Analysis of Managerial and Executive Compensation Strategies

Recommendations for Mountain West

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Introduction

Managerial and executive compensation helps organizations attract experienced leaders, retain essential capabilities, and define expected performance. Base salary and benefits make employment competitive, while incentives shape leaders' decisions after they join. Mountain West should build its leadership compensation around market-based salaries, measurable contributions, and safeguards that reward responsible growth (Atchison et al., 2026).

Mountain West is a hypothetical, privately held financial-services C corporation based in Utah with operations in surrounding states. Its expansion into digital banking, alongside continued branch operations, requires effective employee development and financial risk management. This report extends its previous salary, competency, and performance-pay approach to leadership roles by evaluating compensation components, IRS requirements, option valuation, deferred compensation, and real-world packages.

Components of Managerial Compensation

Managerial packages commonly combine salary, annual incentives, health coverage, retirement contributions, paid leave, and development opportunities. At Mountain West, supervisors coordinate daily work, branch managers oversee broader operational results, and functional managers lead specialized areas such as cybersecurity. Pay should reflect each role’s accountability and relevant labor market. Prien et al. (2009) support examining work activities and requirements; matching titles alone could overlook differences in staffing, authority, or complexity.

Competency progression within salary ranges should recognize demonstrated capability, such as developing supervisors or resolving recurring operational problems. Sanchez and Levine (2009) distinguish job analysis from competency modeling, which connects expected behavior to

strategy. Mountain West can use both to define work requirements and evidence for advancement. Consistent evaluation standards would reduce reliance on subjective impressions and help managers understand how to progress.

Annual incentives should reflect responsibilities managers can influence. Supervisors might be assessed on service accuracy and team performance; branch managers on customer outcomes, employee development, and operational results. Cybersecurity managers need measures of detection, response, and remediation, since an absence of reported incidents could reflect poor detection. A limited set of measures keeps expectations understandable, while appropriate staffing and authority make achievement realistic (Atchison et al., 2026). Benefits strengthen recruitment and retention, and reviewing supervisory pay compression helps ensure additional responsibility is appropriately recognized.

For example, a branch manager's scorecard could combine service accuracy, staff development, and results adjusted for credit quality. Strong sales would not automatically compensate for poor customer treatment. Mountain West should communicate these conditions before the year begins so managers can connect everyday decisions to compensation. This approach also preserves the distinction between a salary increase for expanded capability and a bonus for a particular year's results.

Components of Executive Compensation

Executive packages commonly include base salary, annual incentives, long-term awards, retirement benefits, perquisites, and severance. Salary compensates continuing responsibilities; annual incentives reward current results. Mountain West could evaluate profitability, efficiency, credit quality, and digital-banking progress together so that growth does not outweigh deteriorating controls.

Long-term awards address decisions whose consequences emerge over several years. Stock options reward appreciation above an exercise price. Restricted stock commonly supports retention through service-based vesting, while performance awards require specified results before shares are earned (Atchison et al., 2026). Equity exposes executives to changes in shareholder value, but market conditions can reward them without corresponding contributions. Options also emphasize upside gains, making risk controls and meaningful performance conditions necessary for alignment.

For privately held Mountain West, multiyear cash incentives may be more practical initially than equity requiring ownership changes and valuation. Phantom-equity arrangements avoid transferring shares but create future cash obligations. Supplemental retirement benefits can support retention; perquisites need documented business purposes, and severance should balance recruitment needs with accountability. The board should evaluate the total package because individually defensible components can still produce excessive overall compensation.

Executive awards should also have clear vesting and payout limits. Service-based awards can discourage departure, but retention does not establish that an executive created value. Performance-based awards require the board to decide which outcomes justify payment and how much influence executives have over them. Combining stable salary with conditional incentives can reduce dependence on any single measure while preserving meaningful accountability.

Legal Compliance

The IRS administers rules affecting compensation deductions, income reporting, and deferred arrangements. Treasury Regulation §1.162-7 requires deductible compensation to be reasonable and paid for services actually rendered. Comparable compensation must reflect

comparable services, enterprises, and circumstances. A peer executive's salary alone therefore cannot establish reasonableness (26 C.F.R. §1.162-7).

Mountain West should document executive duties, authority, experience, time devoted to the business, and company complexity alongside comparable compensation. Reviewing the full package helps distinguish payment for services from ownership distributions to shareholder-executives. Disallowance of unreasonable compensation increases the company's tax cost, making independent approval and documented business purposes valuable safeguards.

