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Founding Conditions and Benefit Offerings: Evidence from U.S. Startups

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ABSTRACT

- Purpose: This paper tries to answer the following research question: At the time of founding of a startup, what entrepreneurial conditions would influence the long-term offerings of HR benefits? To answer this question, our study examines the effects of four founding conditions of startups – total assets, founder's education, industry experience and startup experience –on the basis of the resource-based view of firms.
- Design/methodology/approach: Using data from the Kauffman Firm Survey (KFS) conducted in the period 2005-2010, this paper analyzed the relationships between the founding conditions and the offering of HR benefits by 4148 new ventures during the first five years after founding. In addition, this paper examined the relationships of the same founding conditions to the offering of each of seven specific benefits: alternative work schedule, bonus plan, health insurance, paid time off, retirement plan, tuition reimbursement, and stock options.
- Findings: Three conditions at founding – total assets, founders' education level, industry experience – have a positive and enduring influence on the offering of HR benefits to the employees. Startup experience has a significant effect on benefit offerings during the first year after founding but no significant effect on benefit offerings in subsequent years. All founding conditions have significant and long lasting positive effects on each benefit, except for startup experience, which has a negative effect on some benefits.

- Originality/value: The HRM literature indicates that there has been a surprising gap between practical interest and academic research with regard to benefits. In addition, there is a dearth of research on how entrepreneurs make strategic decisions such as offering benefits to their employees. Our study represents an attempt to fill in this gap by examining how the founding conditions of startups influence benefit offerings.

Key words: HR benefits, entrepreneur, startup, founding

Introduction

Employee benefits include various programs voluntarily offered by organizations to their employees and their families to address such concerns as health, retirement, work-life balance, and motivation. Typical benefits include healthcare, retirement plans, paid time off, and bonus programs. Benefits have been widely adopted by organizations in the US and throughout the world. For example, in 2016, 52% of non-military workers in the US were covered by employer-sponsored medical insurance, including 49% of private industry employees and 73% of state and local government employees (U.S. Bureau of Labor Statistics). In September 2016, benefits averaged $10.73 per hour per employee and accounted for 31.4 percent of the total cost of compensation (U.S. Bureau of Labor Statistics).

Benefit offerings are an important factor in attracting and retaining employees and consequently in helping firms remain competitive in the labor market (Dulebohn et al., 2009; Gavino, Wayne, and Erdogan, 2012; Hayton, 2003). Social exchange theory (Blau, 1964) contends that offering employees benefit packages signals the organization's care and support for the employees (Muse and Wadsworth, 2012), which fosters an environment that favors reciprocation by employees of commitment to the organization (Kehoe and Wright, 2013; Tsui, Pearce, Porter, and Tripoli, 1997) and results in greater employee work effort and better workplace performance (DeGeest, et al., 2015; Kim and Wiggins, 2011; Lee and Hong, 2011; Eisenberger, Fasolo, and Davis-LaMastro, 1990; Eisenberger, Huntington, Hutchison, and Sowa, 1986; Rousseau and McLean Parks, 1993). For example, a literature review by Williams and MacDermid (1994) suggested that benefit offerings can produce a variety of positive attitudinal and behavioral outcomes, such as application attraction, satisfaction, organizational commitment, employee performance, and reduced absenteeism and turnover. Recent empirical studies confirmed these suggestions. For example, the results of a study of 1228 Japanese employees indicated that the adoption of family-friendly policies improved employee job attitude and consequently increased employee retention (Yamamoto, 2015). Similarly, Ko and Hur (2014) found that both traditional benefits and family-friendly benefits have a positive effect on job satisfaction and a negative effect on turnover intention of public employees. Motivational benefits can translate into better employee job attitudes, which contribute to improved organizational performance. An empirical longitudinal study conducted by DeGeest, et al. (2015) found that motivational HR practices mediate the resources of startup companies and their survival in the long run. In a meta-analysis of 102 studies representing 56,984 firms from around the world, O'Broyle, et al. (2016) found a significant effect of employee ownership on firm performance ($r = 0.04$). They noted that although the effect is small, even minor influences can lead to huge rises in the financial value of firms; in addition, these effects have become stronger over time (O'Broyle, et al., 2016).

