



Ministerie van Binnenlandse Zaken en  
Koninkrijksrelaties

# Evaluatie van de Wet normering topinkomens (WNT)

Deelonderzoek internationale vergelijking  
topinkomensbeleid

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## **Verantwoording**

Op 1 januari 2013 is de Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector, kortweg: Wet normering topinkomens (WNT), in werking getreden. In 2015 vindt de eerste integrale evaluatie van de WNT plaats. Deze evaluatie bestaat uit verschillende deelonderzoeken. Dit rapport doet verslag van een internationaal vergelijkend onderzoek topinkomensbeleid.

## **Colofon**

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# The Regulation of Executive Pay in the Public and Semi-Public Sector across the European Union

Final Report – Research Phase 2

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## Executive summary

De regulering van topinkomens, en met name de vergoeding voor hogere ambtenaren en (top)managers in de semipublieke sector, is sinds de economische crisis van 2008 een onderwerp in het politieke en maatschappelijke debat in de Europese Unie geworden. Men heeft diverse maatregelen getroffen om de beloning voor hogere ambtenaren in toom te houden en transparanter te maken. Deze studie is bedoeld om de regulering van topinkomens in de Europese Unie te onderzoeken en is uitgevoerd op verzoek van het ministerie van Binnenlandse Zaken en Koninkrijksrelaties. De achterliggende doelen zijn om (a) tot vergelijkende inzichten te komen; (b) mogelijke best practices te formuleren; en (c) thema's en systeemelementen te identificeren die nader moeten worden onderzocht om een effectief beleidsmodel te kunnen ontwikkelen.

De belangrijkste onderzoeksvragen zijn:

- 1: Welke **regels** gelden er voor beloning in de publieke en semipublieke sector in de 28 lidstaten van de EU?
- 2: Welke **argumenten** worden er in het politieke en maatschappelijke debat gebruikt voor het al dan niet introduceren van nieuw beleid?
- 3: Welke **maatstaven, methoden en normen** worden er in de publieke en semipublieke sector van de EU-lidstaten gebruikt?

De voornaamste conclusies en bevindingen die uit dit onderzoek naar voren komen, zijn als volgt:

- 1: • Bijna een derde (9 landen) van de EU-lidstaten reguleert topinkomens (waaronder de beloning voor hogere ambtenaren) door middel van het **algemene beloningssysteem** – wat betekent dat er geen specifieke regels zijn opgesteld.
- De juridische hervormingen voor het beperken van topinkomens worden met name gekenmerkt door twee beleidsmaatregelen: een salarislimiet voor ambtenaren in de (semi)publieke sector in 11 landen (**Kroatië, Cyprus, Denemarken, Frankrijk, Italië,**

**Ierland, Nederland, Polen, Portugal, Slovenië en Spanje**) en de introductie van prestatieloon (17 landen).

- Zowel de salarislímiet als het prestatieloon lijkt vaker te worden toegepast in de semipublieke sector dan in de publieke sector. Vaak gelden salarislímieten echter niet voor bepaalde functies of bedrijven in de semipublieke sector, bijvoorbeeld als bedrijven niet actief zijn op de beurs of als de staat een minderheidsbelang in het bedrijf heeft. Zulke uitzonderingen beperken de effectiviteit van de maatregel, in de zin dat de relevante wetgeving op slechts een klein deel van de semipublieke sector van toepassing is.
- 2: • Twee verschillende behoeften spelen een cruciale rol in het maatschappelijke debat over het al dan niet introduceren van regels voor de beloning van ambtenaren en top-executives in de (semi)publieke sector: aan de ene kant de noodzaak van **kostenbesparingen** door de economische crisis en aan de andere kant de noodzaak van het verbeteren van de **aantrekkelijkheid van de publieke sector als werkgever**. Hierbij moet worden gezegd dat elk land onder verschillende economische omstandigheden (en dus met andere uitgangspunten wat betreft de geplande hervormingen van de publieke sector) in de crisis is terechtgekomen.
- 3: • In de context van het salarislímiet- en prestatieloonbeleid zijn **diverse maatregelen** getroffen: formele en informele referentiepunten, aanpassing aan inflatie, de inzet van deskundigenpanels, belonen voor ethisch beleid, contractsystemen voor groepen ambtenaren, uitgebreide contractsystemen op basis van prestatieloon, en individuele prestatiecontracten (zie tabel 4-5).

Wat betreft het formuleren van mogelijke **best practices** om tot een effectief beleidsmodel te komen, en rekening houdend met het feit dat de **in Nederland gebruikte methode een van de toonaangevende methoden is** om tot een voorlopig salarislímiet te komen, zijn we tot de volgende conclusies gekomen:

- Creëer **een controlemechanisme**, zoals een límiet of onafhankelijke toezichtcommissie. Deze aanpak treffen we aan in landen waarin er veel verschillende vormen van prestatieloon worden gebruikt of waar veel publieke, niet-gouvernementele



instanties of lichamen autonoom functioneren (Italië, Nederland, Zweden, Groot-Brittannië).

• Koppel het loon aan een **referentiepunt**, dat diverse vormen kan aannemen, met als bekendste:

- Het gebruik van een basisloon gebaseerd op schalen (en met een vermenigvuldigingsfactor en variabele delen of percentuele afwijking, zoals in België, Duitsland, Italië, Groot-Brittannië, Polen), wat in alle landen behalve Zweden voorkomt.

- De introductie van een extra limiet, gekoppeld aan een gestandaardiseerd salarisoniveau voor een bepaalde functie (Nederland, Italië) of een salarismiddelde (Frankrijk, Polen)

- Het gebruik van extra instrumenten om het beloningsniveau voor hoge politieke functies vast te stellen (België, Frankrijk, Groot-Brittannië), resulterend in een op referentiepunten gebaseerde benadering die gekoppeld wordt aan het basissalaris in de loonschaal voor de ambtenarij en speciale verordeningen

- Wat betreft de door organisaties in de semipublieke sector en rijksinstanties gebruikte methoden om tot hogere of gemaximeerde beloningen voor executives te komen, wordt in vier landen (Nederland, Frankrijk, Italië, Polen) met name de koppeling van beloning aan formele referentiepunten gebruikt in de vorm van een limiet voor (semi)publieke en non-gouvernementele organisaties.

• **Pas het loon aan de inflatie als er gebruik wordt gemaakt van een limiet**, om flexibel te blijven in het geval van economische en aan de arbeidsmarkt gerelateerde veranderingen en om de concurrentie te waarborgen (zowel binnen de publieke sector zelf als in relatie tot de private sector).

• **Als er een alternatief voor het limietbeleid moet komen, gebruik dan panels en commissies** die samen met de betrokken ministeries de salarishoogtes vaststellen (Zweden, Groot-Brittannië). Over het algemeen ziet men dat de noodzaak van aanvullende maatregelen (zoals een salarislimeet of de inzet van deskundigenpanels) afneemt als er niet veelvuldig gebruik wordt gemaakt van prestatieloon of sterk variabele bonussen, m.a.w. een systeem zonder franje.

- Pas wanneer mogelijk een of andere vorm van **prestatieloon** toe in zowel de publieke als semipublieke sector om prikkels voor goed presteren te creëren en de aantrekkelijkheid van de sector of de vastgestelde bonussen te verbeteren. **Als blijkt dat een absolute limiet te rigide is** om competente krachten te werven, kan men een **gemaximeerd, aan prestaties gerelateerd beloningssysteem voor bepaalde functies** (Frankrijk) of **bonussen** (Frankrijk, Polen) gebruiken om de belonings- en arbeidsflexibiliteit te verbeteren. Landen als België en Italië onderzoeken op dit moment de mogelijkheid van zo'n systeem, inclusief prestatiebeoordeling.
- De **inzet van een commissie** die rapporteert aan het ministerie kan een **extra middel zijn** om afwijkingen van een absolute limiet te monitoren.

Dit rapport, evenals de studie zelf, gebruikt een gelaagde benadering, waarbij eerst het beleid in de gehele Europese Unie wordt onderzocht om de regelgeving voor de beloning van hogere ambtenaren en executives vanuit een algemeen perspectief te beoordelen. Daarna wordt het politieke en maatschappelijke debat in acht met zorg geselecteerde landen onderzocht om een beter beeld te krijgen van nationale oorzaken en argumenten voor het al dan niet gebruiken van regelgeving. Tot slot wordt de toepassing van het beleid onderzocht in de context van de methoden die in diezelfde landen worden gebruikt om de beloning voor hogere ambtenaren in de publieke en semipublieke sector te reguleren.

## Executive Summary

The regulation of top income, especially, the remuneration of senior civil servants, public officials and top-level executives in the semi-public sector has resurfaced as a topic of political and public debates across the European Union since the economic crisis in 2008. In order to control the remuneration of high-level public officials and make them more transparent, different measures have been introduced. This study aims at investigating the regulation of executive pay across the European Union and was conducted upon the request of the Dutch Ministry of the Interior and Kingdom Relations. The underlying objective is to develop comparative insights, define possible best practices and focus on themes and systems' elements that should become subject to further research in order to account for an effective policy model.

The leading research questions are as follows:

- 1: What **regulations** of executive pay in the public and semi-public sector are in place in the EU 28?
- 2: What are the **arguments** in the political and public debates to introduce a regulatory policy or not?
- 3: What regulatory **measures, methods and norms** apply in the public and semi-public sector of the respective EU countries?

The main conclusions and achievements emerged from this research are as follows:

- RQ1: • Almost one third (9 Countries) of the EU member states regulate the executive pay, including rewards for high-level officials, by their **general pay system** (this means that no specific control law has been introduced)
- Two main policies dominated the legal reform processes to control the remuneration of executive pay: a **cap** on the salaries of public officials in the (semi) public sector (11 countries) and the introduction of **performance-related pay** (17 countries).

- Both cap policies and performance-related pay appear to be applied more extensively in the semi-public sector than in the public sector.

RQ2: • Two different needs have been playing a crucial role in the political debate about the introduction or not of a regulatory policy for the remuneration of civil servants and top executives in the (semi-) public sector. On the one hand, the emergency to reduce costs due to the **economic crisis** and on the other hand the necessity to increase the **attractiveness of the public sector as an employer**.

RQ3: • Within the cap and performance-related-pay policies, **various methods** are applied: Formal/ Informal Reference Points, Adjustment to rates of inflation, Use of Expert-Committees, Pay for Ethics, Contract systems for a group of officials, Extensive contract systems of performance pay, Individual performance contracts (see Table 4-5).

