Spotlight
by CeFEO

How does the motherhood wage penalty influence women's decision to start a business?

Motherhood and entrepreneurship. How the wage penalty drives women to new ventures

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Motherhood brings significant changes to women's careers, often limiting their opportunities in traditional wage employment. While work-family conflict is commonly seen as the driver of female entrepreneurship, another mechanism—the motherhood wage penalty—also plays a crucial role. This study examines how reduced earnings and career opportunities post-motherhood lead women to entrepreneurship, particularly new venture founding, as an alternative path to economic advancement.

WHAT WE STUDIED

Using matched employer-employee data from Sweden, this study focuses on how the wage penalty associated with motherhood impacts women's transitions from wage employment to entrepreneurship. The researchers tracked career histories of women from 1990 to 2018, identifying the mechanisms that lead mothers to pursue either self-employment or the founding of new ventures. Special attention was given to the role of managerial positions and high-paying occupations in moderating these transitions.

KEY INSIGHTS

1. Motherhood and Career Transition

Women are more likely to leave wage employment for entrepreneurship after becoming mothers, especially when they face reduced earnings opportunities due to the motherhood wage penalty. This transition is driven by the need to overcome career stagnation and wage discrimination in traditional jobs.

2. New Ventures vs. Self-Employment

Mothers tend to favor new venture creation over self-employment because new ventures offer greater long-term financial prospects. While self-employment provides flexibility, it often comes with lower earnings, making it less attractive for women looking to escape wage penalties.

3. The Role of High-Paying Jobs

Women in high-paying or managerial positions are more likely to start new ventures when faced with a motherhood wage penalty. Their prior experience and skills position them to succeed in business creation, which helps them recover from the earnings penalties associated with motherhood.

TAKEAWAYS

1. For Female Entrepreneurs

Women considering entrepreneurship after motherhood should evaluate the potential for long-term financial benefits through new venture creation rather than self-employment, particularly if they face wage penalties in their current jobs.

2. For Employers

Employers should be aware of how wage penalties and discrimination against mothers can drive talented employees towards entrepreneurship, resulting in the loss of valuable human capital. Reducing the motherhood wage penalty could help retain skilled women in wage employment.

3. For Policymakers

Policymakers should support initiatives that address wage discrimination against mothers and provide

more favorable conditions for female entrepreneurs, recognizing the role of entrepreneurship as a solution to workplace inequities.

IMPACT

The study highlights how the motherhood wage penalty plays a crucial role in women's transition to entrepreneurship. By identifying new venture creation as a path to overcoming wage penalties, the research contributes to a deeper understanding of how gendered earnings disparities influence career decisions and business creation.

RECOMMENDATIONS

Future research should explore additional factors that influence mothers' decisions to enter entrepreneurship, including family dynamics and access to capital. Policymakers and organizations can use this knowledge to create more inclusive work environments that reduce the motherhood wage penalty and support women's entrepreneurial ambitions.

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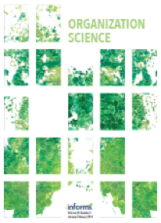
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