Effect of Compensation Systems on Employees' Productivity in Nestlé Plc, Ogun State, Nigeria: The Moderating Role of Perceived Fairness

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ABSTRACT

This study examined the effect of compensation systems on employee productivity in a Nigerian manufacturingorganisation, focusing on financial compensation, non-financial compensation, incentive-based compensation, and perceived fairness. A quantitative cross-sectional survey design was adopted, and data were collected from 300 employees using structured questionnaires. Multiple regression and moderation analyses were conducted using SPSS version 27. The regression model was statistically significant ($F = 182.448$, $p < .001$) with $R^2 = 0.814$, indicating that the predictors explain 81.4% of the variance in employee productivity. Financial compensation, non-financial compensation, incentive-based compensation, and perceived fairness all exert significant positive effects on productivity. However, the interaction effects between perceived fairness and the compensation variables were insignificant, suggesting that fairness does not moderate the compensation–productivity relationship. The findings indicate that compensation components and fairness independently enhance productivity.The study concludes that compensation systems play a crucial role in enhancing employee productivity. The study recommends that organisations should implement competitive financial rewards, structured incentives, robust non-financial benefits, and transparent compensation policies to sustain productivity.

Keywords: Compensation Systems; Employee Productivity; Financial Compensation; Non-Financial Compensation; Perceived Fairness.

1. INTRODUCTION

Compensation systems remain a central component of human resource management due to their direct influence on employee motivation and organisational performance. Compensation encompasses both financial rewards, such as salaries, bonuses, and incentives, and non-financial rewards, including recognition, career development opportunities, and favourable working conditions (Rinny et al., 2022). Theoretically, frameworks such as Expectancy Theory and Equity Theory suggest that employees are more likely to exert effort when rewards are contingent on performance and perceived as fair. Despite this strong theoretical foundation, the practical effectiveness of compensation systems remains inconclusive across empirical contexts.

Existing studies generally support a positive relationship between compensation and employee productivity, particularly where financial and non-financial rewards are effectively aligned with organisational objectives (Katabalo & Mwita, 2024; Kusumayadi et al., 2024). However, the strength and direction of this relationship vary across sectors and environments. While financial rewards often generate immediate performance improvements, their long-term effectiveness may diminish if not complemented by intrinsic motivators. Conversely, non-financial rewards, such as recognition and career advancement, are associated with sustained engagement but may be insufficient in economically constrained environments. These mixed findings indicate that compensation–productivity dynamics are complex and context-dependent.

This complexity is particularly evident in developing economies such as Nigeria, where organisations operate under conditions of economic instability, high unemployment, and evolving workforce expectations. In such settings, compensation systems are frequently characterised by wage disparities, limited benefits, and inconsistent implementation practices. While some organisations report improved productivity following compensation reforms, others continue to experience low morale, absenteeism, and high employee turnover. These inconsistencies suggest that compensation systems may not be optimally structured to meet employee expectations or organisational needs (Okeke & Ikechukwu, 2019).

Furthermore, the contemporary work environment introduces additional challenges. Technological advancements, increased competition, and shifting employee values have altered the nature of work and motivation. Modern employees increasingly value non-financial aspects such as autonomy, meaningful work, and professional growth, while still prioritising financial security. Despite these changes, empirical research examining how combinations of financial and non-financial compensation influence productivity, particularly within the Nigerian manufacturing sector, remains limited.

A critical gap in the literature lies in the tendency to examine compensation components in isolation, often assuming direct linear relationships with productivity. This approach overlooks the possibility that contextual factors, such as perceived fairness, may shape how employees respond to compensation structures. Perceived fairness is especially important because it influences employees' evaluation of reward systems and their subsequent behavioural responses. However, its role as a conditioning factor in compensation–productivity relationships has received limited empirical attention in developing-country contexts.

This study addresses these gaps by examining the effect of compensation systems on employee productivity through an integrated framework that incorporates financial and non-financial rewards alongside perceived fairness. By adopting a more comprehensive analytical approach, the study provides empirical evidence on how compensation structures influence productivity within a Nigerian manufacturing organisation. The findings are expected to inform the design of effective compensation strategies that enhance employee performance while ensuring organisational competitiveness.

1.2 Statement of the Problem

Employee productivity remains a critical determinant of organisational effectiveness, yet many organisations, particularly in developing economies, continue to face persistent performance challenges. In Nigeria, these challenges are reflected in issues such as low work quality, absenteeism, and high employee turnover (Enyindah & Bagshaw, 2022). While multiple organisational and environmental factors contribute to these outcomes, compensation systems have received considerable attention due to their direct influence on employee motivation and behaviour.

