

The Cultural Impact of Implementing ESG Practices- Romania's Case

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ABSTRACT : ESG policy implementation is a growing world-wide phenomenon. As organizations strive to execute various ESG projects, racing to ensure compliance with a plethora of regulations, we posit that culture, behaviors, value systems and norms play a significant role in the ESG implementation success. The approach used to respond to the research question is both quantitative and qualitative. To respond and validate the research question and the corresponding analysis, on the quantitative side, we have used a correlative study coupled with a multiple linear regression model ("MLR") while for the qualitative aspect we have used targeted questionnaires and semi structured interviews. We found a strong correlation between several selected variables using the Spearman two-tailed monotonic analysis. Extending the analysis of the quantitative research, using MLR model, we find that the selected predictors set has statistical significance. On the qualitative research side, the research findings support the idea that generational changes in the structure of the value system for the sampled Romanian organizations' constituents close the gap between societal collectivism and individualism. Moreover, the belief in the importance of ESG is definitory for the success of ESG policy implementation. The western policy reproductive approach to ESG in Romania plays a major role in ensuring success of ESG projects' execution. Given that the ESG policy implementation is subject to iterations, there is a discussion to be proven that implementation should be performed gradually, in increments, so that ESG components are effectively assimilated into the Romanian organizations. We consider that there is room for further research that can be performed on proving applicability of aspects related to complex systems, stakeholders' management in Romania and the coming of intricate ESG requirements for the entire supply chains that can also constitute an important research subject matter. In terms of limitations, the current research analysis does not account for the time dimension of ESG project execution.

KEYWORDS – Behaviour, Believes, Culture, ESG policy, Psycho-Social Factors

I. INTRODUCTION

According to the United Nations, the world population should be looking into becoming sustainable and peoples should aim to address the 17 goals for a sustainable planet (the "Sustainable Development Goals"). This is, in essence, a cry to progress without damaging the continuity of life on our planet. ESG comes in as an embodiment of these goals for the race to sustainable economics.

While Western economies have already implemented several regulatory ESG provisions for both the public and the private sector, the frontier economies such as Romania are still in the early stages of adopting ESG practices. Through the current extensive research, we targeted a deeper understanding and a more insightful study of the influence of the Psyche (decision making, behaviour, rationality versus irrationality, cultural landscapes) on the ESG policy implementation as a driving force towards sustainable economics. We argue that this research has a practical application to the ESG policy implementation in Romania and we formulate the following hypotheses: H1- Certain socio-psychological variables can have a substantial impact on ESG practices' implementation in Romania.

H2- Societal culture, values and norms can significantly correlate with the manner in which sustainable practices in Romania are assimilated.

H3- Romanian organizations are more inclined to import western ESG institutional practices to ensure successful implementation of ESG policies.

We formulate our above hypothesis based on existing significant research including two major studies on the psychology of the Romanian people that were undertaken at time intervals set significantly apart (close to 100 years) so that any generational gaps can be substantially covered. We cover extensive ground by reviewing literature in the fields of behavioural economics with regards to decision making, experimental psychology, complexity theory, clinical psychology. In particular, we focused on the theoretical work performed by, Hofstede (2010) Kahneman and Tversky (2011), Daniel David (2015), Thaler and Sunstein (2009), Radulescu Motru (2020), Beinhocker (2007).

The applied approach is both quantitative and qualitative. We survey 70 organizations, selecting relevant representation and targeting several questions to validate our formulated hypotheses. To complement the said investigative study and validate certain findings, we conducted semi-structured interviews with Romanian qualified personnel in the ESG field. Our research findings fill a substantial literature gap related to exogenous factors (including values, beliefs and motivations) related to cultural influences over ESG policy implementation. By using a multiple linear regression model (MLR) we find statistically significant predictors of ESG success.

In terms of further research, we consider that there is a wealth of further research that can be undertaken including aspects related to complex systems, their evolution and their demise, ESG requirements on supply chains, to name a few.

II. LITERATURE REVIEW

2.1. The Stereotyped Characterizations Theory

- One of the widely discussed and used stereotyped characterizations theory is the Hofstede 6 cultural dimensions. The Hofstede-Minkov study (<https://geerthofstede.com/culture-geert-hofstede-gert-jan-hofstede/6d-model-of-national-culture/>) covers only four out of the 6 dimensions for the Romanian people.
- Based on the Hofstede model, we recognize a collectivistic characteristic of the Romanian society based on well accepted hierarchies and an expectation that all initiatives follow a top-down approach. Romanians dislike uncertainty and they perceive it as a threat (Hofstede, 2010). Romanians feel that what is different is dangerous and therefore, individuals seek societal structure. We embrace formalism and perceive rules as a necessary must without accounting for their practical nature. (Hofstede, 2010). Challenging events and change in general are adopted with difficulty by Romanian organizations (Dumitrescu, Suci, Aceleanu, 2022).
- Stereotypes in social psychology are also about the generalization of group or society's attributes. There are self-stereotypes (how we think we are) and there are hetero stereotypes (how we think others are, or how others think we are). This relates also to the cognitive theory in social psychology discussed below purported by (David and Freeman, 2014). Stereotypes Theory helps us understand how challenging economic events such as policies and ESG policy can be assimilated by employees and various organizational actors that currently activating in Romania.
- Novelty and disruptive events are received with high scepticism and less curiosity and consequently they take an extensive amount of time under the normal course of action. The research revealed that technologies in the steel industry took about 40 years to be implemented from the time of prototype identification to the time it produced fruits (Dumitrescu, Suci, Aceleanu 2022).