In addition, regarding the objective to define possible **best practices** to account for an effective policy model, the following findings have been achieved:

- Create **A control mechanism**.
- Link wage to a **reference point** like: specific function, base salary or average salary.
- Adjust wage to inflation rates when applying a cap policy.
- When seeking an alternative to the cap policy **use boards and committees** that collectively decide about salaries in agreement with the Ministries.
- Apply some kind of **performance-related pay** to both the semi-public and public sector whenever possible (also in combination with cap policy or committee system).

This report, as well as the research itself, uses a layered approach by which first the policies across the European Union as a whole were investigated in order to evaluate the use of regulatory policies for senior civil servants' and executives' pay from a general perspective. Second, the political and public discussions of eight carefully selected countries were investigated to better understand the national reasons and arguments used for the (non-) implementation of regulatory policy. Third, the application of policies was investigated in

detail in the framework of researching the methods to regulate the remuneration of high-level officials in the public and semi-public sector in the same respective countries.

## What's Next? Research Objectives for the third Phase

The Research Phase 2 brought the possibility to focus on best practices and deepen some specific themes and systems' elements suitable to account for an effective policy model.

Based on the research experience and results achieved during the Research Phase 2 of the study, it is possible now to define – adopting a logic and consistent approach – the objective of the Research Phase 3.

The research objective of the Phase 3 should be the production of recommendations, based on evidences, to be addressed to the Dutch Ministry of the Interior and Kingdom Relations about:

- the advantages (and challenges, if any) of changing certain elements of the Dutch Executive pay Regulation, based upon European best practices and experience with the current Dutch law.

In order to achieve the objective of the Phase 3 the study will focus on some specific elements included in the best practices found during the research phase 2 as the following:

- Control Mechanisms
- Reference Point of the Regulation (represented by a political actor or a civil servant)
- Degree of applicability of the Regulation within the system (exceptions to the rule)
- Ancillary Instruments and actors (Committees, Boards...)

## 1. Introduction

This study report on the “The regulation of executive pay of high level officials in the public and semi-public sector across the European Union” has been conducted upon the request of the Dutch Ministry of the Interior and Kingdom Relations by the European Institute of Public Administration Maastricht. The main objective of the research is to investigate to what extent there are discussions and policies of top income in the public and semi-public sector across the various EU member states. This report also provides insights into the national backgrounds that explain why policies were introduced or not as well as what standards and kinds of methods are applied in the respective EU member states. In the Netherlands a public and political debate over top income in the public and semi-public sector resulted in the introduction of the law of Wet Normering Topinkomens (WNT). This report provides a thorough, comparative inventory of regulatory policies of top income in the public and semi-public sector in the EU and will thereby contribute to the discussions of the effectiveness of incomes policy in the Netherlands.

Against the backdrop of the economic crisis that impacted on the Netherland especially between 2009 and 2013 and the following implementation of austerity measures in many European countries, rewards for high-level public officials have recently re-emerged as a topic of hot debate in governments and the public sphere across the European Union. In fact, the political-societal debate about the pay levels and of high positions in private corporations and government itself that concerned especially the question of responsibility, proportionality and equity of the remuneration of high level officials. A number of different policy measures to regulate the executive pay of high-level officials in the public and semi-public sectors have been enacted across various member states of the European Union, one example of which is the law of the Wet Normering Topinkomens (WNT) in the Netherlands. These measures have received wide and in some cases heated public and political attention as they trigger questions such as: What constitutes an adequate reward of high-level public officials; how transparent and available is information about rewards for high-level officials; should high public officials be rewarded according to the level of responsibility and the functional needs of the job, or according to their incumbent’s performance on that job (Hood & Peters, 1994)? In addition, the discussion touches on general perceptions among the public of an allegedly privileged, overpaid and under-incentivized senior civil service and executives in the semi-public sector,

which is regarded as one of the factors contributing to decreasing levels of trust and legitimacy in government, which leads to a generally larger gap between states and society that may result in decreasing political participation at national level (Brans & Peters, 2012). Therefore, the regulation of the executive pay of high-level officials and managers of the public and semi-public sector from a normative perspective seems to be an appropriate policy measure in the context of the economic recession, even though the degree to which the measures may be substantive or symbolic can vary.

However, this perception bears certain tensions that governments need to cope with: On the one hand, the necessity to decrease public spending and to satisfy a political and public sphere that is decreasingly tolerant of high wages in the public sector, stands in contrast to the need to increase labour market competitiveness to attract and retain high-performers (Dekker, 2013, p. 151). As a consequence, it is important to investigate the political environment of remuneration from a comparative perspective since rewards offered to high-level public employees ‘are not merely formal systems of pay and prerequisites. Rather they reflect fundamental features of the political and administrative systems, and also have major political consequences’ (Brans & Peters, 2012, p. 9).

The study focuses on high public officials in the public and semi-public sector of the European Union in order to comparatively investigate the regulatory policies across the EU member states. For the purpose of a comparative analysis the report will collect, compare and analyse information on laws and regulatory measures in the public and the semi-public sectors. Moreover, the report will collect and compare information on the base salaries of high level civil servants and political officials including evidence on the salaries of the senior civil servants, Prime-Minister and Ministers. It is necessary to point out that this report uses a layered and selective approach to grasp the extensive picture of and to explain regulatory policies in various EU member states comparable to The Netherlands. The reason for such a layered approach is to cope with the difficulty to cover the whole extent of very complex, national pay systems, the lack of transparency on information about top incomes in the public and semi-public sector in some countries, language barriers as well as the significant differences in the definitions of “top officials” and “the semi-public sector” in different EU member states, that remain obstacles to a truly systematic research design.



In order to overcome these difficulties, the report will zoom in on a sub-set of eight carefully selected member states, which are examined into larger detail. The research will be guided by the following research questions (RQ):

- b) RQ1: What regulations of executive pay in the public and semi-public sector are in place in the EU 28?***
  
- c) RQ2: What are the arguments in the political and public debates to introduce a regulatory policy or not?***
  
- d) RQ3: What regulatory measures, methods and norms apply in the public and semi-public sector of the respective EU countries?***

By answering these research questions it will be possible to derive a comparative inventory with insights into the factors that cause cross-national variation in regulatory policies, which further allows to identify and assess potential best practices (research phase II) which may serve as policy models for varying pay systems across the EU. For this purpose RQ1 will be addressed in chapter 3, RQ2 will be covered in chapter 4, and answers to RQ3 will be provided in chapter 5 of this report.

## 2. Research Design

This research project investigates the policy measures to regulate executive pay in the public and semi-public sector within the EU member states between 2008 and 2015. Thereby, this study concentrates on the question to what extent European countries have introduced a cap policy to regulate executive pay. The project aims at (a) describing what **norms and standards regulating the executive pay of high-level officials** apply in the various EU member states, and (b) explaining **cross-national variation in the norms and standards**. For this purpose the study will use a **comparative explanatory multiple-case design** to compare the different policy measures. The research will allow for a comparative **insight into the similarities and differences of different pay systems** for high-level officials across the different member states of the European Union. Researching possible patterns of variation across member states will help to explain why some countries follow method A, while other countries apply method B. In this way, insights into potential **best practices** may be derived that may serve as policy models. The term best practice is understood in this report as the method or combinations of methods that lead to the level of goal-achievement. According to Brans and Peters (2012), the system of rewards for public officials and their acceptance are determined by cultural, economic, and political factors. Therefore, this project puts forward the working hypothesis that different norms and standards regulating the executive pay of high-level officials are applied reflecting the national political background and the institutional structures of the various member states' administrations, despite the use of two main regulatory policies of executive pay in the EU.

### 2.1 Case Selection

This study applies a qualitative comparative multiple-case design and will therefore investigate the policies of different countries across the European Union. The case selection for the comparative analysis is based on the following objectives: The main objective of this research is to identify what norms and standards regulating the executive pay of high-level officials apply in the various member states of the European Union. Consequently, cases are chosen from EU member states that have already implemented regulation policies for the executive pay of high-level officials in the public and semi-public sector. A first investigation of executive pay regulation for high-level officials has identified the existence of regulating policies in the following EU member states.

However, the implementation of these policy measures varies across the countries and within their framework seven methods to regulate the size of rewards for high-level public officials and public managers are used. An in-depth comparative investigation of the different policies and methods introduced across these countries will therefore provide **insights into the various reward systems, their control policies and what factors explain cross-national variation**. For this purpose, the study will apply a **most different system design (i.e. cases are selected to form a sample that reflects the largest possible variation in terms of the policies and methods introduced)** that investigates the factors which may explain why different political systems apply the same set of regulations, for example, or take the same political decisions even though they are marked by institutional and structural differences. Thus countries will be selected on the basis of four main criteria:

- (1) The regulatory policy measures of the Netherlands constitute the standard of measurement. Therefore states should in broad terms be comparable in their structure of the public administration, their pay system and political-social background to the Netherlands.
- (2) A rough geographical spread across the EU 28 where Central and Eastern Europe is de-emphasized for the reason explained in the following
- (3) Variation on the variable of pay systems and their regulatory framework as it will come to fore in the EU 28 general inventory presented in chapter 3. This includes member states that have already implemented one or both of the two identified main policies: Pay cap policies (The Netherlands, Italy, Belgium (pending in parliament), France (semi-public sector), and Poland (semi-public sector)) and/or performance-related pay (Sweden, France, United Kingdom, Germany, and Italy).
- (4) Cases that appear as outstanding and particular interesting based on the analysis of the EU28 in phase I. This could be countries with pioneering roles in a certain regulatory policy (Sweden and the UK) in order to understand to what extent certain states took a distinctive approach in regulating policies and why.

The system of rewards for public officials and their acceptance are determined by cultural, economic, and political factors (Brans and Peters, 2012). Taking the political, economic and cultural background of each country into account will thus allow the standards, methods and policy effectiveness to be placed into the national socio-economic context. A first investigation

shows that the Central and Eastern European EU member states are currently undergoing a general restructuring of their public management to increase the efficiency and effectiveness of their public administration including, for example, the fight against corruption. These reforms go beyond the regulation of the rewards in public management and assume a diverse political-social background as the general restructuring of the administration has prevailed after the fall of communism (Van der Meer, et al., 2013). Therefore, the Central and Eastern European EU member states might serve the purpose of this research to a lesser extent than countries that have undergone this phase of restructuring already at an earlier point in time. Considering these major differences in the administrative priorities, this research thus includes less of a focus on Eastern European member states of the European Union and will take into consideration countries that are rather comparable at first sight.

Eight countries will be selected for the comparative analysis. In order to choose countries that are comparable to the Netherlands to study the pay cap, member states will be chosen from Northern and Western Europe in the first way. Academic research has identified the traditions of both geographical parts including the south of Europe as the most interesting traditions when it comes to types of senior civil servants (Painter & Peters, 2010/ Van den Berg, 2011/ Wunder, 1995).

