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Fit to be king: how patrimonialism on Wall Street leads to inequality

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Abstract

The hedge fund industry is one of the most lucrative and powerful industries in the USA, yet it mostly comprises white men. To understand why, I turn to Weber's theory of patrimonialism, which primarily has been applied to historical or non-Western societies. I argue that patrimonialism—activated through trust, loyalty and tradition—restricts access to financial rewards and facilitates the reproduction of the white male domination of this industry. Using data from 45 in-depth interviews combined with field observations at industry events over a 4-year period, I investigate how hiring, grooming and seeding practices within and among firms enable certain elites to maintain monopolies over financial resources. Applying the theory of patrimonialism to a context with few women and minority men in power-holding positions demonstrates how practices that reproduce elite structures are directly connected to inequality in the workplace.

Key words: patrimonialism, trust, loyalty, social capital, elites, gender, race and ethnicity, social class, work and occupations, finance

JEL classification: G24, J44, J62, J70, J71

1. Introduction

Inequality in the USA has returned to levels unprecedented since the years before World War II. The rising incomes of the top 10% of earners are driving this increasing inequality (Piketty, 2014). Hedge fund managers are well represented in this elite group, with *average* pay of $2.4 million in 2014 (Harjani, 2014). White men make up the vast majority—97%—of hedge funds managers (Barclays Global, 2011). In this article, I ask how and why this exceptionally lucrative industry is a bastion of white male power and privilege. Drawing on in-depth interviews and ethnographic observation, I argue that the answers lie in the system of patronage organizing the industry. Specific features of patrimonialism—trust, loyalty and

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tradition—allow elite white men to maintain monopolies of power and authority in hedge funds, which stymies the advancement of women and minority men.

Hedge funds are private investment firms that pool money from investors to generate higher returns. They use strategies such as betting against the asset ('short selling') and borrowing to increase exposure ('leveraging') when investing in stocks, bonds, commodities and derivatives. The US Securities and Exchange Commission (S.E.C.) places fewer restrictions on hedge funds than other firms, since hedge fund clients are identified as sophisticated investors, e.g., the wealthy and large institutions.[1] The combination of wealthy investors and few restrictions allows hedge funds to invest large sums of money and generate exceedingly large profits.

Patronage is an ingrained feature of the industry. Investors become patrons, passing on their wealth to carefully groomed protégés. For example, Julian Robertson of Tiger Management, the most successful hedge fund of the 1980s and 1990s, seeded an empire of firms that manages over $250 billion in assets (Altshuller *et al.*, 2014). Referred to as the 'Tiger Cubs' and 'Grand Cubs', these firms share similar investment strategies and returns, revealing a lineage of firms joined by an investment tradition. What is less understood is how this system of patronage is both gendered and racialized. I contend that patrimonial structures in this industry play a crucial role in privileging white male workers while precluding access to other workers, predominantly women and minority men.

Recently, there has been renewed interest in studying how elites contribute to economic inequality (Khan, 2011b; Harrington, 2016). Research identifies a 'class ceiling' preventing upward mobility, suggesting that an elite family and educational background facilitates access to high-earning jobs, especially in fields such as financial services (Hartmann, 2006; Laurison and Friedman, 2016). How social class status confers additional status and rewards in the workplaces of economic elites remains unclear.

I study the hedge fund industry as a case study of top earners to examine the mechanisms reproducing social class among elites. Using qualitative methods to study this industry provides industry-level insight into macro-level research on the rising wealth and income of the top 1%. I identify how specific features of patrimonialism facilitate access to economic resources and reproduce social class status. I find that gender and racial inequality are central to understanding this process. The theory of patrimonialism helps to account for how gender, race and social class interact in the reproduction of elite structures.

In the following sections, I first explain the primary features of patrimonialism: trust, loyalty and tradition. Next, I examine discriminatory practices identified in existing research on the financial services industry. I argue that these practices are part of a broader system of gender, racial and social class inequality structuring access to resources. Then I present the main findings on the mechanisms of patrimonialism active in this industry. I conclude by considering the broader implications for the study of elites and inequality.

