

Comparison of Salary Differences between the Public and Private Sectors in Indonesia

KMT Lasmiatun¹, Mulyadi AR²

¹Universitas Muhammadiyah Semarang

²Universitas Muhammadiyah Aceh

Article Info

Article history:

Received June, 2025

Revised June, 2025

Accepted June, 2025

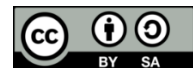
Keywords:

Salary disparities,
Public sector,
Private sector,
Employee perceptions,
Compensation fairness

ABSTRACT

This study examines salary differences between the public and private sectors in Indonesia from the perspective of employees. Using a qualitative approach, interviews were conducted with 10 informants representing diverse industries and roles. Findings reveal significant contrasts between the sectors: public sector employees prioritize job security, stability, and comprehensive benefits, while private sector employees value higher salaries, performance-based rewards, and career growth opportunities. Despite these differences, both groups emphasize the importance of fairness and transparency in compensation systems. The study provides valuable insights for policymakers and employers to develop equitable and competitive remuneration strategies that address employees' priorities and support organizational goals.

This is an open access article under the [CC BY-SA](#) license.



Corresponding Author:

Name: KMT Lasmiatun

Institution: Universitas Muhammadiyah Semarang

e-mail: lasmiatunmsi@gmail.com

1. INTRODUCTION

Salary differences between the public and private sectors have long been a subject of global discussion and research, including in Indonesia. These disparities are often shaped by various factors such as job security, work culture, career advancement opportunities, and the broader socioeconomic environment. In Indonesia's dynamic and diverse economic landscape, understanding these wage differences is crucial for guiding career decisions and informing policy reforms aimed at promoting equity and workforce productivity. The wage gap between public and private sectors in Indonesia is multifaceted, influenced by education, job characteristics, and sector-specific benefits. Public sector employees generally earn 10–

15% more than their private sector counterparts, with this premium being particularly significant for individuals with tertiary education [1], [2]. Additionally, the public sector offers greater job stability and structured career progression, making it attractive despite the potential for higher earnings in the private sector [3]. Differences in education and experience levels contribute significantly to wage disparities, as public sector jobs often require higher qualifications, justifying the wage premium [4]. Geographic location and gender also influence wage differences, with women generally earning less than men across both sectors [4]. Moreover, minimum wage regulations and the weak enforcement of wage policies exacerbate these disparities, highlighting the

need for reforms focused on transparency and distributive justice [4]. The efficiency wage theory further supports the notion that higher public sector wages can enhance productivity, thus reinforcing the rationale for maintaining a wage premium [4].

The public and private sectors exhibit distinct characteristics in terms of employment conditions, compensation, and job security. The public sector is traditionally associated with job stability, regulated pay scales, and comprehensive benefits such as pensions and health insurance, which are particularly appealing to risk-averse individuals [5]–[7]. Public sector employment is generally more stable due to permanent contracts and minimal exposure to market competition. Furthermore, demographic trends show that in Europe, public sector employment is more prevalent among females, highly educated individuals, and natives, whereas the U.S. demonstrates an opposite pattern [5]. These features provide predictability and long-term security, making the public sector an attractive option for those prioritizing stability over income variability.

In contrast, the private sector is often characterized by performance-based salaries, meritocratic advancement, and greater workplace flexibility. This environment offers the potential for higher earnings but also exposes employees to greater wage volatility [7]. Advancement in the private sector is commonly driven by individual merit, fostering a culture of innovation and performance. The flexibility in work arrangements and career progression further appeals to individuals who seek dynamic and responsive work environments [7]. These contrasting sectoral features influence employees' career choices, satisfaction levels, and expectations. However, despite the clear structural differences, there remains a scarcity of qualitative research exploring employees' subjective perspectives—insights that are essential to fully understand how salary disparities shape both their professional trajectories and personal well-being.

