Spotlight
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Can starting a business help women earn what they're actually worth?

Founding a venture narrows the gender earnings gap, especially for high-ability women

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The gender earnings gap persists across every corner of the economy. In salaried work, women earn roughly 24% less than men with comparable qualifications. In entrepreneurship, women founders capture about 21% less than their male counterparts. At first glance, this looks like a double penalty — women lose no matter which path they take.

But that surface reading misses something crucial. When researchers compare individuals' earnings *before and after* they become founders — tracking the same person across time — a different picture emerges. Women gain substantially more from making the jump to entrepreneurship than men do. The gender earnings gap, while still present, shrinks by nearly a third among entrepreneurs compared to salaried workers.

This study asks a disarmingly simple question: relative to what they would earn in a salaried job, are women financially better off founding a company? The answer, drawn from one of the largest datasets ever assembled on this topic, is yes — and the reasons reveal deep structural problems in how organizations value women's talent. The gap between what high-ability women earn and what they *should* earn in paid employment is so large that entrepreneurship, despite all its risks, consistently delivers a better financial outcome.

For scholars and practitioners, this reframes a decades-old debate. The question is not whether women face a penalty in entrepreneurship — they do. The question is what they are comparing it to. And when the comparison is their own suppressed wages in salaried work, the calculus changes dramatically.

WHAT WE STUDIED

The authors used matched employee–employer data from Sweden's LISA database, covering the entire working population aged 16 and older from 1990 to 2020. This is population-level data, not a survey sample. The dataset comprises 136.9 million individual-year observations with a 0.2% rate of transition to entrepreneurship. Nearly 21% of new venture founders in the sample are women. Average annual earnings across the three decades were approximately 266,800 SEK for men and 195,100 SEK for women — a raw gap of 27%.

Sweden matters here for a specific reason. It ranks among the most gender-egalitarian countries in the world, with 18 months of paid parental leave, subsidized childcare, and high female labor force participation. If women's earnings are still systematically undervalued *in Sweden*, the implications for less egalitarian economies are stark. The authors argue their estimates are likely conservative — the entrepreneurial premium for women could be even larger in countries like the United States, where labor markets are more flexible, the gender wage gap is wider, and the entrepreneurial earnings premium is already known to be larger than in highly regulated Nordic economies.

The study focuses on *incorporated* ventures — businesses registered as legal entities with employees and organizational boundaries — rather than sole proprietorships. This distinction is critical. Self-employment (unincorporated businesses) is associated with an 89% drop in earnings, and the dynamics driving it are quite different — often centered on work-life balance rather than growth. Using individual fixed effects models, the researchers compare each person's

earnings before and after founding, controlling for time-invariant traits like motivation, risk preferences, and baseline wealth. They also use 12th-grade GPA as a pre-career ability measure, leveraging Sweden's standardized education system to construct an ability benchmark independent of later career outcomes.

KEY INSIGHTS

Women gain 22% from founding; men gain 8%

When tracking individuals across time, entrepreneurship increases women's earnings by 22% relative to their prior wages in salaried employment. Men see an 8% bump. That 9 percentage-point premium for women over men is equivalent to roughly four additional years of labor market experience. Even after accounting for unobserved individual characteristics through fixed effects, the result holds. Importantly, the interaction term barely changes when individual fixed effects are added (0.083 to 0.082), suggesting that selection on time-invariant traits does not drive the finding.

A further robustness test restricts the sample to people who left a firm — either to found a venture or to switch employers. The gender premium in entrepreneurship persists (β = 0.082), while men's returns to founding shrink dramatically compared to simply switching jobs. Entrepreneurship, in other words, provides women with a path to earnings growth that standard job mobility does not.

The conventional narrative frames women's entrepreneurship as a financial sacrifice. This finding flips it. For many women, staying in a salaried job is the costlier option — they are leaving money on the table every year they don't found.

The glass ceiling is the engine

The premium is not evenly distributed. High-ability women — measured by their 12th-grade GPA, a metric captured before any career decisions are made — benefit the most. In salaried work, a one-unit increase in standardized GPA boosts men's earnings by 2% but women's by only 0.5%. Entrepreneurship reverses this: women's earnings in entrepreneurial settings rise more sharply with GPA than men's (β = 0.043 for the three-way interaction).