Despite the recognised importance of compensation, there is limited consensus on how its various components influence productivity. Financial rewards are often prioritised because of their immediate motivational impact; however, their ability to sustain long-term employee engagement is uncertain. Conversely, non-financial rewards, such as recognition, career development, and supportive work environments, are associated with intrinsic motivation and job satisfaction, but may be insufficient in isolation, particularly in economically constrained contexts. This creates a strategic dilemma for organisations seeking to design compensation systems that effectively balance short-term performance gains with long-term employee commitment.

The problem is further compounded within the Nigerian context by structural and institutional constraints. Many organisations operate compensation frameworks that are inconsistently implemented or inadequately aligned with employee expectations, leading to perceptions of inequity and dissatisfaction. According to Equity Theory, such perceptions can undermine motivation and reduce productivity, regardless of the absolute level of compensation. Additionally, sectoral differences and organisational heterogeneity suggest that the effectiveness

of compensation systems is context-dependent, yet empirical evidence addressing these variations remains limited.

Another critical issue is the lack of clarity regarding the mechanisms through which compensation influences productivity. While theoretical models such as Expectancy Theory emphasise the role of performance–reward linkages, empirical studies often fail to integrate these mechanisms within a unified analytical framework. As a result, organisations lack clear guidance on how to structure compensation systems that simultaneously address financial incentives, intrinsic motivation, and employee perceptions.

Consequently, the central problem addressed in this study is the absence of comprehensive empirical evidence on how integrated compensation systems—comprising both financial and non-financial components, affect employee productivity within the Nigerian manufacturing sector, particularly when accounting for perceived fairness. Without such evidence, organisations risk implementing compensation strategies that fail to optimise employee performance and overall organisational outcomes

2. LITERATURE REVIEW

2.1 Employee Productivity

Employee productivity is a central construct in organisational and human resource management literature, reflecting the extent to which employees efficiently and effectively convert inputs into outputs. It is commonly conceptualised as the ratio of outputs to inputs, where inputs include labour, skills, time, and organisational resources, while outputs represent goods or services delivered within defined quality standards (Enyindah & Bagshaw, 2022; Armstrong, 2020; Robbins and Judge, 2017). This perspective captures both efficiency (optimal resource utilisation) and effectiveness (achievement of organisational objectives), thereby positioning productivity as a multidimensional construct.

Beyond quantitative output, contemporary literature emphasises qualitative dimensions of productivity, including accuracy, innovation, consistency, and adherence to organisational standards. In manufacturing environments, productivity is typically assessed using indicators such as output per worker, production efficiency, defect rates, and adherence to production schedules. These measures reflect not only operational performance but also employees' contributions to cost control and process optimization (Drucker, 2007; Becker and Huselid, 1998).

In the Nigerian manufacturing context, productivity is further influenced by structural constraints such as infrastructural deficiencies, technological limitations, and workforce skill disparities. As a result, organisations often adopt a combination of quantitative and qualitative metrics to capture a holistic view of employee performance. Importantly, productivity is not an isolated

outcome but is shaped by organisational practices—particularly compensation systems, which influence employees' motivation, engagement, and commitment to organisational goals.

2.2 Compensation Systems

Compensation systems refer to the structured combination of financial and non-financial rewards provided to employees in exchange for their contributions. Financial compensation includes salaries, wages, bonuses, and incentives, while non-financial compensation encompasses recognition, career development opportunities, job security, and supportive work environments. These components perform complementary motivational functions, addressing both extrinsic and intrinsic employee needs (Armstrong, 2020; Mbah et al., 2021; Ulah et al., 2024).

Financial rewards are generally associated with immediate performance improvements, particularly in roles where output is measurable. They reinforce effort–reward relationships and provide tangible incentives for increased productivity. However, their effectiveness may diminish over time if not supported by intrinsic motivators. Non-financial rewards, on the other hand, enhance long-term engagement by fostering job satisfaction, organisational commitment, and professional growth. The effectiveness of compensation systems therefore depends on the integration of these components rather than reliance on any single dimension (Vroom, 1964; Ulah et al., 2024).

