

## Optimize the Performance of Algerian Companies Through a Fair and Competitive Compensation System

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### Abstract:

The implementation of a fair and equitable remuneration policy within the company is a complex issue. The study aims to highlight the shift to a logic based on the development of individual competences, autonomous from the organization. This article is based on the remuneration system and its effect on the competences and performance of employees, for this purpose, we distributed a questionnaire for different Algerian companies in the period of the year 2022. It was concluded that the role of the remuneration system in Algerian companies is based on the diploma, the grade, the seniority, and not on the competences and the performance of the employees within the Algerian companies, especially in the public companies.

**Keywords:** Remuneration, System, Competence, Performance, Salary, Human resources.

Code Jel classification: M52; M53; J33; J24; L25.

### Introduction:

A company that aims to achieve its economic objectives, is obliged to make its employees adhere to its vision, that it owes to the development of its employees for a true feeling of belonging to the company. Remuneration is precisely, alongside other factors such as intangible or psychological recognition, a fundamental lever for successful human resource motivation. Indeed, a study conducted by Pr LOCKE reveals that the monetary remuneration factor contributes up to 70% to motivation, while all other forms of recognition, share the remaining 30%. Our problematic of this article is :

**"What is the role of the compensation system on the performance of employees in Algerian companies?"**

### 1. Theoretical aspect:

In order to characterize the impact of the remuneration system on the company's performance, we rely on theories that consider the incentive effect of remuneration, i.e. to find a positive link between increased remuneration, increased effort and increased performance indicators.

These are on the one hand **the theory of equity**<sup>2</sup> (John Stacy Adams, 1965); **the theory of Expectations**<sup>3</sup> (Vroom 1964, Lawler 1973);

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<sup>2</sup> Equity theory: is a theory that attempts to explain relational satisfaction in terms of perceived fair/unfair distributions of resources in interpersonal relationships. Considered one of the theories of justice.

<sup>3</sup> Expectancy theory deals with motivation and describes how managers can achieve a motivated workforce? This theory postulates that people's actions and behaviors are performed with the objective of maximizing pleasure and minimizing pain.

People are therefore more likely to be motivated to perform certain actions if they expect that rewards will be obtained, and that these rewards can be obtained without much pain and suffering, and **The Efficiency Wage Theory**<sup>1</sup> (Stiglitz 1974, 1976; Weiss, 1980) and (Shapiro 1984; Yellen 1984; Akerlot and Yellen 1990). Some compensation strategies had the effect of improving the quality of the staff recruited, and retaining the best employees, resulting in increased productivity and lower turnover costs.

The various cases turn on work motivations, which appear as the deep source of performance improvement.

As in the model of De Cotiis and Petit (1978), also the model of Mohrman and Lawler (1983), and the model of Harris (1994). Having for the improvement of the performance, it is necessary to turn the question on how this remuneration system can lead us to the motivation of the employees. Some interesting authors describe this aspect; (Schuster and Alii 1971; Schwab and Dyer 1973; Arnold 1981), even if other studies have shown the limits, in particular the validity of the principle of efficiency of effort (Troussier, 1993), the interference of factors related to a broader notion of reward than that of financial remuneration, or the wear and tear of the process over time (Herzberg 1977, Pearce 1987; Kohn 1993; Linhart and Alii 1993). Motivation is a dynamic process of commitment to action, but it is not the only effect expected from compensation strategies to optimize company performance; compensation influences employee behavior, and the perceptions and attitudes that can be modified by the level and mode of compensation allocation are essentially (Anne Marie FERICELLI, 1996) :

The feeling of fairness, satisfaction and involvement, i.e. the adherence of individuals to the values and culture of the company (Thévenet, 1992).

