

## Reward systems and employee creativity in Indian higher education: The mediating roles of individualism and collectivism

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### Abstract

Employee creativity is a critical organizational capability underpinning innovation and competitive advantage, yet the motivational and cultural conditions that foster it remain incompletely understood, particularly in emerging economy contexts. This study examines how financial and social reward systems influence employee creativity and whether individualism and collectivism mediate these relationships. Grounded in Self-Determination Theory and Hofstede's Cultural Dimensions Theory, the study adopts a quantitative cross sectional design using data from 410 employees of higher education institutions in Madhya Pradesh, India. Hypotheses were tested using Partial Least Squares Structural Equation Modelling (PLS-SEM) via SmartPLS 4. Results confirm that both financial rewards ( $\beta = 0.266$ ,  $p < 0.001$ ) and social rewards ( $\beta = 0.290$ ,  $p < 0.001$ ) exert significant positive effects on employee creativity, together explaining 60.7 percent of the variance in the dependent variable. Mediation analysis reveals that individualism significantly mediates the relationship between both reward types and employee creativity (financial:  $\beta = 0.111$ ,  $p = 0.002$ ; social:  $\beta = 0.096$ ,  $p = 0.006$ ), whereas collectivism does not produce a significant mediating effect in this context. These findings suggest that employees with achievement oriented and self driven cultural values are more responsive to organizational reward systems in ways that enhance creative output, while group oriented values do not operate as a meaningful channel in this setting. The study contributes to the organizational behaviour and creativity literature by integrating reward mechanisms and cultural orientation into a unified empirical framework, and offers evidence from an Indian higher education context that extends creativity theory to culturally diverse emerging economy settings. Practical implications are drawn for human resource managers and institutional leaders seeking to design culturally responsive reward and incentive systems.

**Keywords:** Employee Creativity, Reward Systems, Financial Rewards, Social Rewards, Individualism, Collectivism, Self-Determination Theory

**JEL Classification:** M12, M14, G33

## 1. Introduction

In today's modern business landscape, employee creativity has become one of the most essential factors in ensuring organizational innovation, sustainability and competitive advantage. Innovation, solving the problems of the organization, enhancing the quality of services and increasing the efficiency of the operations are currently among the most important needs of organizations that rely on the creative capabilities of employees to develop novel ideas. As a result, the influence of the factors that foster employee creativity has emerged as a relevant research topic in the organizational behaviour and human resource management literature. Rewards in the organization are among the most important determinants of employee creativity, and help to motivate employees to offer innovative ideas and creative solutions to the organization. The use of monetary incentives, bonuses, and rewards that are based on performance motivates workers to work harder for the company's goals. Likewise, social rewards such as recognition, appreciation and supervisory support builds psychological motivation and boosts employees' emotional commitment to the organization. Extrinsic and intrinsic motivational mechanisms have been shown to have a positive effect on creativity when rewards are perceived as supportive rather than controlling. Previous research indicates that both extrinsic and intrinsic mechanisms can positively affect creativity when rewards are seen as supportive and not controlling.

The connection between rewards and employee creativity can be further understood based on Self-Determination Theory (SDT) (Deci and Ryan, 1991) that focuses on the role of motivational factors in determining the behaviour and results of individuals. Based on the theory, rewards can positively affect creativity when they increase employees' sense of competence, recognition, and psychological empowerment. But the attitude of the employees to the organization's rewards is not always the same from one culture to another. Rewards and approach to motivational practices are strongly shaped by cultural orientation. Hofstede's Cultural Dimensions Theory states that collectivist cultures emphasize group harmony, co-operation and social relationships while individualist work cultures are driven by personal achievement, autonomy and performance-based outcomes. Thus, cultural orientation can influence the outcomes of reward system in making employees more creative.