2. Patrimonialism: trust, loyalty and tradition

Patrimonialism refers to an organization of authority in which a leader assumes power through networks based on trust, loyalty and tradition (Weber, 2012). Trust is a central

1 The S.E.C. requires each hedge fund investor to have a minimum net worth of $1 million and a minimum annual income of $200 000. Over half of hedge fund investors are pension funds, governments, universities and endowments (Preqin, 2017).

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organizing factor of patrimonialism. Trust is a willingness to be vulnerable in the face of risk or uncertainty (Luhmann, 1990; Rousseau *et al.*, 1998). Trust derives from a sense of similarity or shared interest (Luhmann, 1990), involves a perception of reciprocity (Schoorman *et al.*, 2007), and depends on institutional context (Schilke *et al.*, 2017). In systems of patronage, trust provides a foundation for relations of exchange among non-familial actors (Gambetta, 1996).

Gender and race influence whether people perceive one another as trustworthy (Gambetta and Hamill, 2005; Smith, 2010), because of deeply ingrained beliefs that external markers of gender and race correspond to certain innate qualities, characteristics and propensities (Lorber, 1993). People tend to more easily trust and invest in people who share their race and ethnicity (Glaeser *et al.*, 2000; Simpson *et al.*, 2007). This helps to explain racial and ethnic disparities in home loans and consumer credit (Rugh and Massey, 2010), as institutional lending is an organizational form of trust and loyalty (Lapavitsas, 2006; Schimank, 2011).

Loyalty is the second feature of a patrimonial system. To be loyal means to be faithful or devoted to a particular person, organization, practice or ideal. Loyalty involves a sense of allegiance. In the context of work, a sense of allegiance implies the tie with the employer supersedes other professional commitments. In patrimonialism, the leader provides educational training in exchange for the apprentice's loyalty (Weber, 2012). This system of apprenticeship-style education cultivates allegiances, either familial or non-familial, between the leader and protégé. The training deters apprentices from leaving the organization (Hirschman, 1970; Brody and Rubin, 2011). In exchange, the leader receives the rewards of the apprentice's labor and views the benefits as 'privately appropriated economic advantages' (Weber 2012, pp. 252–253).

The third feature of patrimonialism is tradition. Tradition legitimizes a leader's personal authority and the bonds among group members (Weber, 2012). Tradition normalizes the patrimonial system, leading participants to perceive it as natural or organic. Tradition is evident when participants take the structures and practices for granted. Furthermore, inheritance in patrimonial firms is explicitly gendered: Weber classified this as a form of patriarchy, where resources are controlled by and passed down among men. Research on family businesses finds that parents assign different tasks to daughters and sons, leading boys to develop skills deemed of greater value and higher status (Bessière, 2014). Sons are then preferred over daughters for inheriting family enterprises. Tradition renders gender inequality as natural and makes it less apparent to participants.

Most research on patrimonialism examines families and the state. Weber, however, identifies the theory's relevance for other applications. He outlined three primary forms of patrimonial systems: state, family and enterprise. According to Weber, patrimonialism can develop from personal allegiances within families or within fictive kin groups or pseudo tribes. Non-familial patrimonial alliances have become a focus of recent research on state building, gang formation and corporate autonomy (Charrad, 2011; Collins, 2011; Lachmann, 2011). In these cases, groups use the rhetoric and symbols of kinship to build the trust, loyalty and tradition underpinning patrimonialism; for example, a fictive ancestor who founded the group (Collins, 2011; Weber, 2012). This article applies the theory of patrimonialism to enterprises featuring familial or family-like ties.

