COMPARATIVE ANALYSIS OF COMPENSATION IN PUBLIC AND PRIVATE SECTOR IN NIGERIA

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Abstract
This paper overviews two opposite perspectives regarding the salient issues of dichotomy of the performance incentives and fringe benefits offered to employees and understands the landscape of the similarities and differences between the private and public sectors. To achieve this, the study implored the use of content analysis method to gather and analyze data in which a critical literature survey in the field of remuneration, incentives and fringe benefits were undertaken on recent empirical studies so as to see the direction of studies in the comparability questions. In this literature survey, the researchers amongst others established that employees in the public sector have compensation premium than their private sector counterparts. However, in comparison to the compensation paid to state and local government workers, the private sector compensation and benefits are higher than the former; the private sector incentive packages are competitive and tied to performance indices. Based on these the study recommends amongst others that, performance incentives and fringe benefits should be competitive, fair and equitable to employees in both the private and public sector as much as possible and as a result of increasing demands on public institutions by the citizenry, public sector compensation should be contingent on ability to pay and there is the need for public sector reforms on performance incentives and fringe benefits to reflect global best practices.

Key words: Comparative analysis, Compensation, Public sector and Private sector

INTRODUCTION
The issues of performance incentives and employee benefits fall within the purview of compensation management in particular and work motivation in general. Performance-based incentives constitutes an integral part of direct compensation (rewards) while fringe benefits form part of the indirect rewards administered to the employee designed to attract, retain and motivate the workforce to attain the strategic goals of the organisation. The significance of compensation and benefits is underscored by the fact that a significant percentage of organisation’s costs are tied to the reward system (Randall, 1984, Griffin, 1997 & Chen, 2004). More importantly, the employee performance incentives, benefits as well as the total reward systems constitute the most fundamental tools for influencing the desired work outcomes, motivation and general behaviour in the workplace (Taylor, 2002, Wignaraja, 2006 & Griffin, 1997).

Employee motivation is a key issue in Human Resource Management (HRM) to both the practicing manager and the academics. Motivation is arguably the cornerstone to performance management and the
design and implementation of effective performance incentives and fringe benefits. However, employee motivation is not an easy task for the Human Resource Manager owing to the complexity of the human nature (Griffin, 1997). Indeed, motivation has been identified as the frequently researched topics in HRM. Motivation is so pervasive that permeates many human resource management issues like organisational behaviour, leadership, teams and group dynamics and performance management (Steers & Shapiro 2004, Robbins & Judge, 2007).

Performance incentives and fringe benefits vary in terms of the nature of the incentive packages and employee benefits which invariably depend on labour market forces, managerial influence, labour-management relations, and trade union influences, the legal and regulatory framework, industry competition, government/company policies, locations, qualifications and level of output. The challenges facing the Organised Private Sectors (OPS), the informal private sector in the labour market in one hand and the government ministries, agencies and parastatals on the other hand are diverse and significant in the determination and design of the reward mechanism (Warsi et al, 2009, Kwak and Lee, 2009).

The objectives and orientation of both the private and public sectors in the issues of remuneration, employee incentives and fringe benefits are not similar. In the private sector, remuneration, financial incentives and benefits are generally associated with superior performance although perverse consequences can also be observed by UNDP (Wignaraja, 2006). The principle of comparability contends that the issue of compensation, incentives and benefits should be equitable between public sector workers and their private counterparts doing similar work (Bender & Heywood, 2010). However, there have been streams of research literature studying remuneration differentials between the public and private sectors. Although a topically controversial issue, many studies have investigated the apparent earnings premium in the public sector than the private sector even after given due consideration to worker attributes (Rutherford, 2008). Even the cursory observer knows that the issues of pay disparity among government agencies horizontally and amongst the three tiers of government on one hand and the private sectors has been subjected to intense research. The compensation and benefits premium enjoyed by public sector workers under the conditions of controlling for or not controlling for union status and influence; compensation differentials increase when adjusted for non-wage monetary benefits with the public sector employees having a comparatively better jobs Ramoni (2004).