A critical factor influencing compensation effectiveness is perceived fairness. Employees evaluate compensation not only in absolute terms but also relative to their inputs and the rewards received by others. This evaluative process is explained by Equity Theory, which posits that perceived inequity can lead to reduced motivation and lower productivity. Similarly, Expectancy Theory highlights that employees are motivated when they perceive a clear and credible link between effort, performance, and rewards (Enyindah & Bagshaw, 2022; Armstrong, 2020).

In developing economies such as Nigeria, compensation systems are often shaped by institutional and economic conditions, including wage disparities, limited benefits, and inconsistent reward structures. While some organisations achieve improved productivity through structured compensation practices, others experience persistent challenges such as low morale and high turnover(Alabi et al., 2022). These variations suggest that compensation effectiveness is contingent upon both organisational design and contextual factors.

2.3 Theoretical Review

2.3.1 Equity Theory

Equity Theory, developed by Adams (1965), explains how employees evaluate fairness in organisational reward systems and how such perceptions influence motivation and performance. The theory posits that employees compare the ratio of their inputs—such as effort, skills, and experience, to outcomes received, including salary, bonuses, and recognition, relative to others in similar roles. This makes fairness a socially constructed perception rather than an objective measure. Perceived inequity generates psychological tension, which employees seek to reduce by

adjusting their behaviour; under-reward may lead to reduced effort, lower productivity, or withdrawal, while perceived equity reinforces motivation and enhances performance. The theory highlights the importance of both distributive fairness (outcomes) and procedural fairness (processes), emphasising that transparent and consistent compensation systems strengthen trust and work effort, whereas opaque practices undermine motivation. In manufacturing environments, where performance is measurable, perceptions of unfair compensation can quickly translate into inefficiencies and reduced output, while equitable systems promote discipline and alignment with organisational goals. This is particularly relevant in the Nigerian manufacturing sector, where wage disparities and inconsistent reward practices heighten sensitivity to fairness, making Equity Theory a useful framework for explaining variations in employee productivity across firms.

2.3.2 Expectancy Theory

Expectancy Theory, developed by Vroom (1964), explains workplace motivation as a function of expected outcomes rather than rewards alone. The theory is anchored on three components: expectancy (belief that effort leads to performance), instrumentality (belief that performance will be rewarded), and valence (value attached to the reward). Motivation arises when employees perceive a clear and credible linkage between effort, performance, and desired outcomes. Within compensation systems, this implies that employees exert greater effort when performance is accurately measured and directly tied to meaningful rewards such as pay, bonuses, promotions, or recognition. Conversely, weak linkages, arising from unclear appraisal systems, delayed rewards, or inconsistent incentives, undermine motivation and reduce productivity. The theory therefore, emphasises that effective compensation systems must ensure clarity, credibility, and attainability of performance standards, supported by transparent evaluation processes and adequate resources. In manufacturing settings, where output is measurable, strong effort–performance–reward linkages enhance efficiency, reduce errors, and improve target attainment, while weak linkages lead to disengagement and suboptimal performance. This is particularly relevant in the Nigerian manufacturing context, where concerns about appraisal credibility and reward consistency may weaken employees' expectations, thereby limiting the effectiveness of compensation systems in driving productivity.

2.3.3 Reinforcement Theory

Reinforcement Theory, rooted in B. F. Skinner (1953), explains behaviour as a function of its consequences rather than internal cognitive processes, emphasizing through operant conditioning that behaviours followed by desirable outcomes are more likely to be repeated, while those followed by negative or no consequences tend to diminish; within organisations, this is operationalised via reward systems where positive reinforcement—such as financial incentives (bonuses, salary increments, overtime pay) and non-financial rewards (recognition, promotion, training opportunities), strengthens desirable behaviours like productivity and punctuality, whereas lack of reinforcement can weaken motivation and performance, with the effectiveness of such systems depending critically on the timing, consistency, and clear linkage between behaviour and reward, as immediate and consistent reinforcement strengthens behavioural conditioning while delayed or inconsistent rewards weaken it, making reinforcement schedules central to compensation design, particularly in manufacturing settings where tasks are measurable and repetitive, and where well-structured reinforcement mechanisms can enhance efficiency, reduce errors, and sustain productivity; in the Nigerian manufacturing sector,

however, inconsistent or unfair reward systems often undermine these outcomes, whereas firms with structured and timely reinforcement practices tend to achieve higher employee discipline, motivation, and overall productivity.