## **2. The history of the remuneration system in Algeria:**

Since independence, but especially since a wind of modernity and growth is blowing on Algeria today where the flagships of the economy such as SONATRACH, SONELGAZ, CEVITAL, AIR ALGERIE, SAIDAL and a whole range of innovative SMEs, it has appeared an organization of the personnel administration in which the consideration of the individual at work has not stopped growing. It is in particular after the works of Elton Mayo, Maslow, Herzberg but more recently by the contribution of the teachers researchers in the fields of the HRM and the social audit (Peretti, Igalens, Landier, Louard, Scouarnec,?) who have given themselves in the fields of HRM; whether it is training, recruitment, remuneration, motivation, skills... with the consideration of the individual at work by the satisfaction of his needs, the improvement of working conditions, the progression in his career.

### **2.1 The legislative provisions of the remuneration system in Algeria :**

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<sup>1</sup> The efficiency wage is a concept developed within the framework of New Keynesianism (notably by economists Carl Shapiro and Joseph Stiglitz in 1984) to explain some of the unemployment.

In the efficiency wage model, the origin of the imbalance lies in a problem of access to information: employers cannot perfectly know the effort provided by employees in their work and in particular whether they provide maximum effort. In order to induce them to provide maximum effort, the employer will therefore pay the employee a little more than what he can expect in another firm: this higher than market wage is the **efficiency wage**. The employee will thus have every interest in providing the maximum effort in order to remain in the firm that pays him the most. Conversely, if the wage is at the level of the market equilibrium price, the employee loses nothing by changing jobs and can therefore "relax" his efforts at work: this is the **reservation wage**. According to this theory, the wage rate has an increasing relationship with the employee's productivity.

In terms of legislative and regulatory provisions, most of the basic elements and general characteristics of the systems of remuneration companies, refer to Law 90-11 (Labor Code, 2021, p. 24) of April 21, 1990 on labor relations. And this, in laws, decrees of application, collective agreement, collective agreements, internal regulations and employment contract.

The general status of workers, promulgated in 1978, has begun to be applied after a period of reorganization. This text, which is quite rational in its principles and is intended to promote equitable and efficient human resources management, was implemented by means of application texts that favored the standardization of situations to the detriment of the diversification called for by the very specific nature of certain activities, among which the "public service" seemed to be the most concerned. The salary scale, which could have been adapted to the different groups of professional families, remained the same for the whole company, excluding, in order to respect tradition, only senior executives and managers whose fate is now linked to production commitments concluded under the watchful eye of the Holding Company concerned.

The atypical forms of remuneration (piecework, result-based, time-based, commission-based ....) authorized by the law have not yet had the expected success even in the transitional phase that separates from a more secure stabilization of economic entities. Only the atypical forms of employment have been used to become little by little the dominant rule, the uncertainties mentioned before have not encouraged the recruitments on a permanent basis, the fixed-term contracts have been used to face all the needs of which most of the job offers have been for temporary jobs.

## **2.2 The Legal Foundations of Remuneration in Algeria:**

Law 90-11 of April 21, 1990 (Labor Code, p. 25), on labor relations, has devoted 10 articles (from 80 to 90) to the part of remuneration.

The summary of this part of these articles is as follows:

- Proportional income for work done,
- The base salary is determined by the employer's professional classification,
- The remuneration is the sum of the basic salary, possible seniority allowances, overtime, special working conditions (shift work, on-call duty, night work, zone,...) and productivity bonuses linked to the results of the work.
- The concept of income proportional to the results due, defines the use of "by task", "by piece", and "by turnover",
- Reimbursement of expenses incurred for mission-related hardships, use of personal vehicle for service purposes, and other similar hardships,
- No discrimination in the remuneration of the work: resumption in another form of the principles of the S.G.T. "an equal work, an equal salary",
- The salary is expressed exclusively in monetary terms and paid in the same way,
- Detailed payslip required except for expense reimbursements,
- Remuneration is a privileged claim, which cannot be opposed,
- the collective agreement presented as a written agreement between employer and union representatives provides that in matters of remuneration

## **3. Practicality:**

In order to determine the Algerian case, 28 Algerian companies were selected to determine the role of the compensation system on the performance of Algerian companies. We conducted an interview by asking some questions in different companies in the center and west of our country.

For the analysis of the questionnaire data, Microsoft Office Excel 2016 is used in the realization of the graphic results for this operation.