While some studies have researched individualism and collectivism as mediators between organizational rewards and employee creativity, and others have investigated either collectivism or cultural orientation, there has been limited research on the interaction of organizational rewards, collectivism and individualism among educators in the higher education sector in India. In addition, research to date has concentrated on the organizational contexts found in the west, which may restrict the transferability of its results to other economies, as well as ethnically varied organizational environments.

Hence the present study is aimed to explore the effect of financial rewards and social rewards on employees' creativity and to explore the mediating role of collectivism and individualism among

the employees of higher educational institutes of Madhya Pradesh, India. The study is a contribution to the literature by combining reward mechanisms with cultural orientation as a whole in the interpretation of employee creativity in the new organizational context.

## **2. Literature Review and Theoretical Framework**

### **2.1 Self-Determination Theory**

The Self-Determination Theory (Deci & Ryan, 1991) is one theory that addresses why people do what they do and how they perform in relation to intrinsic and extrinsic motivation. The theory states that people are intrinsically motivated when their psychological demands for competence, autonomy, and relatedness are met. In organisations, financial and social rewards can increase employee motivation if they believe that these rewards are supportive and performance-based. Hence, their ability to be creative and innovative in the workplace is greatly influenced by motivated employees.

### **2.2 Hofstede's Cultural Dimensions Theory**

The Cultural Dimensions Theory, developed by Hofstede, is a theory that describes the influence of cultural values on people's behaviour in the workplace and their attitude towards it. Collectivism and individualism are two factors relevant to this study. Collectivist people are focused on group harmony, co-operation and collective success while individualist people are focused on personal achievement, independence and self-interest. The cultural orientations may affect employees' reactions to the organization's reward system and thus their creative work.

### **2.3 Financial Rewards and Employee Creativity**

The relationship between employee creativity and financial rewards. The link between employee creativity and financial rewards. One of the most significant organizational tools that can boost employee motivation and performance is financial rewards. To motivate employees to be more productive and innovative, salary increments, bonuses, incentives and performance-based compensation systems are often used by organizations. Many of the rewards are being considered to promote innovation and creativity within the organization and are increasingly being seen as Strategic. Research suggests that reward does have a positive impact on employee creativity; it raises the motivational level of employees and promotes active involvement in organizational activities. Rewards can positively impact creativity if they are perceived as supportive, rather than controlling, by employees (Amabile, 1996). Financial incentives help to encourage employees to bring in new ideas and increase their work output by relating them to things like recognition, achievement and possibilities for promotion. Aldabbas et al. (2023) concluded that the reward-oriented organizational practices significantly foster employee creativity by means of work engagement and organizational commitment. Likewise, Malik et al. (2022) found that financial incentives based on performance positively affect employees' innovative work behaviours by motivating them to engage in idea generation and problem-solving tasks that involve creativity.



Furthermore, Khan and Abbas (2024) suggested that reward systems that are transparent, achievement and performance-based, enhance the innovative behaviour of employees in knowledge-based organizations. Financial rewards encourage employees to put more effort into the organization's goals, thus increasing their creative contribution. Recent research also finds a positive link between financial rewards, psychological empowerment and organizational attachment, and creativity and innovation performance (Zhang et al., 2024). Fairness and transparency in the compensation system can be a key influence on employee commitment to innovative organizational activities. But excessively controlling reward systems can negatively affect intrinsic motivation, and the creative autonomy can be lowered, as Ryan and Deci (2020) have pointed out. Thus, reward systems should be designed carefully by the organizations to ensure a harmonious balance of both extrinsic and psychological motivations.