2. LITERATURE REVIEW

2.1 Public Sector Salary Structures

Public sector salary structures, such as those in Indonesia, are typically based on fixed pay scales that emphasize equity and transparency, as exemplified by the Civil Servant Salary Act. While these structures offer stability and predictability, they may also limit the capacity to reward individual performance, potentially dampening motivation for innovation and productivity. Studies indicate that performance-related pay has shown positive effects—65 out of 110 studies report improved service outcomes, especially in roles with clear performance indicators like teaching and healthcare [8]. However, the effectiveness of such pay schemes in complex civil service roles remains uncertain due to the difficulty in measuring outcomes [8]. This creates a policy dilemma between upholding equitable compensation and introducing incentives for performance. Fixed salary systems, while promoting fairness, may fail to adequately reward high-performing individuals, potentially lowering morale and efficiency [8]. In Indonesia, civil servants with higher educational attainment often earn less than their private sector peers, leading to dissatisfaction and challenges in attracting skilled personnel [9]. Nevertheless, non-monetary benefits—such as job security, health coverage, and defined benefit pensions—remain highly valued among public employees and are effective tools for retention, even when salary levels lag behind those in the private sector [10].

2.2 Private Sector Compensation Models

Private sector salary structures in Indonesia, as in many other countries, are shaped by market demand, company performance, and individual achievements, allowing for flexibility in offering competitive salaries and performance-based bonuses, particularly in high-demand sectors such as finance and technology, which generally offer higher compensation than industries like manufacturing and retail [11]. This system supports productivity through mechanisms such as overachievement commissions and quarterly bonuses, which have been shown to

sustain performance and assist weaker performers in meeting annual sales targets [12]. Although performance-related pay (PRP) is not yet universally adopted in the private sector, it is growing in prominence, especially in sectors like finance that rely heavily on bonus schemes [13]. However, this approach also introduces income variability and disparities influenced by job roles, industry-specific trends, and geographic location, with urban centers typically offering higher salaries due to elevated living costs and the presence of more lucrative industries. Effective compensation systems, particularly those incorporating performance incentives, have been found to significantly enhance employee motivation, satisfaction, and organizational performance, as employees tend to respond positively to transparent and merit-based reward structures that support skill development and productivity [11].

2.3 Theoretical Framework

This study adopts a qualitative approach grounded in the equity theory of motivation and Herzberg's two-factor theory (1959), which distinguishes between hygiene factors—such as salary and job security—and motivators—such as career growth and recognition. These theoretical frameworks serve as analytical tools to examine how employees perceive salary disparities and how these perceptions influence their motivation and job satisfaction. By focusing on both extrinsic and intrinsic factors, the study aims to capture the complexity of motivational dynamics within the context of sectoral salary structures.

While previous research has extensively documented salary differences between the public and private sectors, there remains limited exploration of employees' subjective experiences and perceptions, particularly within the Indonesian context. This study addresses that gap by offering qualitative insights into the lived realities of employees, thereby enriching the discourse on compensation beyond numerical comparisons. By integrating theoretical perspectives and empirical findings, the literature review lays the foundation for analyzing salary disparities from the

employees' point of view, which constitutes the central focus of this research.

3. METHODS

A qualitative design was chosen to capture the nuanced and subjective experiences of employees. This approach allows for a deeper understanding of the contextual factors influencing perceptions of salary, such as organizational culture, job security, and career advancement opportunities. Rather than focusing on numerical generalizations, the study aims to generate rich, descriptive insights that reflect the lived realities of individuals working in both public and private sectors. This design is especially relevant for exploring how salary structures influence motivation, satisfaction, and career decisions from the employees' perspectives.

The study employed a purposive sampling method to ensure the inclusion of participants with relevant and diverse experiences across sectors. A total of 10 employees with varying roles and professional backgrounds were selected as informants. The criteria for inclusion included having worked in either the public or private sector for at least five years, a willingness to share personal perceptions and experiences related to salary differences, and representation from a range of industries and job functions. This sampling strategy was intended to capture a broad spectrum of views and to enhance the richness and relevance of the qualitative data.

Primary data was gathered through semi-structured interviews conducted either face-to-face or via virtual communication platforms. Each interview lasted approximately 45 to 60 minutes and followed an interview protocol designed to explore central themes such as perceptions of salary adequacy and fairness, factors influencing salary satisfaction, comparisons between public and private sector benefits and opportunities, as well as career aspirations and decisions shaped by salary structures. The semi-structured format offered both structure and flexibility, allowing participants

to express their thoughts freely while ensuring that all research questions were addressed systematically.

To analyze the qualitative data, thematic analysis was conducted using Braun and Clarke's (2006) six-phase framework. The analysis began with familiarization, involving transcription and multiple readings of interview data. Next, initial codes were generated by identifying key phrases and concepts related to salary perceptions. These codes were then grouped into broader themes such as "job security vs. performance incentives" and "impact of benefits on satisfaction." The themes were reviewed and refined to ensure their validity and alignment with the data. Subsequently, each theme was clearly defined and labeled to enhance interpretability. Finally, the themes were synthesized into coherent narratives that addressed the study's research objectives and offered insight into the lived experiences of employees navigating salary structures in Indonesia.

