



European X-Ray Free-Electron Laser Facility GmbH

Holzknappel 4

22869 Schenefeld

Germany

Procedure for performance-based pay of European XFEL Directors

Approved by the Council at its 11th meeting on 13–14 June 2012

Adjusted by the Council at its 32nd meeting on 19–20 November 2020

1. Preamble

There is an ongoing trend to include a performance-related pay component in the employment contracts of new Board members at research institutions that are financed primarily from German federal funds. Performance-related pay is expected to make such posts more attractive to top-quality candidates from research institutions abroad or from the business sector.

2. Scope

All Directors of the European XFEL GmbH are paid a fixed salary and should¹ also receive a performance-based variable pay component. The fixed salary is laid down in the Directors' employment contracts; the variable pay component is based on the target agreements supplementing the contracts, up to the maximum amount laid down in the employment contracts. The target agreements are geared to the structure and objectives of the research facility.

3. Requirements for targets

The term “*target*” refers to a field of activity of the European XFEL organization, for example operation of the facility, strategy development, development of the organization, financial issues, etc. Within the targets, specific sub-targets can be defined that are valid for the individual Directors and for the duration of the target agreement. As the Directors bear joint responsibility for a successful operation and further development of the European XFEL facility, all target agreements generally include the same central strategic performance criteria (“*common targets*”). Within these common targets, there might be specific sub-targets for the individual Director. The common targets are supplemented by individual targets referring to the Director's individual responsibilities. Common and individual targets are usually valued at 50%. The targets shall be brief, clear, and, as far as possible, measurable. The number of common and individual targets should not exceed five each. Also the number of sub-targets per target should not exceed five.

¹ At the end of 2020, four out of five Directors' employment contracts include a performance-based variable pay component.

4. Duration of Target Agreements

The targets are designed in keeping with the duration and provisions of the individual employment contracts:

“The conditions for the one-off payment are set out in target agreements, which are concluded for the first and second half of the five-year appointment period. If a target agreement is concluded for a shorter period, the maximum amount [...] is reduced accordingly. A lump-sum compensation may be agreed for part of the duration of the first target agreement.”

The duration of the target agreements of the Directors should be harmonized insofar as this is possible with contracts that have potentially different starting and ending dates. This would allow for compiling congruent and consistent targets and, at the same time, would bundle the procedures in a single, more efficient process. The duration of the target agreement should generally be two to three calendar years each.

5. Success rate based on the target agreement

The target agreement establishes the performance criteria and their respective weighting and defines specific, measurable targets that are to be achieved by the end of the agreement period; in addition, it identifies starting values that reflect the situation at the beginning of the agreement period.

The actual amount of the performance bonus depends on the level of success achieved by the Director by the end of the agreement period. The success rate is established by assessing the successes achieved compared with the targets agreed beforehand:

- The success rate for quantitative targets is usually defined as the quotient of the results achieved and the set target (possibly compared to the starting values). It can be neither less than 0% nor more than 100%.
- As regards qualitative targets, there are four possible levels of assessment to which specific success rates are assigned:

Assessment levels for qualitative targets	Success rate
Largely achieved	50%
Mostly achieved	75%
Nearly achieved	90%
Fully achieved	100%

The overall success rate is established on the basis of the individual success rates and the weighting of the applicable performance criteria. The arithmetically calculated overall success rate can be adjusted by up to 10 percentage points on the basis of all criteria in order to obtain a more consistent overall assessment if so required. The overall success rate can be neither less than 0% nor more than 100%.

The amount of the performance bonus is the product of the overall success rate and the contractually agreed maximum performance-related one-off payment.

6. Conclusion of the target agreement, procedure for performance assessment

The target agreement is concluded between the respective Director, on the one hand, and the Council Chair, the Council Vice-Chair, the highest-ranking Federal Government representative in the German Council delegation as long as the German Shareholder is also the majority shareholder, and the Chair of the Management Board (except for the assessment and negotiation of his/her own targets) (hereinafter referred to as the “*Negotiation and Assessment Committee – NAC*”), on the other hand.

The NAC determines the level of achievement for all agreed targets at the end of the agreement period and determines the success rate. The NAC shall aim to reach a consensus regarding the level of achievement; however, decisions cannot be taken against the vote of the Federal Government representative if the German Shareholder is also the majority Shareholder of the European XFEL GmbH.

Each Director shall provide a written self-evaluation report on the level of success achieved no later than one month after the end of the agreement period. Based on this report, the level of achievement and the final success

rate shall be determined in a (virtual) meeting with the NAC no later than three months (“*negotiation and assessment phase*”) after the end of the agreement period. The performance bonus is paid by the European XFEL GmbH immediately but no later than one month after completion of the assessment and determination of the success rate.

When appointing a new Director, the target agreement should be negotiated together with the employment contract; the NAC will be involved in these negotiations, as appropriate. In all other cases, the target agreement shall be negotiated between the respective Director and the NAC together with the assessment of his/her previous targets, based on proposals by the Director distributed to the NAC together with his/her self-evaluation report about the previous targets.

The target agreement should cover half of the appointment period. Except for the negotiation and assessment phase, it must refer to a future period. Only in duly justified exceptional cases can a short-term target agreement be concluded with retroactive effect longer than the negotiation and assessment phase; otherwise, a lump-sum compensation will be paid for the past period (cf. employment contracts).

The Head of the European XFEL Human Resources Group shall serve as Secretary of the NAC. In order to ensure a timely completion of the “*Procedure for performance based-pay of European XFEL Directors*”, the Secretary shall be responsible for implementing and monitoring the respective timelines. For this purpose, the Secretary shall compile, maintain, and distributed to the NAC and the respective Director a specific schedule providing information about upcoming tasks as well as corresponding responsibilities and deadlines based on the following template:

Task / Responsibility	Due date
Distribution of 1. Self-evaluation report by the respective Director on his/her previous targets 2. Proposals by Director for his/her future targets	No later than one month after the end of the previous target agreement period
1. Assessment by the NAC of the achieved previous targets 2. Agreement between Director and the NAC on future targets	No later than three months after the end of the previous target agreement period
Payment by the European XFEL GmbH (to be organized by the NAC Secretary) of the accordingly determined performance-based pay component	No later than one month after final assessment of the achieved previous targets