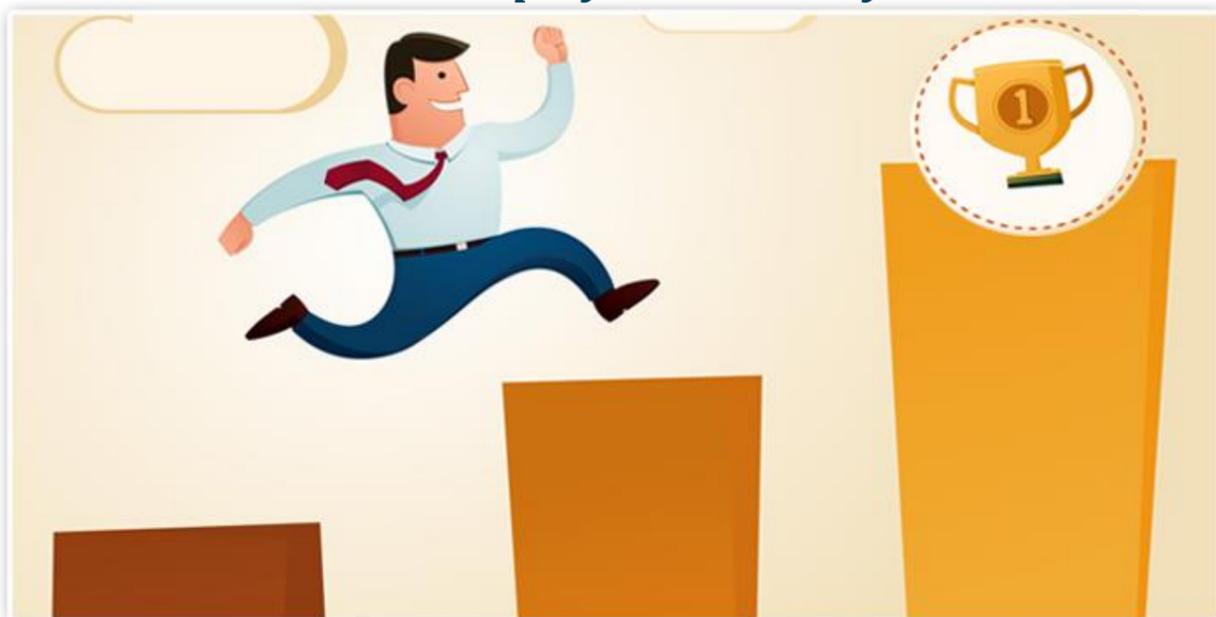




Do Bonuses and Other Extrinsic Rewards Guarantee Greater Employee Creativity?



Does Microfinance Increase Gender Equality in Access to Finance in Pakistan?



Whither Went Risk Sharing in Islamic Finance?

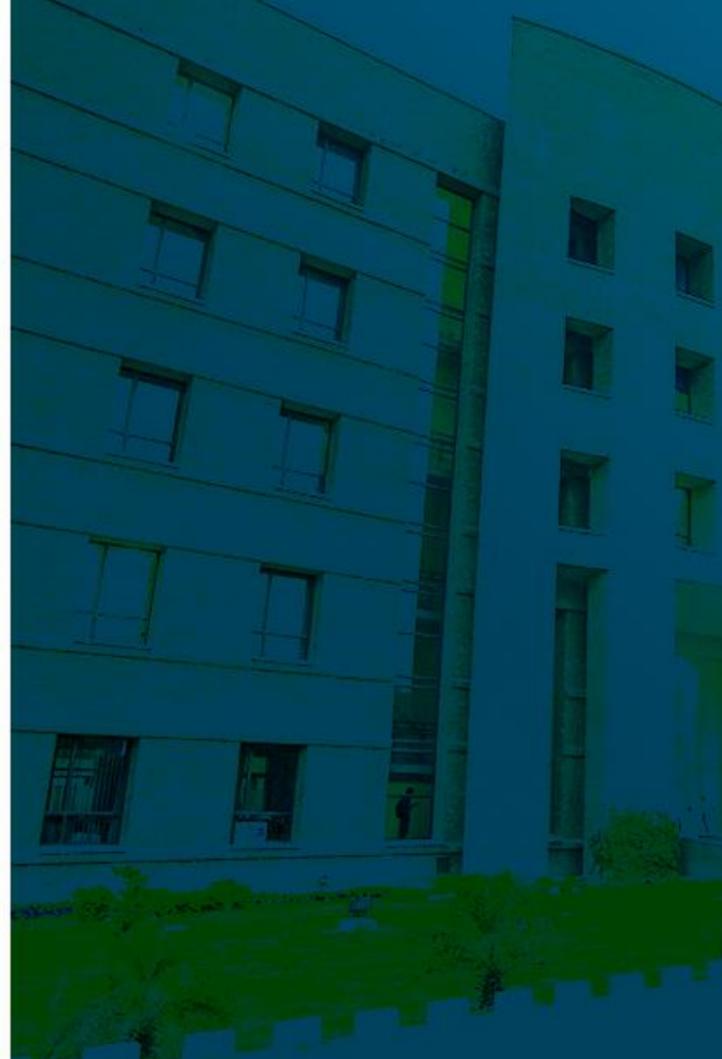


About SDSB Impact

SDSB Impact is the newsletter of the LUMS Suleman Dawood School of Business.

