INTERNATIONAL JOURNAL OF ARTS MANAGEMENT AND PROFESSIONAL STUDIES
ISSN: 2814-0370, ORCID ID: 0009-0003-3878-0137
VOL. 6, ISSUE 2, 2026
AVAILABLE ONLINE: www.ijamps.com

Compensation Systems and Employee Performance: A Comparative Study of Public and Private Organizations

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Abstract

Compensation remains one of the most decisive levers through which organizations shape employee behaviour, motivation, and output. Yet public and private organizations design and administer compensation very differently, with consequences for how employees perform. This paper undertakes a comparative analysis of compensation systems in public and private organizations, drawing on Equity Theory and Expectancy Theory as its guiding framework. Using a qualitative comparative-review methodology anchored in recent empirical literature (2019–2025), the paper finds that private-sector compensation tends to be more performance-contingent and market-responsive, while public-sector compensation is typically more rigid, seniority-based, and slower to adjust to productivity, even though it often carries non-wage advantages such as job security. The paper argues that regardless of sector, compensation systems perceived as fair, skill-based, and clearly linked to performance outcomes produce stronger employee performance than those perceived as arbitrary or disconnected from effort. It recommends that public organizations selectively adapt performance-linked and equity-based compensation elements from private-sector practice without discarding the stability that makes public employment attractive, while private organizations should guard against compensation volatility that undermines long-term commitment.

Keywords: Compensation systems, employee performance, public sector, private sector, equity theory, expectancy theory

1.0 Introduction

Every organization, whether publicly or privately owned, depends on the willingness of its workforce to convert effort into results, and compensation is the primary instrument organizations use to secure that willingness. Compensation management as a human resource discipline covers everything of financial and non-financial value that an employer exchanges for an employee's labour, spanning basic salary, allowances, bonuses, and non-wage benefits (Dim, Ezeanokwasa&Odoemena, 2025). How that exchange is structured, however, differs markedly between public and private organizations, and this divergence is at the centre of a long-running debate in public administration and management scholarship.

Public organizations, funded from statutory allocations and bound by civil service rules, tend to compensate along fixed salary scales tied to grade level and length of service rather than individual output. Private organizations, competing in product and labour markets, have greater latitude to tie pay to measurable performance, skill, and market rates. This structural difference raises an important empirical and theoretical question: does the way compensation is designed and administered , rather than merely its size , account for differences in employee performance across the two sectors? This paper answers that question through a comparative review of recent literature (2019–2025), grounded in Equity Theory and Expectancy Theory, and concludes with recommendations relevant to both sectors, with particular attention to the Nigerian public service context.

2.0 Literature Review

2.1 Conceptual Clarification

Compensation refers to the totality of monetary and non-monetary returns an employee receives in exchange for work performed, comprising fixed pay (salary, wages) and variable pay (bonuses, incentives, fringe benefits) (Dim, Ezeanokwasa&Odoemena, 2025). **Compensation management** is the specialist human resource function of planning, structuring, and administering this exchange so that it attracts, motivates, and retains a productive workforce (Dim, Ezeanokwasa&Odoemena, 2025). **Employee performance** denotes the extent to which employees accomplish assigned tasks and contribute to organizational goals within a given period, and is typically assessed along task performance (core job duties) and contextual performance (discretionary, cooperative behaviour) dimensions (Dim, Ezeanokwasa&Odoemena, 2025).

2.2 Compensation and Performance: The Empirical Picture

Empirical evidence across sub-Saharan African organizations consistently links well-designed compensation to stronger performance. In a study of beverage manufacturing firms in Anambra State, Nigeria, skill-based compensation showed a strong significant relationship with employee task performance, and equity-based compensation showed a similarly strong relationship with contextual performance, leading the authors to recommend that organizations formalize both compensation types as deliberate policy. In the Nigerian public enterprise context, a study of a public television authority found that reward system elements had a significant and positive influence on employees' job performance, with intrinsic and extrinsic rewards significantly shaping job satisfaction. Similarly, a 2024 study of a public university in Lagos State concluded that a well-articulated reward and motivation framework was necessary to align incentive schemes with job performance and workers' welfare (Akinlotan, Akinlotan&Oguntuase, 2024).

Direct public-private comparisons reinforce this pattern while exposing structural differences. A comparative study of compensation systems in public and private Nigerian universities found that extrinsic compensation significantly affected staff commitment, and intrinsic compensation significantly affected turnover intentions, across both university types, though the weighting of these effects differed between the public and private institutions studied. A related and more recent comparative study of academic staff in Southwestern Nigeria similarly found that direct compensation , salaries, bonuses, medical, leave, travel, and housing allowances , was significantly related to job performance, with a significant difference in how staff performed research and community-service duties between public and private universities. At the level of the broader labour market, secondary-data analysis of Nigerian public service pay has found evidence of a discriminatory, sector-driven wage structure that could undermine institutional stability and service delivery if left unaddressed (Ashiru, 2019).

Cross-country evidence situates the Nigerian case within a wider regional pattern: public-sector employees across Sub-Saharan Africa generally receive a wage premium over private-sector counterparts, though the size of that premium varies considerably by country and occupation, and Nigerian public-sector professionals such as academics, engineers, and healthcare specialists often fare worse relative to their qualifications than administrative staff do (BusinessDay, 2025). Internationally, comparative reviews of public-sector pay confirm that government compensation structures have historically rewarded seniority and hierarchical position over demonstrated output, with career progression following predictable, tenure-based paths rather than performance differentiation (ACSH, 2023).

