

Juvenile Diabetes Cure Alliance

July 18, 2012

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Are Non-Profit Executives Financially Incentivized to Deliver a Type 1 Cure?

Conclusions:

- Establishing an appropriate compensation structure is critical to solid corporate governance and goal achievement
- None of the senior executives of the four major non-profits derive a significant percentage of their total compensation from financial incentives that are directly tied to the development of a type 1 cure
- Incentivizing executives by linking a significant portion of their total compensation to tangible cure progress would greatly focus efforts toward that outcome

Organizations of Focus:

American Diabetes Association (ADA)

Diabetes Research Institute Foundation (DRIF)

JDRF

Joslin Diabetes Center (Joslin)

Our Mission:

To direct donor contributions to the charitable organizations that most effectively fund research with the goal of delivering a type 1 Practical Cure by 2025.

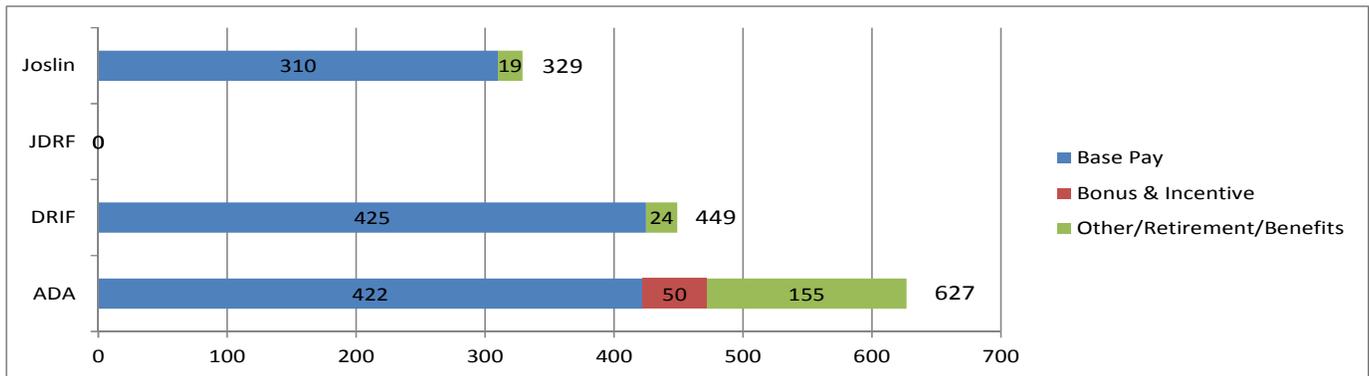
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Executive compensation is a critical element of corporate governance. This report, the fourth in our corporate governance series, examines the degree to which financial incentives are a factor in the development of a cure for type 1. Our analysis is solely intended to examine the compensation structure of non-profit executives.

SEC disclosure guidelines for public companies include a breakdown of an executives’ total compensation by its individual components in addition to commentary that details “all material elements of the company’s executive compensation programs.”¹ The charities disclose compensation information on the IRS Form 990, but their disclosures generally include only the figures for the individual components of total compensation. In contrast to the SEC’s guidelines, none of the four major non-profits provide thorough commentary on the individual components of executives’ total compensation or the processes and benchmarks utilized to arrive at those figures.

An executives’ total compensation typically consists of several components. The two main components are base pay and incentive pay. Base pay represents regular fixed pay for performing everyday responsibilities. It is typically paid monthly and tends to be more stable from year to year than other components of total compensation. Incentive pay includes bonuses and variable compensation that is earned for achieving short-or long-term performance targets. Incentive pay is awarded annually. Because incentive compensation is predicated on the attainment of stated goals, its purpose is to increase focus on an organization’s mission. Additional components of total compensation may include non-taxable benefits, retirement and deferred compensation, and other remuneration.

The graph below breaks down the CEOs’ total compensation according to individual components. For a complete compilation of the CEOs’ and other executives’ total compensation for the latest year it was reported, please see Appendix A on page 5.