This is the most important finding in the paper. It reveals that the labor market does not merely underpay women relative to men — it specifically penalizes *ability* in women more than in men. The glass ceiling is not just about promotions blocked. It suppresses the financial returns to talent itself, creating a growing wedge between what high-ability women earn and what their qualifications predict they should earn. Entrepreneurship closes that wedge by removing the biased gatekeepers who control pay, promotions, and access to high-visibility assignments in organizational hierarchies.

Organizations that fail to recognize and reward high-ability women are not just creating equity problems — they are generating the conditions that push their best female talent out the door and into competing ventures.

Male-dominated industries amplify the premium

Women who found ventures in male-typed industries (where men represent more than 50% of workers) see the largest earnings gains. In those industries, the gender wage gap in salaried work is 36.9%, but drops to 27% in entrepreneurship. In female-typed industries, no such advantage exists — the gap is actually wider in entrepreneurship (16.8%) than in salaried work (9%). Only 12% of women switch industries upon becoming founders, so the earnings gains reflect what happens within the same sector, not industry-hopping toward more lucrative fields.

The entrepreneurial premium tracks with the severity of structural barriers. Where bias is strongest, the payoff from escaping it is greatest. This pattern strongly supports the idea that entrepreneurship functions as a corrective mechanism against discriminatory wage-setting rather than reflecting something inherent about women's preferences or risk appetite.

TAKEAWAYS

For women considering entrepreneurship

The data suggest that incorporated entrepreneurship — not self-employment — delivers the financial premium. Self-employment is associated with a dramatic earnings decrease. The distinction between building an organization and going solo is critical, and it aligns with prior research showing that incorporated ventures involve longer hours, higher performance expectations, and genuine organizational complexity.

Women in male-dominated sectors who feel their contributions are undervalued have the strongest financial case for founding. The premium is largest precisely where structural barriers are highest.

For employers and HR leaders

High-ability women whose wages don't match their ability scores are significantly more likely to leave for entrepreneurship. The wage residual — the gap between predicted and actual earnings given ability — is a measurable leading indicator of founder exits. Organizations can calculate this for their own workforce.

Reducing the gap between ability and compensation is both an equity intervention and a retention strategy. Every unrewarded high-performer who leaves takes

institutional knowledge, client relationships, and future value creation with her.

For policymakers

Programs that support women's entrepreneurship should focus on incorporated ventures rather than self-employment, where the earnings benefits are negligible or negative.

Reducing barriers to startup capital matters enormously. Many early-stage ventures rely on personal savings, family loans, or reinvested profits — channels that allow women to bypass biased investors and financial intermediaries entirely. Policies that expand access to these non-gatekeeper funding channels would amplify the equalizing effect of entrepreneurship.

IMPACT

This study reframes a long-standing debate in strategy and entrepreneurship research. For decades, researchers compared women founders to men founders and concluded that women were at a disadvantage. That comparison, while accurate in absolute terms, is incomplete. By benchmarking women's entrepreneurial earnings against their own salaried wages — and then comparing that gain to men's equivalent transition — the authors demonstrate that entrepreneurship narrows the gap in a way that standard cross-sectional comparisons cannot detect.

The mechanism is elegant: in salaried work, women's earnings are filtered through gatekeepers — supervisors, hiring managers, promotion committees — whose evaluations are vulnerable to gender bias. In entrepreneurship, earnings depend on whether customers value the product enough to generate revenue exceeding costs. Founders are residual claimants, not wage-takers. The market, however imperfect, replaces the biased evaluator. And while capital markets introduce their own biases once ventures seek external funding, women who reach that stage have already captured substantial value that salaried work would never have delivered.

RECOMMENDATIONS

Three actions emerge from this research. First, **audit your compensation against ability**. Organizations can measure the wage residual for their employees — comparing actual pay to predicted pay given qualifications and performance. Where the residual is systematically lower for women, corrective action reduces both inequality and attrition risk. The Swedish data show this gap is measurable, predictive of exits, and partially remediable.

Second, **support incorporated entrepreneurship specifically**. Entrepreneurship support programs — whether public or private — should distinguish sharply between self-employment (which tends to reduce earnings) and incorporated venture founding (which tends to increase them). Funding, mentoring, and incubation resources should target the latter, and explicitly encourage women in male-dominated industries to consider founding.

Third, **track who leaves and why**. If your most talented women are disproportionately exiting for entrepreneurship, that is not a sign that entrepreneurship is attractive — it is a sign that your organization is repelling talent. Exit interview data, combined with ability and compensation benchmarks, can surface the gap before more departures follow. The cost of losing a high-ability woman to a competing venture she founded is not just her salary — it is the value she will create outside your walls that she could have created within them.

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