Julia Adams (2007) specified the gendered dimensions of Weber's theory, demonstrating how leaders rule 'paternally'. Patrimonialism, according to Adams, is a patriarchal system

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that legitimizes the monopoly of power and resources among men through an 'image or ideology of paternal rule' (p. 32). She identified how the symbolic father-leader is legitimized by relational, cultural definitions of dominant and subordinate masculinities characterized by conceptions of fatherhood, filiality and paternalism. The father-leader status is socially and culturally, rather than biologically, determined.

Can patrimonialism characterize modern day, capitalist enterprises in the USA? Weber predicted that as states modernized, patrimonialism would be replaced with rational bureaucracy. While the previous research mostly applies Weber's theory of patrimonialism to historical or non-Western societies, Mounira Charrad and Julia Adams (2011) have identified the need to examine how patrimonialism arises within industrialized capitalism. To date, the literature applying patrimonialism to Western contexts examines how it persists *in spite of* modernization, as though it is a remnant of a bygone era (Collins, 2011).

Yet, several studies find that patrimonialism and rational bureaucracy may coincide, and even reinforce one another, in industrialized capitalism (Erdmann and Engel, 2007; Lachmann, 2011; Piketty, 2014). Thomas Piketty (2014) contends that recent growth in the concentration of privately owned capital is indicative of patrimonialism in the USA and Europe. Piketty attributes this phenomenon to the privatization of public wealth and deregulation of financial markets. Similarly, Richard Lachmann (2011) argues that deregulation has led to the proliferation of autonomous and highly profitable firms, such as brokerage firms and hedge funds, that have the potential to become patrimonial. For example, private enterprises may amass wealth because of lower capital gains taxes, fewer regulatory restrictions, and offshore bank accounts, all of which are made possible by rational bureaucracy. The accumulation of wealth within private enterprise may enable elites to use the bureaucratic structure to further their interests and independence.

I argue that financial deregulation and market instability fosters patrimonialism. Financial sector deregulation has resulted in greater uncertainty and instability (Harvey, 2011; Galbraith, 2012). In contexts of instability and uncertainty, such as the hedge fund industry, people restrict access to their networks and place their trust in traditional forms of social organization, such as familial, religious and ethnic communities, which are indicative of patrimonialism (Cook, 2005; Tilly, 2001). Patrimonialism limits the distribution of resources in society, generating a spike in inequality (Piketty, 2014). This helps to explain why the financial sector has contributed to widening economic inequality over the past 30 years (Godechot, 2012; Lin, 2015).

The hedge fund industry is an appropriate case to study patrimonialism within the financial sector. Hedge fund managers are embedded within an institutional context where social capital and organizational politics guide investment decisions, leading to rapid stock market fluctuations that generate instability (MacKenzie 2003; Godechot, 2008). High turnover in employees, entire teams and firms make hedge funds workers reliant on personal networks (MacKenzie 2003; Godechot, 2014). Other research identifies how team leaders in financial services manage social capital to control and mobilize the group (Godechot, 2008). I find that gender, race and class status shape interpersonal networks and, therefore, impact access to resources and power-holding positions. This helps to account for why 97% of industry assets are managed by white men (Barclays Global, 2011). Applying the theory of patrimonialism to the hedge fund industry demonstrates how gender, race and class are part of industry-wide mechanisms restricting access to opportunities, rewards and resources.

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3. Gender and race in the financial services industry

Previous research on the financial sector has noted the exclusion of women and minority men (Roth, 2006; Blair-Loy, 2009; Bielby, 2012). Researchers attribute this exclusion to a culmination of factors that begin in the education system and build throughout the career path. In particular, the previous research identifies the role of discrimination in hiring, networking and investing practices. While these insights are valid, this literature does not identify how inequality within the financial sector is rooted within a broader structural system of patrimonialism.

Beginning in primary education and continuing through college, students build a portfolio of cultural and social capital that secures their path to future professional success in high-earning careers such as those in financial services. Private schools and public schools in higher-income neighborhoods better prepare students for college (Sacks, 2009). Elite schools, in particular, provide cultural grooming that facilitates entrance into the wealthy elite (Khan, 2011a). The economic, social and cultural capital of a student's family heavily influences his or her acceptance to an elite university (Delbanco, 2012), which provides the best chances for securing a high-paying job after graduation (Goldin and Katz, 2008). While a degree from an elite institution is often interpreted as a signal of meritocratic achievement, in practice elite credentials institutionalize inherited advantage (Khan, 2011a).