Source: Charity and Foundation data: 2011 for the DRIF and JDRF; 2010 for the ADA and Joslin

We believe that CEOs, in addition to other members of the senior management team, should be fairly compensated in their base pay. An issue as complex as a cure for type 1 requires the non-profits to employ highly qualified executives who are capable of delivering tangible cure results. Offering competitive base pay bolsters the non-profits’ ability to attract and retain such talented individuals.

We also believe that **executives should be incentivized to attain goals that are central to the organization’s mission, particularly short- and long-term type 1 cure development goals.** Utilizing financial incentives is an effective motivational tool and focuses efforts on achieving superior operating performance in commercial enterprises. Development of a cure for type 1 is an extremely challenging objective. It is also the primary objective that the nonprofits commit to in virtually all of their fundraising messaging.² Incentivizing non-profit executives to follow through on this commitment would create a greater focus on cure efforts, in our view, and would better align management’s focus with the interests of donors who seek a cure.

Currently, **incentive pay is not a meaningful portion of the total compensation package for the senior executive teams at any of the four non-profits.** Incentive pay either does not exist or represents a small portion of the total compensation for each of the non-profits' most highly paid individuals. The JDCA reviewed compensation payments for the past three years for each of the four organizations. In recent years, JDRF has awarded incentive payments to many highly paid employees. JDRF has not disclosed the criteria that triggered these payments, which generally ranged from 5-10% of base pay and did not exceed 19% of an employee's base salary for any one year during the period 2009-11.³ Incentive payments at the other non-profits were only awarded to a few highly paid employees and represented a maximum of 25% of base salary.⁴

The JDCA conducted interviews with the non-profits' executives and reviewed the organizations' published materials. **We found nothing to indicate or suggest that the non-profits use financial incentives to reward the attainment of both short- and long-term type 1 cure development goals.** CEO's total compensation appears to be oriented toward performance related to fundraising and objectives other than tangible type 1 cure development progress. For example, the DRIF is primarily a fundraising entity for the DRI at the University of Miami. As such, fundraising objectives appear to outweigh cure progress in determining the DRIF CEO's compensation.

The ADA is a much larger organization than the DRIF, and the ADA CEO's total compensation reflects that. The ADA CEO's total compensation in 2011 was \$627,015, which included a \$50,000 bonus (12% of base pay). The ADA CEO was the only CEO to receive a bonus in the past year. However, payment of that bonus did not depend on the attainment of type 1 cure progress. Instead, it was awarded based on other non-specified criteria.

Joslin's CEO received base pay of \$309,694 and no incentive pay in 2010. A new CEO was appointed in March 2011 and compensation figures for the latest year have yet to be published.

The CEO of JDRF received no compensation from the charity in 2011. Because JDRF's CEO received no remuneration from the organization, compensation is not a useful correlative gauge of his incentive to advance type 1 cure development.

Executives who do not receive compensation appear to be motivated by altruism. Altruism alone may not be as effective a motivator in cure development as the lure of meaningful financial reward. In the absence of financial incentives, an individual cannot be incrementally motivated by more altruism. Although altruistic motives and intentions are commendable, gratuitous gestures raise questions regarding accountability. Stakeholders are far less likely to question the actions of an executive who is not being compensated, thereby rendering such individuals less accountable to donors, especially in the absence of cure-related goals.

CEOs and other individuals who could influence the development of a type 1 cure are not financially incentivized to deliver this outcome as expeditiously as possible. We believe that the non-profits should create greater incentives for CEOs and other executives to:

- craft a definition of a type 1 cure
- establish a cure-by date
- create measurable short-and long-term cure development goals and then deliver on these goals

Linking a significant percentage of executives' total compensation to these key performance benchmarks would expedite progress toward a type 1 cure, in our opinion. Importantly, establishing short-and long-term cure development goals would increase the focus of cure efforts and would hold executives to a higher degree of accountability to donors and other stakeholders.

Summary and Conclusion

Executive compensation structure is an important element in good corporate governance. The JDCA believes that fair and competitive compensation packages are necessary to attract and retain highly qualified executives and to deliver a cure for type 1. Under the non-profits' current compensation structure CEOs and other executives on the payroll are disproportionately compensated with a fixed base salary and a very small incentive potential. This structure does not directly link any meaningful compensation with tangible short- and long-term type 1 cure progress.