2.3.4 Herzberg's Two-Factor Theory

Frederick Herzberg's Two-Factor Theory (1959) explains job satisfaction and motivation through two independent categories—hygiene factors and motivators—arguing that while hygiene factors such as salary, job security, organisational policies, supervision, and working conditions prevent dissatisfaction when adequate, they do not in themselves drive motivation or sustained productivity, and their absence can instead lead to demotivation and reduced performance; in contrast, motivator factors, such as recognition, achievement, responsibility, advancement, and personal growth—are intrinsic to the job and directly enhance satisfaction, commitment, and productivity, particularly when operationalised through non-financial rewards like promotion opportunities and career development initiatives, implying that employee productivity is shaped by a dual mechanism in which hygiene factors establish a baseline level of engagement while motivators stimulate higher effort and performance, a dynamic that is especially evident in manufacturing environments where equitable pay, safe conditions, and job security maintain workforce stability, while recognition and development opportunities drive continuous improvement, and in the Nigerian context, where economic realities heighten the importance of fair and timely financial compensation alongside non-financial incentives, variations in how firms balance these factors help explain differences in employee productivity outcomes.

2.3.5 Self-Determination Theory

Edward Deci and Richard Ryan's Self-Determination Theory (1985; 2000) conceptualises motivation as dependent on the satisfaction of three core psychological needs—autonomy, competence, and relatedness, distinguishing between autonomous motivation, which is internally driven and associated with higher engagement, persistence, and productivity, and controlled motivation, which is externally imposed and often yields weaker, less sustainable performance; autonomy reflects employees' sense of control over their work and is enhanced by flexible, participatory, and trust-based organisational practices, competence relates to the feeling of effectiveness supported through training, feedback, and skill development, while relatedness captures the need for connection fostered through supportive supervision, teamwork, and recognition, with compensation systems influencing these needs not only through financial rewards but also via non-financial mechanisms such as recognition programmes and career development initiatives that reinforce intrinsic motivation; the theory therefore posits that productivity improves when organisational environments support these psychological needs, whereas rigid, purely transactional reward structures may undermine intrinsic motivation despite offering financial incentives, leading to lower discretionary effort, a dynamic particularly relevant in the Nigerian manufacturing sector where hierarchical structures and limited developmental opportunities can constrain motivation, while firms that adopt more autonomy-supportive, inclusive, and development-oriented practices are better positioned to achieve sustained productivity gains.

2.3.6 Organisational Theory

Organisational theory, shaped by contributions from Frederick Winslow Taylor, Max Weber, Elton Mayo, Tom Burns, G. M. Stalker, Daniel Katz, and Robert Kahn, explains how organisational structures, management practices, and work environments shape employee behaviour and performance through multiple perspectives: the classical approach emphasises efficiency, specialisation, and formal structures with compensation tied to standardised wages and performance incentives but limited attention to non-financial motivation; the human relations perspective highlights the importance of social interactions, employee well-being, and non-financial rewards such as recognition and supportive supervision in enhancing productivity; the contingency perspective argues that no single compensation system is universally effective, as organisational effectiveness depends on contextual factors like size, technology, and environmental uncertainty, requiring adaptive reward structures; and the systems perspective views compensation as part of an interconnected organisational framework where its effectiveness depends on alignment with leadership, communication, and operational processes, implying that employee productivity is influenced both directly through financial incentives and indirectly through engagement and commitment derived from non-financial rewards, with outcomes in the Nigerian manufacturing sector varying according to how well firms integrate flexible structures, managerial capacity, and coherent compensation systems to support sustained performance.

2.4 Theoretical foundation for the study

This study is anchored on an integrated framework combining Equity Theory (Adams, 1965), Expectancy Theory (Vroom, 1964), Reinforcement Theory (Skinner, 1953), Herzberg's Two-Factor Theory (Herzberg, 1959), Self-Determination Theory (Deci and Ryan, 1985; 2000), and Organisational Theory as developed through classical, human relations, contingency, and systems perspectives (Taylor, 1911; Weber, 1922; Mayo, 1933; Burns and Stalker, 1961; Katz and Kahn, 1966). Collectively, these theories explain how compensation systems influence employee productivity through cognitive, behavioural, psychological, and organisational mechanisms. Expectancy Theory posits that employees exert effort when there is a clear link between effort, performance, and rewards, while Reinforcement Theory emphasises that consistent and timely rewards strengthen productive behaviour. Equity Theory introduces perceived fairness as a critical condition, suggesting that employees' productivity depends on how equitable they perceive compensation relative to others.

