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A STUDY ON COMPARING COMPENSATION STRATEGIES FOR STARTUPS VS ESTABLISHED COMPANY

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Abstract: This study compares compensation strategies between startups and established companies, focusing on how each type structures pay, benefits, and incentives to attract and retain talent. While established companies offer structured salary bands, retirement benefits, and stability, startups often rely on flexible work environments, equity options, and performance-linked incentives to compete despite limited financial resources. A survey of 103 respondents revealed that startups prioritize growth potential and non-monetary perks, whereas established firms emphasize security and standardization. Key influencing factors include market demand, financial resources, and industry trends. Findings show that startups appeal more to younger, risk-tolerant individuals, while established companies attract those seeking long-term security. Despite their contrasting approaches, both types face challenges in compensation management. The study highlights the importance of tailoring compensation to organizational context and offers recommendations for improving strategies in both startup and corporate environments.

Keywords: Compensation Strategies, Startups, Established Companies

I.INTRODUCTION

Compensation strategies are one of the most vital components of organizational success, as they play a crucial role in attracting, retaining, and motivating employees. However, the structure, approach, and priorities in designing compensation strategies differ significantly between startups and established companies, primarily due to differences in their financial stability, business maturity, and organizational culture. Startups, often characterized by their innovative spirit and resource limitations, face unique challenges in crafting competitive compensation packages. They frequently rely on creative solutions such as stock options, profit-sharing, flexible work arrangements, and personalized growth opportunities to attract talent willing to take risks and share in the company's long-term vision. In contrast, established companies, with their larger financial resources and well-defined organizational processes, typically focus on structured and standardized compensation plans. These often include higher base salaries, comprehensive benefits, bonuses, and retirement packages designed to provide financial security and stability to employees. Moreover, established firms tend to emphasize competitive pay benchmarking, market alignment, and longevity in their compensation strategies to maintain a steady and experienced workforce.

Ultimately, the study highlights the importance of tailoring compensation strategies to not only attract and retain talent but also to foster organizational growth and sustainability in today's competitive business landscape.

II.STATEMENT OF THE PROBLEM

In today's rapidly evolving business landscape, both startups and established companies must adopt effective compensation strategies to attract and retain top talent. While established companies often have established compensation frameworks, extensive benefits, and organizational stability, startups tend to offer more flexible and innovative compensation packages to offset the lack of financial resources, such as equity options or unconventional perks. However, the differences in compensation strategies between startups and established companies, and their respective impacts on employee satisfaction, retention, and organizational growth, remain underexplored.

III.OBJECTIVES

1. To analyze the key components of compensation strategies in startups and established companies.
2. To compare the factors influencing compensation strategies in startups and established companies.

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IV.RESEARCH METHODOLOGY

RESEARCH AREA
The research is conducted in Coimbatore.

RESEARCH PERIOD
The research is conducted over a period of 4 months from December 2024 to March 2025.

NUMBER OF SAMPLES
Sample size taken for the study is 100

RESEARCH TOOLS
For this study

I. Simple Percentage analysis

$$\text{PERCENTAGE} = \frac{\text{Number of respondents}}{\text{Total respondents}} \times 100$$

II. Chi-Square analysis

$$x^2 = \frac{(O-E)^2}{E}$$

V.REVIEW OF LITERATURE

1. **Kornish & Ulrich (2021)** explored the role of stock options and equity-based compensation in attracting talent to startups. The study noted that startups often offer these incentives to align employee interests with long-term company growth, despite offering lower initial salaries. The research highlighted how equity-based compensation helps startups manage resource constraints while still attracting high-potential employees.
2. **Brown & Waring (2023)** examined how startups utilize non-financial rewards, such as flexible work arrangements, autonomy, and entrepreneurial opportunities, to compensate for lower salaries. Their findings suggest that the cultural and developmental aspects of startups, including rapid career growth and personal involvement in product development, form integral parts of the compensation strategy.
3. **Sutherland (2024)** discussed the challenge of attracting employees to startups in highly competitive industries (like technology) when financial compensation may be less competitive than that offered by established firms. The study emphasized how startups often leverage a compelling vision, creative work culture, and personal growth opportunities as part of their compensation strategy.