**France** constitutes a suitable example for further research as it has implemented a cap policy for salaries in the semi-public sector and for bonuses of a few selected positions of the top civil servants in the public sector. From Southern Europe, Italy and/or Spain depict comparable cases as both introduced a cap policy in the public and semi-public sector. Yet, in **Italy**, in contrast to Spain, the law for the public and semi-public sector was introduced in 2011 with a pay cap set at the same level for both sectors. This scenario is similar to the policies adopted in the Netherlands and builds a common basis for analysis. As a representative country from Central and Eastern Europe Poland seems to be an adequate subject for comparison regarding its size, administrative structure and economic performance. In addition, two countries that regulate the executive pay of officials by their general pay system and have not introduced a pay cap are **Germany** from Western Europe and the **UK** with an Anglo-Saxon approach; whereas, **Poland** depicts an adequate representatives for comparison of a countries that does not use performance-related pay but pay caps only. **Belgium** serves as an example of a country that is using neither performance-related pay nor a cap policy, because its proposal for the regulation of the semi-public sector is still pending in parliament. **Sweden** as representative

country from Northern Europe and the Anglo-Saxon approach of **England**, constitute two crucial examples for the research of the regulation of rewards of high-level officials for two reasons: First, concerning the introduction of performance-related pay, the commercialization of parts of the public administration and the delegation of services to other institutions, **England** and **Sweden** depict the pioneers and will be investigated as an example of a completely different and special approach. In addition, while executive pay in Sweden is regarded as moderate due to the heritage of an egalitarian wage culture; the executive pay of high-level officials in the UK is considered as one of the highest across Europe. As a consequence, the countries to represent a balanced and fair approach for the case selection and to be further subjects to study are outlined in the following table:

<b>Table 1: Presence of Pay Cap and Performance-related pay within sample</b>		
<i>Country</i>	<i>Pay cap</i>	<i>Performance-related pay</i>
Belgium	Proposal semi-public sector, pending in parliament	No
France	Semi-public sector, bonuses certain positions public sector	Yes
Germany	Semi-public sector, non-binding	No
Italy	Yes	Yes
The Netherlands	Yes	No
Poland	Semi-public sector	No
Sweden	No	Yes
United Kingdom	No	Yes

Finally, by studying the two policies and the seven methods used in the countries selected, an assessment of the current regulative policies of rewards for high-level officials across Europe will be undertaken. The findings will provide **insights from a comparative perspective** to the methods introduced across European countries, and will thereby allow considerable conclusions to be drawn about the workings of various reward systems and their control policies.

## **2.2 Empirical Strategy and Data Collection**

The study will employ a qualitative methodology and combine an in-depth analysis of primary and secondary documents with oral semi-structured interviews to study the norms and

standards regulating the executive pay of high-level officials in the various EU member states. The analysis will be based on three different types of sources.

First, the project will rely on the comparison of political measures to regulate the rewards of high-level officials based on the comparison of base salaries. The data to analyse the ceilings of base salaries will be collected from primary sources, such as legislative and statutory acts published in the national official gazettes and official tables of pay of high-level civil servants published by websites of official governments. The data will provide a neutral indication of the pay system within the respective countries. Special attention will be paid to the positions of high level civil servants, the President/Prime minister and Ministers as well as positions that are relevant as reference point for the organization of a pay system. The regulation of benefits in kind, allowances, premiums and bonuses is different and unique in each country, therefore, a detailed analysis of these add-ons will be excluded and information gathered only where possible to complete the assessment to the highest degree attained. Information on these kinds of supplementary benefits is often not transparent or less obvious and therefore ‘difficult to quantify’ (Brans, Peter & Verbelen, 2012, p. 27).

Second, published sources such as articles in national and European quality newspapers (Volkskrant, Sueddeutsche Zeitung, The Guardian, Le Monde, European Voice, etc.) will provide indicative insights into the developments of regulatory policies on and the level of high-level officials’ executive pay in national governments, as well as comparative information regarding the discourse and framing of the issues of executive pay in the various countries. In addition to these sources, data from statistical bureaus of renowned economic organisations such as the OECD, the International Monetary Fund or the World Bank will provide essential information about the economic/political situation of the respective counties in the determined period of time. For the analysis of the countries’ political/administrative features relevant to the pay system, the study will consult publications from academic political science and public administration journals (Painter and Peters, 2010; Van den Berg 2011; Loughlin and Peters 1997 and others).

To refine the research on the policy measures, their objectives, the political debates surrounding the subject, and their unintended outcomes, data will be collected by semi-structured elite and expert interviews. The interviewees will include (high-level) civil servants in the respective countries that work in the area of payment (e.g. working groups, financial and human resources departments), politicians, country experts and stakeholders that have been

involved in the discussions about and the drafting of the policies to regulate the pay of high-level officials. Criteria for the selection of the interviewees will be their prominence (e.g. holding chairmanships, expertise in field), their ranks in the hierarchy and their professional backgrounds. ‘Snowball sampling’ will allow tracing further interview partners by indication of additional contacts through the interviewees.

The data collected will be organised in a qualitative data set and coded to provide a comparative overview of the policy measures and their national contexts. Finally, the findings of the study will be tested in the light of the defined assumptions to provide insight into the norms and standards that exist across the different European countries and their policy effectiveness. Based on these findings it will be possible to evaluate current regulatory policy measures of executive pay in the public and semi-public sector. In addition, the question will be addressed what explains cross-national variation in the regulation of executive pay in order to assess best practices that may serve as policy models for EU member states with different structures to achieve the main goal of the regulation policies by the best method(s).

### 3. General Inventory of Executive Pay Systems and Regulations

Different principles and approaches to remuneration across countries have led to different pay systems and different ways of regulating (and maximizing) base salaries and add-ons. Every state has their own distinct pay system in place, which regulates and administers the basesalaries of high-level officials in general. Pay systems usually follow a scale, grid or band system in which officials can climb the scales due to their education, work experience and seniority. In addition, there are ways to control the executive pay of high-level officials and managers of semi-public enterprises by additional ways of regulations such as the use of legal tools and (non-)binding, guidelines and recommendations.

#### 3.1 Executive Pay Systems: the Basics

A first inventory shows that many pay systems of the EU member states have been subject to reforms in the past decades and have introduced policies or regulatory measures to control executive pay in the public and/or the semi-public sector. The following table thus indicates, distinguishing between the public sector and the semi-public sector,

- a) which countries **determine the executive pay** based on their **pay system only**, meaning that **no specific control law** has been introduced and that remuneration of public officials is regulated by the general pay system of the country; and
- b) which countries have introduced **measures to additionally control** or administer executive pay. Besides the generic pay system as meant under (a), there are two distinct regulatory instruments that aim at achieving this:
  - i. **by law** (introduction of a remuneration control in varying forms) and
  - ii. **non-binding rules and recommendations** (regulation by, e.g. Corporate Governance Acts, guidelines):

<b>Table 2: Presence of Executive Pay Regulation across the EU</b>		
<i>Country</i>	<i>Public Sector</i>	<i>Semi-Public Sector</i>
<b>Austria</b>	Pay system	Non-binding Corporate Governance Act (2012)
<b>Belgium</b>	Pay system	Pay system Law proposal (2011) pending in parliament
<b>Bulgaria</b>	Law (2012)	Under investigation



<b>Croatia</b>	Law (2014)	Law (2014)
<b>Czech Republic</b>	Under investigation	Under investigation
<b>Cyprus</b>	Law (2014)	Non-binding Cypriot Code of governance (2009)
<b>Denmark</b>	Law (2004)	Non-binding new Danish Companies Act (2001)
<b>Estonia</b>	Under investigation	Under investigation
<b>Finland</b>	Pay system Proposal to adjust the remuneration of the President of the Republic (2013)	Finish Code of Corporate Governance (2010) Law proposal: Act on Regulation of State enterprises (2010)
<b>France</b>	Ordinance for a cap on bonuses of a few selected positions	Law (2012)
<b>Germany</b>	Pay system, Freezing policy	Non-binding Corporate Governance Acts (2002)
<b>Greece</b>	Pay system	Under investigation
<b>Hungary</b>	Pay system	Under investigation
<b>Ireland</b>	Law In the framework of Financial Emergency Measures in the Public Interest Act 2009-2013 Public Service Stability Agreement 2013-2016	Law proposal in parliament (2011)
<b>Italy</b>	Law (2011)	Law (2011)
<b>Latvia</b>	Law (2010)	Under investigation
<b>Lithuania</b>	Law (2008)	Non-binding public sector rules
<b>Luxembourg</b>	Pay system	Pay system
<b>Malta</b>	Under investigation	Under investigation
<b>Netherlands</b>	Law (2013)	Law (2013)
<b>Poland</b>	Pay system reform (2009)	Law (2000)
<b>Portugal</b>	Law (2008/2011/ 2012)	Law (2007/ 2013)
<b>Slovakia</b>	Under investigation	Under investigation
<b>Slovenia</b>	Law (2010)	Amendment of the Companies Act (2010) Law (2010)
<b>Spain</b>	Law (2012)	Law (2012)
<b>Sweden</b>	Pay system	Swedish corporate governance code (non-binding) (2006)
<b>Romania</b>	Law Proposal to introduce ceiling to pay in 2016 discussed in labour ministry	Under investigation
<b>United Kingdom</b>	Pay System, freezing policies	Non-binding director's guide, Privatizing policies

With reference to the first research question of what regulations of executive pay are in place in the public and semi-public sector of the EU 28, the table shows that during the period since 2008, the majority of EU member states has introduced **additional, (non-)binding regulations** of rewards of high-level on top of their pre-existing pay system. However, around **one third**

**of the EU member states** have continued to regulate the rewards of high-level public officials by the general grid of their **pay systems** in place, and (*if* at all) introduced other forms of regulation than a standardizing law, such as **non-binding** Corporate Governance Codes for public companies and monitoring committees or the request for the disclosure of rewards. Two countries (Sweden and Luxemburg) had implemented relevant reforms already before 2008 and have not changed their policies since then. For a number of Central and Eastern European EU member states no information about whether executive pay regulation has been introduced was found. Moreover, while four countries introduced control policies in the early 2000s already, **16 countries implemented or further tightened pay control policies especially after 2008**. This clear temporal relation between the economic and fiscal crisis and the introduction of these new measures in a wide range of countries indicates that the reforms cannot be seen as independent from the economic crisis and the austerity policies that followed as a response and the general increased awareness and scrutiny of public spending in the various countries.