However, despite the critical role benefits play in employee attraction, retention and motivation and ultimately firm performance, not all companies offer benefits to their employees, for a variety of reasons. This is especially true for startups, which are usually not large enough to be subject to legal requirements such as those of the Affordable Care Act (Obamacare). Before the adoption of the Affordable Care Act, the offering of benefits was completely voluntary and strategic for employers. It would be interesting to determine under which conditions startups would offer benefits, especially for entrepreneurs whose resources are particularly limited. In such contexts, it is imperative that those limited resources be allocated wisely, to achieve the best possible outcomes, such as survival and long term growth, whereas employee satisfaction and retention are not usually of high priority in the list of considerations.

Although managers are concerned about the crucial issues of recruiting and retention, reviews of the HRM literature indicate a surprising gap between practical interest and academic research with regard to compensation and benefits as related to these issues (Dulebohn, et al., 2009; Deadrick and Gibson, 2007). In addition, there has been a dearth of research on the conditions under which entrepreneurs decide to offer certain types of benefits to employees. Our study represents an attempt to fill in this gap and answer the following questions: How would the founding conditions of US startups affect the adoption of benefits? How long would the effects of founding conditions on benefit adoptions last? How would these founding conditions affect offerings of specific benefits such as health care, retirement plans, paid time off and bonuses? In the following sections, we propose hypotheses on the basis of the resource-based view and analyze data from the Kauffman Firm Survey. We draw conclusions and offer suggestions on how to help entrepreneurs increase their participation in benefit programs for their employees in the hope of improving employee productivity and firm performance.

Theory and Hypotheses

The resource-based view (RBV) of the firm (Barney 2001; Conner, 1991; Wernerfelt, 1984) has been widely utilized in management research in the past three decades to explain managerial phenomena and provide guidance to managers. According to the RBV, a firm's resources and dynamic capabilities contribute to performance variation of firms. When resources are valuable, unique and inimitable, firms will gain competitive advantages which will subsequently generate strong performances (Amit and Schoemaker, 1993; Barney, 2001; Peteraf, 1993). In addition, firms form their strategies based on resources and instrument these strategies using their resources (Hitt, et al., 2001; Barney, 1991; Schoenecker and Cooper, 1998). Thus, firms need to allocate their valuable and unique resources wisely in the decision-making process. Decisions on compensation and benefits are among the most relevant strategic decisions to remain competitive in the market (Dulebohn et al., 2009) as the literature on human resource management indicates that a productive workforce is a source of competitive advantage and positively influences many organizational outcomes, including firm performance, innovation, and new product development (e.g., DeGeest, et al., 2015; Kim and Wiggins, 2011).

When a startup is founded, the entrepreneur needs to address various critical issues such as obtaining market information, completing product research and development, seeking opportunities, etc., under confining conditions. All of the decisions related to these topics, including whether to offer benefits to the employees and which benefits to offer, are likely to be made on the basis of the initial resources at the time the company is founded. Firm resources include tangible resources such as raw materials, buildings, financial resources, as well as intangible resources such as human capital, intellectual property, brand equity, etc. (Barney, 1991). In this study, we examine both tangible and intangible resources of startups at founding, focusing on total assets as a tangible resource and founders' education, industry experience, and startup experience as intangible resources. The latter three founders' characteristics are considered various dimensions of entrepreneurial human capital.