2.2. Choice architecture and ESG implications

- *Defaults*- People tend to look for defaults. The path of least resistance (the "shortcut") is called for among Romanians. Action is preferred in leaps and not increments often with minimum gains. The design of defaults must consider the positive effects of default. Defaults must not be encouraged if they invite inaction and resistance to change (Thaler and Sunstein, 2009).
- *Mistakes*- Any effective policy or program should factor in the human error (Thaler and Sunstein, 2009) and how to address it. The success of any policy, including ESG is the avoidance of punishment or other demotivating factors that would censor error instead of working to counter it. The presence of error is unavoidable, and this is an information that any policy must grapple with. Therefore, any conceptual framework or model for the ESG project performance must facilitate manners of minimizing error-making for the constituents.
- *The importance of appropriate response*- Influencing a human decision-making process through design, must allow for feedback provision. A conceptual model needs to provide a response especially when errors are likely to occur. When it comes to ESG policy mis-en-place, an example of a good architectural response can be in line with equipping recycling equipment in the working environment with a specific sound when the recyclable trash is not deposited in an appropriate manner in the recipient (i.e is not properly cleaned of all residues or is not in its original shape).
- *Understanding the importance of mapping*- Homo sapiens' preference for building maps to makes sense of its surroundings and existence invites the precept of prominence in ESG policy implementation. Through a highly transparent process, trust is in turn built for all organizations participants in the project execution. As an example, showing details of how the ESG policy will benefit from prominence is by showing the implications that the policy implementation has on the organizational welfare. Printing machines at the office for example, may show reports on paper saved on a daily, weekly basis. Reduction in energy consumption and contribution to reduction of carbon emissions may be shown in an interactive way, via friendly apps (such as "Joule" app). By understanding the implications of the exercise, organizational constituents are able to better accept, internalize and contribute to the project execution.

- The ESG policy construct is not complete without discussing enticements. Is the ESG policy destined to be applied frequently (recycling programs, socially responsible programs) by the majority of the organization's constituents? If this is the case the components of the policy must be usable by the majority within the organization. Approaching areas of the ESG project by gamifying a team competition program for energy saving for example would resonate with younger generations for whom interactivity is very important. On the other hand, for those older generations, the appeal should be to compliance and support for a sustainable.

2.3. Cognition Theories

- Perceptions and behaviours in social psychology are also described through cognition theories (id est clinical-cognition theory). Studies reveal the existence among Romanians of a surface profile (encapsulating believes and value) and those that reveal deep cognition and believes (what we think versus how we are) (David, 2015). These cognitive theories reveal that collectivistic behaviour and the propensity towards falling in line with the group are encouraging that ESG implementation approach be done top-down, pushing the necessity of telling constituent what exactly needs to be done. The effort, however, must be perceived as collective. Paradoxically, while the ESG requirements are embraced as a "must", constituents must perceive the implementation as their own doing

2.4. Specifics of Complexity in Economics

- *Connectivity and human interaction* bring complexity to the ESG implementation process. Individualistic pursuits conflict with reciprocity states at society level (Beinhocker, 2007). Part of the societal dynamics are cycles of individualistic, followed by all around welfare service phenomena and these may also play a role in the execution of ESG projects.
- *Conflict of interest* also play a pivotal role in how ESG policies, or any policy for that matter that are assimilated. Conflict of interest becomes apparent in societies that display a high degree of egocentrism among its individuals and can be a significant hurdle against innovative initiatives (Dumitrescu, Suciuc and Aceleanu, 2022).

III. METODOLOGY

- *The identified gap* in the academic research refers to using the ex-ante identified psycho-social and cultural profile of the Romanian people and applying it into the day-to-day economical behavior of organizations.
- *The research aims*, inter alia, to study the connection or lack thereof between the views, believes and behavior of the organizations' constituents on one hand and on the other, their age, job tenure, and hierarchical position. Moreover, the study, challenges the validity of prior research findings regarding the primary cultural characteristics of the sampled Romanian population.