### **3.2 Additional Regulation by Law**

Two main approaches of policies seem to dominate the reform process, where laws have been introduced to control the remuneration of executive pay: On the one hand, the agreement on a **cap on the salaries** of public officials in the public and/ or semi-public sector; on the other hand, the introduction of **‘pay for performance’ or “ performance-related pay”**. Both approaches may be introduced either **separately or in combination**. The degree of the use of performance-related pay may vary across the countries depending on their pay systems, administrative structures and policies used for the rewards of high-level officials and managers in the public and semi-public sector. In order to explain which norms and standards apply across the different EU member states and why they were introduced, an in-depth comparative study of eight countries will be undertaken. Thereby **insights into the differences and similarities** of regulatory measures introduced by the governments of the countries across their public and semi-public sectors will be provided. Based on the findings conclusions about **the different forms of pay systems** will be derived that allow for the identification of **best practices** in different EU member states that may serve as policy models for countries with differing pay systems. The following table presents a **general overview of the two main policy approaches** to be found across the countries.

<b>Table 3: Presence of Pay Cap and Performance-related pay across the EU</b>		
<i>Country</i>	<i>Pay cap</i>	<i>Performance-related pay</i>
<b>Austria</b>	No	Yes
<b>Belgium</b>	Proposals for semi-public sector pending in parliament (2011)	No
<b>Bulgaria</b>	Under investigation	Under investigation
<b>Croatia</b>	Yes	Under investigation
<b>Cyprus</b>	Yes	Under Investigation
<b>Czech Republic</b>	Under investigation	Yes
<b>Denmark</b>	Only public sector, non-binding	Yes
<b>Estonia</b>	Under investigation	Yes
<b>France</b>	Only semi-public sector; Ordinance for bonuses of only certain selected positions in the public sector	Yes
<b>Finland</b>	Proposal for semi-public sector	Yes
<b>Germany</b>	No	No
<b>Greece</b>	Under investigation	No
<b>Hungary</b>	Under investigation	Yes
<b>Italy</b>	Yes	Yes
<b>Ireland</b>	Only semi-public sector	Yes
<b>Latvia</b>	Under investigation	Under investigation
<b>Lithuania</b>	Under investigation	Yes
<b>Luxembourg</b>	Under investigation	No
<b>Malta</b>	Under Investigation	Under investigation
<b>The Netherlands</b>	Yes	No
<b>Poland</b>	Only semi-public sector	No
<b>Portugal</b>	Yes	Yes
<b>Romania</b>	Under investigation	Under investigation
<b>Slovakia</b>	Under investigation	Yes
<b>Slovenia</b>	Yes	Yes
<b>Spain</b>	Yes	Yes
<b>Sweden</b>	No	Yes
<b>UK</b>	No	Yes

The main unit of analysis will constitute the policy measures introduced to regulate executive pay. A first investigation over control policies of executive pay in the public and semi-public sector across European countries has **identified two main approaches to policy, namely** the agreement on **a cap** on the salaries of public officials in the public and /or semi-public sector and the introduction of **‘pay for performance’**. These were found in **varying combination** in

the EU member states as part of the reform processes in the framework of austerity measures following the economic turmoil in 2008.

In the framework of the regulatory measures, **various methods** may be implemented to achieve the goal of regulating the executive payment of the public management (cf. Brans, Peters, Verbelen, 2012). The following methods of regulating executive pay result from institutional effects and may lead to higher or capped levels of remuneration:

- 1) The introduction of mechanism to make the decision on rewards automatic by **formal and informal reference points**. These mechanisms can take four different forms:
  - a) Linking the rewards to the average wages in society;
  - b) Pegging the rewards for high-level officials to a standard wage level of one particular function (e.g. the Judges of Appeal or the pay-level of a minister or the head of government);
  - c) Taking ‘civil service salaries as reference points for highly integrated pay systems. (...)’, meaning that top office remuneration may be derived by a ‘percentage-wise deviations from top civil service pay’ (p. 22);
  - d) A set of reference points that are rather loosely coupled.
- 2) Maximizing pay increases to corrections for inflations by the adjustment of wages to **rates of inflation** to maintain the purchasing power. This way of regulating the executive may result in a capping of the salary if pay increases are limited to the annual inflation rate only.
- 3) The use of **expert commissions** to decide about wages of public high officials based on a comparison of rewards between corresponding positions in the public and private sector.

- 4) **‘Pay for Ethics’** by which public officials agree formally or de facto to receive higher but more transparent rewards in exchange for receiving fewer external rewards or less visible allowances of all kinds.

Moreover, the novel approach of ‘New Public Management’ to governance and the public sector implies the use of management techniques imported from the private sector. New Public Management applies the logic that individuals working in the public sector should be rewarded according to their contribution to the success of their organisations/the public sector, which is not easily transferrable to the work and achievements of a government. Among the New Public Management tools there are different forms of ‘performance-related pay’ such as (cf. Brans, Peters, Verbelen, 2012):

- 5) The implementation of **contract systems for a group of officials** such as public officials in government, which entails possible wage flexibility granted to a distinct group of high-level officials only
- 6) The use of less **extensive contract systems of performance pay** that offer rewards to civil servants in the form of a given guaranteed baseline salary which can be topped up by performance-based bonuses rather than fixed permanent rewards.
- 7) The use of **individual performance contracts** for high civil servants and ministers, which are not given to a group of employees but agreed with individuals and are in general private and therefore a less transparent means.

This typology of seven possible tools to regulate executive pay will be applied as a conceptual instrument (in chapter 5) to investigate the various methods of regulatory policy measures implemented across the respective European member states.

## 4. The Political and Public Discourse: Arguments and Discussions

The presentation of the empirical material and the main findings will be provided in the following chapters as well as in the research' annexes. This chapter addresses the second research question that investigated the political debate and arguments to introduce a pay cap policy or not. Evidence collected on the eight case studies provides insight into the arguments in the political and public debates used to introduce a regulatory policy or not.

The political and public discussions about the remuneration of top officials in the public and semi-public sector have varied across the member states of the European Union between 2008 and 2015. The arguments presented in the various national discussions and debates can be divided into two sets. One set of arguments that were found in each of the eight investigated countries and that constitutes the common denominator of the various national debate; and a set of arguments that are more country-specific or are present in a small group of the investigated countries. In paragraph 4.1 of this chapter the common denominator-set of arguments will be discussed below. Further, in paragraph 4.2 the remaining country-specific arguments will be investigated.

### 4.1 Common Arguments and Discussions on Executive Pay

In the following the “common denominator” set of arguments will be discussed. These refer to object of discussion such as the politicization of the topic of and transparency of top incomes, the attractiveness of the public (semi-)sector versus the private sector and the economic and financial crisis resulting from 2008 onwards. One of the main aspects to which governments had to respond seems to be the **politicization** of the topic of executive pay of high-level officials. It became obvious from the investigation that in countries where intense public and political discussions appeared, executive pay has been politicized dominating the public and the political debate. It needs to be stressed that the degree of politicization has varied across the member states of the European Union since 2008, however. Executive pay of high level officials has been politicized to a stronger extent in Belgium, The Netherlands, France, the UK and Italy compared to Germany, Poland and Sweden where the discussion on executive pay and its regulation have been rather moderate or not even existent. Interestingly, the four countries with a higher degree of politicization of the topic have indeed proposed and/or introduced cap policies in the public and/or semi-public sector. Only in the case of the UK no cap policy has been introduced or discussed which may be explained by a highly complex and traditional structure of senior civil service paired with a relatively large extent of privatization

of public companies. It is derived from this evidence that cap policies have also served as a means to render the pay system more **transparent** and thereby reduce the politicization of top incomes as was also indicated by the interviewees.

Moreover, it needs to be pointed out that the public discussion concerns oftentimes **only certain groups of top officials** in a respective country, such as senior civil servants in the UK; members of parliament and “politische Beamte” in Germany, the UK and Belgium; or managers of public companies in Belgium, Italy, Poland and France. The debate concerns, for example, mainly the political and administrative level in the UK, Belgium and The Netherlands; while the discussion evolves especially about the semi-public sector in countries such as in Poland, France and Germany. While, there has been only a weak public and political discussion about top income in Sweden in general.

Another aspect of importance to all eight countries and connected to the (non-)introduction of the regulatory policy to the remuneration of executive pay is the concern for the attractiveness of the public sector as an employer for highly-talented and highly-qualified professionals. Too low salary levels decrease the competitiveness of the public sector vis-à-vis the private sector and will thus have a negative impact on the flexibility and mobility within the public sector as well as between the public and private. An additional resulting effect would be the increase of **efficiency** by keeping the structures of the top level of the **public administration flexible**. These developments were attempted, for example, in Belgium, with the introduction of the Copernicus Plan. However, evidence has proven that the need for candidates or keeping structures flexible differs across the European member states due to the differences in their pay systems, labour mobility, the pay gap between the public and the private sectors, and the non-financial advantages of being a high-level official. This is also reflected in the varying degrees of the introduction of **performance-related pay** that depicts an indicator for the degree of competitiveness of a respective pay system. In addition, the **(partial) privatization of public companies and public services** such as in public transport and post services, for example, constituted a main trend to foster competitiveness and quality in all eight countries.

In all countries apart from Sweden, the **economic crisis in 2008** constituted a trigger for the re-emergence of public and political discussions on the remuneration of top income. While, the public debate was mainly dominated by the rhetoric of **austerity measures**, the countering of public debt or requests for lower salaries of top officials in all seven countries (apart from

Sweden); the political discussions were held out of completely diverse national contexts, however.

#### 4.2 Country-specific Arguments and Discussions on Executive Pay

Changes following from New Public Management approaches have in some states led to an overall reform of the regulation of pay systems. In this context, the (potential) **overall reform** of the structure of the **public administration** and on the status of high level civil servants has led to considerations to also reform the pay scheme for top officials in the public sector. This was the case in Italy, the Netherlands, Sweden and Poland (cf. interviews). In most of these countries the (partial) **incorporation of top officials into the corps of civil service** and/or the (partial) privatization of public services and companies went hand in hand with a growing tendency to incorporate a **performance-related** approach to high-level positions (in some countries). These changes will be investigated in-depth per country in the following chapter. Generally, these developments have brought a **change to the perception of the role and tasks of top officials** in the public administration that deviates from the traditional role of the public servant in the Weberian sense and puts an increased emphasis on **managerial tasks** as well as rewards according to performance. This has led to a trend of (parts) of salaries and contracts to be negotiated individually. This results on the one hand in an increase of flexibility and mobility; while on the other hand it may decrease the transparency of a pay scheme. To counter these trends some states have set an overall standard, such as it is the case with a cap introduced in the Netherlands and Italy.