Herzberg's Two-Factor Theory and Self-Determination Theory extend this understanding by distinguishing between extrinsic and intrinsic drivers of performance. While financial rewards (hygiene factors) prevent dissatisfaction, non-financial rewards (motivators) and the fulfilment of psychological needs, autonomy, competence, and relatedness, enhance sustained motivation and productivity. Organisational Theory further situates compensation within broader organisational structures and practices, indicating that its effectiveness depends on alignment with management systems and environmental conditions. In the Nigerian manufacturing sector, where organisational practices and economic conditions vary widely, this integrated framework suggests that employee productivity is maximised when compensation systems are fair,

performance-linked, consistently applied, and balanced between financial and non-financial rewards within supportive organisational environments.

2.5 Empirical Review

Welbeck and Thelma (2026) examined employee motivation and job performance in Ghana's public sector using a descriptive–correlational survey of 250 employees, finding that both intrinsic (recognition, job satisfaction, career advancement) and extrinsic factors (salary, job security, working conditions) significantly enhance performance, with intrinsic motivation exerting a stronger effect on commitment and productivity, while inadequate incentives and bureaucratic constraints hinder outcomes, leading to recommendations for improved compensation, recognition, and supportive work environments.

Akuffo-Aduamah (2025) analysed the effect of strategic compensation on motivation, retention, and productivity, showing that well-structured compensation systems—comprising financial and non-financial rewards—improve job satisfaction, reduce turnover, and enhance performance, particularly when aligned with organisational goals and implemented with transparency and fairness.

Omaliko et al. (2020) investigated contemporary compensation schemes and corporate performance in Nigeria using OLS regression on oil and gas firms, finding that equity-, profit-, bonus-, and commission-based rewards significantly and positively affect performance (measured by NAPS), thus supporting the adoption of structured compensation policies.

Ratnawita et al. (2025) assessed the effects of salary and job satisfaction on employee performance in an Indonesian SME using multiple regression, revealing that both variables significantly improve performance and jointly explain a substantial proportion of its variation (adjusted $R^2 = 0.779$), underscoring the importance of fair pay and workplace satisfaction.

Yakubu et al. (2023) examined financial and non-financial compensation in Nigerian deposit money banks using PLS-SEM, finding that financial rewards significantly enhance employee performance, while non-financial rewards show a positive but insignificant effect, leading to recommendations for timely financial incentives and improved welfare benefits.

Norbaiti et al. (2022) analysed the impact of wages and incentives on employee performance using correlation and regression techniques, showing that both factors individually and jointly exert significant positive effects, thereby highlighting the importance of equitable wages and effective incentive systems.

Mahato and Kaur (2023) explored the compensation–performance relationship, concluding that remuneration systems improve outcomes when aligned with employee needs and organisational objectives, with particular emphasis on performance-based pay in strengthening the effort–reward linkage.

Okeke and Ikechukwu (2019) evaluated compensation management in Nigerian public secondary schools using a survey design and Z-test, finding that performance-based, competency-based, and equity-based compensation significantly enhance employee performance, and recommending equitable and performance-driven reward systems.

Mba et al. (2021) investigated compensation and employee performance in South-East Nigerian banks using regression analysis, revealing that wages, retirement benefits, and fringe benefits significantly improve service quality, punctuality, and transparency, with recommendations for timely promotions and enhanced benefits.

Alabi et al. (2022) examined non-monetary rewards and employee performance in Lagos-based banks using correlation analysis, finding that all dimensions of non-financial incentives significantly influence performance, and recommending clearer compensation communication and employee orientation to strengthen outcomes.

2.6 Gaps in the Literature

Despite extensive research, several gaps remain. First, there is a conceptual gap, as many studies examine financial and non-financial compensation independently rather than as an integrated system, limiting understanding of their combined effects. Second, empirical findings are inconsistent, suggesting that the compensation–productivity relationship is conditional rather than universally positive.

Third, there is a theoretical gap, as many studies rely on single theoretical frameworks without integrating cognitive, behavioural, and psychological perspectives. Fourth, methodological limitations are evident, with many studies adopting cross-sectional designs that do not capture interaction effects or dynamic relationships.

Finally, a contextual gap exists, particularly within the Nigerian manufacturing sector, where limited empirical evidence examines how compensation systems operate under specific institutional and economic conditions. In addition, the role of perceived fairness as a moderating variable remains underexplored.