The implementation of financial incentives can better align the interests of stakeholders with the pursuit of organizational goals. The absence of meaningful financial incentives at the non-profits is totally inconsistent with the compensation philosophy of blue chip companies that are widely recognized for management excellence, including: General Electric, Proctor and Gamble, IBM, and countless others. **Implementing financial incentives that are tied to tangible type 1 cure progress would hold executives accountable to cure-minded donors, sharpen the focus of cure development, and result in the faster delivery of a cure, in our view.**

Appendix A

Executives' Compensation (\$)

Name	Title	Base Pay	Bonus & Incentive	Other ¹	Retirement & Deferred	Non-taxable Benefits	Total	Bonus and Incentive as % Base Salary
ADA 2010								
Larry Hausner	Chief Executive Officer	421,721	50,000	49,208	88,189	17,897	627,015	12%
Deborah Johnson	Chief Financial Officer	196,429		1,670	8,226	6,775	213,100	0%
Richard Kahn ²	Chief Scientific & Medical Officer	0		488,563		1,095	489,658	0%
David Kendall	Chief Scientific & Medical Affairs Officer	355,417		28,504	25,675	17,486	427,082	0%
Greg Elfers	Chief Field Development Officer	290,065		45,491	10,591	10,954	357,101	0%
DRIF 2011								
Robert Pearlman	Chief Executive Officer	424,498				24,482	448,980	0%
Jeffrey Young	Chief Financial Officer	178,932				11,225	190,157	0%
Deborah Chodrow	Chief Operating Officer	240,493				24,353	264,846	0%
Tomas Karlya	Vice President	169,520				9,440	178,960	0%
JDRF 2011								
Jeffrey Brewer	Chief Executive Officer						0	
Edward Sebald	Chief Financial Officer	219,252	21,735		13,767	17,720	272,474	10%
Richard Insel	Chief Scientific Officer	486,450	38,916	50,000	15,227	16,528	607,121	8%
Lawrence Soler	Chief Operating Officer	316,667	45,000		15,227	17,202	394,096	14%
Karin Hehenberger	Senior V.P., Strategic Alliances	302,625	45,000			8,438	356,063	15%
Alan Lewis ³	Former Chief Executive Officer	327,097		352,916		12,355	692,368	0%
Joslin 2010								
Kenneth Quickel	Chief Executive Officer	309,694			19,160	537	329,391	0%
Ross Markello	Chief Financial Officer						0	
C. Ronald Kahn	Vice Chairman/Section Chief	531,584		14,774	19,160	15,768	581,286	0%
George Sharuk	Ophthalmologist	390,896		2,451	13,944	24,936	432,227	0%
Michael Sullivan	Senior V.P, Development	334,661	20,000	713		22,732	378,106	6%
Ranch Kimball ⁴	Former Chief Executive Officer	405,373	100,000	243,721	19,160	1,020	769,274	25%

Source: 2011 Form 990 for the DRIF and JDRF; 2010 Form 990 for the ADA and Joslin, the latest year for which data is available

SEC guidelines require compensation disclosures for the Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers (<http://www.sec.gov/answers/excomp.htm>).

¹ The "Other" category may include payments for severance, housing, supplemental executive retirement plans, and other items

² "Other" compensation for Richard Kahn of the ADA represents payments for severance, a supplemental executive retirement plan, and other payments

³ "Other" compensation for Alan Lewis of JDRF includes severance payments and a housing allowance

⁴ "Other" compensation for Ranch Kimball of Joslin includes severance and other payments

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1. Retrieved from (<http://www.sec.gov/answers/execomp.htm>).
2. Please see JDCA report "Donor Messaging," dated August 1, 2011.
3. JDRF Form 990 2009-2011.
4. Foundation and charity data from Form 990.

Analyst Certification

The JDCA analyst responsible for the content of this report certifies that with respect to each organization covered in this report: 1) the views expressed accurately reflect his own personal views about the organizations; and 2) no part of his compensation was, is, or will be, directly or indirectly, related to the specific views expressed in this research report.

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