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DOCTORAL THESIS

From Compliance-Led to Normative Adoption: A Multilevel Analysis of Innovation and Institutional Drivers in the Transition to Sustainable Finance of the Romanian Financial Sector

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Content

Abstract

This doctoral thesis examines the emergence and diffusion of sustainable finance (SF) practices in Romania, drawing on the Institutional Isomorphism Theory (IIT) and the Multilevel Perspective (MLP) Framework to analyze the drivers behind the adoption of these practices by the financial sector. The study addresses two primary research questions: (1) What factors contribute to the adoption of sustainable finance by Romanian financial intermediaries (FIs), and (2) What sociotechnological advancements in sustainable development are promoting niche financial products integrating environmental, social and governance (ESG) considerations? By exploring these questions, the research supports the hypothesis that external regulatory pressures met with mimetic behaviors among financial intermediaries catalyze a shift from mere compliance to the normative adoption of sustainable finance practices. The research findings reveal that initial regulatory measures, particularly from the European Union (EU), created a mandatory environment that compelled Romanian banks and asset managers to align their practices with emerging sustainability standards. Over time, these regulatory pressures transitioned into internalized norms and practices, driven by mimetic behaviors and alignments with the requirements of large financial groups and Multilateral Development Banks (MDBs). The study's model demonstrates this evolution: sustainable finance practices emerged as a regulatory necessity and then diffused into established norms and practices as financial intermediaries sought legitimacy and alignment with European peers.

Methodologically, the thesis adopts a case study approach, focusing on Romania's unique socioeconomic and political context – a latecomer market that historically waited for regulatory prompts before taking action. Empirical evidence was gathered through interviews with key stakeholders and experts, as well as an analysis of quantitative data. The Gioia Method was employed to interpret qualitative insights. This methodological rigor validates the theoretical model and highlights potential frictions. For instance, while external pressures, such as EU rules and investor demand, accelerate sustainable transitions, a potential easing of these pressures, driven by evolving geopolitical dynamics and global agendas, could result in inertia within the domestic financial regime. The findings provide insights into the mechanisms driving sustainable finance adoption in emerging markets and contribute to a broader understanding of how regulatory frameworks and institutional dynamics interplay to foster sustainable financial and economic practices. These insights can guide future policy decisions and industry strategies in Romania's financial sector.

Keywords: Asset Management; Banking; Emerging Markets; EU Regulations; Financial Intermediaries; Institutional Isomorphism Theory; Multilateral Development Banks; Multilevel Perspective Framework; Romania; Sociotechnological Transitions; Sustainable Finance

Introduction

The doctoral thesis titled "From Compliance-Led to Normative Adoption: A Multilevel Analysis of Innovation and Institutional Drivers in the Transition to Sustainable Finance of the Romanian Financial Sector" explores the emergence and diffusion of sustainable finance practices within Romania's financial sector. The research defines sustainable finance, the dependent variable, according to the European Commission's definition, which describes it as "the process of taking environmental, social, and governance (ESG) considerations into account when making investment decisions… leading to more long-term investments in sustainable economic activities and projects." (European Union Law, EUR-Lex glossary, 2018). This particular definition was selected for its comprehensive scope, effectively incorporating environmental, social, and governance dimensions and aligning with the EU's evolving regulatory efforts. This approach helps to minimize potential confusion that could arise from introducing a new definition in an already complex conceptual landscape.

Research Questions

Two central research questions drive the study: 1) What factors prompted the emergence and diffusion of sustainable finance practices in the Romanian financial sector? This question examines which internal and external pressures (e.g., regulatory, mimetic, normative) induce banks and asset managers to adopt sustainable finance practices; and 2) What sociotechnological advancements related to sustainable development foster the creation and dissemination of niche financial products that align with the definition of sustainable finance? This question focuses on how innovations such as investments in renewable energy, agricultural technologies, energy efficiency of buildings, programs for social inclusiveness, and access to the job market, etc. enabled a corresponding reaction from the financial sector, which developed products and practices to better fit the efforts of reaching the sustainable development goals.