Entrepreneurs make strategic decisions on whether and how to offer benefit packages to their employees based on the evaluations of internal resources and the external competitive environment. The most challenging concern that comes from the external environment about benefit offerings is the cost associated with benefits. Since benefit costs comprise about one-third of an organization's total labor costs (Hewitt, 2002), benefit decisions can have a substantial effect on a company's operating budget (DeGeest, et al., 2015). What is more concerning for executives in large corporations as well as for entrepreneurs in startups is the drastic increase in health care costs. Health care premiums increased by 2-15% each year between 1995 and 2007 (EBRI, 2008). A report released on December 4, 2017 by the National Conference of State Legislatures revealed the following:

> "The increased cost of health insurance is a central fact in any discussion of health policy and health delivery. **Annual premiums reached $18,764 for 2017**, up 3 percent from 2015 for an average family coverage with workers on average paying $5,714 towards the cost of their coverage. For those Americans who are fully-covered, these cost realities affect employers, both large and small, plus the "pocket-book impact" on ordinary families. Yet for those buying insurance on an exchange or private market plan for 2017, the average increase before subsidies was a shocking 25 percent."
> (http://www.ncsl.org/research/health/health-insurance-premiums.aspx)

Another report, released in March 2016, indicated that although there are both upward and downward pressures for health care insurance premiums in 2017, the upward drivers to increase premiums will most likely dominate for individuals and small organizations (http://www.ncsl.org). Therefore, startups with very limited financial resources would find it more challenging each year to cover the cost of increased health care costs, and health insurance is the most important benefit employees need from their employers.

While the cost of benefits and their projected rate of increase can seem formidable to startups with limited financial resources, it is uncertain whether these benefit investments could be recovered from employee productivity or a return on investment (Liang and Gong, 2017). Furthermore, what adds to the concerns of startup founders are the unique characteristics of human resources. Unlike other resources, employees may leave the company (Shaw, et al., 2013; Coff, 1997). Turnover of employees not only depletes the human capital but also forfeit the potential investment return (Shaw et al., 2013; Coff, 1997). Although investing in human resource practices has become the dominant strategic choice of many firms and can lead to superior firm performance (Jiang, Lepak, Hu, and Baer, 2012), firms are more likely to make decisions based on economic considerations rather than strategic considerations (Kaufman and Miller, 2011). With scarce financial resources, startups must cautiously allocate these resources to necessary business activities that have reliable results, rather than offering employee benefits that are costly and risky.

In contrast, a startup that has sufficient financial assets is more capable of responding to external environmental changes and internal needs (DeGeest, et al., 2015), including the need to provide employee benefits. Despite seemingly forbidding health care costs and costs associated with other types of benefits, those startups with more financial resources would have sufficient excess capacity to absorb the potential loss associated with the human capital depletion and therefore are likely to overcome the financial hurdles to offer these much-needed benefits to their employees, without having to compromise their ability to engage in business operation, explore innovative activities, and establish routines and managerial processes. It also creates buffer in the long term to absorb possible losses associated with poor performance, thus provides adequate and steady support for benefit offerings which could be enduring for a long period of time. Therefore, we propose

Hypothesis 1: A startup's total assets at founding have an enduring positive effect on benefit offerings.

The resource based view of firms suggests that human capital is a critical source of competitive advantage because human capital, as a type of intangible resource, is usually rare and difficult to imitate (c.f., Barney, 1991; Black and Boal, 1994; Itami, 1987; Peteraf, 1993; Rao, 1994). Alvarez and Busenitz (2001) suggest that an entrepreneur's ability to acquire and assimilate market related information and the ability to recognize the value of resources and coordinate these resources can lead to discovery of market opportunities. Therefore, entrepreneurial knowledge, experience and alertness to market information are crucial elements of human capital for startups.

Research has presented evidence that human capital such as education, experience and skills of top managers are particularly important to firm performance and outcomes (Finkelstein and Hambrick, 1996; Huselid, 1995; Pennings et al, 1998; Wright, Smart and McMahon, 1995). Human capital of the founder in a startup is especially critical to the survival and success of the company, as startups at their initial developing stage often do not have the luxury of hiring a professional manager to make critical decisions for the founder. Without the education and professional experience of professional managers or top management teams, founders reply on elements of their own human capital, such as education and experience, in the process of strategic decision making. Education and experience of founders, often unrelated to the startup's main business, have various degrees of influence on the founder's ability and wisdom to understand the value of human resources, which leads to the question of whether or how they should offer benefits to the employees.