LITERATURE REVIEW
In today’s capitalist economy, organisations whether private or public must design reward systems like performance-based pay plans, merit pay, skilled-based systems and fringe benefits to gain competitive advantages, elicit desired work outcomes and to gain superior performance and for productivity improvements (Warsi et al, 2009, Griffin, 1997). More importantly, the issues of employee performance incentives and benefits are considered to be crucial for employees’ good performances, retention and organisational citizenship and commitment (Randall, 1984, Robbins & Judge, 2007).

Conceptual Framework: Performance Incentive & Fringe Benefits
Incentive systems have been designed as integral part of organisational motivation and are a key factor helping to understand and directing the forces that drive organisations to performance. Performance incentive can stimulate good performance or discourage employee and work group dysfunctional behaviour, turnover and absenteeism (UNDP Wignaraja, 2006). Griffin (1997) defines performance incentives as unique compensation packages that are normally tied to performance. He defines fringe benefits on the other hand, as valuable things distinct from compensation that the employer provides for his workers.

The conceptual definitions for this study have been adopted from UNDP Wignaraja (2006). In the study the UNDP studied performance incentives and benefits as tools for stimulating better performances and for attracting and retaining talents in both the public and private sectors. The current study is aimed at examining the comparability of employee incentives and fringe benefits in both sectors from the general theoretical perspective and a well comprehensive survey of relevant literature in the area of compensation and benefits management.
Theoretical Perspectives: The Expectancy Theory of Motivation and Job Behaviour

The expectancy theory of motivation is a process perspective of motivation that contends that job motivation is a function of how the employee wants something and how he thinks he can get it. This theory provides a fundamental paradigm shift for the study of human attitudes and behaviour in the workplaces and organisational settings. As highlighted in the preceding sentence, the first issue in this theory is how the employee gets something. The second issue is the likelihood that the employee gets that thing to satisfy his goals. In this study, the researcher is concerned with the second problem.

The expectancy postulate contends that the potency of the tendency to act and behave in a certain manner is contingent on the strength of an expectation that the act or behaviour will follow by a given outcome and on the attractiveness of that outcome to the individual Vroom (1964). In a more realistic term, the expectancy theory argues that workers will be motivated to put in their best when they know that efforts expended will result in a good performance appraisal and organisational rewards in the forms of incentives, fringe benefits, bonus, and promotions. Consequently, rewards will satisfy the personal goals of the employee. The theory encompasses three mutually sustaining elements that result in motivated workforce namely effort-performance relationship, performance-reward relationship and finally rewards-personal goals relationships. The primary concern of the expectancy theory is the appreciation of employee goals and the linkage between efforts and performance and then performance and rewards. The expectancy theory has been described as a contingency model in explaining the employee motivation (Robbins & Judge, 2007).

Infact, in the literature, substantial number of empirical studies has been done to test the aspects of the expectancy model of behaviour. Heinemann & Schwab (1972) have reviewed a number of empirical researches that offer general support to the expediency model with the results consistently confirming that expectancy type attitude measures are significantly correlated to measure job performance in Lawler & Suttle (1973). However, there have been few criticisms leveled against the expectancy theory. Firstly, most researches failed to replicate the methodology as originally proposed. Secondly, limited application of the theory is presumed to be contingent on effort-performance and performance-reward linkages. Nevertheless, the expectancy theory has wide acceptance in the explanation of effort-performance and performance-reward nexus for the design and implementation of reward and incentive systems.


The major pre-occupation of the agency theory is the description of the contractual arrangements between management and shareholders where the latter delegates its authority to the former hoping that the agent will serve the best interest of the principal. The principal can guarantee that the agent will make optimal decisions if appropriate incentives and fringe benefits are given to the agent (Jensen & Meckling, 1976). The theory contends that the contractual arrangement between the principal and the agent is establishing contract regulating the relationships given assumptions about people, organisations and information asymmetric. The theory assumes the greed in the human nature and highlights conflicts arising when the agents have conflicting interests at variance with that of the principal (Kwak et at, 2009).