Theoretical Frameworks

Two complementary theories underpin the thesis: 1) Institutional Isomorphism Theory (IIT) (Andrews-Speed, 2016; DiMaggio & Powell, 1983; Hwang & Powell, 2005; Lockwood et al., 2017; March & Olsen, 1983, 1996; Meyer & Rowan, 1977; North, 1991; Peters, 2005; Posadas et al., 2023; Riaz, 2009; Sakib, 2020; R. W. Scott, 2001; W. R. Scott, 2005, 2008), which explains how organizations, facing uncertainty, adopt similar practices through coercive, mimetic, and normative pressures. IIT clarifies why Romanian financial intermediaries tend to converge toward standardized sustainable finance practices as a response to regulatory imperatives and industry norms; and 2) Multilevel Perspective (MLP) (Derwort et al., 2021; Geddes & Schmidt, 2020; F. Geels, 2006; F. W.

Geels, 2002, 2005, 2011; Genus & Coles, 2008; Roberts & Geels, 2019) which examines how innovations occur across different levels (macro, meso, and micro) and highlights the role of disruptive niches that challenge the mainstream financial regime. In the context of this thesis, MLP is used to capture how innovations in the economy and society related to sustainable technologies and practices slowly percolate through the traditional financial structures. These theories were cross-fertilized to achieve a holistic understanding. While IIT details the isomorphic pressures that drive homogeneity among financial intermediaries, MLP provides insight into the dynamics of innovation and the ripple effects from broader sociotechnical shifts. Combining these perspectives offers a richer narrative of both conformity and change within Romania's financial sector.

Hypothesized Model and Research Hypotheses

The thesis proposes a conceptual model (illustrated in Fig. 18 of the document) that explains the drivers behind the adoption of sustainable finance by Romanian banks and asset managers. The model posits that sustainable finance practices initially emerge under regulatory pressure (mainly driven by EU regulations and related mandates), prompting a compliance response. Over time, these practices become internalized as norms through mimetic behavior, where institutions emulate leading practices to gain legitimacy, and are further enabled and enhanced by technological innovation. Four hypotheses were formulated based on an extensive literature review and empirical investigation.

The emergence and diffusion of sustainable finance in Romania:

H1: relied on mimicking the behaviors of European peers
H2: was facilitated by increasing awareness of the sustainable development framework and climate change issues within the financial profession
H3: was driven by specific regulation and pressures from powerful actors and the industry
H4: was enabled by the level of SDGs-aligned technological innovation within the financial sector

These hypotheses collectively seek to capture both the external factors, such as regulatory frameworks and industry initiatives, and internal factors, including technological advancements and mimetic influences, that drive the transition from mere regulatory compliance to the normative adoption of sustainable finance practices. They aim to elucidate both the "why" and the "how" of aligning local financial sector standards and practices with the global agenda for decarbonization, pollution reduction, biodiversity protection, and the enhancement of well-being and inclusiveness, all while ensuring a just transition to a more sustainable growth model that is decoupled from resource intensiveness.

Methodology

Methodologically, the thesis employs a mixed-methods case study of Romania's financial sector. The primary features include: a semi-systematic literature review of peer-reviewed journal databases to establish theoretical frameworks and identify gaps in prior research; content analysis of primary and secondary data including company sustainability reports, regulatory documents, and public communications and in-depth, semi-structured interviews with ten industry experts, including representatives from banks, asset management firms, multilateral development banks (MDBs), and stakeholders from the nonfinancial sector and NGOs. The Gioia Methodology (Gioia et al., 2013) was used to analyze qualitative interview data, preserving first-order, informant-centric concepts. These concepts were then iteratively refined into second-order themes and ultimately consolidated into aggregate dimensions that inform the conceptual model. This comprehensive, triangulated approach ensures that findings are both robust and contextually grounded.

Results

The empirical findings indicate that the catalyst for the adoption of sustainable finance was primarily driven by external regulatory pressures (coercive forces under Institutional Isomorphism Theory), largely stemming from EU directives such as the Sustainable Finance Disclosure Regulation (SFDR) (Regulation (EU) 2019/2088, The European Parliament and the Council of the European Union, 2019), the EU Taxonomy (Regulation (EU) 2020/852 of the European Parliament and of the Council of the European Union, 2020), the Corporate Sustainability Reporting Directive (CSRD) (Directive (EU) 2022/2464, The European Parliament and the Council of the European Union, 2022), and the broader framework established by the EU Green Deal and the Action Plan for Sustainable Finance (European Commission, 2018). These factors prompted Romanian financial intermediaries to embrace sustainable practices. Following this impetus, banks and asset managers in Romania swiftly adopted mimetic behaviors, emulating their more advanced European counterparts. This trend was further bolstered by the strong influence of large financial groups on local entities and initiatives implemented by multilateral development banks active in Romania, including the EBRD, EIB, and IFC. Within a brief period, from 2020 to 2025, what began as compliance-driven behavior evolved into ingrained organizational norms. The necessity to address regulatory demands and prepare for future transparency and reporting requirements led to a normalization of industry standards. Consequently, the financial sector recognized the importance of integrating expertise on environmental, social, and governance (ESG) issues into its practices.

