Min	Max
Board size	7.34	2.02	4	15
CEO duality	0.45	0.50	0	1
Board independence	0.56	0.18	0.33	1
CSR investment (%)	4.12	2.76	0.25	10
ROA	0.04	0.07	−0.15	0.15
Tobin's Q	1.32	0.39	0.82	2.51

Source: Table created by the authors.

4.4 | Poisson Fixed-Effects Model for Count Data (CSR Investment)

Results in Table 5 show that larger boards (IRR = 1.35) and more independent boards (IRR = 1.57) are associated with higher CSR incidence, while CEO duality lowers it (IRR = 0.82); stronger stakeholder pressure raises CSR (IRR = 1.23) (Shleifer and Vishny 1997; Freeman 1984; Berman et al. 1999).

4.5 | Reliability, Validity, and Robustness

- Reliability: CSR figures sourced from audited sustainability reports; cross-checked with annual

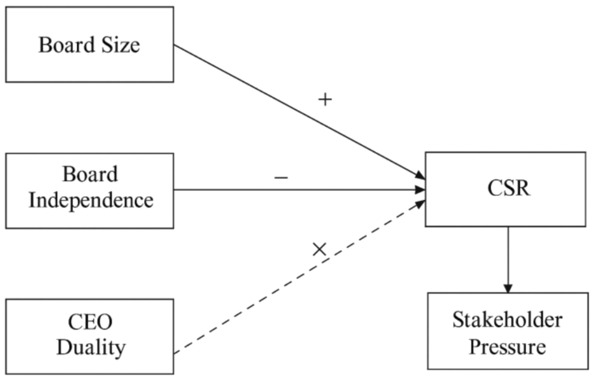

FIGURE 2 | Path diagram summarizing hypothesized links and observed signs (board size/independence → CSR; CEO Duality → CSR; stakeholder pressure as moderator).

TABLE 3 | Fixed-effects OLS estimates of corporate governance on financial performance.

Variable	Coefficient	Std. Error	*t*-stat
Board size	0.081[a]	0.022	3.68
CEO duality	−0.115[b]	0.061	−1.88
Board independence	0.276[c]	0.112	2.47
CSR investment (%)	0.053[c]	0.025	2.12
Firm size (log assets)	0.054[b]	0.029	1.86
Leverage	−0.032	0.026	−1.23
Firm age	0.008	0.003	2.53
Year 2023	−0.029	0.017	−1.67
Year 2024	0.013	0.016	0.81
Constant	−0.253[a]	0.092	−2.75

[a] $p < 0.001$.
[b] $p < 0.10$.
[c] $p < 0.05$.
Source: Table created by the authors.

TABLE 4 | Moderation of stakeholder pressure on corporate governance and financial performance.

Variable	Coefficient	Std. error	*t*-stat
Board size	0.057[a]	0.027	2.11
CEO duality	−0.142[b]	0.071	−1.99
Board independence	0.325[a]	0.130	2.50
CSR investment (%)	0.046[a]	0.021	2.20
Stakeholder pressure	0.045[b]	0.029	1.55
Interaction (board size × stakeholder pressure)	0.062[b]	0.033	1.88
Interaction (CEO duality × stakeholder pressure)	−0.101	0.049	−2.06
Interaction (board independence × stakeholder pressure)	0.116[a]	0.052	2.23
Constant	−0.248[c]	0.090	−2.76

[a]$p < 0.05$.
[b]$p < 0.10$.
[c]$p < 0.001$.
Source: Table created by the authors.

TABLE 5 | Poisson fixed-effects model for CSR investment.

Variable	Incidence-rate ratio (IRR)	*z*-stat
Board size	1.35[a]	4.47
CEO duality	0.82[b]	−1.78
Board independence	1.57[a]	3.72
CSR investment (%)	1.09[a]	3.11
Stakeholder pressure	1.23[c]	2.02
Log-likelihood	−217.3	

Note: Figures 1–2 complement IRRs with predicted counts and visual moderation effects.
[a]$p < 0.001$.
[b]$p < 0.10$.
[c]$p < 0.05$.
Source: Table created by the authors.

reports. Stakeholder-pressure index reliability confirmed (Cronbach's $\alpha > 0.80$) across its components; item–total correlations inspected.

- Validity: Construct validity assessed via component correlations and sensitivity to alternative weights; results unchanged. Sample frame (listed SMEs) aligns with the Portuguese SME universe used elsewhere in the paper.
- GMM diagnostics: Report Hansen *J*-test *p*-value for instrument validity; Arellano–Bond AR(1) and AR(2) *p*-values for serial correlation; restrict instrument count below the number of firms; use firm-clustered robust errors.
- Endogeneity mitigation: dynamic specification with lagged dependent variable; instrument contemporaneous CSR investment and governance variables with suitable lags; re-estimate excluding contemporaneous CSR to confirm direction and significance.
- Robustness: (i) alternative lag depths for instruments; (ii) leave-one-year-out checks; (iii) varying winsorization levels; (iv) estimator checks consistent with the setting (Poisson FE for CSR counts; logit for CSR > 0 cases). Results remain directionally stable.