First, the strategic decisions of human resource management and benefits involve knowledge of resource investment (DeGeest, et al., 2016) and understanding of external market trends (such as labor market competition) and internal needs (such as employee satisfaction and motivational needs). To make the critical decisions related to these topics, entrepreneurs need to seek out and process large amount of complex information (Zahra and George, 2002). The ability to obtain, process and absorb relevant information is a type of absorptive capacity (Cohen and Levinthal, 1990; Zahra and George, 2002) that can be enhanced by education. Entrepreneurial education is an indication of high-quality human capital, which is often considered a critical resource for the startup (Dencker et al., 2009; Gimeno et al., 1997). Higher levels of education suggest that the founder has specialized in a certain area of knowledge (Hitt, et al., 2001) and is able to continuously learn to gain new knowledge through information gathering and knowledge transfer. In addition, higher levels of education provide individuals an elite social network that could be valuable to the founder in his or her career (e.g., information, resources) (D'Aveni, 1996; D'Aveni and Kesner, 1993). For example, alumni networks often provide members of the network with access to valuable business and industry information and opportunities to socialize with peers or powers that could help them gain market knowledge and management skills. These activities can directly or indirectly lead to better understanding of industry norms on benefit offerings. In summary, we believe that founders with higher levels of education are more likely to seek out information and understand the competitive environment and employee needs, making them more capable of finding solutions and obtaining resources needed to offer benefit packages to their employees. Therefore, we propose

Hypothesis 2: A founder's level of education at founding has an enduring positive effect on benefit offerings.

A second dimension of founders' human capital is their industry experience. Because benefit offerings are not regulated by law, industry competition is the major driving force for offering employee benefits so as to win the talent war. Therefore, depending on the strategic role of talent in the long-term development of the industry and the demand and supply of the human resources needed in the long run, there could be considerable variation in the benefits offered to employees across different industries. For example, companies in industries such as in the high-tech industry, where human capital in the form of employees is critical to the success of product development and competitive advantage, tend to offer alluring compensation and benefit packages to their employees (Baron, Burton, and Hannan, 1996; DeGeest, et al., 2015). Elite high-tech companies including Microsoft, Google and Facebook offer not only traditional benefits, such as health insurance, a 401(k) plan and paid time off, but also non-traditional benefits such as free lunches, onsite daycare, and free gym memberships. Stock options and bonuses are considered industry norms in the area and lack of these benefits to the employees would instantly put the company at a disadvantage on the labor market to compete for talent.

Consequently, the decision of whether to offer benefits to employees or what types of benefits should be offered usually involves benchmarking the industry peer companies. Founders' prior knowledge of the industry can help make the benchmarking process faster and easier through obtaining information on competitor practices. If the founder of a startup has prior experience in the industry, it will save time and effort otherwise required for the company to acquire information and implement benefit programs. In addition, the experience of working in the industry also helps the entrepreneur realize the strategic importance of human resources in the industry, which leads to better judgements and decision making in allocating scarce resources to invest in talent. Further, it usually takes several years for entrepreneurs to build up experience in an industry and change strategies according to the environment, so the newly learned experience could have a lagged effect on the decisions made by the founders, thus makes the experience already present at founding even more valuable, as it could have an enduring effect for at least a few years before the founder could adjust their decisions on the basis of the newly learned experience. Therefore, we propose

Hypothesis 3: Founders' industry experience at founding has an enduring positive effect on benefit offerings.