H1: Financial rewards positively effect on employee creativity

## 2.4 Social Rewards and Employee creativity

Social rewards are recognition by an organization other than monetary in the form of support and encouragement for employee contribution and performance. Some examples of these are appreciation, praise, career support, recognition, supervisory encouragement, and organizational respect. Social rewards are not as tied to monetary compensation as they are to emotional and psychological. Social rewards do not motivate the employees as much as financial rewards do and focus more on the emotional and psychological aspect of the employee's needs, thereby enhancing the employees' attachment to the organization and their intrinsic motivation. While there are already some studies that recognize the importance of social rewards on employee creativity, the existing literature indicates that if employees' creation is recognized and appreciated, their confidence and motivation will significantly improve. Organizations with recognition-based cultures foster an atmosphere that allows employees to feel free to share their innovative ideas without being judged, and this helps to facilitate creativity and experimentation. According to Yousaf et al. (2014), non-financial rewards have a positive impact upon employee motivation, job satisfaction and eventually organizational performance and innovation. Likewise, the study by Mdhlalose (2024) revealed that leadership and organizational practices that promote supportive leadership and employee recognition have a positive impact on employee creativity in higher education institutions. In addition, Singh and Sarkar (2023) stated that social recognition has a positive impact on employees' psychological well-being and innovative work behaviour. When employees feel appreciated by their supervisors and colleagues, they are more likely to feel a sense of belonging to the organization's goals and to be willing to put forth their best ideas. In addition to these advantages, recent studies have shown that social rewards foster trust, communication, and employee engagement within organizations, which can result in increased creativity and collaborative innovation (Rahman et al., 2025). Workplaces based on recognition will enable the employees to be involved actively in organizational decision making and idea sharing processes.

Moreover, in service industries, where interpersonal relations and joint working practices are vital to organisational functioning, social rewards are particularly effective. Workers in an organization with a supportive culture tend to be more committed to innovation and continuous improvement.

H2: Social Rewards positively influence Employee creativity

## 2.5 Mediating Role of Collectivism

Collectivism is a cultural attitude in which the interests of groups are given priority over the interests of the individual, interpersonal harmony and social cooperation are emphasized, and social welfare is emphasized. Collectivist-oriented employees tend to focus on working together, cooperating, and interacting with others in the workplace. This can lead to collectivist values influencing the meaning of organizational rewards and motivational practices for employees. In previous studies, it has been shown that collectivist employees respond more favourably to the socially supportive and group-oriented work settings. Collectivist employees' emotional bond to organizational goals may be reinforced through social appreciation, team recognition, and mutual assistance, fostering greater participation and innovation in the workplace. According to Hofstede (2001), collectivist cultures focus on group identity, social integration and group achievement, thus having a strong impact on employee attitude and behaviour in the workplace. Triandis (1995) also noted that collectivist people give more importance to interpersonal relationships and acceptance of the group than to individual achievement. Collectivist orientation has recently been associated with positive behaviours in collaborative creativity and team innovation. Wang et al. (2023) reported that collectivist employees have a better organizational innovative behaviour in companies that foster social trust, teamwork and cooperative learning. Similarly, Li and Chen (2023) highlighted the importance of cultural orientation in influencing the motivational preference of employees and their creativity in the workplace. On the other hand, some researchers believe that an extreme collectivism could limit individual expression and risk-taking behaviour since employees might not be willing to put forth ideas that are not aligned with the group's business consensus or social harmony (Lee & Park, 2024). Thus, the effect of rewards on employee creativity can be different in different organizations depending on organizational cultural and employee perception.

H3: Collectivism mediates the relationship between financial rewards and employee creativity

H4: Collectivism mediates the relationship between social rewards and employee creativity

## 2.6 Mediating Role of Individualism

Individualism is a cultural orientation that focuses on autonomy, independence, self-interest and personal achievement. People who have an individualistic orientation tend to focus on growth, success for themselves, and rewards for their efforts. This means employees who are individualistic will respond better to reward systems that recognise their personal contribution and achievement. Individualistic employees reportedly are highly motivated by performance-based