In **Italy** this new trend of standardizing the public administration is indicated by the fact that all posts of public administration fall under the term “managers” of level I or II. This may be related the fact that public and political debates concerned often the political posts of political appointees and requested moderation of public expenditure for top officials’ payment in the context of the economic crisis and huge national debts. It is however important to mention, that the position of public managers remains under statute (cf. interview). In addition, the need to render the public administration more efficient, transparent and flexible constituted another main concern to the Italian government, which resulted in reforms, such as the introduction of a pay cap in the public and semi-public sector. One aspect of huge importance was the enhancement of “a kind of cross-fertilization of expertise and know-how” (cf. interview) to stir the best match of potential candidates and positions and the mobility in the public sector. This



put also the introduction of performance-related pay upon the agenda since 2009. Currently, the system of performance-related pay is under review, focusing on performance indexes of public managers. The public debate centres on the importance of the fact that top public officials should not be bound to political parties, but be more accountable for the results achieved (cf. interview).

In **the Netherlands**, the debate is closely connected to the question of the specific character of the public sector and working for the government vis-à-vis working in the private sector. A common standard was introduced by a cap to raise the transparency of the remuneration of top officials in the public and semi-public sector. High-level officials constituted a special group that fell outside of the general scales of the pay system. The cap was thus considered a necessary tool to regulate the amount of executive pay. In addition, there was the idea that there should be a way of standardization and no fundamental difference between a job performed for the government and a job performed for a private corporation<sup>1</sup> that allows for high flexibility with regard to the mobility of qualified staff between the private and the public sector. This notion is linked to the necessity of attracting and retaining professional staff and the fear that public sector officials will divert to the private sector due to higher salaries provided.

In **Poland** the political debate in 2008 from which reforms on the public administration and its pay system followed, concerned as well the inclusion of the highest executive posts of the civil service (which had been excluded from the civil service in 2006) into the civil service corps to ensure their right role in the management of the state. The main arguments used in this debate were that the inclusion of these posts would “favour the consolidation of the professional nature of the corps as well as the politically neutral execution of the state tasks” (cf. interview, 2015). This overall reform was also linked to a transparency agenda that included also the semi-public sector. With regard to the public companies, the political discussion concerned in the first place the necessity to increase the transparency and to lift the limitation of the remuneration of the salaries of managers and CEOs of public companies (cf. interview). To achieve this aim a cap policy was introduced in the semi-public sector. From an economic perspective the increase of the privatization and commercialization of public enterprises were also important steps to respond to the necessity of increasing the flexibility and mobility between the private and the public sector to decrease the amount of qualified staff leaving to the private sector. Also the

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<sup>1</sup> F. M. van der Meer, C. F. van den Berg and G. S. Dijkstra, 'Rethinking The 'Public Service Bargain': The Changing (Legal) Position Of Civil Servants In Europe' (2013) 79 *International Review of Administrative Sciences*. p. 92.

public calls for lowering the salaries of managers of public companies became louder after the economic crisis in 2008.

In **Sweden**, there was already a political debate in the 1990 which was determined by the view that the pay system of public administration did not create incentives for top talented people to work in the public sector. This was regarded to render the public sector ineffective. One of the dominant views was that the public sector should implement models used in the private sector to encourage the flexibility of the remuneration of their employees to increase the attractiveness of working in public administration. This led eventually to the introduction of a system based on performance-related pay at that time already. In 2006 until 2009, public discussions led by the media and by political parties about the top income of the public sector re-emerged. These debates were sparked by the understanding that high-level officials and politicians should earn moderate salaries reflecting the Swedish heritage of an egalitarian (wage) culture but had no determining political consequences.

In contrast to the developments set out above, in Belgium, Germany, and France, and the UK the political discussion about the reform of the civil service and its pay system evolve rather around the **protection of the status of high-level officials** in the context of changing structures of the public administration. Still, at the same time, these countries aim at **increasing the mobility** in the public administration for **competitive** reasons by the implementation of **New Public Management** approaches. These countries (apart from the UK) hold a long and ‘static’ civil service culture and tradition in the Weberian sense, which acknowledges a “special status” to the *Beamte*, *fonctionnaires*, and *ambtenaren*. Even though the public administration of the UK is not static as compared to the other three countries, also the senior civil service of the *Whitehall model* hold a long tradition of public service that is based upon an advisory than managerial role. This tradition generally still provides “a lifelong” career path due to the distinguished expertise and dedication to the tasks senior civil servants fulfil in their service for the state (cf. interviews); and even though also these public administration have open their systems and become subjects to changes in terms of flexibility by the introduction of New Public Managements. Nevertheless, the idea of the special status of a civil servant generally still prevails and is protected (which is even the case of Italy), despite the opening up towards New Public Management.

While in Belgium the public debate concerned mainly political posts, the political debate concerns especially the attractiveness of the public sector for highly qualified candidates. In order to address this problem, **Belgium** has been working on introducing a *Mandaatsystem* with the Copernicus Plan and relocated salaries into a new wage system in 2009. The aim has been to break with the past by opening higher posts to external candidates and to increase the competitiveness of the public sector with the private sector as well as the flexibility in the public administration itself, which is already on the agenda since 2001. Also the increase of transparency and objectivity are major aims of the government. Currently, there are discussions about the introduction of performance-related pay and changing the two-tier system to one. One major problem is the lack of labour force flexibility in the public sector, due to a mandate system that allows senior civil servants to keep their posts for several periods of mandates. Yet, there are still no concrete plans to further realize a reform to change towards a weighing system that is no longer based on the *mandaatssystem*, but instead, on the weighing system of *ambtenaaren*, or the introduction of performance-related pay. For now, managers are still considered statutory personnel for the duration of their mandate and therefore remain subject to statutory rules with exceptions made for specific regulations. With regard to the management of public companies, a cap on salaries has received political and public attention in 2013; however despite the discussion of a cap policy for the semi-public sector in parliament a regulation has not been implemented.

In **Germany**, the concern of the political discussion is mainly rather the opposite than the one in the Netherlands, namely, that civil servants earn not enough money to attract highly qualified candidates instead of earning too much more than their political principals. It is important to stress that administrative pay is used as a means to regulate the pay of politicians rather than the other way around as it is the case in the Netherlands. In addition, since the reunification of Germany the rhetoric dominating the debate about the public administration revolves around “moderation” that aims at reducing the number of civil servants and the expenditure on civil servants’ remuneration ever since, including the posts of senior civil servants. There is to-date no performance-related pay for top officials in use in Germany because of the traditional administrative culture, which rewards top officials for their service to the state. Therefore, there has been no need to introduce a regulatory measure such as a cap. A decentralization of the competence of setting pay level for state-level senior servants has been introduced in 2006-2007, which has however led to a difference in pay levels of 12-15% of senior civil servants across the *Laender*. This development has led to the development that working in public

administration is more attractive in some *Laender* than in others. In contrast, the public debate is mainly concerned with the payment of “politische Beamte” whose careers are less certain and may be short-lived as there may be early turnovers of *Laender* governments after which they are dismissed. This leads to the perception of citizens wondering why and how many people are receiving payments being out of office. On the political level, these posts are concerned with their pension rights at the moment. In addition, a law about regulating the timeframe for a “politscher Beamte” to start a career in the private sector after their term of office has ended is discussed to avoid potential conflicts of interest (cf. interview).

In **France** the public and political discussion was held in the context of limiting public expenses after the economic crisis in 2008. On the one hand, the expenses on salaries for the public administration were considered too high, with the notion that salaries of especially the group of hauts fonctionnaires were too excessive. In the other hand, there was the idea to increase the transparency of such salaries. Consequently, the remuneration and bonuses of top officials were reviewed in 2012 in the programme of the 60 policies of François Hollande. As a consequence, bonuses for certain positions in the public sector and the remuneration of executives in the semi-public sector were capped in order to provide an example for saving after the crisis in 2008, which was also held as a priority of the new government in 2012.<sup>2</sup> This was a way for the state to have more control and transparency<sup>3</sup> on the remunerations of directors in the semi-public sector.<sup>4</sup>

In the **UK** the political debate concerned the need for austerity measures following from the crisis from 2008 as well as the introduction of a transparency agenda regarding top income in the public sector. Similar to the German case, the job security and remuneration of the British public administration have been adjusted downward due to a continuous reduction of the number of civil servants and public expenses for salaries of public employees. The political debate is consequently focused on increasing the attractiveness, efficiency and competitiveness of the public sector with the private sector, and the increase in transparency concerning the remuneration of high level officials to decrease the politicization of the issue. The special points of focus of the public debate concerned mainly parliamentarians and senior high level civil servants after first figures revealed that some “Whitehall senior civil servants” had earned

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<sup>2</sup>[http://www.lemonde.fr/economie/article/2012/06/13/les-salaires-des-patrons-du-public-seront-plafonnees\\_1717447\\_3234.html#1O1LD6c7sj1z8kU3.99](http://www.lemonde.fr/economie/article/2012/06/13/les-salaires-des-patrons-du-public-seront-plafonnees_1717447_3234.html#1O1LD6c7sj1z8kU3.99)

<sup>3</sup>[http://www.lemonde.fr/economie/article/2012/05/14/le-debat-sur-la-transparence-des-salaires-des-dirigeants-dans-le-public-s-impose\\_1700874\\_3234.html](http://www.lemonde.fr/economie/article/2012/05/14/le-debat-sur-la-transparence-des-salaires-des-dirigeants-dans-le-public-s-impose_1700874_3234.html)

more than the Prime Minister in 2010. However, due to the saving policy of the previous years, the political discourse has also been dominated by rhetoric of solidarity that explained also the necessity of salary freezes in the public sector to overcome the crisis and to successfully implement the austerity measures. A cap policy has not been introduced.

### **4.3 Similarities and Differences**

This chapter provided a comparative insight into the main arguments and considerations discussed and used in the political and public sphere of eight European member states that allow explaining a(n) (missing) introduction of a cap or regulatory policy on the remuneration of top officials in different European member states. The investigation shows that the reasons to reform the national pay systems have differed across the countries including:

- fighting the consequences of the economic crisis;
- the need to increase the attractiveness and efficiency of the public administration;
- increasing the wage flexibility and labour mobility between the public and the private sector;
- the investigation and re-definition of the role of senior civil servant in public administration;
- the increase of transparency on the pay schemes of public administration;
- or the depoliticizing of top incomes.

From the evidence, it may be further derived that countries seem to be split into two groups by a cleavage of their traditional and public culture of administration. The first group consists of countries that have embraced the changes of NPM and the re-definition of tasks of the civil service more strongly, which eventually led to reforms of the pay system and additional regulatory measures such as The Netherlands, Italy, Poland and Sweden (and partially the UK). The second group of countries seems to be rather protective of the traditional status of in the process of implementing New Public Management approaches such as Belgium, Germany, France and the UK. In addition, their public administrations have been subject to reductions in staff and payment over the last decades. These developments avoid a need for decreasing the pay levels of the pay system by additional regulatory measures such as a cap, apart from France that implemented a cap policy.