4. RESULTS AND DISCUSSION

4.1 Perceptions of Salary Adequacy

Public sector employees expressed mixed opinions about the adequacy of their salaries. While acknowledging that their base salaries were often lower compared to the private sector, they valued stability and consistency. One participant stated:

"The salary in the public sector is not high, but it is reliable, even during difficult times like the pandemic."

Private sector employees reported that their salaries were generally higher but heavily influenced by performance and market conditions. A private sector employee remarked:

"Bonuses are attractive, but if performance declines, so does income. There are no guarantees."

4.2 Job Security vs. Performance Incentives

Public sector employees consistently highlighted job security as the primary advantage of their employment, particularly for those with family responsibilities. One participant shared:

"I don't worry about layoffs or contract terminations, which is most important for me as the head of my family."

Conversely, private sector employees appreciated the performance-based nature of their workplaces, which offered rewards and promotions tied to individual achievements. However, they expressed concerns about job security. One participant explained:

"In the private sector, nothing is permanent. A slight drop in performance could cost you your job."

4.3 Benefits Beyond Salary

Non-monetary benefits were significant contributors to job satisfaction. Public sector employees highlighted pensions, health insurance, and subsidized housing as critical advantages. One participant noted:

"A public sector pension is invaluable. It gives you peace of mind for the future."

Private sector employees emphasized benefits such as professional development programs, flexible working hours, and performance-based bonuses. As one informant stated:

"I value training and learning opportunities more because they are investments in my future career."

4.4 Career Growth and Professional Development

Private sector employees reported more dynamic opportunities for career growth and skill development. One participant described: "In the private sector, if you want to progress, just prove yourself with performance. There's no limit as long as you work hard."

In contrast, public sector employees perceived career advancement as slower and often based on tenure rather than performance. One public sector employee explained:

"Promotions in the public sector are more dependent on years of service, not performance. That can be frustrating at times."

DISCUSSION

The findings of this study align closely with Herzberg's two-factor theory,

which differentiates between hygiene factors—such as job security and salary—and motivators like career advancement and recognition. Public sector employees in Indonesia tend to prioritize job security and stable income, confirming the role of hygiene factors in ensuring job satisfaction [14], [15]. Meanwhile, private sector employees are generally more driven by performance-based rewards and career development opportunities, which function as key motivators in enhancing both satisfaction and productivity [16]. These differences suggest that effective policy design must be tailored to each sector's dominant motivational drivers. For the public sector, strengthening job stability and ensuring consistent salaries can reduce dissatisfaction, whereas in the private sector, offering clear paths for career growth and implementing performance-based reward systems can significantly boost motivation and organizational commitment [16], [17].

Drawing upon Adams' equity theory, this study emphasizes the critical importance of perceived fairness in compensation systems. Employees' motivation and satisfaction are not only influenced by the amount they are paid but also by how fair and transparent the pay structures are perceived to be. In the public sector, some employees expressed a desire for performance-based rewards to complement the existing stability-focused system, while private sector employees voiced concerns about the opacity of bonus distribution practices. These insights highlight that addressing perceptions of inequity—whether through improving reward mechanisms in the public sector or increasing transparency in the private sector—could enhance employee trust, reduce dissatisfaction, and foster a more committed and productive workforce.

The contrast between public sector stability and private sector flexibility reveals a fundamental trade-off in employment dynamics. Bridging this divide may involve introducing performance incentives into public sector roles—especially those with

measurable outcomes—while reinforcing job security frameworks in the private sector to reduce turnover and improve employee retention. Furthermore, comprehensive reforms in salary structures must consider both financial and non-financial factors, aiming for a balanced system that promotes fairness, motivation, and organizational competitiveness. Public sector reforms might explore integrating selective performance-based pay, while private companies could focus on developing equitable benefit schemes and ensuring long-term employment stability. A collaborative dialogue between public and private institutions may also be key in formulating policies that address disparities and promote holistic workforce development across sectors.