The following table shows the list of companies serviced:

**Table 1: List of participating companies**

<b>Wilayas</b>	<b>Activity sector</b>	<b>The companies</b>
<b>Wilaya of Tlemcen</b>	<b>BTPH</b>	<ul style="list-style-type: none"> <li>- <b>SEROR</b></li> <li>- <b>STARR</b></li> <li>- <b>SOGERHWIT</b></li> <li>- <b>EURL BHM construction</b></li> </ul>
	<b>Productive</b>	<ul style="list-style-type: none"> <li>- <b>EURL SOFATHY</b></li> <li>- <b>METANOF</b></li> <li>- <b>SARL AUTISSERAND</b></li> <li>- <b>SARL AFRI CAFE</b></li> <li>- <b>SARL KHARBOUCHE</b></li> <li>- <b>EURL CHIALI TEX</b></li> <li>- <b>NAFTAL district LPG</b></li> <li>- <b>NAFTAL GAS</b></li> <li>- <b>NAFTAL GAZOIL</b></li> </ul>
	<b>Commercial</b>	<ul style="list-style-type: none"> <li>- <b>SARL SALIMAC</b></li> <li>- <b>SARL AMANE</b></li> </ul>
<b>Wilaya of Sidi Bel Abbes</b>	<b>BTPH</b>	<ul style="list-style-type: none"> <li>- <b>HASNAOUI Group of Companies</b></li> <li>- <b>ETPH HASNAOUI Center</b></li> <li>- <b>SARL TEKNACHEM Algeria</b></li> </ul>
	<b>Productive</b>	<ul style="list-style-type: none"> <li>- <b>GROUPO PUMAL</b></li> <li>- <b>NAFTAL</b></li> </ul>
	<b>Commercial</b>	<ul style="list-style-type: none"> <li>- <b>SARL SCIPP Ouest</b></li> </ul>
<b>Wilaya of Algiers</b>	<b>Productive</b>	<ul style="list-style-type: none"> <li>- <b>SAIDAL Group</b></li> <li>- <b>SOMEDIAL (Dar el Beida)</b></li> <li>- <b>PHARMAL (CHERCHEAL)</b></li> <li>- <b>BIOTIC (EL HARRACH)</b></li> <li>- <b>SARL BOMARE COMPANY</b></li> <li>- <b>NAFTAL (CHERAGA)</b></li> </ul>
	<b>Commercial</b>	<ul style="list-style-type: none"> <li>- <b>UCC (commercial unit center EL HARRACH) of pharmaceutical products SAIDAL.</b></li> </ul>

Source: Prepared by the author

Table 2: The status of the company :

Status	Numbers	Percentages
SPA	17	61
SARL	08	29
EURL	03	10
Total	28	100

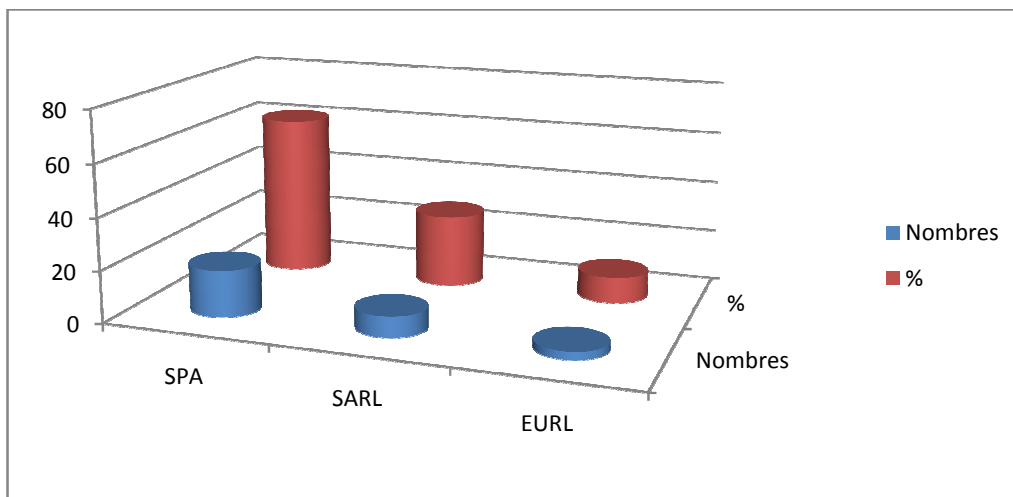
Source: Prepared by the author

We note that there are 61% of SPA status, 29% SARL and only 10% EURL, which reflects that the majority of participants their social status is corporation.