Romanian financial intermediaries were relatively late to adopt sustainable finance practices. However, once the regulatory environment was established, coercive incentives and European counterparts' best practices offered relevant pressures and toolkits to address the challenges of quick alignment. Local financial intermediaries promptly capitalized on sociotechnological innovations. This allowed them to carve out a niche for sustainable finance within the broader financial sector, largely supported by the stewardship of Multilateral Development Banks (MDBs) and their financial groups. As of 2025, this niche remains marginal, but the proof-of-concept for various financial products associated with sustainable finance, such as green, social, sustainable, and sustainability-linked bonds, alongside equivalent loans, ESG scores, exclusionary lists, and ESG funds, allow all participants in the Romanian financial markets to contribute to the transition from conventional to sustainable finance. It is important to note that to ensure the continued growth of this sustainable finance niche, the coercive pressures and sociotechnological innovations, backed by private and public funding and initiatives, must be sustained; reversion to previous practices remains a possibility if the mix of incentives shifts. The simplification of the regulatory environment in the context of the Omnibus Regulation proposed at the beginning of 2025 could backfire and lead to setbacks.

The results highlight the multicollinearity of influences. Although the independent factors (such as technological innovation, quality of regulation, industry pressures, and professionalization) are correlated and mutually reinforcing, together they effectively explain the evolution from a compliance-led model to a normative adoption of sustainable practices.

The following part of this summary provides key elements of each chapter of the thesis.

1. Literature Review – Theoretical Framework and Variables Development

This chapter discusses sustainable finance, defining its importance in achieving the Sustainable Development Goals (SDGs) by integrating ESG criteria into financial decision-making. It highlights subcategories like green, social, and climate finance, focusing on the balance between societal/environmental impacts and financial returns. The chapter introduces Institutional Isomorphism Theory, which explores how financial institutions adopt sustainable practices through mimetic, coercive, and normative pressures, and the Multilevel Perspective (MLP) that examines how macro, meso, and micro-level changes influence the diffusion of sustainable finance, particularly in emerging markets like Romania. It outlines the research approach, defining sustainable finance as the dependent variable and emphasizing the need for a stronger theoretical framework due to the limited prior research. The complexity of developing independent variables to understand the adoption of sustainable finance practices in Romania stems from the need to consider various stakeholders, including consumers, investors, NGOs, and regulatory bodies. The chapter lays a foundation for analyzing regulatory pressures, stakeholder engagement, and market innovations in promoting sustainable finance.

2. How Does the Financial Sector Contribute to Attaining the SDGs?

Chapter 2 of the thesis examines the crucial role of the financial sector in advancing the Sustainable Development Goals (SDGs), focusing on Romania as a case study reflective of broader Central and Eastern European (CEE) trends. The first section highlights the financial sector's need to tilt the business model toward sustainability, emphasizing increasing pressure to comply with EU regulations such as the CSRD, SFDR, and EU Taxonomy Regulation. This regulatory environment, combined with weak local demand for green products and a reliance on household loans, often leads to sustainable finance practices being seen as compliance rather than a response to market demand. Challenges like an underdeveloped asset management industry and slow agricultural and industrial modernization further complicate the sector's transition to sustainability. The second section explores the interplay between innovation in the real economy and the financial sector, outlining emerging financing niches such as green loans for energy-efficient housing, e-mobility projects, and sustainable farming. Despite the development of innovative financial products, uptake remains limited due to structural challenges and a passive consumer base. Ultimately, the chapter argues that the financial sector aids SDG attainment by redirecting funds toward sustainable investments, complying with regulatory expectations, fostering niche financial products, and catalyzing socio-economic transformations through the integration of sustainability into core practices. Integrating Institutional Isomorphism Theory (IIT) and the Multi-Level Perspective (MLP) framework enhances understanding of Romania's financial dynamics and offers insights for other emerging markets in transition.