Section 162(m) generally limits deductions above $1 million for covered employees of publicly held corporations. It neither prohibits larger packages nor establishes that smaller amounts are reasonable. Mountain West's assumed private ownership makes this provision relevant primarily to its public-company comparisons (26 U.S.C. §162(m)). Applicable nonqualified deferred arrangements must also satisfy §409A election and payment requirements. Noncompliance can trigger income inclusion, an additional 20% federal tax, and interest consequences for executives (26 U.S.C. §409A). Legal and tax review should precede approval, with written terms identifying payment conditions and obligations.

Valuation Methods

Black–Scholes estimates stock-option value from the underlying share price, exercise price, time horizon, volatility, and risk-free interest rate; dividend-paying shares also require dividend assumptions. An option may have value even when the share and exercise prices are equal because future appreciation remains possible. Holding other inputs constant, a higher share price or volatility generally increases call-option value, while a higher exercise price reduces it (Scholes, 1998).

NIKE's 2026 annual report reports a weighted-average grant-date option value of $24.10, using 33.1% expected volatility, a 6.3-year expected life, a 3.8% risk-free rate, and a 2.2% dividend yield (NIKE, Inc., 2026). These assumptions make the valuation interpretable. Increasing volatility alone would increase estimated option value without demonstrating better executive performance. Grant-date value measures an award's estimated worth, whereas realized gains depend on subsequent prices and exercise decisions.

Black–Scholes offers a consistent framework, but employee options are generally nontransferable and may be exercised early. Expected term therefore matters more than contractual expiration alone. SEC guidance explains that the model may be inappropriate for options with certain market-based exercise conditions, such as a required share-price increase, and cautions that fair-value estimates do not predict future events (U.S. Securities and Exchange Commission [SEC], 2021). Mountain West would need a defensible private-company share valuation and qualified assistance selecting a model suited to its award terms. Unsupported assumptions could distort both reported compensation and comparisons between packages.

Private ownership makes these choices especially consequential. Unlike a publicly traded company, Mountain West lacks a continuously observable share price, so changes in estimated equity value depend partly on valuation judgments. The board should examine sensitivity to key assumptions before deciding how many options to grant. This would make uncertainty visible and prevent an apparently precise value from substituting for careful compensation judgment.

Deferred Compensation Strategies

Accumulated earnings are corporate profits retained rather than distributed; deferred compensation promises future payment for services. Mountain West may retain earnings for digital investment, contingencies, and future obligations, but retained cash does not establish a

compliant deferred plan. The accumulated earnings tax addresses retention beyond reasonable business needs for the purpose of avoiding shareholder income taxes. Documented, reasonably anticipated needs matter; substantial retained earnings alone do not establish improper accumulation (Internal Revenue Service [IRS], n.d.).

Executives may defer salary or bonuses under an appropriately structured arrangement, gaining potential tax-planning benefits while losing immediate access to funds. Supplemental executive retirement benefits can support retention but expose Mountain West to obligations that grow with service and benefit formulas. A deferred multiyear incentive can instead require sustained results, allowing the board to assess whether growth remains valuable. Deferral without performance conditions may retain executives without improving their decisions.

Funding does not necessarily eliminate executive risk. Assets in a rabbi trust remain available to employer creditors, so potential income-tax deferral carries insolvency risk. Employers generally deduct nonqualified deferred compensation when employees recognize the income, subject to applicable requirements (IRS, 2024). Mountain West gains delayed cash outflows but assumes future liabilities, administration costs, and a potentially delayed deduction. Finance should model simultaneous executive payouts and adverse conditions before approval. Clear election deadlines and distribution terms are essential because §409A restricts changes that executives might otherwise expect to make.

Compensation Strategies for Business Leaders

Compensation measures can encourage harmful behavior even when targets are clear. Lending-volume incentives may promote weak underwriting, while cost-reduction rewards may encourage understaffing or inadequate training. Mountain West should assess the quality of results alongside financial achievement. Its compliance threshold should prevent strong

production from offsetting serious misconduct, while distinguishing responsible reporting and correction from control failures. Otherwise, threatened bonus losses could encourage concealment.

Independent risk and compliance review should inform payout decisions, with the board documenting adjustments and treating similar circumstances consistently. Longer assessment periods can reveal lending losses or whether digital investments deliver lasting benefits. They also delay feedback and can become outdated, so plans need a defined process for responding to changing conditions without rewriting targets to excuse weak performance.