We notice that there are not many companies that opt for the status of "local liability company" because the choice of this status represents in practice from 1 to several partners, it is very delicate from a fiscal point of view.

On the other hand for EURL, the choice of this status for companies that opt for a unified responsibility.

Figure 01: The number of status of the companies



Source: Prepared by the author

Table 3: Type of business:

Type of company	Numbers	Percentages
Public	14	50
Private	14	50
Total	28	100

Source: prepared by the author

We notice that there is an equity between the public and the private. The remuneration system between public and private companies is not very different, knowing that the law 90-11 is established to all companies, whether private or public.

In general, public companies follow the collective agreement with the salary grid and the premiums and allowances, it will remain fixed until there is a revaluation of the SMNG, or an increase but it will remain until 10 years, but unlike private companies, it is with a negotiation with the employee at the time of his recruitment, by the face to face interview the majority of private companies does not even get a salary grid.

**Figure 02: Types of companies surveyed**

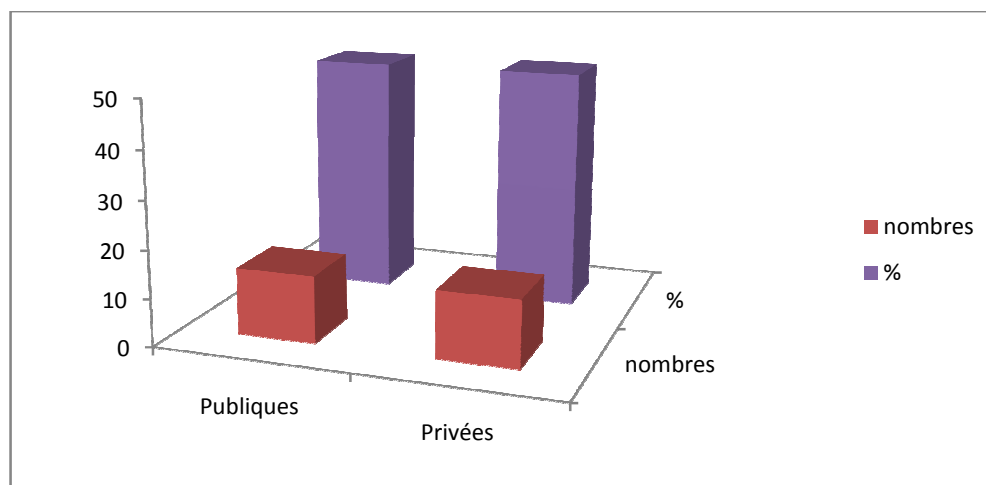


Table 4: Numbers of staff

Workforce	Numbers	Percentages
Between 10 and 50	08	28
Between 50 and 100	03	10
Between 100 and 1000	05	17
More than 1000	12	45
Total	28	100

Source: Prepared by the author

We note that the majority of respondents are more than 1000 with a rate of 45%, which means that the majority of participants are of a large size, generally groups (companies with subsidiaries);

### 3.1 The results obtained on the questions asked :

Among the questions asked, here are the most relevant answers, which are as follows:

**Question N°1 :** On what basis are the choices of salary distributions elaborated ? (check 1 to several)

**Table N°5 : the results obtained on the question N°1**

	<b>Numbers</b>	<b>Percentages</b>
The diploma	14	18
Seniority	14	18
The result of the company	04	06
Individual performance	08	12
Collective performance	06	08
The position held	28	38

Source: Prepared by the author

On these answers, the choices of distribution of salaries are elaborated in majority according to the position occupied with a rate of 38%, then an equivalent rate of 18% for the diploma and the seniority and a rate of 12% and 8% for the individual and collective performance and lastly a rate of 6% for the result of the company.