Most recently, a 2025 mixed-methods study of Lagos State's public service examined performance-based reward systems directly through Expectancy and Equity theories, combining survey data from 363 employees with qualitative interviews. It found a mix of successes and challenges , effective recognition programmes alongside inconsistent financial incentives and limited access to professional development , concluding that transparency and equitable reward allocation were essential to improving public service motivation. A parallel 2025 study of a private organization in Ado-Ekiti similarly applied Expectancy, Equity, Goal-Setting, and Herzberg's Two-Factor theories to strategic reward systems, situating the shift from simple pay toward comprehensive, goal-aligned reward strategies as a response to competitive and technological pressures on the modern workplace (Adedipe&Adegoke, 2025).

Taken together, this literature suggests two things: first, compensation-performance linkages hold in both sectors; second, the *type* of compensation that drives performance differs by sector context , skill- and equity-based pay in manufacturing and banking settings, recognition and procedural fairness in public bureaucracies.

3.0 Theoretical Framework

This paper adopts two complementary theories.

Equity Theory (Adams, 1963/1965) holds that employees compare the ratio of their inputs (effort, skill, time, loyalty) to their outcomes (pay, recognition, benefits) against the same ratio for relevant others. Perceived inequity , whether under-reward or over-reward , produces psychological tension that employees resolve by adjusting effort, demanding more, or exiting the relationship (Dim, Ezeanokwasa&Odoemena, 2025). This theory is especially relevant to public organizations, where rigid, grade-based pay scales can generate strong perceptions of inequity relative to private-sector peers doing comparable work.

Expectancy Theory (Vroom, 1964) proposes that motivation is a function of three beliefs: expectancy (that effort will produce performance), instrumentality (that performance will produce a reward), and valence (that the reward is personally desired). Where any of these three links is weak , for instance, where employees doubt that good performance will actually be rewarded , motivation and, consequently, performance decline. This theory explains why private organizations with clear, contingent pay-for-performance systems often report stronger performance effects than public organizations where reward and performance are only loosely coupled.

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Both theories have been jointly applied in recent Nigerian public-sector reward research, reinforcing their continued relevance to compensation-performance analysis in this context (Omoigberale&Nwogwugwu, 2025).

4.0 Methodology

This study adopts a qualitative comparative-review (documentary/content-analysis) design rather than a primary field survey. Sources were purposively selected from peer-reviewed journals, institutional repositories, and policy reviews published between 2019 and 2025, prioritizing studies conducted in Nigerian and comparable Sub-Saharan African public and private organizational settings, alongside foundational motivation theory. Sources were screened for relevance to compensation systems and employee performance, cross-checked against publisher records, and synthesized thematically around: (i) compensation structure by sector, (ii) empirical performance outcomes, and (iii) theoretical explanation. This approach mirrors established comparative methodology in the field, which similarly relies on critical literature synthesis to establish patterns across the public-private divide (comparative compensation studies of this kind typically rely on content analysis of prior empirical work rather than fresh primary data collection).

Note: this design was chosen because no primary survey instrument or field dataset was supplied for this paper. If you want an empirical version , with a questionnaire, a defined study population (e.g., a specific ministry/parastatal paired with a private-sector comparator), Likert-scale instrument, and Spearman's Rank-Order Correlation or Chi-square hypothesis testing in your usual house style , I can build that as Chapter Four/Five once you specify the organizations and sample.

5.0 Comparative Discussion

Structure of pay. Private organizations more readily differentiate pay by skill, output, and market value; public organizations rely on standardized grade-and-step scales that reward tenure over output (ACSH, 2023).

Strength of the performance link. Where compensation is explicitly tied to measurable output , as with skill-based and equity-based pay in the Anambra manufacturing study , the performance effect is strong and statistically robust (Dim, Ezeanokwasa&Odoemena, 2025). Where the link is procedural and reputational rather than financial , as in much public-sector recognition , performance effects are real but more uneven (Omoigberale&Nwogwugwu, 2025).

Non-wage compensation. Public employment often compensates for lower or slower-growing direct pay with job security and predictable career paths, which is itself a form of compensation valued differently depending on employee risk preference (ACSH, 2023).

Sector-specific vulnerabilities. Public organizations risk demotivation from perceived pay compression relative to the private sector, particularly for skilled professionals (BusinessDay, 2025); private organizations risk performance volatility where compensation is aggressively variable and insecure.

6.0 Conclusion and Recommendations

Compensation systems shape employee performance in both public and private organizations, but through different mechanisms: contingent, skill-linked pay in the private sector, and equity- and recognition-sensitive systems in the public sector. Neither sector's model is strictly superior; each carries trade-offs. The paper recommends that:

1. Public organizations introduce measured, skill- and performance-linked pay elements within existing grade structures, rather than replacing them wholesale, to improve the expectancy link between effort and reward.
2. Public organizations invest deliberately in the transparency and equitable administration of non-financial rewards (recognition, promotion, professional development), since these are shown to matter as much as pay level.
3. Private organizations guard against excessive compensation volatility, which can erode the sense of equity that sustains long-term contextual performance.
4. Future empirical work should test these comparative propositions directly with primary data , a matched public/private sample, validated Likert-scale instrument, and Spearman's Rank-Order Correlation or Chi-square hypothesis testing , to quantify the differential strength of these relationships.

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