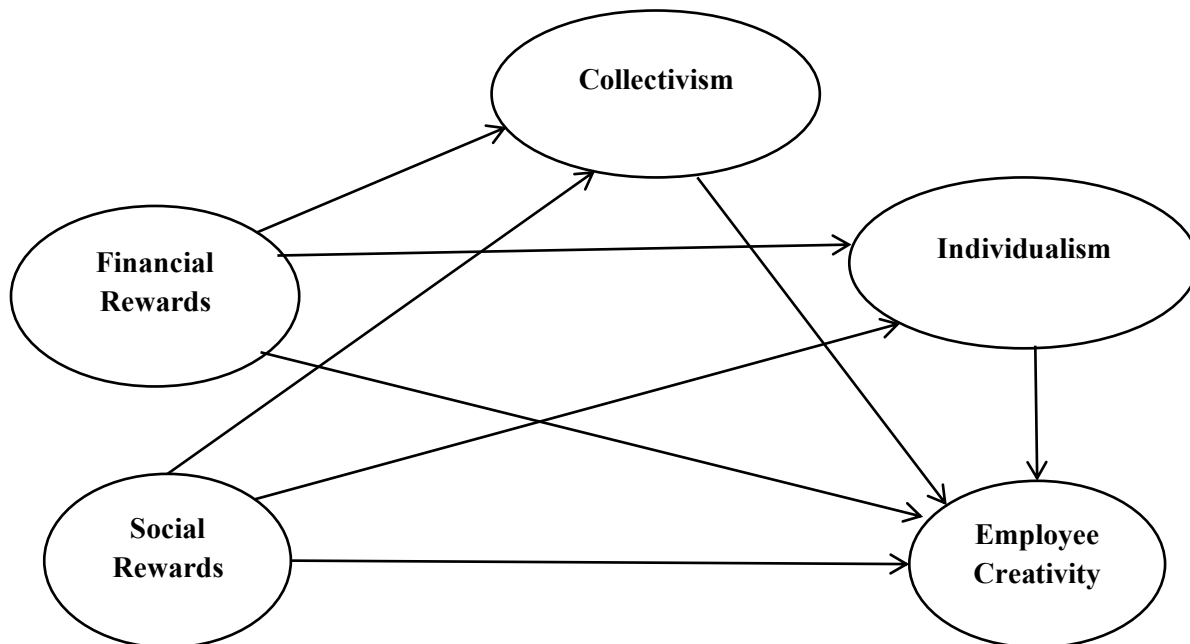
rewards and achievement-oriented organizational cultures. They believe that drives rewards, and those financial incentives can make them want to perform better and give innovative ideas to the organization. According to Earley (1993), the individualistic-oriented employees are performing better when the organization is under a competitive situation. Likewise, Hon and Leung (2024) discovered that achievement-focused organizational practices positively reinforce individualistic employees' innovative behaviour. Additionally, recent studies have shown that individualistic employees tend to embrace new ideas and question existing workplace norms, which makes them more likely to contribute to the organization's creativity and innovation (Zhao et al., 2025). These workers see organizational rewards as ways to develop themselves and advance their careers. Furthermore, Park and Kim (2024) highlighted that individualistic orientation is a major determinant of employees' preference for rewards and reactions to rewards in the organization. Leaders should create clear and goal-oriented reward systems in order to promote innovative behaviour in employees with high individualistic values.

In addition, modern companies increasingly rely on personalized reward systems to stimulate creative performance and compete with excellence. Thus, the individualistic aspect can enhance the motivational link between organizational rewards and employee creativity.

H5: Individualism mediates the relationship between financial rewards and employee creativity

H6: Individualism mediates the relationship between social rewards and employee creativity

**Figure 1. Research Model**



### **3. Research Methodology**

#### **3.1 Research Design**

The research in the current study used quantitative and cross-sectional research design to explore the effect of financial rewards, social rewards on employee's creativity and the mediating effect of collectivism and individualism. The study was targeted toward the employees of higher education institutes in the selected cities of Madhya Pradesh, India. A quantitative approach was deemed suitable as it allows for a statistical analysis of relationships between variables and testing of hypotheses to examine these relationships empirically.