**a) Discussion of outcome:**

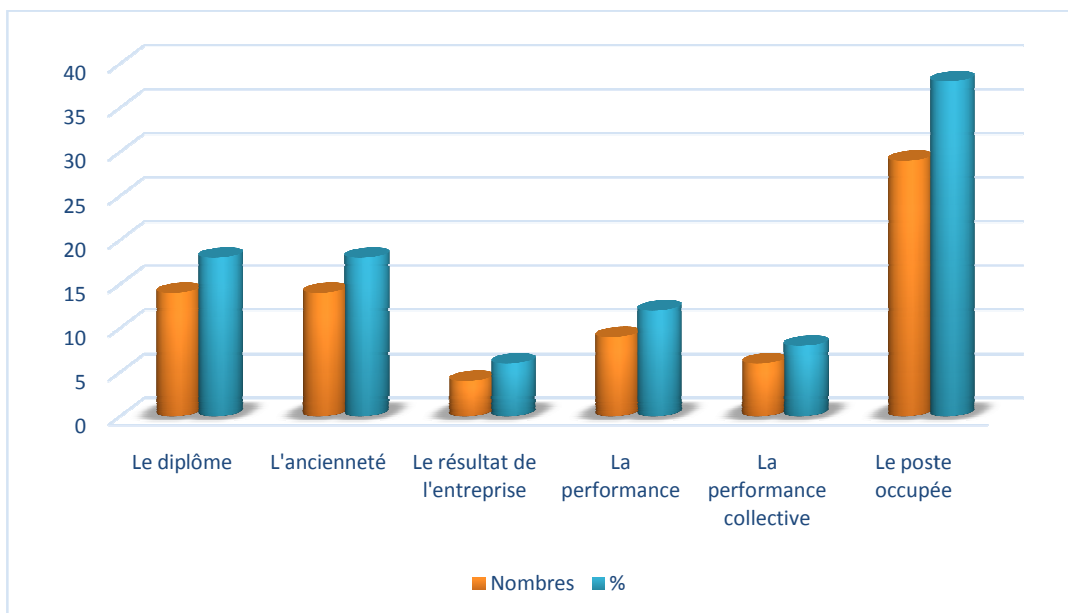
Each employee performs a job in the nomenclature of the positions. These positions have a category number, whether they are managerial, supervisory or executive.

For the second percentage, it is true that from the recruitment the CV must be there, and the diploma is an important document to see the level of the future employee and on this basis the remuneration and made. On the other hand, for the seniority, it is the increase of the steps, from 1 to 10, generally every 3 years until the retirement or 35 years of service.

Performance pay is not developed in our companies, especially in the public sector, but the private sector reflects on performance in order to retain the best, whether individual or collective, but generally it is individual performance pay that is applied in order to better determine competence and to create internal competitiveness.

Indeed, for the result does not have a dominant influence on the distribution of wages, but there is a premium on the profitability of the company.

Figure 02: Graphical result on question N°1



Source: Prepared by the author

**Question N°2 :** What are the effects of the compensation system on the performance of your company? (Rank in order of importance).

Table N°6 : the results obtained on the question N°2

	Rankings					The percentage %.				
	1	2	3	4	5	1	2	3	4	5
Motivating employees	17	04	01	03	03	62	14	03	10	10
Develop staff skills	01	05	07	10	04	03	17	28	38	14
Improve the quality of work	02	11	09	06	00	07	41	31	21	00
Obtaining the company's performance	07	07	06	07	02	24	24	21	24	07
Create internal/external competitiveness	01	01	04	02	19	04	04	17	07	69
<b>Total</b>	<b>28</b>	<b>28</b>	<b>28</b>	<b>28</b>	<b>28</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Prepared by the author

It can be seen that the first place is attributed to motivation with a rate of 62%, then the improvement of the quality of work with a rate of 41%, then develop skills with a rate of 31%, then