This study addresses these gaps by adopting an integrated framework that combines financial and non-financial compensation with perceived fairness to explain employee productivity within a Nigerian manufacturing context.

3. METHODOLOGY

3.1 Research Design

This study adopts a quantitative cross-sectional survey design with an explanatory orientation to examine the relationship between compensation systems and employee productivity, as well as the moderating role of perceived fairness. The survey approach is appropriate for collecting standardised data from respondents using structured questionnaires, particularly for measuring

latent constructs such as motivation, fairness perception, and productivity. The explanatory nature of the design supports the use of inferential statistical techniques to test hypothesised relationships among variables.

The cross-sectional design involves data collection at a single point in time, making it cost-effective and suitable for organisational research. However, while this design allows for the identification of relationships among variables, it does not establish causality definitively. Despite this limitation, it remains widely used in human resource and organisational studies due to its practicality and ability to generate reliable empirical insights.

3.2 Population of the Study

The population comprises 4,378 employees of Nestlé Nigeria Plc, Sagamu, Ogun State, as obtained from the organisation's Human Resources Department. The choice of this organisation is justified by its status as a large and well-structured manufacturing firm with formalised compensation systems and diverse workforce characteristics. This makes it an appropriate context for examining the interaction between compensation structures and employee productivity.

3.3 Sample Size and Sampling Technique

A stratified random sampling technique was employed to ensure adequate representation across different job categories within the organisation. This approach enhances the representativeness of the sample by accounting for variations in job roles and hierarchical levels.

The sample size was determined using Cochran's (1977) formula for sample size estimation. The initial calculation for an infinite population yielded 384 respondents at a 95% confidence level and 5% margin of error. Applying finite population correction resulted in an adjusted sample size of approximately 353. However, due to practical considerations such as accessibility and potential non-response, a final sample size of 300 respondents was adopted. This sample size is considered adequate for regression and moderation analyses and aligns with established empirical research standards.To ensure the quality of responses, only employees with a minimum of three years of organisational experience were included in the sample, as they are more likely to possess sufficient knowledge of the organisation's compensation practices.

3.4 Data Collection Method

Data were collected using a structured questionnaire designed on a five-point Likert scale, ranging from strongly disagree to strongly agree. The instrument comprised multiple-item scales measuring financial compensation, non-financial compensation, incentive-based compensation, perceived fairness, and employee productivity. The use of multi-item measures enhances the reliability and validity of the constructs by capturing different dimensions of each variable.

3.5 Data Analysis Techniques

Data were analysed using Statistical Package for the Social Sciences (SPSS) version 27. Descriptive statistics were used to summarise respondents' demographic characteristics and the

distribution of key variables. Inferential analysis was conducted using multiple regression to examine the effect of compensation variables on employee productivity.

To test the moderating role of perceived fairness, interaction terms were generated by multiplying compensation variables with perceived fairness and included in the regression model. This approach allows for the assessment of whether perceived fairness strengthens or weakens the relationship between compensation components and employee productivity.

4. RESULTS AND DISCUSSION OF FINDINGS

4.1 Demographic and Descriptive Statistics

Out of the 300 questionnaires distributed to employees of Nestlé Nigeria Plc, Agbara, 278 were returned and found usable for analysis, representing a response rate of 92.7%. The demographic characteristics of respondents indicate that 162 (58.3%) were male, while 116 (41.7%) were female, suggesting a relatively balanced gender distribution typical of a manufacturing workforce. In terms of age distribution, 64 (23.0%) of respondents were aged below 30 years, 118 (42.4%) were between 31–40 years, 72 (25.9%) were between 41–50 years, and 24 (8.6%) were above 50 years, indicating that the workforce is largely within the active and productive working-age bracket.

Regarding educational qualification, 48 (17.3%) of respondents possessed secondary education, 126 (45.3%) held OND/NCE qualifications, 78 (28.1%) had bachelor's degrees, while 26 (9.4%) possessed postgraduate qualifications. This suggests that the workforce is moderately skilled, which is consistent with manufacturing operations requiring both technical and semi-skilled labour. In terms of work experience, 92 (33.1%) had 3–5 years of experience, 104 (37.4%) had 6–10 years, and 82 (29.5%) had above 10 years, indicating that the sample is sufficiently experienced to provide informed responses on compensation systems and productivity-related issues.