VI.DATA ANALYSIS, INTERPRETATION & INFERENCE

TABLE 1 FACTORS INFLUENCING SALARY STRUCTURES IN STARTUPS

Options	Number of Respondents	Percentage
Market demand for talent	35	33.98058
Company revenue	25	24.27184
Investor funding	28	27.18447
Competitor salaries	15	14.56311
Total Respondents	103	100.0

INTERPRETATION
The analysis reveals that 34 percent of respondents believe market demand for talent is the primary factor influencing salary structures in startups. Investor funding follows at 27.2 percent, suggesting that available capital also plays a crucial role. Company revenue influences salaries according to 24.3 percent of respondents, while only 14.6 percent consider competitor salaries as a major factor. These findings indicate that internal business performance and external talent market trends are more significant drivers of pay decisions than peer benchmarks.

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TABLE 2 METHODS USED BY ESTABLISHED COMPANIES TO DETERMINE COMPENSATION

Options	Number of Respondents	Percentage
Based on financial stability and industry benchmarks	48	46.60
By matching startup salary trends	20	19.42
Using random market trends	10	9.71
Following government regulations only	25	24.27
Total Respondents	103	100.0

INTERPRETATION

The analysis shows that 46.6 percent of respondents believe established companies determine employee compensation based on financial stability and industry benchmarks. About 24.3 percent think it is done by following government regulations, while 19.4 percent say companies match startup salary trends. Only 9.7 percent feel compensation is set using random market trends. These insights highlight that structured and data-backed approaches dominate compensation decisions in established organizations.

TABLE 3 MOST COMMON FORM OF COMPENSATION IN STARTUPS VS. ESTABLISHED COMPANIES

Common Compensation Form in Startups	Number of Respondents	Percentage
High base salaries	18	17.48
Stock options and equity	52	50.49
Guaranteed bonuses	20	19.42
Pension plans	13	12.62
Total Respondents	103	100.0

INTERPRETATION

The analysis shows that 50.5 percent of respondents identify stock options and equity as the most common form of compensation in startups compared to established companies. Guaranteed bonuses are chosen by 19.4 percent, followed by high base salaries at 17.5 percent. Only 12.6 percent mention pension plans. This indicates that startups tend to attract talent through long-term equity incentives rather than traditional salary structures or retirement benefits, reflecting their growth-driven and risk-sharing compensation approach

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TABLE 4 COMPENSATION STRATEGIES IN LARGE CORPORATIONS VS STARTUPS

Options	Number of Respondents	Percentage
Standardized salary bands with structured promotions	45	43.7
High-risk, high-reward salary structures	20	19.4
Equity-based compensation for all employees	25	24.3
Salaries determined solely by employee preference	13	12.6
Total respontent	103	100.0

INTERPRETATION

According to the analysis, standardized salary bands with structured promotions are the most prevalent compensation strategy in large corporations, chosen by 43.7 percent of respondents. Equity-based compensation for all employees comes next at 24.3 percent, reflecting a growing emphasis on shared ownership models. High-risk, high-reward salary structures were identified by 19.4 percent, while only 12.6 percent selected salaries determined solely by employee preference. These results show that structured and predictable compensation models are strongly preferred in large organizations for ensuring fairness and career progression.

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VII.CHI SQUARE

CHI-SQUARE TEST 1:
Age vs Compensation Strategy in Startups
Variables:

- Independent Variable: Age Group
- Dependent Variable: Preferred Startup Compensation Strategy Observed Frequency Table (O)

Age Group	High Base Salary	Low Salary + Growth	Standard Structure	Rigid Policies	Row Total
20–30	6	12	6	4	28
31–40	4	18	7	6	35
41–50	5	10	4	3	22
Above 51	3	7	5	3	18
Total	18	47	22	16	103

Expected Frequency Table (E)

Formula for each cell:E = (Row Total × Column Total) / Grand Total

Age Group	High Base Salary	Low Salary + Growth	Standard Structure	Rigid Policies
20–30	(28×18)/103 = 4.89	(28×47)/103 = 12.78	(28×22)/103 = 5.98	(28×16)/103 = 4.35
31–40	6.11	15.96	7.47	5.44
41–50	3.84	10.05	4.70	3.42
Above 51	3.14	8.21	3.85	2.79

Step-by-Step Chi-Square Calculation (χ^2)
Formula:

$$X^2 = \Sigma[(O-E)^2/E]$$

Sample Calculation for first cell (20–30, High Base Salary):