The agents can satisfy their self-interest against the principal. The latter will incur motoring costs to serve as checks and balances against the agent or alternatively, the principal gives appropriate performance incentives in the forms of bonus, stock options, benefits and perquisites. It is assumed under the theory that the more the incentives and fringe benefits, the lesser the probability that the agent acts inconsistent with the maximization of the shareholders’ wealth and also the lesser the monitoring cost to be incurred (Oloue, 1997). Whereas incentives for managerial and non-managerial employees are usually tied to performance, fringe benefits are not linked to performance; hence agents can satisfy their self-interest by exploiting the organisation and the idea of fringe benefits is positioned as a centre-piece of the rent-extraction hypothesis (Kwak & Lee, 2007).

The Role of Performance Incentives and Fringe Benefits

The literature is awash with diverse studies on the benefits of incentives and fringe benefits in productivity improvements and job outcomes. Empirical studies on incentive systems have indicated that individual incentive plans can boost mean performance by almost 30% over non-performance-based reward systems. Also, group-based incentive plans can improve overall job performance up to 20% and impressively, these figures are significant if juxtaposed against the impacts non-performance-based programmes like goal-
setting, participation-plan and job enrichment as having much lesser impact on productivity improvements (Randall, 1984).

Furthermore, in a recent meta-analytic review of the effects of incentives on workplace performance, Condly et al (2003) studied the empirical researches on the use of incentives in the motivation of individual employees and work groups toward job performance. The net average effect of all incentive programmes in all work settings and all work tasks within the purview of the meta-analytic study was a 22% gain in performance. Team-based plans had a significantly superior performance effect in comparison with individual-directed incentives. A crucial outcome of the study revealed that monetary incentive plans were found to result in higher performance gains than non-monetary, tangible incentives like gifts and travels. The meta-analytic research established that long-term incentive plans have more positive impacts on productivity improvements than do short-term plans.

Moreover, many recent empirical studies on compensation and benefits could be useful for aligning the actions of agents with the overall wealth optimization of the firm’s value and eliciting the desired organisational outcomes. Abowd (1990) studies the incentive pay-firm performance nexus among 225 firms and finds that the greater the use of performance incentives, the greater the market valuation of the firm, return on equity and gross economic returns. In another studies, Kwak & Lee (2009) investigates the contribution of fringe benefits as veritable instruments for motivating employee’s performance.

In fact, the use of performance incentives and employee benefits has negative proponents in the literature. The recent work of Kohn (1993) entitled “Why Incentive Plans Cannot Work” encapsulates the criticisms against the use of incentives and benefits. The study contends that managers have excessive belief in the redemptive power of rewards and rather than the reward systems engender lasting commitments they result in temporary change in employees. The assumptions underlying rewards and incentives were ‘dangerous’ and ‘destructive’ when linked to interesting or completed tasks.

In addition, Bebchuk & Friedman (2005) indicate that flawed compensation and incentives have been widespread, persistent and systematic in nature. The researcher believes that this negative opinion is reinforced by the recent corporate scandals locally and internationally. The recent financial scandals in corporate Nigeria, Cadbury in 2004, and recently the scandals in the banking sector which led to the intervention in the five banks in ‘grave situations’ by the Central Bank of Nigeria are good examples. The corporate scandals erupting in the USA in 2001 of Enron Corporation and other global corporate governance shady deals have exposed the flaws and abuse of particularly executive compensation plans and incentives.

In summary, incentive plans and fringe benefits based on the review of the relevant literature are necessary ingredients to any reward system being it in the private or public sector. As in the UNDP Report Wignaraja (2006:8) observes “organisations must continually seek ways to keep their employees and work groups engaged in their work, motivated, efficient and productive. An organisation’s success can depend on its ability to create the conditions and systems (formal and informal) that entice the best people to work there. Also, a good incentive system encourages employees to be productive and creative, fosters loyalty among those who are most productive and stimulates innovation”.

**RESEARCH METHODOLOGY**

This is an academic study of the comparability of performance incentives and fringe benefits in the public and private sectors. In this study, the researchers’ review comparability using the types of incentive and fringe benefits based on the literature on compensation and benefits. Our study uses the most common forms of performance incentives and benefits in the compensation and reward system literature to see the similarities and differences between the two sectors.