#### **3.2 Data Collection and Sampling**

Data collection for primary data was conducted by using the structured questionnaire developed based on the previously adopted standardized measurement scales. There were two parts to the questionnaire. The first section consisted of a set of demographic variables (gender, age, educational qualification, and work experience), while the second section consisted of measurement items pertaining to financial rewards, social rewards, collectivism, individualism, and employee creativity. A non-probability sampling method called judgmental sampling was used in selecting the respondents. The criterion for selecting the employees was that they were exposed to and familiar with the institutional rewards. The data employed in this research were obtained from the staff members of higher educational institutions, and a total of 410 valid responses were analysed in the end. A five-point Likert scale from 1 = Strongly Disagree to 5 = Strongly Agree was used for all the measurement items.

#### **3.3 Measurement of Variables**

The constructs used in this study were adapted from the existing literature and previously validated scales. Reward based organizational behaviour scales served as tools to measure financial rewards and social rewards, and cultural orientation scales were adapted to measure collectivism and individualism. The standardized creativity assessment items developed from previous empirical research were used to assess the creativity of the employees.

The study included:

Financial Rewards and Social Rewards as independent variables,

Examine the mediating variables between Collectivism and Individualism, and

Employee Creativity as the dependent variable.

#### **3.4 Data Analysis Technique**

This collected data were analysed by the statistical package for social sciences (SPSS) software and smartPLS 4 software. Descriptive statistics were used at first to analyse the respondents' characteristics and data distribution. After that, the magnitude of the measurement and structural

model was evaluated using the method of Partial Least Squares Structural Equation Modelling (PLS-SEM).

Factor loading, Cronbach's Alpha, Composite Reliability (CR) and Average Variance Extracted (AVE) were used to assess the measurement model for reliability and convergent construct validity. The Fornell–Larcker criterion and Heterotrait–Monotrait Ratio (HTMT) were examined to check for discriminant validity.

The structural model was also evaluated through path coefficients, coefficient of determination ( $R^2$ ), effect size ( $f^2$ ), predictive relevance ( $Q^2$ ) and bootstrapping procedures to examine the significance of hypothesized relationships and the mediating effects.

### 3.5 Ethical Considerations

Ethical research practices were observed in the study throughout the process of data collection. The respondents had the option of participation and their information was kept confidential. The respondents were told that the responses that they would give would only be for academic and research purposes.

## 4. Result and interpretation

### 4.1 Reliability and Convergent Validity

**Table 1. Reliability and Convergent Validity Analysis**

	<b>Cronbach's Alpha</b>	<b>rho_A</b>	<b>Composite Reliability</b>	<b>Average Variance Extracted (AVE)</b>
Collectivism	0.754	0.753	0.771	0.529
Employee creativity	0.732	0.742	0.833	0.557
Financial rewards	0.711	0.723	0.821	0.535
Individualism	0.786	0.798	0.828	0.706
Social Rewards	0.811	0.829	0.863	0.512

As per the table, the Cronbach's alpha value for all the variables is greater than 0.7, hence fulfilling the criteria of internal consistency.

The AVE values for each variable is greater than 0.5, hence fulfilling the criteria of convergent validity.

#### 4.2 Discriminant Validity

**Table 2. Discriminant Validity Analysis**

	<b>Collectivism</b>	<b>Employee creativity</b>	<b>Financial rewards</b>	<b>Individualism</b>	<b>Social Rewards</b>
Collectivism	<b>0.727</b>				
Employee creativity	0.548	<b>0.747</b>			
Financial rewards	0.477	0.662	<b>0.732</b>		
Individualism	0.533	0.681	0.684	<b>0.84</b>	
Social Rewards	0.627	0.689	0.608	0.667	<b>0.716</b>

As per the table, off-diagonal values are greater than below mentioned inter-item correlations hence fulfilling the criteria of discrimination validity.