5. CONCLUSION

This study highlights the nuanced differences in salary structures and employee priorities between the public and private sectors in Indonesia, where public sector employees tend to value stability, job security, and non-monetary benefits, while private sector employees are more attracted to higher pay, merit-based incentives, and opportunities for career advancement. Despite these differences, both groups express a shared concern regarding fairness and transparency in compensation practices. The findings emphasize the importance of developing tailored policies to address sector-specific challenges—such as integrating performance-based rewards in the public sector and enhancing job security and salary equity in the private sector. By addressing these disparities, organizations can better align their compensation strategies with employee expectations, ultimately fostering a more motivated, satisfied, and productive workforce. These insights provide a strategic foundation for policymakers and organizational leaders to design balanced and sustainable employment conditions that contribute to Indonesia's broader goals of economic growth and social equity.

REFERENCES

- [1] R. Fitria, "Wage Premium of The Public Sector in Indonesia Wage premium Sektor Publik di Indonesia".
- [2] M. C. Abdallah, M. D. Coady, and L.-B. F. Jirasavetakul, *Public-private wage differentials and interactions across countries and time*. International Monetary Fund, 2023.
- [3] F. Postel-Vinay, "Does it pay to be a public-sector employee?," *IZA World Labor*, 2015.
- [4] S. Indrayani and A. Muzan, "Kesenjangan Upah dan Keadilan Sosial terhadap Sistem Pengupahan di Indonesia," *Al-Muzdahir J. Ekon. Syariah*, vol. 7, no. 1, pp. 98–110, 2025.
- [5] R. G. Ehrenberg and J. L. Schwarz, "Public-sector labor markets," *Handb. labor Econ.*, vol. 2, pp. 1219–1260, 1986.
- [6] D. Bellante and A. N. Link, "Are public sector workers more risk averse than private sector workers?," *ILR Rev.*, vol. 34, no. 3, pp. 408–412, 1981.
- [7] N. Krachler, I. Kessler, and S. Bach, "Work and employment in the public sector," in *A Research Agenda for Work and Employment*, Edward Elgar Publishing, 2024, pp. 115–133.
- [8] Z. Hasnain and N. Pierskalla Henryk, "Performance-related pay in the public sector: a review of theory and evidence," *World Bank Policy Res. Work. Pap.*, no. 6043, 2012.
- [9] D. Filmer and D. L. Lindauer, "Does Indonesia have a low pay civil service?," *Bull. Indones. Econ. Stud.*, vol. 37, no. 2, pp. 189–205, 2001.
- [10] B. Almeida, "Recruitment and retention in the public sector: The role of pensions," *Members-only Libr.*, 2018.
- [11] Z. A. Mohamed, M. A. Bin Johannis, S. B. M. Ibrahim, N. Hafizan, H. Sultan, and S. N. M. Basir, "Examining the Influence of Training, Development, and Compensation Systems on Private Sector Employee Performance: An In-Depth Study," *Int. J. Res. Innov. Soc. Sci.*, vol. 8, no. 10, pp. 3033–3046, 2024.
- [12] D. J. Chung, T. Steenburgh, and K. Sudhir, "Do bonuses enhance sales productivity? A dynamic structural analysis of bonus-based compensation plans," *Mark. Sci.*, vol. 33, no. 2, pp. 165–187, 2014.
- [13] A. Bryson, J. Forth, and L. Stokes, "Are firms paying more for performance?," 2014.
- [14] S. Chachar, F. Lothi, and N. Naz, "Comparative Study in the Light of Herzberg's Two Factor Theory of Job Satisfaction Among Academic Staff in Public and Private Sector Universities of Islamabad," *J. Soc. Sci. Humanit.*, vol. 61, no. 2, pp. 91–112, 2022.
- [15] R. S. Wedadjati and S. Helmi, "Evaluasi Kepuasan Karyawan Berbasis Herzberg's Two Factors Motivation Theory," *MBIA*, vol. 21, no. 3, pp. 246–262, 2022.
- [16] H. Jaffar, A. J. Munir, and M. M. Waqas, "Assessing the Impact of Herzberg's Two-Factor Motivation Theory on Job Satisfaction: A Study of Employees in the Punjab Healthcare Commission," *Sustain. Bus. Soc. Emerg. Econ.*, vol. 6, no. 3, pp. 469–480, 2024.
- [17] V. S. R. Vijayakumar and U. Saxena, "Herzberg revisited: Dimensionality and structural invariance of Herzberg's two factor model," *J. Indian Acad. Appl. Psychol.*, vol. 41, no. 2, pp. 291–298, 2015.