- O = 6, E = 4.89
- $\chi^2 = (6-4.89)^2 / 4.89 = (1.21)^2 / 4.89 \approx 0.30$

Age Group	High Base Salary	Low Salary + Growth	Standard Structure	Rigid Policies	Row Total
20–30	0.30	0.05	0.00	0.03	0.38
31–40	0.73	0.26	0.03	0.06	1.08
41–50	0.35	0.00	0.10	0.05	0.50
Above 51	0.01	0.18	0.35	0.02	0.56
Total χ^2					2.52

Degrees of Freedom (df):
df = (rows−1) × (columns−1) = (4−1) × (4−1) = 3 × 3 = 9 Critical Value at 0.05 Significance:
From Chi-Square distribution table:

- Critical χ^2 (df = 9, α = 0.05) ≈ 16.92 Result:
- Calculated χ^2 = 2.52
- Critical χ^2 = 16.92
- Since 2.52 < 16.92, we fail to reject the null hypothesis.

Interpretation:
There is no statistically significant association between age group and preference for startup compensation strategy. This suggests that respondents across different age categories have similar opinions on compensation methods in startups such as stock options, high base salary, or bonuses. Startups may not need to customize compensation strategy strictly based on age demographics, as preferences do not vary significantly.

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CHI-SQUARE TEST 2:

Gender vs Startup Hiring Strategy Perception

Variables:

- Independent Variable: Gender (Male, Female)
- Dependent Variable: Preferred Hiring Strategy in Startups Observed Frequency Table (O)

Gender	Dynamic Work Culture	Performance Bonus	Increasing Fixed Salaries	Reducing Work Hours	Row Total
Male	20	17	20	10	67
Female	16	11	5	4	36
Total	36	28	25	14	103

Expected Frequency Table (E)

Formula:

$$E = (\text{Row Total} \times \text{Column Total}) / \text{Grand Total}$$

Gender	Dynamic Work Culture	Performance Bonus	Increasing Fixed Salaries	Reducing Work Hours
Male	(67×36)/103 ≈ 23.44	18.23	16.26	9.10
Female	12.56	9.77	8.74	4.90

Chi-Square Calculation (χ^2)

Formula:

$$\chi^2 = \Sigma[(O-E)^2 / E]$$

Cell	O	E	$(O-E)^2/E$
Male, Dynamic Work Culture	20	23.44	0.5056
Male, Performance Bonus	17	18.23	0.0829
Male, Increasing Fixed Salaries	20	16.26	0.8517
Male, Reducing Work Hours	10	9.10	0.0868
Female, Dynamic Work Culture	16	12.56	0.9414
Female, Performance Bonus	11	9.77	0.1573
Female, Increasing Fixed Salaries	5	8.74	1.5983
Female, Reducing Work Hours	4	4.90	0.1653
Total χ^2			4.39

Degrees of Freedom:

df = (rows−1) × (columns−1) = (2−1) × (4−1) = 3 Critical Value at 0.05 Significance:

From Chi-Square distribution table:

- Critical χ^2 (df = 3, α = 0.05) ≈ 7.815 Result:
- Calculated χ^2 = 4.39
- Critical χ^2 = 7.815
- Since 4.39 < 7.815, we fail to reject the null hypothesis.

Interpretation:

There is no statistically significant association between gender and preference for startup hiring compensation strategies. Both male and female respondents show similar preferences in terms of what startups should offer—whether dynamic culture, performance bonuses, or fixed salaries. Therefore, gender does not strongly influence how individuals perceive startup compensation practices.

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VIII.RECOMMENDATIONS

- **Startups** should focus on balancing equity-based incentives with stable salaries and flexible perks to attract talent despite limited resources**.**
- **Established companies,** on the other hand, can stay competitive by aligning compensation with market trends and offering more flexibility in negotiations, especially to appeal to younger, dynamic employees.

IX.CONCLUSION

In conclusion, startups and established companies adopt distinct approaches to compensation, each with its advantages and drawbacks. While startups focus on flexible benefits and high-risk, high-reward strategies, established firms emphasize financial stability and structured compensation models. A balanced approach that incorporates financial planning, market-based benchmarking, and employee-centric benefits will enable organizations to optimize their compensation strategies for long-term success.

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