#### 4.3 Collinearity Statistics

**Table 3. Collinearity Statistics Analysis**

	VIF
C1	1.194
C3	1.141
C4	1.141
I1	1.208
I2	1.208
ec1	1.729

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ec2	1.595
ec3	1.278
ec5	1.299
fr1	1.39
fr2	1.441
fr3	1.294
fr6	1.281
sr1	1.567
sr10	1.579
sr5	1.542
sr6	1.5
sr7	1.413
sr9	1.421

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As per the table the VIF values are less than 3 therefore, there are no multi collinearity issues in the data.

**Table 4. Regression Analysis**

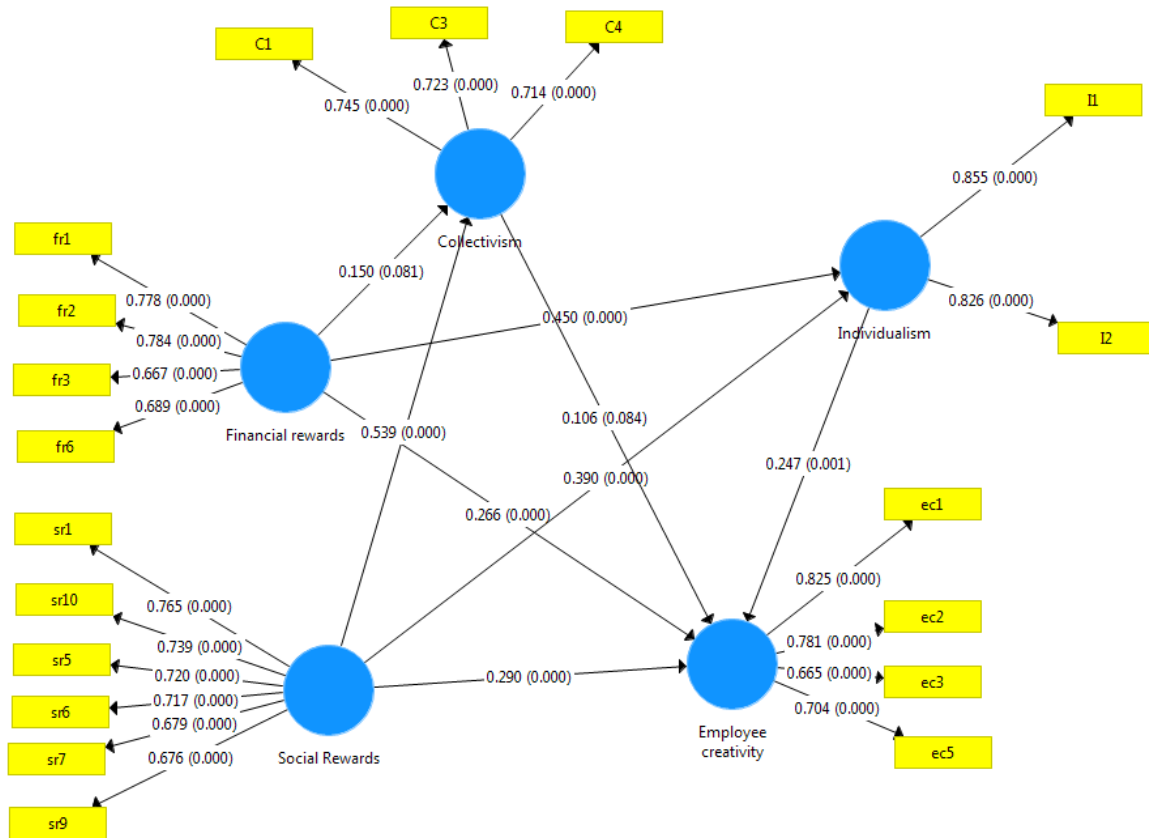
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	R Square	R Square Adjusted
Employee creativity	0.619	0.607

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The adjusted  $R^2$  value is 0.607 which means that all the independent variables explain 60% variance on dependent variable employee creativity.