The basic research method used is the exploratory research approach. Panneerselvam (2008) observes that an exploratory research seeks to explore possible relationships between variables without knowing their end applications. The method provides general findings which may be used by researchers in future investigation. To this end, a literature survey approach were used involving selected literature in the area of public and private sector compensation comparability with a view to expanding the researcher’s limited knowledge and better understanding of the past data sources/results and guidance of future research.
RESULTS AND DISCUSSION

Literature Survey: Compensation, Incentives & Fringe Benefits in Public & Private Sectors

There is no doubt that compensation, performance incentives & fringe benefits constitute increasingly significant percentage of remuneration in both the private and public sectors. For instance, the total costs of compensation in the private sector of the United States of America in 2004 were estimated at $23.76 per hour worked, up from $13.4 in 1987. This trend has been estimated to reflect an average annual rate of 3.3%. Similarly, the overall compensation costs of the States and Local Governments rose from $22.31 in 1991 for the public sector to $34.72 per hour worked in 2004 translating to an average annual growth rate of 3.3% based on the statistics of the Bureau of Labour Statistics of the Employee Benefit Research Institute, Washington D.C (2005) www.ebri.org

Moreover, the cost figures of employee benefits have been on the increase in recent times. Chen (1981) argues that indirect compensation and fringe benefits have relative to cash pay, increased astronomically during the past six decades.

Also, The Bureau of Labour Statistics estimates that employee benefits costs in the private sector has increased at 2% points from $3.6 in 1987 to $6.82 in 2004 translating to 28.6% of the total compensation package. In the same vein, legally required benefits like social security, unemployment and compensation benefits have been identified as the highest cost employee costs for the private sector. Similarly, the public sector in the USA has recorded 3.5% an average annual employee benefit growth in 1991 up to year 2004 Employee Benefit Research Institute (2005). www.ebri.org

In labour economics, labour market analysis is premised on the contention that there should be compensation parity for same nature of work in both the private and public sectors. Notwithstanding, the public policy trust of having comparable standards, much of the history of concern over public compensation and benefits have been that of low remuneration package. In spite of the rise of labour unions in the public sector in the USA, private sector employees had better pay package than their public sector counterparts (Bender & Heywood, 2010).

Smith (1987) in Bender & Heywood (2010) did a pioneering empirical research to examine the major methods of comparability between the public and the private sectors. The main trust of the study was to standardize for known earning components determining the pay package of a particular worker along the dimensions of education, training, experience, job location and other job-related attributes. Then, the average earning differentials between public and private sector employees were compared to determine pay disparity between the two sectors.

In addition, Belman & Heywood (1995) conducted a population survey to establish pay comparability across (seven) 7 principal states in the USA. The highlight of the findings is that the pay differential was positive in 4 states and negative in 3 but when compared with Local Governments in the states studied, the differential was negative for the local government employees.

Borjas (2003) in Bender and Heywood (2010) studied public sector pay differentials using longitudinal studies from 1060s to 2000. The data indicated a fairly regular and consistent pattern over the study period for men employees but a relatively downward trend position for females in the public sector. By the end of his time, the remuneration differences were similar for both the gender translating to 9% lower in the local governments and 12% in the state governments.

In addition, Krueger (1987) studied the public private sector compensation differential question using longitudinal approach that supported other cross-sectional empirical studies. The research established that the average wages of Federal Government workers exceeded their private sector counterparts by between 10-15% while the wages of state and local government employees were closely at par to or slightly lower than the private sector workers. Moreover, these findings hold for workers in transition from private sector employment to public sector.

Moreover, the study of Lee ((2004) is significant in comparability studies in public and private sectors. Using a longitudinal survey approach to study worker attributes, the results of the regression analysis indicates that female state government employees receive 3% lower than their private sector counterparts.
while male employees at the local government earn basically the same with their private counterparts. Also, the study examines employee transition from one sector to the other which reveals some positive public sector differentials for women but largely no effect for men.

