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**Reactive or Proactive?: Investor Sentiment as a Driver of Corporate Social Responsibility**

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**Abstract**

Investors and financial markets have been a neglected stakeholder group in studies on a firm's motivations to be socially and environmentally responsible. Despite being a strong driving force behind firm value, no study has investigated the influence of market and investor sentiments on CSR behaviour. Using a global sample, we investigate the effects of market and investor sentiments on firm CSR performance. We find negative market and investor sentiments in the prior year motivate firms to improve their CSR performance in the next year. We also find the magnitude of improvement in CSR performance differs not only by country, but by CSR sub-category as well. These findings imply that a firm's motivation to improve its CSR performance is reactionary, rather than being driven by altruism. Regulators and proponents of CSR should thus seek to persuade investors and financial markets to put pressure on firms to further advance the CSR agenda.

Keywords: Corporate Social Responsibility; Country Variation; Investor Sentiments; Market Sentiments

JEL: G30, G10

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