**Figure 2. Direct and Mediating Effects**



**Table 5. Direct and Mediating Effects Results**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Financial rewards -> Employee creativity	0.266	0.274	0.071	3.764	0
Social Rewards -> Employee creativity	0.29	0.285	0.079	3.677	0

Financial rewards -> Collectivism -> Employee creativity	0.016	0.013	0.012	1.342	0.18
Social Rewards -> Collectivism -> Employee creativity	0.057	0.059	0.038	1.517	0.13
Financial rewards -> Individualism -> Employee creativity	0.111	0.11	0.036	3.106	0.002
Social Rewards -> Individualism -> Employee creativity	0.096	0.098	0.035	2.765	0.006

As per the results, financial rewards show positive and significant effect on employee creativity [ $\beta = 0.266$ , P value = 0.000]. Social rewards show positive and significant effect on employee creativity [ $\beta = 0.229$ , P value = 0.000].

As per the mediating effects, results revealed that collectivism does not mediate the relationship between financial rewards and employee creativity [ $\beta = 0.016$ , P value = 0.18]. Collectivism also does not mediate the relationship between social rewards and employee creativity [ $\beta = 0.057$ , P value = 0.13]. Moreover, individualism significantly mediates the relationship between financial rewards and employee creativity [ $\beta = 0.111$ , p value = 0.002]. Also between social rewards and employee creativity [ $\beta = 0.096$ , p value = 0.006].

#### 4.4 Discussion

The present study aimed at investigating the effect of financial rewards, social rewards on employees' creativity and the mediation between collectivism and individualism among employees in higher education institutions. The results of the study showed that the financial rewards and social rewards have significant and positive effects on employee creativity. The findings reveal that employees are more likely to be motivated to offer innovative ideas and innovative solutions when they receive support through reward systems and have work environments that are focused on recognition. The study results align with those of Amabile (1996), Malik et al. (2022), and Aldabbas et al. (2023) who indicated that financial rewards and incentives positively impact employees' motivation and innovativeness. Rewards increase employees' motivation to work harder to achieve organizational goals and motivate them to engage in creative problem-solving efforts. Financial rewards tend to be linked with professional recognition, achievement and career progression, which further strengthen the commitment of employees to innovation and organisational performance. Likewise, the results of the social rewards indicate that appreciation, recognition, supervisory support and organizational respect are significant factors in the development of employee creativity. The findings are corroborated by the ones of Yousaf et al.

(2014), Singh and Sarkar (2023), and Mdhlalose (2024), which suggests that an organizational environment that is supportive favors innovative work behaviours. Social rewards reinforce how emotionally attached, psychologically satisfied and involved employees become in the organisation and therefore more in a position to voice creative ideas and engage in the organisations activities.

Furthermore, the mediation analysis indicated that the individualism has a significant mediating effect between organizational rewards and employee creativity while the collectivism does not show a significant mediating effect. As the individualism of employees plays a significant mediating role, employees with achievement-oriented and self-driven cultural orientation will have a positive attitude toward reward and have a higher creative contribution. The results are consistent with those of Earley (1993), Hon and Leung (2024), and Zhao et al. (2025) who suggested that individualistic employees tend to be more receptive to performance-based reward and innovative organizational practices.

The non-significant role of collectivism suggests, however, that the influence of cultural values oriented towards the group on employees' creative behaviour in the examined organizational context is not very strong. An explanation can be that in higher education institutions, employees more and more value the personal achievement, career development, and professional recognition rather than the orientation of their working groups. Also, the need for consensus within the group can sometimes stifle thinking outside the box and personal creativity. The overall results show that organizational rewards have a significant impact on improving employee creativity and cultural orientation significantly influences the motivation of employees in response to organizational practices.

