

Juvenile Diabetes Cure Alliance

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Executive Compensation at the Major Diabetes Non-Profits: A Missed Opportunity in Cure Development

Conclusions:

- Incentive compensation for executive officers within the non-profit industry is becoming more widespread.
- Although the major diabetes non-profits award incentives to executives, there is no evidence that these payments are awarded for progress toward cure development.
- Linking incentives to type 1 cure progress would better align the priorities of non-profit management with the interests of donors and people with type 1, and likely improve the speed to a cure.

Organizations of Focus:

American Diabetes
Association (ADA)

Diabetes Research
Institute Foundation
(DRIF)

JDRF

Joslin Diabetes Center
(Joslin)

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This report examines the role of financial compensation at the major non-profits that solicit contributions for a type 1 cure. The JDCA interviewed compensation consultants and senior-level representatives of two of the major diabetes non-profits. Our research was supplemented with material and data gleaned from the organizations' websites, federal tax records, and academic studies.

Specifically, we examine the non-profits' use of incentive pay, or bonuses, which can effectively motivate executives to achieve key organizational goals. Directly linking pay to tangible cure progress could accelerate the delivery of a cure for type 1 in the near future.

The key finding in this report is that the major diabetes non-profits pay a bonus to top executives apparently for building and improving their organizations rather than advancing cure progress. Incentive compensation has arguably enabled these nonprofits to become more successful at raising money, but it has not been used to drive measureable progress toward a near-term cure for type 1.

Growth of Incentive Compensation in the For-Profit and Non-Profit Sector

Incentive compensation, or bonuses, consists of extra remuneration above the fixed base pay that an employee receives for performing the everyday duties of their job. Incentive compensation is intended to reward superior performance and is typically awarded when performance meets or exceeds pre-determined goals.

In the for-profit world financial incentives align the goals of executives with the goals of the stakeholders. Likewise, the use of incentive packages in the non-profit world has the potential to better align the executives' focus with the priorities of their stakeholders. Executives are the senior officers and key decision-makers who drive performance.

More than 80 percent of the top executives in the private sector participate in incentive compensation plans.¹ Incentive compensation is nowhere near as prevalent in the non-profit sector, though it has gained a foothold. A recent survey of 647 non-profit organizations revealed that twenty-nine percent have formal incentive compensation plans.² Such plans have been on an upswing during the past decade. A similar survey of non-profits in 2003 showed that only about ten percent awarded financial incentives to top executives.

Financial Incentives and Type 1 Cure Development

Currently, each of the major diabetes non-profits pays a bonus or offers incentives to top executives. Though the non-profits don't disclose details of their incentive compensation plans, bonus payments for executives are typically based on general organizational goals. These criteria include operational cost savings, effective staff utilization, increased fundraising and successful public awareness campaigns. There is no evidence that any of the diabetes non-profits tie incentives directly to progress toward development of a cure for type 1. For details of compensation packages of the five most highly compensated individuals at each of the non-profits, see Appendix A on page 5.

The observations below give some idea of the priorities that underlie each organization's use of bonus pay:

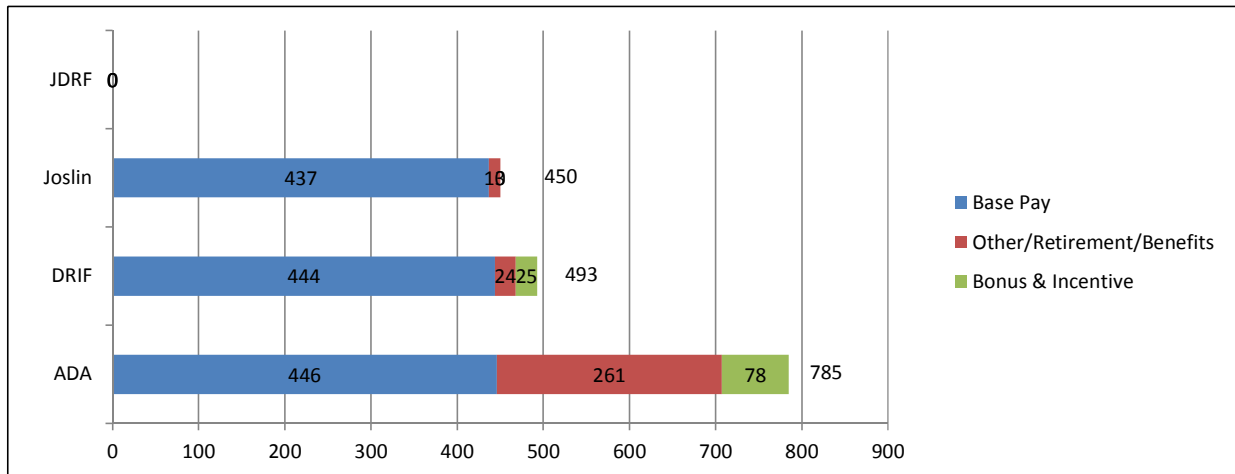
- The DRIF awarded incentive pay to six executives.³ These payments were determined on a discretionary basis by the Executive Committee of the DRIF Board of Directors at the end of the fiscal year.⁴ Successful fundraising is one variable considered by the committee. Successful efforts to strengthen the DRIF, streamline operations and ensure efficient spending are among other factors weighed by the committee. The payments are not automatic and they are not linked to a percentage increase in fundraising.⁵

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- The ADA awarded what it described in tax documents as a performance bonus to its CEO, but it is not clear exactly why the bonus payment was awarded or if it was linked to goals cited in the ADA’s 2012-2015 Strategic Plan.
- JDRF paid bonus/incentive compensation to eight of its top staff members.⁶ “JDRF awards non-fixed payments such as bonuses on a discretionary basis tied to the employees (sic) performance,” its tax records state. However, it should be noted that incentive/bonus payments were awarded to two executives who manage portfolios of research projects, but do not perform research themselves. The payments are tied to undisclosed research goals.⁷
- Joslin awarded its largest bonus payment to its Chief Operating Officer, but the basis for this award was not disclosed.

The individual who can most influence the non-profit’s development of a cure is arguably its CEO. The CEO is the most senior decision maker within the organization and has the ultimate responsibility for deploying resources in support of cure development. Therefore, it is important that these individuals be financially incentivized to deliver a cure as quickly as possible. The graph below breaks down the total compensation of each organization’s CEO in 2012 into its key components.

CEO Compensation in Fiscal Year 2012



Source: 2011 IRS form 990 for ADA; 2012 IRS form 990 for DRIF, JDRF, and Joslin.

Similar to their compensation packages from the prior year, none of the CEOs appear to be meaningfully financially incentivized to deliver a cure. Base pay made up the majority of total compensation for the CEOs of the DRIF and the ADA with bonus/incentives accounting for 6% and 17% of their base salary, respectively. The CEO of Joslin received no bonus/incentive award.

JDRF’s CEO received no compensation from the charity. Altruism is an admirable motivator, but without the ability to financially incentivize executives, the organization lacks an effective tool for achieving its mission. We strongly urge the application of financial incentives to achieve short- and long-term type 1 cure development goals at the organizations that support diabetes research. In our view, linking top executives’ compensation to type 1 cure development would:

- Accelerate cure progress, which is integral to the missions of each of the major diabetes non-profits
- Align research funding with the interests of donors who expect their dollars to speed development of a type 1 cure
- Prioritize cure development above the other activities that compete for funding and tend to be paths of lesser resistance.

Summary and Recommendations

Non-profits have been slow to embrace incentive compensation plans for a variety of reasons including public perception and federal regulations tied to their tax-exempt status. But executive compensation can be an effective tool in motivating progress toward the organization's goals, and this practice is becoming more widespread among non-profits of many types.

The JDCA believes that reasonable and competitive compensation is crucial to the organizations' ability to attract and retain talented management. Additionally, incentive compensation could become a key to accelerating type 1 cure development if payments were linked to identifiable stages of progress.