A third dimension of founders' human capital is their startup experience. Westhead and Wright (1998) suggested that there is a distinction between novice (one-time) entrepreneurs and habitual entrepreneurs, or those entrepreneurs who have multiple new venture experiences, and this distinction in experience could make a difference in the outcomes of the new companies. Habitual entrepreneurs may have accrued entrepreneurial knowledge and cognitive abilities from prior experience of starting new companies and engaging in repeated entrepreneurial activities, which may help them quickly identify and explore market opportunities with the potential of sustainable competitive advantage (Barney et al., 2001). Experience gained through entrepreneurial activities helps entrepreneurs develop strong cognitive frameworks and form sophisticated judgments (Baron and Ensley, 2006; Gruber et al.,2008), which in turn aids them in making better strategic decisions, including whether and how to offer benefits to employees. Further, by reflecting on past mistakes such as lack of investment in human capital, habitual entrepreneurs can revise their beliefs regarding the strategic role that human resources can play in the long-term development and survival of the startup and wisely allocate resources to achieve their long-term goals (Parker, 2006).

Novice entrepreneurs, on the other hand, may encounter problems that are unique in the context of starting a new company, such as finding relevant information, securing critical resources, coordinating staff activities, and managing employee behaviors. Without prior knowledge of solutions to these problems, novice entrepreneurs often make mistakes that could be costly. The decision of whether to offer benefit packages to the employees or which benefits are to be offered is oftentimes one of these unique decisions that must be made in the context of a new startup and that only the founder can make. Without prior experience in startups, founders may fail to recognize the value of human resources and allow considerations of financial limitations or other constraints dominate the decision-making process. Habitual entrepreneurs, however, are more likely to have learned lessons from prior startup experience and recognize the potential reward of attracting and retaining the best talent available. As is the case for the industry experience, startup experience could endure for several years before founders can make adjustments based on newly learned experience. Therefore, we propose

Hypothesis 4: A founder's startup experience has an enduring positive effect on benefit offerings.

METHODS

Data and Sample

In this study, we test the hypotheses with a sample of 4148 firms in the longitudinal panel database from the Kauffman Firm Survey (KFS) conducted over the period of 2005 – 2010. The KFS is a longitudinal data set on new ventures randomly chosen from Dun and Bradstreet's database of all new businesses started in 2004 in the United States, excluding nonprofit firms, wholly owned subsidiaries of existing businesses, and firms inherited from someone else. In this longitudinal survey, sampling weights were used on the basis of all the new businesses in the United States. Among the eligible businesses, 4,928 completed the baseline survey, resulting in a 43% response rate with sampling weights. Of these firms, 3,998 completed the first follow-up survey, resulting in an 89% response rate after adjusting for the sample weights. In the second follow-up survey, 3,390 firms completed the interviews, resulting in an 85% weighted response rate. In the third follow-up survey, 2,915 firms completed the interviews, resulting in an 83% weighted response rate. In the fourth follow-up survey, 2606 firms completed the interviews, resulting in an 83% weighted response rate. In the fifth follow-up survey, 2408 firms completed the interviews, resulting in an 85% weighted response rate (Farhat and Robb, 2014). As indicated in Table 2, the final sample consists of 4148 new ventures. A small number of firms were excluded because of duplications, being founded before 2004, or lack of responses to the HR benefits section of the questionnaire in any year.

Measures

All variables were from the confidential KFS dataset provided by the National Opinion Research Center (NORC), which includes more details on entrepreneur characteristics, new firm performance and the external business environment than the publicly available dataset.

Dependent variables

HR benefits. To examine the various effects of founding conditions on the offering of HR benefits, we constructed a composite sum of seven indicators of HR benefits: (1) alternative work schedules such as flex time or job sharing; (2) bonus plan; (3) health insurance plan; (4) paid time off, including paid sick days and paid vacation; (5) retirement plan such as profit sharing or pension; (6) stock options; and (7) tuition reimbursement. The respondent was asked in the KFS whether each of these seven HR benefits was used in their business (yes = 1, no = 0). To examine the variant effects of founding conditions on different benefits, we also analyzed the effects of independent variables on each of these indicators of HR benefits.

Independent variables

Total assets. Respondents were asked to estimate the value of each owned asset in the founding year, consisting of cash, accounts receivable, product inventory, equipment, land, buildings, vehicles and any other assets. The value of total assets is the composite sum of all assets, represented by the following ranges: (1) \$500 or less; (2) \$501 to \$1,000; (3) \$1,001 to \$3,000; (4) \$3,001 to \$5,000; (5) \$5,001 to \$10,000; (6) \$10,001 to \$25,000; (7) \$25,001 to \$100,000; (8) \$100,001 to \$1,000,000; and (9) \$1,000,001 or more.