A high-status degree serves as a signal of social class status to prospective employers. Lauren Rivera (2015) finds that not only do Wall Street firms recruit heavily from Ivy League schools, the recruitment processes at these firms strongly favor students from upper-class or upper middle-class backgrounds. Furthermore, these credentials benefit men more than women (Rivera and Tilcsik, 2016). This is because elite firms rely on status beliefs about gender and race when they hire employees (Elliott and Smith, 2004; Gorman, 2005; Rivera, 2015). On Wall Street, managers and coworkers view women with children as less dedicated to work, yet deem fathers more serious and accountable (Roth, 2006; Blair-Loy, 2009). Furthermore, the recruitment, hiring, negotiation and training practices feature overt and subtle forms of discrimination (Roth, 2006).

Once a person is hired, ability to network is perhaps the strongest determinant of success on Wall Street (Godechot, 2014). Yet women and minority men struggle to access powerful networks that would provide access to valuable resources such as mentorship and professional development (Roth, 2006; Ho, 2009; Bielby, 2012). A fraternal environment and a hyper-masculine culture dominate the industry, limiting women's ability to find mentors and networks (Roth, 2006). Colleagues are less likely to invest in relationships with women, because they are viewed as less valuable (McGuire, 2002). Informal networking provides no accountability for discriminatory practices and, instead, can exacerbate gender and race inequality (Roth, 2006). The networks created by women and minority men are perceived as lower status and less powerful than white men's networks (McGuire, 2000; Wingfield, 2014). Exclusion from networks further disadvantages women and minority men as they advance in the industry. In today's economy, jobs with higher status and pay often arise from changing firms rather than climbing internal career ladders (Williams *et al.*, 2012), privileging employees who bring profitable networks of former colleagues and customers (Godechot, 2014).

Becoming a hedge fund manager—the primary investment decision-maker at a hedge fund—epitomizes success in this industry; however, prospective investors are more likely to

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invest in a founder's startup when the person is perceived to have strong social ties and access to capital (Godechot, 2014). African Americans struggle to access white wealth (Bielby, 2012), limiting their future options for becoming entrepreneurs and launching their own firms. Women entrepreneurs are also less likely to be evaluated as capable of success (Thébaud, 2015), because gendered ideas about risk-taking influence perceptions of investment managers (Delaney, 2012; Fisher, 2012). Men and women alike tend to view women as more risk-averse (Fisher, 2012). In contexts such as hedge funds, where competitiveness and high risk-tolerance are associated with higher profits, masculinity confers credibility and benefits men (Riach and Cutcher, 2014). This may help to explain why men earn more than woman in high-paying positions such as stockbrokers and investment bankers (Roth, 2006; Lin and Neely, 2017), despite comparable performance outcomes (Green *et al.*, 2009).

Research on gender and racial inequality in finance delineates how hiring, networking and investing feature discriminatory practices that contribute to the exclusion of women and minority men. Hedge funds exhibit these well-known processes generating inequality in the workplace; in addition, the industry is a unique labor market with exceptionally high incomes, making it useful for studying how inequality in the workplace contributes to the reproduction of elite structures. The hedge fund industry demonstrates how discriminatory practices identified by the previous research are part of a broader structural system of patrimonialism. The patrimonial features of trust, loyalty and tradition help address this gap in the literature. By combining the literatures on patrimonialism and workplace inequality in finance, I expand on the previous research to account for how cultural beliefs about gender bind relationships among white men while excluding women and minority men from the benefits of working in a highly lucrative industry. I use the theory of patrimonialism to bring together and explain well-known mechanisms of inequality.