3.1. Types of Data Analysis and Distillation

- *To process and distillate the results*, the study uses the IBM SPSS statistical software and for statistical analysis purposes the research appeals to correlative functions, in particular Spearman non-parametric two-tailed correlation.
- The SPSS inputs needed preliminary preparation so that the analysis become reliable. Consequently, where relevant, the data was assigned numerical parameters.
- The first part of the questionnaire is concerned with studying the relationship between what Romanians believe and, what their views and opinions are on ESG implementation. The primary objective of these type of questions is to understand the way ESG policies and practices are perceived by the targeted organizations and whether they are in fact considered important for the current Romanian socio-economic context.
- *The Spearman correlation analysis results* reveal strength in the relationship between the variables such as age (-.318) and belief in using punitive methods to enforce ESG policy compliance in the organizations. Other strong correlations also emerge. There is a significant positive correlation between views of major overall ESG importance (.678) and the positive effect over the constituents' business.
- *Regarding the result of the Multiple Linear Regression (MLR) analysis*, we find that the set of predictors (belief in ESG importance, willingness to contribute to ESG, transparency of ESG reporting, hierarchical position, believe in reproducing western ESG policy) is statistically significant. The Anova computation reveals a p-value of less than .001 (<.001).
- *In terms of individual predictors'*, we find statistical uniqueness in the perception of ESG importance to the business (p-value =.008).
- *Heteroskedasticity of residuals* is also excluded from the MLR. There is a normal distribution of residuals which indicates a homogeneous variable behaviour.

3.2. Qualitative Research – Semi-structured Interview

- *The interview questions* were carefully selected to address validation of the stated hypotheses and the room left by certain responses. The following topics were envisaged:

- Differences between beliefs in ESG positive effect and the actual ESG effects.
 - The approach used by experts in applying ESG programs in their organizations.
 - Motivational context for ESG implementation (extrinsic or intrinsic)
 - Resistance to change as a disruptive event and the status quo bias
 - Romanians' value systems and beliefs and their impact on ESG success.
- *The data obtained from this qualitative research process (Computer Assisted Qualitative Data Analysis – CAQDAS) was run through a special data analytical tool called Atlas.ti (<https://atlasti.com/>). As the research tested the hypothesis, the answers collected from the experts were coded and grouped based on the frequency and words' association to obtain patterns and view of any potential relationships. Transcripts of the said interview were transposed into the Atlas.ti app so that in turn can be used in the distillation stage of the qualitative analysis. The results were compiled into network-type diagrams to show connections and relations among the identified patterns.*

IV. CONCLUSIONS

- *The current quantitative research finds a strong correlation between several selected variables using the Spearman two-tailed monotonic analysis. In particular there is significant correlation between belief in ESG importance and ESG integration within organizations ($cc = .678$), between belief in ESG significance and people's willingness to partake in ESG implementation ($cc = .607$) and no correlation between job tenure and ESG success.*
- *Furthermore, delving deeper into the quantitative research by using a MLR model, we find that the selected predictors account for 35% ($r^2 = .35$) of the variances of the ESG implementation success in the Romanian organizations. The ANOVA test results show that MLR model predictors have statistical significance. Moreover, from the selected predictors, we found that positive belief in ESG importance has a significant specificity to contribute to the ESG success ($p\text{-value} = .008$).*
- *Shifting focus on the qualitative area of the research, the thesis inquiry is enriched using probing questions in the research study context and in semi-structured interviews as well. The qualitative research findings support the idea that generational changes in the structure of the value system for the sampled Romanian organizations' constituents close the gap between societal collectivism and individualism. Moreover, the belief in the importance of ESG is definitory for the success of ESG policy implementation. The western policy reproductive approach to ESG in Romania plays a major role in ensuring success of ESG projects' execution.*

V. LIMITATIONS AND FURTHER RESEARCH

5.1. Limitations

- *The research does not account for the time dimension of the ESG implementation. We have seen during the investigative initiative that a number of Romanian organizations have taken a very long time to cope with disruptive changes such as ESG policy implementation. Furthermore, there we identified the need for a practical execution model that can withstand the complexity of the economic environment and can respond effectively to the rising challenges. Further exploration is also needed to understand and validate the level of iterations that should be performed to ensure efficiency and effectiveness of ESG implementation.*

5.2. Further Research

- *Given that the ESG policy implementation is subject to iterations, there is a discussion to be proven that implementation should be performed gradually, in increments, so that ESG components are effectively assimilated into the Romanian organizations.*
- *The authors consider that there is an abundance of further research that can be performed on proving applicability of the prototype conceptual model, including aspects related to complex systems, their evolution and their demise. Stakeholders' management in Romania and the coming of intricate ESG requirements for the entire supply chains can also constitute an important research subject matter.*
- *Further extending the inter-disciplinary work, by using experimental economics and gamifying methods, researchers can study in more depth the ramifications of psycho-social factors, behaviours and value systems into the realm of economic decision making.*

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