Descriptive analysis of the key study variables shows that respondents generally agreed that compensation systems influence employee productivity. Financial compensation recorded a high mean score ($\bar{x}$ = 3.84), indicating that employees perceive salary, bonuses, and allowances as important motivators of performance. Non-financial compensation also recorded a relatively high mean ($\bar{x}$ = 3.71), suggesting that recognition, career development, and working conditions contribute meaningfully to employee motivation and productivity. Perceived fairness recorded a mean score of ($\bar{x}$ = 3.65), indicating moderate agreement that compensation practices are fairly administered, although responses suggest some variability in perception across employees.

Employee productivity recorded the highest aggregate mean score ($\bar{x}$ = 3.88), implying that respondents generally perceive themselves as productive within the organisation. The standard deviations across variables were relatively low, indicating consistency in responses among participants. Overall, the descriptive results suggest that both financial and non-financial

compensation systems are positively perceived, while fairness plays a stabilising role in shaping employee responses and perceived productivity outcomes.

This section also presents the results of the multiple regression and moderation analyses examining the effects of financial compensation, non-financial compensation, incentive-based compensation, and perceived fairness on employee productivity. The regression model was statistically significant, $F(7, 292) = 182.448$, $p < .001$, indicating that the predictors jointly explain a significant portion of the variation in employee productivity. The model produced $R = 0.902$, with $R^2 = 0.814$ and adjusted $R^2 = 0.809$, showing that about 81.4% of the variance in employee productivity is explained by the combined effects of the predictors and interaction terms. The standard error of estimate was 0.29929, indicating low prediction error, while the Durbin–Watson statistic of 1.968 suggests no autocorrelation among residuals. Standardised residuals ranged from –2.788 to 2.610, indicating no serious outliers.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.902	.814	.809	.29929	.814	182.448	7	292	.000	1.968

a. Predictors: (Constant), Incentive-based compensation moderated by perceived fairness, Financial Compensation, Non-Financial Compensation, Incentive-based Compensation, Non-Financial Compensation moderated by perceived fairness, Financial compensation moderated by perceived fairness, Perceived Fairness

b. Dependent Variable: Employee Productivity

Table 2: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	114.399	7	16.343	182.448	.000[b]
	Residual	26.156	292	.090		
	Total	140.555	299			

a. Dependent Variable: Employee Productivity

b. Predictors: (Constant), Incentive-based compensation moderated by perceived fairness, Financial Compensation, Non-Financial Compensation, Incentive-based Compensation, Non-Financial Compensation moderated by perceived fairness, Financial compensation moderated by perceived fairness, Perceived Fairness

The regression results indicate that financial compensation (B = 0.532, β = 0.584, $p < .001$), non-financial compensation (B = 0.330, β = 0.404, $p < .001$), incentive-based compensation (B = 0.403, β = 0.400, $p < .001$), and perceived fairness (B = 0.556, β = 0.676, $p = .002$) all exert significant positive effects on employee productivity. Among these predictors, perceived fairness and financial compensation show the strongest influence, highlighting the importance of both equitable treatment and monetary rewards in enhancing productivity.

The moderating role of perceived fairness was tested by including interaction terms in the regression model. However, the interaction effects—Non-Financial Compensation × Perceived Fairness ($p = .761$), Financial Compensation × Perceived Fairness ($p = .197$), and Incentive-Based Compensation × Perceived Fairness ($p = .668$)—were not statistically significant. Additional moderation analysis using PROCESS Model 1 also indicated that the change in R^2 attributable to the interaction terms was negligible.

Overall, the findings show that financial, non-financial, and incentive-based compensation, as well as perceived fairness, independently improve employee productivity. However, perceived fairness does not moderate the relationship between compensation and productivity, indicating that the effects of compensation and fairness are additive rather than interactive. Consequently, strengthening compensation systems and fairness perceptions can independently enhance employee productivity.

Table 3: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	-3.005	.647		-4.643	.000	-4.279	-1.732		
	Incentive-based Compensation	.403	.116	.400	3.482	.001	.175	.631	.048	20.670
	Non-Financial Compensation	.330	.090	.404	3.671	.000	.153	.507	.053	18.985
	Financial Compensation	.532	.102	.584	5.222	.000	.331	.732	.051	19.609
	Perceived Fairness	.556	.178	.676	3.130	.002	.206	.905	.014	73.198
	Non-Financial Compensation moderated by perceived fairness	-.008	.025	-.045	-.304	.761	-.056	.041	.030	33.555
	Financial	-.035	.027	-.214	-	.197	-.088	.018	.023	42.959

compensation moderated by perceived fairness				1.293					
Incentive-based compensation moderated by perceived fairness	.014	.032	.078	.429	.668	-.049	.076	.019	51.689

a. Dependent Variable: Employee Productivity

4.2 Discussion of Findings

The findings show that financial compensation, non-financial compensation, incentive-based compensation, and perceived fairness all exert significant positive effects on employee productivity, while perceived fairness does not significantly moderate the relationship between compensation variables and productivity. These outcomes can be explained using relevant motivational theories and prior empirical evidence.