3. Regulation and Industry-Led Efforts Relevant to Sustainable Finance

Interviews and evidence demonstrate that regulation is crucial in promoting sustainable finance within Romania's banking and asset management sectors. This chapter examines the EU's regulatory framework for sustainable finance, focusing on essential regulations such as the SFDR, the EU Taxonomy Regulation, and the CSRD. These regulations aim to enhance transparency, combat greenwashing, and incorporate ESG criteria into financial decision-making. Chapter 3 also addresses the transposition of EU regulations into local law and highlights the significance of industry-led initiatives that preceded regulatory measures. The EU's regulatory framework not only shapes sustainable finance but also fosters a sustainable financial ecosystem, contributing to the development of the thesis's independent variables: regulation, industry-led standards, and innovation driven by a global landscape that prioritizes the attainment of the SDGs and combating climate change.

4. Methodology

This thesis investigates two main research questions: (1) What factors prompted the emergence and spread of sustainable finance in the Romanian financial sector, and who is influencing this shift? and (2) What sociotechnological advancements facilitated niche financial products in sustainable finance? Through a comprehensive review of primary and secondary data, four hypotheses were developed regarding the impact of the regulatory environment and pressures from financial groups and MDBs, the role of the profession, competitive dynamics, and sociotechnological innovation on the sector's transition toward sustainability. To test these hypotheses, ten professionals were interviewed during February and March 2025. These participants in the interview were specifically targeted to have high expertise in the area of sustainability and sustainable finance. Data gathered through the interviews was supplemented by data from sustainability reports, regulatory reviews, and media sources. This study offers insights as of early 2025, acknowledging the evolving nature of sustainable finance and the SDG landscape. The research methodology comprises a semi-systematic literature review and employs the Gioia method to structure qualitative data, thereby ensuring a clear link between empirical evidence and theoretical insights. This framework supports the analysis of sustainable finance practices in Romania.

5. Case study: Sustainable Finance Practices in Romania

The case study reveals that while Romania's financial sector has begun to embrace sustainable finance, structural and regulatory barriers still temper the pace of change. Policy measures that enhance regulatory clarity, build institutional capacity, and stimulate sustainable investment opportunities will be crucial for accelerating the green and social transition of finance in Romania. These steps will not only help achieve national climate and sustainability goals but also ensure that the Romanian financial system remains competitive and resilient in the face of global sustainability imperatives. By addressing the identified gaps and leveraging both domestic reforms and European support, Romania can advance from incremental progress to a more transformative adoption of sustainable finance practices in the years to come. Chapter 5 also focuses on the operationalization of the dependent and independent variables, supported by empirical findings and excerpts from interviews. It highlights that SF practices indeed depend on a myriad of factors, well captured by the independent variables proposed in the study. Romanian FIs have been engaging in the mimicking behaviors of their peers, including adherence to industry standards; however, these behaviors primarily emerged in response to coercive pressures. Despite this, the progress made is commendable, especially considering that European peers have been refining SF practices for the past 15-20 years, while Romanian FIs have only begun to align in the last 5 years. This indicates that, with the appropriate regulatory pressures in place, the SDGs are attainable, and the remaining five years until

2030 could witness exponential progress among local FIs in adopting and normalizing sustainable finance practices as part of standard operations.

6. Discussions and Results

The Romanian banking and asset management sector increasingly engages with sustainable finance under pressure from European regulations, financial groups, MDBs, large clients, significant investors, market forces, and global climate priorities. Two theoretical lenses elucidate this development: institutional isomorphism, which explains how organizations become similar under external pressures, and the MLP on socio-technical transitions, which examines niche innovations, incumbent regime responses, and broader landscape pressures. Using these frameworks, this thesis explored how Romanian banks and asset managers adopt ESG practices by drawing on primary and secondary qualitative and quantitative data from empirical evidence and interviews with representatives from the financial industry, MDBs, one NGO, and non-financial companies. Romania's case exemplifies how external pressures (EU rules, climate realities, investor trends, etc.) can accelerate sustainable transitions in a latecomer market. It also shows potential frictions: for instance, if landscape pressure eased (which should be improbable given climate urgency, but probable given the new geopolitical landscape as of 2025), the domestic regime might slow adoption due to inertia.

Conclusions

This final section synthesizes the principal findings of the research and situates them within the broader literature on sustainable finance. It provides a critical reflection on how integrating the Institutional Isomorphism Theory (IIT) and the Multilevel Perspective (MLP) framework advances understanding of the drivers and diffusion processes behind sustainable finance practices in Romania. In doing so, the chapter reviews how the research questions and hypotheses have been addressed, highlights the study's originality, discusses its multidimensional implications, outlines its limitations, and offers recommendations for future research.

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