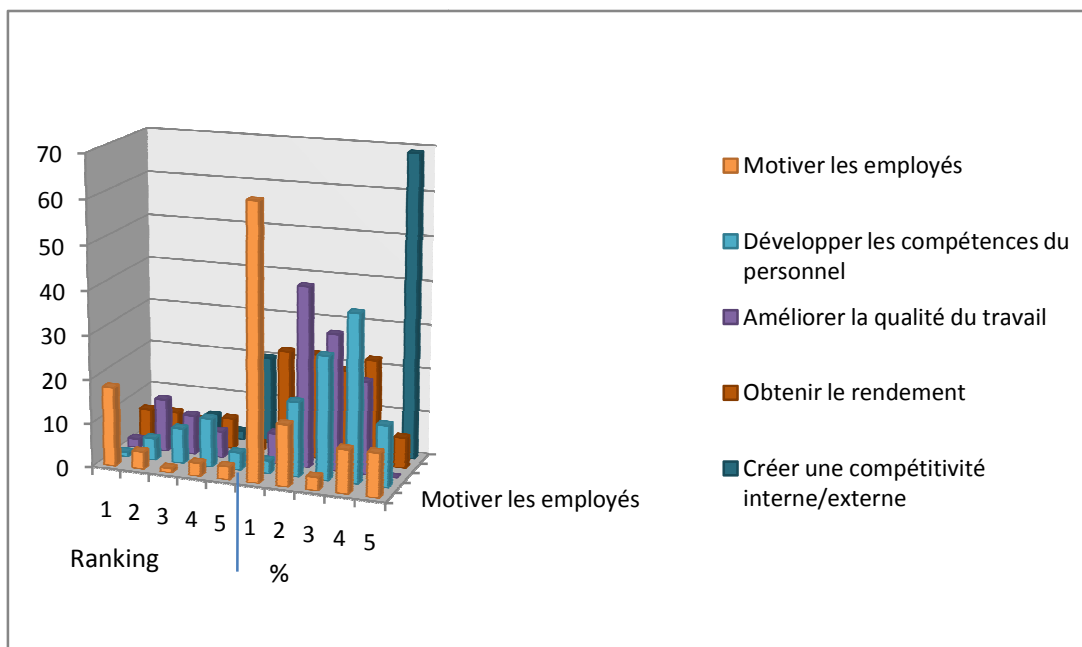
obtain performance with a rate of 21%, and finally create internal and external competitiveness with a rate of 69% in fifth place.

➤ **Discussion of outcome:**

As a result of this ranking, the impact of the compensation system on the performance of the participating companies is by categories of importance of set objectives. If we follow the logic of things, by using a good, reliable and fair compensation system; employees will have the desire to work, to give their best and to be loyal to the company where they work. This motivation improves the quality of work, and develops skills, knowledge and know-how, which promotes individual and collective performance, and creates internal/external competitiveness.

Indeed, the Algerian remuneration system follows the collective agreement to the letter especially in public companies. On the other hand, in the private sector, the remuneration system is established by negotiation with the boss at the time of recruitment, and then there is a follow-up of the personnel by its work and its potential.

**Figure 03: Graphical result on question N°2**



Source: Prepared by the author

**Conclusion:**

Following the results obtained through the questionnaire asked to the sample of Algerian companies, the remuneration system follows the sector of activity, the type of company, and the size of the company, we note that the majority of the participants are of productive sector, and of big size that is to say a nomenclature of important post and a lot of staff.

To conclude, this survey allowed us to understand the Algerian remuneration system, the criteria of establishment of this system, the benefits of the personnel in the companies, the motivation of the employees, the acquired competences, the improvement of the quality of the work, the creation of the and the profitability, to know if there is a measure or a follow-up of the individual performance of the employees, which is seldom found in the public companies, and in development in the private. On that

we determined the impact of the remuneration system established in our companies on the performance. The majority of the Algerian companies have objectives on the success and the continuity, on that it is necessary to bet on the man; on its capacity, its competences, its intelligence, its potential;... because it is him the wealth of the company.

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