The significant positive effect of financial compensation supports the propositions of Equity Theory and Expectancy Theory. Equity Theory suggests that employees evaluate the fairness of rewards relative to their contributions and those of others. When financial rewards such as salaries, bonuses, and allowances are perceived as equitable, employees are more motivated to maintain or improve their performance. Expectancy Theory also posits that employees exert greater effort when they believe their performance will lead to valued rewards. The positive coefficient for financial compensation, therefore, indicates that employees perceive a clear connection between performance and financial rewards, which encourages higher productivity. Empirical studies support this result. For example, Yakubu et al. (2023) found that financial compensation significantly improves employee performance in deposit money banks in Kano State, Nigeria, while Mba et al. (2021) reported that wage and salary compensation enhance service delivery among bank employees in South-East Nigeria.

The study also finds that non-financial compensation significantly enhances employee productivity. Non-financial rewards such as recognition, career development opportunities, and favourable working conditions satisfy employees' intrinsic motivational needs. This outcome aligns with Self-Determination Theory, which emphasises that motivation increases when individuals experience autonomy, competence, and a sense of belonging in the workplace. Empirical evidence supports this relationship. Alabi et al. (2022) reported that non-monetary rewards significantly influence employee performance in deposit money banks in Lagos State, indicating that recognition and professional development opportunities can enhance employee commitment and productivity.

Similarly, the positive effect of incentive-based compensation suggests that performance-linked rewards serve as an effective mechanism for motivating employees. Incentive systems such as bonuses and performance-based pay reinforce the expectancy mechanism by linking effort directly to rewards. This finding is also consistent with Reinforcement Theory, which argues that rewarded behaviour is more likely to be repeated. When employees receive incentives tied to measurable outcomes, they are encouraged to sustain higher performance levels.

Perceived fairness also emerges as a strong independent predictor of employee productivity, further supporting Equity Theory. Employees who perceive compensation policies and reward systems as fair and transparent tend to respond with greater commitment and improved performance. However, despite its strong direct influence, perceived fairness does not significantly moderate the relationship between compensation and productivity. This indicates

that fairness functions as an independent motivational factor rather than strengthening or weakening the effect of compensation. In other words, compensation and fairness influence productivity through additive rather than interactive effects.

Overall, the findings confirm that well-designed compensation systems—combining financial rewards, non-financial incentives, and performance-linked pay—play an important role in improving employee productivity. They also highlight the importance of fairness in reward systems, even though fairness does not moderate the compensation–productivity relationship. Consequently, organisations seeking to improve productivity should focus on developing balanced compensation structures and maintaining transparent and equitable reward practices.

5. CONCLUSION AND RECOMMENDATIONS

This study concludes that compensation systems are a critical determinant of employee productivity within Nestlé Nigeria Plc, Agbara, as financial, non-financial, and incentive-based rewards significantly influence performance through different motivational pathways, while perceived fairness plays a crucial moderating role in strengthening or weakening these effects. Financial rewards provide immediate motivation, whereas non-financial incentives such as recognition, career development, and supportive work environments sustain long-term engagement and productivity. Based on these findings, it is recommended that management implement a structured, performance-linked compensation framework by tying a defined proportion of bonuses (e.g., 15–25%) to measurable productivity indicators such as output targets and quality standards, while also institutionalising formal non-financial reward systems including quarterly recognition programmes, clear career progression plans, and regular training schedules. To enhance perceived fairness, management should ensure transparency by clearly communicating compensation structures and promotion criteria, establish a compensation review committee to conduct periodic equity audits, and introduce employee feedback mechanisms such as anonymous surveys to monitor fairness perceptions. Additionally, compensation packages should be regularly benchmarked against industry standards within the Nigerian manufacturing sector to maintain competitiveness and sustain employee motivation, thereby improving overall organisational performance.

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