The SDSB faculty engages in cutting-edge research in all major fields of business studies. *SDSB Impact* summarizes the findings of the faculty's research for the benefit of the larger public—especially managers, executives, entrepreneurs, and policy-makers. These findings emerge from pioneering research conducted by the SDSB faculty and published in the world's best journals and case hubs. The newsletter attempts to distill the most important or practically relevant lessons from these findings and share them with its readers.

SDSB Impact will facilitate knowledge-sharing and dialogue between the academia and the industry, thereby bringing LUMS one step closer to its goal of creating synergy between theory and practice.



Do Bonuses and Other Extrinsic Rewards Guarantee Greater Employee Creativity?

By dint of the very nature of their jobs, managers have to make tough financial decisions. Offering extrinsic rewards—such as bonuses, incentive pay, etc.—is usually not one of them, since it makes intuitive sense that a promise of such rewards boosts employee performance. But does it also boost employee creativity? According to a recent paper published by M. Abdur Rahman Malik, Arif N. Butt, and Jin Nam Choi in the *Journal of Organizational Behavior* (2014), that may not be the case necessarily.

In their research, Malik and his co-authors argue that extrinsic rewards lead to greater creativity on the part of only those employees who possess two key traits: confidence in their own abilities to perform creatively; and willful ownership of the success and failure of their work. Employees who have both these personality traits—confidence in their creative talent and in their ownership of their output—respond most positively to extrinsic rewards intended to boost creativity. In addition to these two traits, extrinsic rewards enhance employees' creativity only when the employees consider these rewards as important and valuable.

Also, contrary to popular perception, such rewards are not necessarily neutral in their effects either. A manager may announce a reward intended to increase creativity assuming that in the best case scenario the intended purpose will be achieved, while in the worst case scenario the employee output in terms of creativity will remain the same as before. The evidence presented in the research, however, betrays this assumption.

According to the authors, such rewards can actually have negative effects as well, as those employees who either do not consider themselves to be creative, or who think that their success and failure in their task is not entirely up to them, may give up on the creative task assigned to them altogether. As a result, they may shift their energies towards tasks that lead to the goals that *they* value and that they know they can attain. This will compromise their output with respect to the creative task for which the reward was promised in the first place.

In short, in order to increase employee creativity through extrinsic rewards, managers must target those employees who display the two characteristics mentioned above. This further implies that for managers to be able to identify creative minds from within the workforce, they need to know the personalities of the employees—their priorities, their strengths, and their motivations.

The data for this research were collected through questionnaires answered by 181 employee-supervisor pairs.

Reference

Malik, M. Abdur Rahman, Butt, Arif N., & Choi, Jin Nam (2015). Rewards and employee creative performance: Moderating effects of creative self-efficacy, reward importance, and locus of control. *Journal of Organizational Behavior*, 36(1), 59-74.
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Whither Went Risk Sharing in Islamic Finance?

Many investors—who are by definition in the business of generating high returns—opt out of profitable investments just because of the associated risks, however minimal those risks might be. Nobel Laureate in Economics Daniel Kahneman and Amos Tversky attribute this behavior to our natural psychology of decision making that assigns more weight to losses than to gains. This is why investors generally prefer to operate in the debt market (characterized by relatively fixed but lower returns) rather than in the equities market (characterized by the possibility of high returns over longer periods of time).

The kind of risk sharing prevalent in the equities market formed the cornerstone of Islamic finance. Over the years, however, the popularity of the risk sharing feature in Islamic financial markets seems to have been on the decline. Saad Azmat and M. Naiman Jalil, along with Michael Skully and Kym Brown, are the first to offer an explanation for this phenomenon from a behavioral perspective in a research article accepted in the *Journal of Economic Behavior & Organization* (2016).

Using theoretical modelling to study investor behavior, the authors were able to find that Shariah-sensitive investors who were loss-averse and who followed up on their investment returns frequently (weekly or monthly) preferred Islamic debt bonds (Sukuk) over risk sharing instruments. Also, while investors who followed up on their investment returns less frequently did not necessarily behave similarly towards Islamic debt bonds, they seemed to prefer Islamic equities over the original risk sharing instruments.

It is because of this pattern of behavior on the part of Shariah-sensitive investors that risk sharing in Islamic finance markets has shrunk colossally, as greater investments in Islamic debt bonds and Islamic equities have jointly crowded it out. This has resulted in a situation whereby Islamic instruments that share important features with conventional financial products are causing the popularity of risk sharing to decline.

Reference

Azmat, Saad, Jalil, M. Naiman, Skully, Michael, & Brown, Kym (2016). Investor's Choice of Shariah Compliant 'Replicas' and Original Islamic Instruments. *Journal of Economic Behavior & Organization*.



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