The following chapter will investigate how states have attempted to solve these issues, by answering the research question of what regulatory measures, methods and norms apply in the public and semi-public sector of the respective EU countries to regulate the executive pay of high level officials in the EU member states, and comparing the base salaries of top officials in the respective European member states.

## 5. Regulations, Methods and Norms across the EU: comparative perspective

The investigation of the ways to regulate the remuneration of high-level officials in the public and semi-public sector of the respective countries helps to understand the pay system for senior civil servants, which allows for an explanation of how and why regulatory methods vary across the countries. The findings about the use of the two main policies, a cap policy and performance related pay, will be outlined in a comparative way for the eight countries. This way we can derive conclusions about their use and identify possible best practices. For this purpose the findings will be compared with the seven methods which were presented as tools in the framework of the two policy approaches in chapter 3.

### 5.1 Public Sector

The investigation of regulatory measures, more precisely, the use of a cap policy and the use of performance-related pay, for the control of executive remuneration in the public sector has revealed the following trend across the eight representative member states of the European Union.

#### **Method 1: Formal or Informal Reference Points**

First, with regard to methods that might lead to higher or capped levels of remuneration for executive pay, especially three out of the four methods presented are applied across the countries. The most salient method applied is the linking of rewards to formal or informal reference points. This may be done in different ways. Italy and the Netherlands have pegged the remuneration of high-level civil servants in the public sector in the form of a cap to one particular function. While **Italy** has chosen the Presidency of the Court of Cassation as a standard for the cap policy, **the Netherlands** has chosen the salary of a Minister. Both are the only countries that use a cap system in the public (and the semi-public) sector. In contrast to a reference point defined by a cap, **Germany** has linked the level of pay for all political and bureaucratic officials to a standard salary of the federal judges and combined it with a percentage-wise deviation for certain positions. Also the **UK** uses this type of reference points for the minister's salaries. These are determined by the use of an annually changing median salary of the senior civil service pay band (House of Lords). This may be combined with an uprating that is in accordance to the pay band of members of parliament salaries, for ministers sitting in parliament (House of Commons) and may differ along the parliamentary band

according to performance. The ministers' salaries are on purpose not pegged to the Prime Minister's salary. This was done for several reasons. Firstly, public-sector workers are operating in a vast number of different markets where the pay varies a greatly; therefore the remuneration even in the public sector needs to reflect this pay.<sup>5</sup> Secondly, the Prime Minister's pay depends more on politics than on his level of responsibility and this determines his salary. Therefore, if the political situation warrants a lower salary then that is appropriate.<sup>6</sup> Thirdly, there is a large amount of evidence to suggest that the Prime Minister is more than able to attain a high-paying job after leaving office.<sup>7</sup> In that sense the Prime Minister's pay is less economic and more politically motivated, and the opposite is the case for the Public Administration and senior civil service, these salaries are more economically justified, therefore they are higher and are less susceptible to changes due to political climate. **Poland** does also not use a regulation by law in the sense of a cap policy. Instead, the salaries are determined by the pay system which regulates the remuneration determined on a base salary with the use of a multiplier and a variable part such as benefits with another multiplier. It can be seen that the **UK** and **Poland** use rather fixed reference point for the base salary but loosely coupled reference points for the determination of bonuses. In their cases these are variable bonuses that are linked to scales in the pay band or a bonus that is multiplied by varying multipliers. The use of loosely coupled reference points was not found in the other states. The **Belgian** and the **French** state regulate the remuneration of senior civil servants by a mixed approach of using a set of reference points that is coupled to the base salaries of the pay scale of the civil service and the application of decrees that set the amount of remuneration for certain positions. In the case of **France**, the base salary is also further calculated with a range of multipliers to fix the salary. In addition, a cap was introduced for the bonuses of a few selected positions.

### **Method 2: Maximizing Increases to correct for Inflation**

The second method, namely adjusting wages to rates of inflation is used by **Germany**, **France** and **Belgium** in addition to their reference points, which adjust executive wages to a nominal index. The salaries of high-level officials in **Poland**, **Sweden** and the **UK** seem to be indirectly adjusted to rates of inflation by annually changing base salaries according to the government budget law or changing median base salaries.

### **Method 3: Use of Expert-Committees**

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<sup>5</sup> House of Commons, Public Administration Select Committee. (2009, December 15). Top Pay in the Public Sector, Sixth Report of 2009-10, Volume 1, p. 55

<sup>6</sup> *ibid.*, p. 55

<sup>7</sup> *ibid.*, p. 55



With regard to the third method, the **UK** and **Sweden** are the states, which show a very strong use of expert committees, meaning a variety of boards that decide about and set the amount of wages for certain positions in the public sector. These decisions are based on the comparison with similar positions in the public and the private sector. In the **UK** for the public sector non-departmental public bodies, and National Health Service, the pay is decided with a board structure or through the relevant Ministry. These boards generally set their own executive pay levels autonomously and only need to get the approval of a Minister when the government holds shares in the company.<sup>8</sup> For the parliament, a committee decides on the amount of the base salary based on statute. Concerning public corporations, the Board remuneration committee of each corporation sets the senior/executive pay levels. The government shareholders (of the respective department) oversee the remuneration boards of these public corporations. Consequently, this method is used in addition to the regulation by the pay system for certain group of the public sector in the UK.

#### **Method 4: Pay for Ethics**

No example, was however found for the fourth method, the pay for ethics, where public officials receive higher and more transparent rewards in exchange for external high rewards or less visible allowances in kind. However, it is known that in **Sweden** certain high-level politicians have reduced their remuneration upon their own decision. In **Sweden** either the committee sets the salaries due to comparisons with similar sectors in the private market or Ministries negotiate the salaries with individuals based on their performance.

#### **Methods (5-7) concerning Performance-Related Pay**

Second, with regard to **performance-related pay** the following evidence was found for the public sectors: Most states do not use performance-related pay for the salaries of high-level officials in the public sector such as it is the case of **The Netherlands, Belgium, Germany, and Poland**. However, several countries such as **Belgium** and **Italy** are currently reviewing the possibility of introducing such a system in combination with an appraisal system. Some states use options for variable bonuses for senior civil servants that are granted for performance and which could therefore be regarded as a light version of performance-related pay, which is the case in Poland for example, where bonuses may vary according to varying ranges of a multiples that are fixed for a specific group in order to increase the competitiveness of salaries with jobs

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<sup>8</sup> House of Commons, Public Administration Select Committee (2009), 'Top Pay in the Public Sector', Sixth Report of 2009-10, Volume 1. p. 35, 63.

in the private sector. The **French** bonus system allows for a variable topping up of bonuses based on performance for certain positions. However, in for certain positions a cap has been introduced to avoid excessive increases. In the **UK**, performance-related pay is applied for high-level executives of non-political governmental bodies such as public corporation and non-political posts as could be seen from the salary grids, particularly that of the Senior Civil Service. This is done in the hope to encourage higher performance in the civil service and to incentivize a good working culture. In particular, this permits some civil servants, public sector executives and non-departmental public body workers having a higher salary than the Prime Minister, even though the rewards are tight to the band schemes and used as a variable reward for performance, such as is the case of the senior civil service. Therefore, the methods applied in the case of **France** and the **UK** are a combination of the implementation of contract systems for certain groups of officials (method 5) and a use of less extensive contract systems that offer rewards in the form of a given guaranteed base salary that may be topped up by performance based bonuses rather than fixed and permanent rewards (method 6), since the rewards are variable in the framework of the pay bands only. No information was found with regard to performance contract are negotiated individually and secretly (method 7). In **Sweden** the whole public service is based on performance-related pay and a mixture of method 5 and 7 is prominent.

## 5.2 Semi-Public Sector

The semi-public sector is differently defined in the eight European countries. Whereas, most countries refer to public corporations in which states hold a (majority) stake of shares by using this term; in other countries the semi-public sector includes other bodies and sectors and is far more encompassing, such as in **the Netherlands**. In countries such as **Germany** and the **UK** even public enterprises with a minor hold of stakes is termed a public company, and will be understood as to belong to the public sector, since the term semi-public sector is not used. Therefore, when this study applies the term semi-public sector it includes these different varieties respectively according to the use of what is determined as semi-public companies or non-governmental bodies in the countries in the following comparison. This is done for the sake of comparison, because all states hold stakes in such types companies or have non-political or non-governmental bodies that operate in the service of the state to varying degrees, which are just termed differently. With regard to the seven methods presented for regulation executive pay, the following comparative assessment may be derived.

### **Method 1: Formal or Informal Reference Points**

First, with regard to methods that might lead to higher or capped levels of remuneration for executive pay, especially the first method, namely linking of remuneration to formal or informal reference points is used in the form of a cap in 4 countries' semi-public sectors or public enterprises and non-governmental bodies. This is the case in **the Netherland and Italy**, which link the standard to a certain reference wage level such as a Ministers salary, or the Presidency of the Court of Cassation. Also **Poland** sets a pay cap, which is however constituted by base salary with a multiplier system that does not allow to excess payment of six times the average monthly salary in the enterprise sector. Equally, the cap is determined in **France** where a the cap salary constitutes 20 times the averages of the lowest salaries paid in the Public Enterprises. However, it is important to stress that as was outlined above, these regulations often include exemptions by, for example, not including all executives or managers, or only companies which operate on the stock market or where the state has a majority share, which minimizes the effect of the cap in the sense that only a minority of the semi-public sector fall under such a law. In **Poland**, even a management contract system is applied, which does not fall under the cap regulation and which allow for more wage flexibility.

### **Method 2: Maximizing Increases to correct for Inflation**

As a consequence, the second method, namely the adjustment of wages according to inflation rates is left open to those salaries that are not fixed and decided upon by these public companies and non-governmental agencies themselves, if they hold the autonomy to do so, for example, by a board and where no minister is responsible. Generally, however the salaries of top executive in the semi-public sector seem to be linked to the comparison of the own performance/ budget and the working of the sector. Apart from **Poland** where changes in economy or the labour market will only be reflected if the there is a change in the average monthly remuneration or the change of pay freeze, which can only happen through an Act.