Furthermore, in a World Bank study, Glinskaya & Lokshin (2005) examine wage differentials between public and private sectors in India as well as the determining factors for employees’ decision to join a particular sector. The major findings suggest that wages and remuneration disparity between the public and private sectors; the formal private and the informal sectors are positive and high. Comparing the research findings with global remuneration statistics, the study establishes that India has the highest pay differential between the public and the private sectors.

Against this background, the standards of comparability and the yardsticks for measurement of pay differentials between the public and private sectors are far from being perfect. There are mixed reports of pay incentives and benefits differences in both the sectors depending on the research methodology, job attributes and other factors of investigation. Also, comparability is difficult as the average private and public sector workers are not similar workers doing similar work (Bender & Heywood, 2010).

An important finding of this paper surveys the literature on the raging question of public/private sector compensation and benefits disparity. Although previous studies especially in the developed countries found empirical evidence in compensation premium in the public sector domain, these results have been assailed with criticisms owing to selection bias in research instrumentation and sampling errors and the often dissimilarity of the nature of jobs in the private and public sectors; however, the World Bank empirical study of a developing country like India (Glinskaya & Lokshin, 2005) and Nasir, 2000), also confirm that the public sector is more paid than the private sector. In contrast, a pilot study commissioned by USAID in Zambia by Furth (2006), indicates that the pay package in the public sector compared to the private sector is low in that country that recommended for the institution of good performance-based incentives to attract competent personnel in to the public health delivery system. More importantly, the recent findings of Bender & Heywood (2010) have established that compensation and benefits payments of the private sector has exceeded that of the public sector therefore, questioning the validity of the long-established “public sector premium” hypothesis.

Another significant finding is that compensation and benefits differentials may be accounted by the qualifications of the labour force with the private sector reward system laying premium on productivity, training and job experience while the public sector laying emphasis on rewarding higher educational qualifications and longer tenure of service.

Another important finding is that the expenditure on performance incentives and fringe benefits has increased in both absolute and relative terms in both the public and private sectors. Though the results indicate that the private sector compensation and benefit costs lag behind the public sector, there have been substantial increments in percentage incentives and benefits in both sectors in recent years.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions
In this literature survey, the researchers established that employees in the public sector have compensation premium than their private sector counterparts. However, in comparison to the compensation paid to state and local government workers, the private sector compensation and benefits are higher than the former.

As regards performance incentives and benefits in public and private sectors, the private sector incentive packages are competitive and tied to performance indices. While the goals and objectives of the private sector are usually quantifiable which are usually linked with performance incentives those of the public are non-quantifiable. Also, executive compensations like stock options and non-managerial incentives like profit-sharing, the piece-rate system are not obtainable in public sector employments.

The literature survey indicates that fringe benefits in both the public and private sectors are paid to employees as indirect compensation having no bearing to performance or productivity improvements but as remuneration tool to reward employee membership of the organisation and as staff retention strategies and encouraging employee commitments.
Recommendations

1. Performance incentives and fringe benefits should be competitive, fair and equitable to employees in both the private and public sector as much as possible.

2. As a result of increasing demands on public institutions by the citizenry, public sector compensation should be contingent on ability to pay. Though government has in principle unlimited power to raise revenue through the fiscal instruments owing to sovereignty, impacts of local and economic crises may force public sector compensation and benefits to be reviewed to reflect this reality. Hence, the need for public sector reforms on performance incentives and fringe benefits to reflect global best practices.

3. Since many empirical studies have established the public sector compensation and benefits premium over the private sector, the public sector compensation should serve as models as regards instituting best practices in due process, incentive and merit-based pay systems, life insurance, health insurance, health safety and environment practices, setting parity and anti-discrimination measures for the private sector to emulate with a view to having a semblance of comparability in both sectors.

4. Most of the empirical researches in the public-private compensation comparability are based on studies in the developed world, more studies need to be done in developing economies like ours with a view to validating the public sector premium question in view of the fact that our levels of social, political and economic developments differ with those of the developed worlds.

REFERENCES


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