Strine and Smith (2020) argue that compensation committees should consider the wider workforce. For Mountain West, employee development, adequate staffing, and effective controls help determine whether leadership results are sustainable. A cost saving achieved by weakening those capabilities deserves different treatment from an improvement that strengthens operations. Ethical design therefore requires evidence about how results were achieved and support for employees who identify problems.

Real-World Examples

Zions Bancorporation offers the primary financial-services comparison, although its size is not an established match. Its 2026 proxy reports Harris H. Simmons' 2025 salary of $1,125,509 and total reported compensation of $5,358,037. His annual cash incentive was $1,326,975 against a $1,688,263 target, or 78.6%; the separate 2023–2025 Value Sharing Plan paid at 55% of target. Common-shareholder earnings increased 21% and efficiency improved, while net charge-offs rose. Measures covering earnings, efficiency, credit performance, and strategic judgment produced differentiated payouts despite earnings growth (Zions Bancorporation, N.A., 2026). This supports the design's accountability, although it cannot

establish that compensation caused performance. Mountain West could adapt its multiple measures and time periods without adopting its pay levels.

Microsoft's 2025 proxy reports Satya Nadella's total compensation of $96,496,790, including $84,245,496 in stock awards and $9,555,000 in non-equity incentives. Stock awards represent reported grant-date value, rather than cash received. Net income increased from $88.136 billion in fiscal 2024 to $101.832 billion in 2025. Multiyear equity, financial and operational measures, ownership requirements, payout limits, and recovery provisions support shareholder alignment (Microsoft Corporation, 2025). Rising earnings are consistent with that design, but do not prove motivation. Mountain West can learn from these safeguards while using more appropriate organizations to benchmark compensation amounts.

Target's Salt Lake City store-director posting advertises annual pay of 106, 000–212,000 and benefits for eligible employees, including health coverage, a 401(k), disability coverage, and paid leave. Responsibilities include financial performance, staffing, customer experience, safety, and compliance (Target Corporation, n.d.). The package illustrates how salary and benefits support recruitment for broad managerial accountability. However, the posting provides neither a complete incentive formula nor performance outcomes. Its effectiveness cannot be confirmed, and retail pay should not determine Mountain West's financial-services ranges. Together, these examples show why advertised ranges, earned incentives, and equity values require separate interpretation.

The most useful comparison is therefore the relationship between responsibilities, award conditions, and observed results. Zions provides evidence of variable payouts within financial services; Microsoft illustrates equity-based incentives and safeguards; Target shows the breadth of a managerial employment offer. Their different disclosures also limit comparison. Mountain

West should use them to evaluate design choices and seek genuinely comparable financial institutions before establishing competitive pay levels.

Recommendations

Mountain West should begin with updated job analysis and comparisons based on organizational size, responsibilities, and complexity. HR and functional leaders should confirm role requirements before the compensation committee approves market comparisons. Salary ranges should remain the foundation, with competency advancement supported by documented evidence and manager calibration. Executive decisions should include a written assessment of the full package's reasonableness.

Annual incentives should use a limited set of measures established before the performance period. Branch managers should be assessed on results they influence, while executives should face company-wide financial, customer, and risk measures. Independent risk and compliance review should precede payment, with documented adjustments for serious failures. Multiyear cash incentives should initially reward sustained outcomes; equity or deferred arrangements should proceed only after valuation, liquidity modeling, and legal and tax review.

A pilot with selected leadership roles would allow HR and finance to assess employee understanding, recruitment, retention, customer outcomes, control failures, and payout costs before expansion. Manager training should explain both advancement evidence and incentive conditions. Annual board review should examine whether rewards follow responsible performance, while longer-term evaluation tests whether strategic gains persist. These steps make competitiveness, compliance, and organizational alignment observable rather than assuming that higher pay or retention alone establishes success.

Conclusion

Thoughtfully structured compensation helps Mountain West attract and retain capable leaders while directing their attention toward responsible performance. Salary and benefits establish a competitive foundation; competency progression and incentives recognize different contributions. Executive awards require additional attention to shareholder alignment, valuation, tax compliance, and future obligations. Mountain West should combine role-specific measures with independent oversight and affordable multiyear commitments. The strongest package is one the company can explain, administer consistently, and sustain as its digital and branch operations develop.

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