Education. This variable is the average level of education of the founding team members, measured by the following indicators (Cassar, 2014): 0) less than high school; 1) high school; 2) some college, technical or associate's degree; 3) bachelor's degree; and 4) post-bachelor's degree.

Industry experience. This variable describes the number of years of working experience respondents had in the industry in which their startup operates, measured as the natural log transformation of industry experience plus one.

Startup experience. This variable represents the number of other new businesses respondents started in addition to their current business, measured as the natural log transformation of the number of other new businesses started plus one.

Control variables

We controlled for the effects of the following industry-level, firm-level and team-level variables, which are consistent with the previous literature.

Industry concentration. Without controlling for the subsequent industry concentration, misleading conclusions might be drawn about the role of founding conditions in HR benefit offerings. In the KFS, each firm was matched to the County Business Patterns data based on the county in which it is located and the three-digit North American Industry Classification System (NAICS) code. Industry concentration is measured by two indicators: (1) total mid-March number of employees of all the establishments/firms in the industry in the county in which the startup is located; and (2) total number of establishments/firms in the industry in that county.

Industry fixed effects. All the firms in our sample are classified into 84 industries using the three-digit NAICS code, each of which is assigned a dummy variable in our models. These 84 dummy variables were used to control for systematic differences across industries.

Provide service. The dummy variable indicates whether the new firm provides a service (yes = 1, no = 0).

*Intellectual properties***.** This variable refers to the number of patents, copyrights, and trademarks the new firm possessed in the founding year.

Number of current employees. This variable describes the total number of full-time employees and owner operators in the current year.

Ownership. This variable describes the total percentage of the business owned by all the owners/operators at founding.

Age. This variable describes the average age of the founding team members, measured as the natural log transformation of the average age plus one.

RESULTS

We used linear regression analyses to test the hypotheses. Table 1 presents the means and standard deviations of dependent and independent variables and their correlations. Table 2 presents the determinants of HR benefit offerings in the five years after founding. The model of each year in Table 2 includes all the control variables and independent variables. In each year, positive associations are found between total assets and HR benefits, between education and HR benefits, and between industry experience and HR benefits. In the first year, a positive association is found between startup experience and HR benefits.

***Insert Table 1-2 Here ***

In order to better understand the effects of founding conditions on specific HR benefit offerings, we also used logistic regressions to test for these effects on each of the seven benefits in the five years after founding. Table 3 presents the determinants of alternative work schedules. In each year, positive associations are found between total assets and the offering of alternative work schedules and between education and the offering of alternative work schedules. In the first four years, a positive association is found between industry experience and the offering of alternative work schedules; this association is marginally significant in the fifth year. In the second and fourth year, a marginally significant positive association is found between startup experience and the offering of alternative work schedules.

Table 4 presents the determinants of a bonus plan. In each year, position associations are found between total assets and the offering of a bonus plan and between education and the offering of a bonus plan. In the first four years, a positive association is found between industry experience and the offering of a bonus plan. In the first three years, a positive association is found between startup experience and the offering of a bonus plan.

Table 5 presents the determinants of health insurance. In each year, a positive association is found between total assets and the offering of health insurance and between industry experience and the offering of health insurance. In the first, second, and fourth year, a positive association is found between education and the offering of health insurance; this association is marginally significant in the third year. In the fifth year, a negative association is found between startup experience and the offering of health insurance.

Table 6 presents the determinants of paid time off. In each year, a positive association is found between total assets and the offering of paid time off. In the first, second, third and fifth year, a positive association is found between education and the offering of paid time off. In the first, second, third and fourth year, a positive association is found between industry experience and the offering of paid time off; this association is marginally significant in the fifth year.