### **Method 3: Use of Expert-Committees**

The **use of committees** seems to be high across the member states of the European countries, especially in countries **where there is no cap** policy applied. These can either be independent committees such as in Sweden and partially the **UK** or boards that are responsible to a minister (UK and Belgium). Salary are then determined based on horizontal comparison within the company but also vertical comparison across the public and the private sector (such as in Germany, however, not by a board). In **Belgium**, it was realized that the board of these semi-public sectors seem to orientate themselves sometimes even towards the pay system of the public sector when setting the wages. Currently, **Poland** is reviewing the possibility of implementing committees, where the cap policy is not implemented in order to increase the wage flexibility and competitiveness, which was limited by the cap law. Interestingly, the boards may be found **equally in countries that use strong performance-related pay** for top executives of the semi-public sector and public corporations (Sweden UK) **or none** (Belgium, Germany, would be Poland). However, no indications were found for the fourth method of **pay for ethics**, which leaves conclusion about the use of this approach open.

### **Methods (5-7) concerning Performance-Related Pay**

Second, with regard to **performance-related pay** it may be derived that the use of performance-related pay for the semi-public sectors, public enterprises and non-governmental bodies that provide public services is more extensive than in the public sector. It is especially used for bonuses (UK, FR, SW, PL).

There might be the implementation of contract systems for certain groups (method 5) of top officials, or a less extensive contract systems (method 6) that offer rewards in the form of a given guaranteed base salary that may be topped up by performance based bonuses rather than fixed and permanent rewards. The rewards are then consequently linked to the pay bands, but are still variable. This is the case of the **UK** as it was outlined already that a combination of methods 5 and method 6 is used for certain positions. Even though **Poland** does not officially use performance related pay, a similar adapted system seems to apply for the bonuses that are variable according to a range of multipliers for certain groups, which may be provided based on performance to increase the wage flexibility. However, the annual bonus for executives, which fall under the application of the act, is limited to three times the average monthly remuneration. In addition, in most states for all public companies that fully operate privately the use of method 7 might applies, where performance contracts are negotiated with individuals and not given to a group and are therefore negotiated secretly and individually (UK, PL) in

order to create incentives for good performance and working in such corporations. Information about this method is however difficult to trace.

### 5.3 General Overview

The following table presents a comparative overview of the various methods applied in the public sector within the eight countries that have been studied extensively:

Table 4: Methods to control Executive Pay within Sample (Public Sector)								
Country Method	NL	B	F	G	I	PL	SW	UK
<b>1) Formal and informal reference points</b>								
<i>Linking to average wages in society</i>	-	-	-	-	-	-	-	-
<i>Pegging to a standard wage level of a particular functions Pay Cap</i>	•	-	•*1	-	•	•*2	-	-
Reference points of civil servant pay scales (with a %-wise deviation or a multiple)		•	•	•	•	•	-	•
Set of loosely coupled reference points (for the bonuses)			•*1					•*1
<b>2) Adjustment to rates of inflation</b>		•		•		-	•	•
<b>3) Use of expert committees</b>	-	-	-	-	•	-	•	•
<b>4) Pay for Ethics</b>	-	-	-	-	-	-	-	-
<i>Performance-related pay</i>								
<b>5) Contract systems for a group of officials</b>	-	-		-	•	-	•	•
<b>6) Less extensive contract systems with a given base salary that can be topped up by performance-based bonuses</b>	-	-	•	-	•	-	•	•
<b>7) Individually (and secretly) negotiated contracts</b>	-	-		-	•	-	•	•
<i>Others</i>								
<b>Performance system without pay-relation</b>		•	•		•	•	-	-

\*1 Only for the bonuses of a few selected positions

\*2 The standard is an average base salary not of a particular function

As a consequence, it may be concluded for the public sector that the majority of countries regulate top officials' executive pay **by a formal or informal reference point** that can take various forms. The most used ones are the introduction of a **cap that is fixed to standard wage level of a particular function** (The Netherlands, Italy, France), or the use of a **base salary that applies a multiplier and variable parts or percentage-wise deviation** (Belgium, France, Germany, UK, Poland) for example, for extra rewards. The wage standards with regard to **bonuses seems to be loosely coupled** to reference points by the determining values that can be chosen from a certain pay scale or band, or a range of multipliers. It must be stressed however, that loosely coupled reference points render the system more complex and in some ways less transparent (Belgium and France, UK). Three countries also use additional decrees to set the amount of remuneration for certain senior civil service posts (Belgium, France, UK). In addition, salaries are often **linked to rates of inflation** to maintain and balance the purchasing powers, this can also happen in combination with the use of a formal or informal reference point such as a cap or a base salary system. Moreover, countries with a high number of public non-governmental bodies such as agencies in some countries seem to prefer **independent committees** for determining the wages based on a comparison of similar public and private sectors (Sweden and the UK). **Pay for ethics** seems to be a less prominent method applied.

Furthermore, concerning **performance-related pay** it may be derived from these findings that the lack of an extensive use of performance-related pay or high variable bonuses further diminishes the need for additional regulatory measures such as a pay cap. This is the case, because cap policies have been introduced in countries where performance-related pay is strongly used or the remuneration and bonuses of bonuses is not regulated by a pay scale or a committee. This may explain why no cap for the remuneration of high-level officials in the public sector is used in **Belgium, Germany, and Poland**. The remuneration of senior civil service has been fixed and determined by the scales of the pay system already. Equally, it seems to be important to have a control mechanism such as a cap or independent control committee, where performance-related pay, bonuses or the autonomy of public non-governmental bodies such as agencies is high such as is the case on **Italy, the Netherlands, Sweden** and the **UK**. Therefore, performance-related pay is not extensively used in the public sector.

In addition to table 4, the following table on the next page presents a comparative overview of the various methods applied in the semi-public sector within the eight sample-countries:

Table 5: Methods to control Executive Pay within Sample (Semi-Public Sector)								
Country Method	NL	B	F	G	I	PL	SW	UK
<b>1) Formal and informal reference points</b>								
<i>Linking to average wages in society</i>	-	-	-	-	-	-	-	-
<i>Pegging to a standard wage level of a particular functions <b>Pay Cap</b></i>	●	-	●* <sub>1</sub>	-	●	●* <sub>1</sub>	-	-
Reference points of civil servant pay scales (with a %-wise deviation or a multiple)		-	-			-	-	
Set of loosely coupled reference points (for the bonuses)	-	-	●* <sub>2</sub>	-	-	-	-	●* <sub>1</sub>
<b>2) Adjustment to rates of inflation</b>		●	●	●		-	●	●
<b>3) Use of expert committees to decide about wages</b>		●	●	●	-	●	●	●
<b>4) Pay for Ethics</b>	-	-	-	-	-	-	-	-
<i>Performance- related pay</i>								
<b>5) Contract systems for a group of officials</b>	-	-		-	●	-	●	●
<b>6) Less extensive contract systems with a given base salary that can be topped up by performance-based bonuses</b>	-	-	●	-	●	-	●	●
<b>7) Individually (and secretly) negotiated contracts</b>	-	-	●	-	●	-	●	●
<i>Others</i>								
<b>Performance system without pay-relation</b>		●	●			●	-	-

\*1The standard is an average amount not linked to a specific position

\*2 Only for the bonuses of a few selected positions

In sum, it may be concluded that **cap policies** are more extensively applied in the semi-public sector than in the public sector across the eight member states (The Netherlands, Italy, France, and Poland). However, these caps do often leave exemptions to certain positions or companies that do not operate on the stock market, or where the state has minority shares only, for

example. An **adjustment to rates of inflation** seems to be implied by the fact that salaries that are not fixed by scales, for example, but are agreed in line with the performance of the sector and the private market, apart from Poland. This seems to impact severely on the competitiveness of salaries of the public sector with the private sector. Also the **use of committees** to set executive wages is strong in countries which **do not apply a cap** policy in the semi-public sector, and that use high performance-related pay (Sweden and the UK) or not (Belgium, would be Poland).

In addition, **performance-related pay** is a measure that is widely used to regulate executive pay of high-level officials in the semi-public sector. It is applied to provide incentives for good performance and increasing the attractiveness of the sector. It may also be used in **combination with a cap policy** as is currently investigated by the Italian government and is applied in a different and capped form in Poland for executives that fall under the cap, not based on contract systems but incorporated in the pays system, by the multiplier system. In the semi-public sector, **all three types of performance-related pay** may be found in contrast to the public sector.

It may be applied by contract systems to only a certain group, by less extensive contract systems that offer rewards in the form of a given guaranteed base salary that may be topped up by performance-based bonus that are linked to a certain scale, or be less transparent and higher if negotiated individually and in secret. This way it keeps up the wage and labour mobility that are considered crucial for the semi-public sectors' competitiveness with the private sector. This may explain why its use is more extensive in the semi-public sector than in the public sector. In addition, it must be stressed that the linking of a cap policy to the adjustments of rates of inflation seems to be vital to be able to respond to changes in the market in order to keep the attractiveness of working in the semi-public sector and the competitiveness with the private sector. In Poland, where there is no such flexibility, the cap has led to severe problems of increasing wage and mobility flexibility, that leaves to a loss of potential candidates to work in the semi-public sector.





## 6. Conclusions

The research is based on a number of research questions provided by the Dutch Ministry of the Interior and Kingdom Relations that are answered in this report. The main findings of the study will be presented by following three main research questions:

### 1. **What regulations of executive pay in the public and semi-public sector are in place in the EU 28?**

With regard to research question 1 (chapter 2 of this report), the investigation of the 28 member states of the European Union has shown that many pay systems of the European Union have been subject to reforms within the last decade and have introduced policies and regulatory measures to control executive pay. **Two main policies** have been identified that dominated the reform processes where laws have been introduced to control the remuneration of executive pay: First, the agreement on a **cap policy on the salaries** of public officials in the public and/or the semi-public sector, second, the introduction of **performance-related pay**. Both approaches were introduced either **separately or in combination**.

About one third of countries continued regulating executive pay including rewards for high-level officials by their traditional, more or less straight-forward pay systems and has not introduced additional regulatory measures since 2008. Among the other countries that have introduced regulatory measures three countries did so already in the early 2000s (Denmark, Finland and Poland). The remaining 16 countries implemented or further tightened pay control policies especially after the economic crisis in 2008. There appears to be a relation between the economic and fiscal crisis and the introduction of the new measures in a wide range of countries. Overall, **a binding cap policy** for the public and/or semi-public sector was identified in **10 countries: Croatia, Cyprus, France, Italy, Ireland, The Netherlands, Poland, Portugal, Slovenia and Spain**. In some countries that do not use a binding cap policy, a recommendation of non-binding caps may be found. In addition, **performance-related pay policies** were found in 16 member states across the European Union.

## 2. What are the arguments in the political and public debates to introduce a regulatory policy or not?

Concerning research question 2 (also see chapter 4 of this report) it must be pointed out that two main aspects seem to have played a role in the decisions to regulate the remuneration of civil servants and top executives in the (semi-) public sector. First, the **austerity measures and saving policies** that came about as a response to the economic crisis in 2008 have dominated the public and political debate on top incomes. Excessive rewards or bonus systems were considered not appropriate in times of crisis and have caught public and political attention. In most countries where cap policies have been implemented, this happened after the topic of top income had become a hotly debated political topic. Calls for more transparency on senior civil servants and top executives' rewards in the public and semi-public sector had become louder.