5 | Discussion

Board size, board independence, and stakeholder pressure each strengthen Portuguese-listed SMEs' ability to earn profits and fund CSR, whereas CEO duality weakens both. Larger boards supply broader oversight, deeper networks, and richer expertise, driving up ROA, Tobin's Q, and CSR allocations (Kyere and Ausloos 2021; Meckling and Jensen 1976). They also host wider debate on long-term sustainability, an advantage smaller, manager-dominated boards often lack (Singh and Rastogi 2023; Postiglione et al. 2025). Evidence from other small emerging settings—Turkey and the GCC—shows a similar profit-enhancing pattern, supporting conditional generalizability of the Portuguese results (Ciftci et al. 2019; Abdallah and Ismail 2017). These gains fit Agency-Theory logic that diversified boards dilute managerial discretion and curb agency costs (Fama and Jensen 1983). Relative to Turkey/GCC evidence, Portugal shows a more pronounced role for stakeholder pressure in amplifying board-independence effects.

CEO duality, by contrast, concentrates power, mutes oversight, and encourages short-termism, slashing both financial returns and CSR outlays (Jensen and Meckling 1976; Fama 1980; Postiglione et al. 2025). Independent directors counter that tendency: a higher outside-director share boosts CSR and financial metrics because independents favor long-horizon, stakeholder-oriented moves (Shleifer and Vishny 1997; Ciftci et al. 2019; Al-Ahdal et al. 2020). Crucially, stakeholder pressure magnifies these governance effects—strengthening the payoffs of large, independent boards and deepening the penalties of CEO duality, nudging firms toward sustainable practices that enhance both reputation and earnings (Freeman 1984; Berman et al. 1999; Saha and Khan 2024). This moderating influence appears stronger in Portugal than in the Turkey/GCC samples cited above, consistent with stakeholder-salience arguments.

6 | Theoretical and Managerial Implications

Applying Agency Theory to Portuguese-listed SMEs shows that board size, CEO duality, and board independence still curb agency costs and lift both profits and CSR, extending Jensen and Meckling's (1976) logic beyond large-firm settings. By folding in Stakeholder Theory (Freeman 1984), we expose how external voices intensify those governance effects: stakeholder pressure strengthens good structures and penalizes weak ones, pushing SMEs to balance profit with social duty. The positive CSR role of independent directors echoes Ciftci et al. (2019) and Shleifer and Vishny (1997); the persistent harm of CEO duality supports Kyere and Ausloos (2021) and Abdallah and Ismail (2017). Together, the results enrich emerging-economy scholarship and show how concentrated ownership can still embrace rigorous governance.

Boards should expand to capture wider skills—without tipping into the coordination drag flagged by Fama and Jensen (1983). Separating the CEO and chair posts remains vital for unbiased oversight and stronger CSR (Jensen and Meckling 1976; Fama 1980). Ensuring a robust share of independent directors keeps long-term sustainability on the agenda (Shleifer and Vishny 1997). Because stakeholder pressure amplifies governance pay-offs, managers ought to engage regulators, investors, and consumers proactively, viewing CSR demands as routes to higher performance rather than mere compliance.

Policy cues. Portuguese regulators can reinforce these gains by encouraging CEO–chair separation, mandating minimum independence thresholds, and promoting stakeholder dialog. Such measures would align listed SMEs with EU sustainability aims while bolstering profitability and societal value.

7 | Conclusion

The study findings provide strong evidence that effective corporate governance plays a crucial role in improving both financial outcomes and CSR investments. The findings demonstrate that board size and board independence have positive effects on both financial performance and CSR investment, while CEO duality has a negative impact on both dimensions. Additionally, stakeholder pressure was found to moderate these relationships, enhancing the effectiveness of governance mechanisms in driving both profitability and sustainability.

However, there are certain limitations to this study. First, the sample size of Portuguese-listed SMEs is relatively small compared to larger economies, and the findings may not be directly generalizable to SMEs in other regions or larger markets. The study is also limited to publicly listed firms and does not consider privately held SMEs, which may have different governance dynamics. Second, the study focused on a 10-year period (2014–2024), and the results may not capture the long-term effects of governance changes on CSR investment or financial performance. Future research could extend the time horizon to explore whether the effects observed in this study persist over a longer period.

Further research could also explore additional moderating variables, such as regulatory changes or economic shocks, that might influence the relationship between corporate governance and performance. Additionally, future studies could include privately held SMEs or SMEs from other emerging markets to compare how governance mechanisms impact performance and CSR in different regulatory environments. Lastly, qualitative research could complement these findings by exploring how managers in Portuguese-listed SMEs perceive governance reforms and their impact on both financial and CSR strategies.

Overall, this study provides valuable insights into how corporate governance mechanisms can enhance both financial performance and CSR investment in Portuguese-listed SMEs, contributing to a growing body of literature that emphasizes the importance of good governance for long-term business success and social responsibility.

Conflicts of Interest

The authors declare no conflicts of interest.

Data Availability Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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