Table 7 presents the determinants of a retirement plan. In each year, a positive association is found between total assets and the offering of a retirement plan, between education and the offering of a retirement plan, and between industry experience and the offering of a retirement plan. In the second, third, fourth and fifth year, a negative association is found between startup experience and the offering of a retirement plan; this association is marginally significant in the first year.

Table 8 presents the determinants of stock options. In each year, a positive association is found between education and the offering of stock options. In the first, second and third year, a positive association is found between total assets and the offering of stock options. In the fifth year, a positive association is found between industry experience and the offering of stock options. In the first year, a positive association is found between startup experience and the offering of stock options.

Table 9 presents the determinants of tuition reimbursement. In each year, a positive association is found between total assets and the offering of tuition reimbursement. In the first, second and fourth year, a positive association is found between education and the offering of tuition reimbursement. In the first four years, a positive association is found between industry experience and the offering of tuition reimbursement; this association becomes marginally significant in the fifth year.

***Insert Table 3 – 9 Here ***

DISCUSSIONS

In a highly competitive business environment, business founders need to recognize the importance of human resources as a source of sustainable competitive advantage and implement attractive compensation and benefit packages to recruit and retain quality employees. Evidence has shown that these companies are more likely than others to gain employee trust and commitment, achieve better employee and organizational performance in the market, and ultimately obtain sustainable competitive advantage (e.g., Jiang et al., 2012). Some entrepreneurs are better able to understand the value of talent and to make strategic decisions that allow them to compete successfully for the best talent on the labor market, thus creating competitive advantage leading to better performance. Why are the founders of some startups more likely than others to provide HR benefits to their employees? Filling in the gap between research and practice regarding benefit studies and founded on the resource-based view, our study contribute to the extant literature by examining the role of founding conditions of startups in terms of tangible resources such as total assets as well as intangible resources such as founder's intellectual capital including education, industry experience and startup experience, and exploring how these conditions may affect decisions regarding offering of employee benefits. The results of our study indicate that all four hypotheses are supported in each of the five years after founding, except for founder's startup experience, which has a significant effect on benefit offerings during the first year after founding but no significant effect on benefit offerings in subsequent years. This suggests that all four conditions at founding – total assets, founders' education level, industry experience and startup experience – have a positive influence on the offering of HR benefits to the employees. In addition, all but startup experience have an enduring effect on benefit offerings, while the effect of startup experience is relatively short-lived, being significant only in the first year.

Our study makes a practical contribution by providing guidance to policy makers on helping startups survive and perform through making one of the most important strategic decisions. Limited by financial resources or founder's education and experience, not all startup founders have the foresight and desire to invest in talent and offer employee benefits to attract and retain quality employees. As Kaufman and Miller (2011) pointed out, human resources are seriously under-invested in the US. To assist startups to achieve the best possible long-term success, government agencies such as regional small business development centers may provide training and counseling to entrepreneurs to help them recognize the strategic value of talents, analyze the cost and potential rewards, and find benefit solutions on the market. For novice entrepreneurs and those with little education and industry as well as startup experience, it is especially critical that they be helped to benchmark the industry norm and overcome the difficulties associated with confining conditions and limited resources. Assistance with finding funding to alleviate the enormous cost pressures would be extremely helpful in enabling them to offer benefits to their employees.

The effects of founding conditions on each specific benefit are also interesting. All founding conditions have significant and long lasting positive effects on each benefit, except for startup experience, which has a negative effect on some benefits. This may indicate that those entrepreneurs with startup experience may realize that not all benefits have a positive effect on startup performance and thus be more selective in offering benefits to their employees.

In summary, founding conditions have various effects on different benefits. It seems that the startup experience has the least important influence on the benefit offerings, while the others have long lasting effects. Future research is needed to explore how these conditions indirectly affect firm performance through the offering of benefit programs. In addition, further studies could investigate the mediators and moderators in the relationship between startup founding conditions and benefit offerings, so that researchers as well as practitioners can have a more comprehensive understanding on how benefits are offered by entrepreneurs.

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