## **5. Conclusion, Implications, Limitations, and Future Research Directions**

In today's organizational context, creativity is a crucial competency for organizations in order to be able to become innovative, competitive and sustainable. The present study aimed at the effect of financial reward and social reward on employee creativity, and at determining the mediating effect of collectivism and individualism between the employees in the higher educational institutions. The results indicated that the financial rewards and social rewards both had a significant positive effect on employee creativity. The study also found that the mediating effect was significant between organizational rewards and employees' creativity for individualism, but not for collectivism. The research underscores the need for positive reinforcement and cultural awareness of organizational processes to increase the innovative actions of employees. Companies that successfully combine the elements of financial reward with social recognition and practice motivational techniques based on achievement tend to foster creative and innovative work practices within their work environment. Overall, the study adds to the organizational behaviour and creativity literature by combining reward mechanisms and cultural orientation in one empirical

approach. The results offer interesting theoretical and practical implications for organizations looking to create an innovation-driven and creativity-supportive work environment.

## 5.1 Implications

### 5.1.1 Theoretical Implication

The current research is a valuable addition to the body of knowledge on organizational behaviour, employee creativity and cultural orientation. The study is the first to show that financial and social rewards both positively impact employee creativity through motivational mechanisms, thereby extending the application of SDT to the context of employee creativity. The results validate the impact of supportive reward systems on employee motivation, psychological involvement, and creative actions in organizations.

Secondly, the study adds to Hofstede's theory of Cultural Dimensions by analyzing the role of collectivism and individualism between the variables of organizational rewards and employee creativity. The results suggest that the individualistic orientation has a stronger effect on the response of employees to reward systems than the collectivist orientation.

Thirdly, the study adds to the creativity literature by combining organizational rewards and cultural orientation into a coherent conceptual framework. Previous research has mostly focused on rewards or creativity separately, but the current study aimed to shed light on the motivational processes and creative outcomes by explaining how cultural values affect these processes. Last but not least, the study helps to extend the sparse empirical literature in the Indian higher education setting and offers evidence based on an emerging economy perspective, enhancing the generalizability of the organizational creativity literature from one culturally diverse setting to another.

### 5.1.2 Practical Implications

This study has some practical implications for organizational managers, policy makers and human resource professionals. Establishment of effective reward system that uses both monetary and social incentive to motivate employees to be creative and innovative is the first thing that should be done. Incentives, bonuses, and recognition programs can encourage employees to share their innovative ideas and enhance the organization's performance.

Secondly, there is a need to create supportive workplaces where employees feel valued and appreciated. An organizational culture based on recognition fosters a spirit of participation among employees in creative and innovative endeavors free from criticism or the fear of failure.

Thirdly, managers should be aware of the importance of cultural orientation in the development of reward systems and motivational practices. Organizations should include achievement-based and individualized recognition mechanisms to boost employees' creativity and innovative contribution as individualistic orientation proved to have more influence in the study.

In addition, universities need to foster an organizational culture that is open to innovation, such as by making it easier to share ideas, collaborate, and engage in decision-making. These practices can foster increased employee engagement and help to build long-term institutional development and sustainability.

## 5.2 Limitations and Future Research Directions

Although the present study has contributed greatly, there are some limitations. The study targeted higher educational institutions in selected cities of Madhya Pradesh, which may limit the study to other sectors and other geographical regions.

Secondly, the study used a cross-sectional research design, and this study design restricts the capacity of drawing causal inferences between variables. Longitudinal study designs could be used to investigate changes in employees' creativity and motivational behaviour over time.

Third, data were self-reported (questionnaire responses) and this could lead to common method bias and subjectivity. Future studies could use more than one of these methods to obtain higher accuracy and reliability of results.

Fourth, the study focused only on the collectivism and individualism as mediating cultural dimensions. Other cultural factors like power distance, uncertainty avoidance, organizational climate, and leadership style could also be added to future studies to gain a better understanding of employee creativity.

Lastly, researchers in the future can conduct comparative studies across industries, countries and organizational settings to explore cultural variations in reward perception and innovative work behaviour.

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