Although the major non-profits that support type 1 research award incentives to their key executives, there is no indication that these payments are structured to reward progress toward a cure. Awarding bonuses in this manner demonstrates that the non-profits haven't changed their compensation policies since the JDCA's previous report on financial incentives one year ago.⁸

The JDCA would like to see the non-profits implementing strategic changes to their incentive structure in order to speed cure development, particularly for a type 1 Practical Cure. Incentives could be based on establishing foundational steps toward a type 1 cure, including :

- crafting a definition of a cure
- establishing a cure timetable
- accomplishing measurable short- and long-term cure development goals.⁹

Developing a cure for type 1 is central to the mission of each of the non-profits, and the top priority of 8 out of 10 donors.¹⁰ In 2012 the non-profits used a cure message in over 90% of combined solicitations for funding from the public.¹¹ Properly applied, incentive compensation would focus the nonprofits' use of donor contributions on the most promising cure research, and better align spending with donor intentions and the fundraising message.

Appendix A

Name	Title	Base Pay	Bonus & Incentive	Other ¹	Retirement & Deferred	Non-taxable Benefits	Total	Bonus and Incentive as % Base Salary
ADA 2011								
Larry Hausner	Chief Executive Officer	446,024	77,598	22,328	220,626	18,751	785,327	17%
Greg Elfers	Chief Field Development Officer	301,320		50,730	10,591	11,107	373,748	0%
M. Sue Kirkman	SVP Medical Affairs & Communic. Info	228,630		3,320	9,960	11,872	253,782	0%
David Kendall	Chief Scientific & Medical Affairs Off.	208,974		27,000	8,410	8,500	252,884	0%
M. Vaneeda Bennett	Chief Revenue Officer	228,413		5,062	9,808	7,362	250,645	0%
DRIF 2012								
Robert Pearlman	Chief Executive Officer	443,968	25,000			24,127	493,095	6%
Deborah Chodrow	Chief Operating Officer	247,580	10,000			23,672	281,252	4%
Jeffrey Young	Chief Financial Officer	182,361	7,500			11,063	200,924	4%
Thomas Karlya	Vice President	197,463	5,000			9,127	211,590	3%
Bernadette Toomey	Northeast Regional Director	166,960				12,681	179,641	0%
JDRF 2012								
Jeffrey Brewer	Chief Executive Officer	0					0	0%
Richard Insel	EVP Research	486,450	24,323	50,000	17,667	19,271	597,711	5%
Karin Hehenberger	SVP Strategic Alliances	241,991	87,500	64,688	17,677	8,603	420,459	36%
Mania Boyder	EVP Development	288,860	34,320		17,677	19,271	360,128	12%
Darlene Deecher	SVP Research	281,250	41,250		17,677	19,190	359,367	15%
James Szmak	VP & Chief Informational Officer	252,664	36,000		17,677	19,190	325,531	14%
Joslin 2012								
John Brooks, III	Chief Executive Officer	436,849		877		12,436	450,162	0%
C. Ronald Kahn	Section Chief, Obesity	687,341	300	750	6,481	15,057	709,929	0%
Ross Markello	Chief Operating Officer	336,304	100,000	794		19,037	456,135	30%
George King	SVP	297,999	7,500	1,804	23,162	13,557	344,022	3%
Martin Abrahamson	SVP	273,034	7,500	1,803	22,502	24,736	329,575	3%

Source: 2011 Form 990 for the ADA; 2012 Form 990 for the DRIF, JDRF, and Joslin.

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

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Endnotes

1. James E. Rocco, James E. Rocco Associates, Inc., Compensation Consultants. "Making Incentive Compensation Plans Work in Non-Profit Organizations." *Nonprofit World*.
2. Paul Gavejian, Managing Director of Total Compensation Solutions, 2012/2013 Not For Profit Compensation Survey.
3. IRS Form 990 for 2012.
4. Interview with DRIF senior management.
5. Interview with DRIF senior management.
6. IRS Form 990 for 2011.
7. Interview with JDRF leadership.
8. JDCA report "Are Non-Profit Executives Financially Incentivized to Deliver a Type 1 Cure?," July 18, 2012.
9. Ibid.
10. JDCA report, "Do Donors Feel That Practical Cure Research Is Important?," January 31, 2013.
11. JDCA report, "Are Fundraising Event Proceeds Used for the Purpose for Which the Money Was Solicited? ," October 25, 2013.

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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