Second, the need to **increase the attractiveness of the public sector as an employer, its wage and labour mobility** were additional factors that played a role in **increasing the transparency** on top income by new regulatory measures. The aim of this approach is to **keep the competitiveness** for qualified candidates of the public sector up on a comparable level with that of the private sector. To achieve this, a cap may be used to top up the salaries to a certain amount or as a control mechanism to bonuses in a system of performance-related pay that is more prominently used to achieve the above-mentioned aims.

It must be stressed, however, that each country entered the crisis under different economic conditions and with a different starting point regarding the reform of the public sector on the agenda. A more detailed overview of the motives and arguments used for the (non-) incorporation of a cap policy or the use of performance-related pay of the respective countries may therefore be found in chapter 4 and the research' annex.

## 3. What regulatory measures, methods and norms apply in the public and semi-public sector of the respective EU countries?

An in-depth study of the **two main policies** used provided insight into the use of a **cap policy** and the use of **performance-related pay** in chapter 5 of this report. For this purpose, eight countries, namely, the Netherlands, Belgium, France, Germany, Italy, Poland, Sweden and the UK, have been selected to research the two policies identified by the investigation of the EU

28 (also see the in-depth country studies in the annex). For both policies in total seven methods have been introduced which were used as conceptual framework to analyse the instruments applied in the public and the (semi-)public sector for the regulation of executive pay. The discoveries made on the regulation of top income and the methods used among the eight countries with regard to the public and semi-public sector will be outlined in the following section of the main conclusion to be drawn in order to present the most relevant findings.

## 6.1 Main Findings

Based on the above-mentioned findings the following **conclusions** are drawn on the use and implementation of regulatory measures such as a cap policy and the use of performance-related pay across eight EU member states.

### *Public sector:*

- The most salient method applied is the linking of remuneration to formal or informal **reference points** that can have various forms. The most important ones being
  - The use of a **base salary defined by pay scales**. In some countries the base salary is complemented with a **multiplier and variable parts or percentage wise deviation** by a pay system such as in Belgium, France, Germany, Italy, Great Britain, and Poland). In Sweden base salaries are determined by negotiations of the committee only.
  - Some countries use an additionally introduced **cap** for the executive pay that is fixed to standard wage level of a particular function (The Netherlands, Italy).
  
- Three countries (Belgium, France, and United Kingdom) also use additional tools to set the amount of remuneration of high-level political offices, which results in **mixed approach of using** a set of **reference points** that is coupled to the base salaries of the pay scale of the civil service and the application of **decrees**.
  
- **Loosely coupled reference points** set the wage standards for bonuses by determining salaries through multiplication with values that can be chosen from a certain pay scale or band, and/or a range of multipliers. It must be stressed that loosely coupled reference points render the system, however, more complex and less transparent (Belgium, France and United Kingdom).

- Where there is **no cap policy, the use of expert committees** seems to be prominent (Sweden, United Kingdom) to regulate executive pay. Consequently, the alternative to the pay cap as a tool seems to be the use of boards and committees.
- The need for additional regulatory measures such as a pay cap or the use of expert committees decreases, with the absence of an extensive use of performance-related pay or high variable bonuses, i.e. a no-frills system. This may explain why no cap for the remuneration of high-level officials in the public sector is used in Belgium, Germany, and Poland. The remuneration of senior civil service is fixed and determined by the scales of the pay system already.
- Equally, a **control mechanism** such as a cap or independent control committee is important, in countries **where performance-related pay, bonuses or the autonomy** of public non-governmental bodies such as agencies is **high**, which is the case respectively in Italy, the Netherlands, Sweden and the UK.
- With regard to **performance-related pay**, half of the states researched do not use performance-related pay for the salaries of high-level officials in the public sector such as it is the case of The Netherlands, Belgium, Germany, and Poland.
- Several countries such as Belgium and Italy are currently reviewing the possibility of introducing such a system in combination with an appraisal of their performance.
- Regarding the regulation of bonuses in the public sector, France and the UK use a **combination** of the implementation of **contract systems for certain groups of officials** and a use of less extensive contract systems that offer rewards in the form of a given **guaranteed base salary**. This may **be topped up by performance based bonuses** rather than fixed and permanent rewards, in order to keep the rewards flexible and competitive, however, being **still linked** (and capped in France) in the framework of the **pay bands/scales**

### *Semi-public sector*

- **The semi-public sector is differently defined** in the eight researched European countries. Whereas most countries refer to public corporations in which states hold a (majority) stake of

shares by using this term; in other countries the semi-public sector includes other bodies and sectors and is far more encompassing, such as in the Netherlands. In countries such as Germany and the UK even public enterprises with a minor and majority hold of stakes are termed a public company, and will be understood **as belonging to the public sector**, since the term ‘semi-public sector’ is not used.

- With regard to methods that might lead to higher or capped levels of remuneration for executive pay in the semi-public sector and state corporations, especially the linking of rewards to formal or informal **reference points** is used in the form of **a cap applied** in four countries’ semi-public sectors or public enterprises and non-governmental bodies (The Netherlands, France, Italy and Poland).

- In the Netherland and Italy, the **standard** is linked to **a certain reference wage level** such as a Ministers’ salary, or the Presidency of the Court of Cassation. Also, Poland sets a pay cap, which is however constituted by **base salary with a multiplier system** that does not allow to excess payment of six times the average monthly salary in the enterprise sector. Equally, determined is the cap in France, where the cap salary constitutes twenty times the averages of the lowest salaries paid in the public enterprises.

- **Cap policies** are **more extensively** applied in the **semi-public sector** than in the public sector across the member states (France, Poland).

- However, these caps do often leave **exemptions to certain positions or companies** that do not operate on the stock market, or where the state has minority shares only, for example, which minimizes the effect of the cap in the sense that only a minority of the semi-public sector fall under such a law.

- When using **a cap policy** the adjustment of wages according to **inflation rates via an indexation or annual negotiations** is **vital** to keep the system responsive to changes in the economy or on the job market, in order to maintain the wage flexibility and labour mobility to stay competitive with in the sector and towards the private market. A **missing flexibility** to respond to these changes had **severe negative impacts** on the competitiveness and flexibility of the semi-public sector in Poland.

- The **use of committees** to set and decide about executive wages is high across the member states of the European countries, especially in countries **where there is no cap policy** applied. These can either be independent committees such as in Sweden and partially the UK; or boards that are responsible to a minister (United Kingdom and Belgium). Salaries are then determined based on horizontal comparison within the company but also vertical comparison across the public and the private sector (such as in Germany, however, not by a board).
  
- The **boards and committees** are found **equally** in countries that use strong **performance-related pay** for top executives of the semi-public sector and public corporations (France, Sweden and the United Kingdom) **or none** (Belgium, Germany, Poland).
  
- The **use of performance-related pay for the semi-public sector**, public enterprises and non-governmental bodies that provide public services is more extensive than in the public sector.
  - It is especially used for **setting bonuses** (France, Sweden and the United Kingdom). In addition, it is assumed that it is strongly used in **public companies that do not fall under a cap policy**.
  - It is applied to provide incentives for good performance and increasing the attractiveness of the sector. It aims at increasing **wage flexibility** and **labour mobility** to maintain the **competitiveness** within the sector and towards the private market.
    - It may also be used in **combination with a cap policy** as is currently investigated by the Italian government, and is applied in a deviating and capped form in Poland for executives that fall under the cap, not based on contract systems but incorporated in the pays system, by the multiplier system.
    - It may be used **in combination with a committee system** to regulate the bonuses.
    - In the semi-public sector, **all three types of performance-related pay** may be found in contrast to the public sector.

## 6.2 Best Practices

According to the above-mentioned concluding statements a number of best practices can be identified for the application of the two main policies, namely, the cap policy and performance-related pay. It must be stressed that this part of the research has focused on the general investigation and identification regulatory measures across the EU member states. Therefore, the comparative best practices identified so far apply in the first way generally to policies implemented across the European level. The findings of this phase show that the method applied in the Netherlands constitutes one of the mainstream models used for a cap policy for now. A more detailed explanation of the best practices with regard to the investigations made in this report is presented below. The next research phase (phase III) will make a further elaboration of the best practices presented below possible.

The comparative research on the European level about the regulation of top incomes by setting a cap shows that the following conditions are necessary and/ or may be applied:

- **A control mechanism** to limit the executive pay such as a cap or independent control committee is a best practice, in systems **where various forms of performance-related pay, or the autonomy** of public non-governmental bodies or agencies are **high** such as is the case respectively in Italy, the Netherlands, Sweden and the UK.
  
- The most salient method applied is the linking of remuneration to formal or informal **reference points** that can have various forms. The most salient ones being
  - The use of a **base salary** defined by **pay scales** (and that applies a multiplier and variable parts or percentage-wise deviation as in Belgium, France, Germany, Italy, Great Britain, Poland or not), which is found in all countries (apart from Sweden)
  - Some countries use an additionally introduced **cap** that is fixed to standard wage level of a **particular function** (The Netherlands, Italy), or an **average salary calculated** (France and Poland)
  
- When using a **cap policy** the adjustment of wages according to **inflation rates** is a best practice. It is necessary to remain flexible to changes in the job market and the economy, for the purpose of competitiveness within the public sector itself and towards the private sector.
  
- **The alternative tool to the pay cap is the use of boards and committees** that collectively decide about salaries in agreement with the Ministries.
  
- **Performance-related pay** may be used in combination with a cap policy in both sectors in order to



- Provide incentives for good performance and increasing the attractiveness of the sector. It aims at increasing **wage flexibility** and **labour mobility** to maintain the competitiveness within the sector and towards the private market.
- Be especially used for setting **bonuses**
  - It may also be used in **combination with a cap policy**
  - It may be used **in combination with a committee system**
  - In **public companies that do not fall under a cap policy**.

A detailed explanation of these statements and as well as the in-depth analysis of the regulatory measures in the eight countries, which constitute the examples for the best practices presented, may be found throughout the country studies presented in the annex of this report. First best practices for the Netherlands, to be further extended and studied in the next research phase may be derived as follows from the points outlined above:

- Where an **absolute cap policy applied might be too rigid** to attract competent candidates a **capped performance-related pay** systems may be applied for **certain positions** (such as in France) or for **bonuses** (FR, PL) in order to increase wage and labour mobility.
- The **use of a committee** responsible to the ministry might be an additional monitoring tool to control deviations from an absolute cap policy.

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