In this article, I thus seek to answer the following questions: How and why does patrimonialism contribute to the reproduction of elite structures in the hedge fund industry? What mechanisms of patrimonialism build relationships among white men and exclude women and minority men from the rewards of this exceptionally profitable industry?

4. Case study

The growth of the hedge fund industry is the product of broader changes in the US economy that transformed relations between firms and workers. Over the past 40 years, firms have restructured, downsized and outsourced to eliminate layers of bureaucracy (DiMaggio, 2001; Boltanski and Chiapello, 2007), which has had significant consequences for employment security (Kalleberg, 2011). Financial services has been a pivotal driver of work transformation encouraging corporations to prioritize shareholder dividends over product development (Lazonick and O'Sullivan, 2000; Davis, 2009). As a result, firms now strive to run 'lean and mean' with little management, bureaucracy or regulation.

As a rapidly growing area of finance, the hedge fund industry contributes to both the increasing number of high-paying jobs and their escalating earnings. It is part of the 'shadow-banking industry'—credit intermediaries that are less regulated than commercial and investment banks—which has grown over the past 30 years at the expense of the traditional banking sector (Antill *et al.*, 2014). Government interventions in failing investment banks during the 2008 financial crisis led investors to transfer funds to this industry (International Monetary Fund, 2014).

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The hedge fund industry is ideal for studying how patrimonialism among top earners facilitates the reproduction of elite structures. Average incomes at hedge funds place their employees among the top 1% of earners (Glocap, 2017). The high compensation makes the industry a relevant case for studying economic inequality in an era when the rewards are concentrated in finance (Godechot, 2012; Lin, 2015). The industry is also one of the fastest growing and profitable areas of financial services. In 1990, only 610 funds worldwide managed just over $40 billion in assets (Hedge Fund Research, 1990–2017). Today, the global industry is comprised of 9925 firms with $3.2 trillion in assets under management (Acton, 2016; Preqin, 2017). Finally, the industry is extremely male dominated. Although there is no available information on the demographic composition of all employees in this industry, white men manage 97% of assets in the industry and overwhelmingly dominate leadership positions (Barclays Global, 2011). Therefore, this industry is a relevant case for investigating the mechanisms allowing power and authority to become concentrated among elite white men.

5. Methods

This study uses ethnographic methods to study patrimonialism in the hedge fund industry. To understand the norms, beliefs and practices enabling white men to prosper in this lucrative industry, I conducted in-depth interviews with 45 hedge fund workers, supplemented with field observations at workplaces and industry events. Interviews provided insight into respondents' perspectives on pathways and setbacks to success. By analyzing interview transcripts and field notes, I identify how a gendered and racialized system of patronage in this industry derives from trust, loyalty and tradition.

Interview questions concerned the following topics: career trajectories, workplace culture and organization, and general industry practices. Interviews were conducted in person or over the phone, were audio-recorded, and lasted between 1 and 3 hours. I recruited respondents via the mailing lists, conferences and networking events of professional associations and industry forums on LinkedIn. I used snowball sampling techniques by recruiting through my respondents' networks, which facilitated contact with respondents unresponsive to other recruiting techniques (Lofland *et al.*, 2005).

Considerable breadth in experience is captured by this sample's diversity in gender, race/-ethnicity, nationality, age, experience and job function. The sample includes a nearly even number of men ($n = 23$) and women ($n = 22$). I oversampled women and minority men ($n = 18$) to collect comprehensive data reflecting a diverse range of experiences. Thirty-four respondents are US born, 11 are either first- or second-generation immigrants, and 2 are non-US nationals who live and work abroad. Respondents were employed in a range of firm sizes, types and strategies (Table A1).

To provide a richer understanding of informal norms and practices in the hedge fund industry, I conducted fieldwork at industry social events, including conferences, investor panels and networking functions. Eleven respondents invited me to their offices, allowing me to observe their workplaces. This enabled me to compare respondents' accounts with their everyday practices (Khan, 2017). I conducted fieldwork in Texas and New York. Over one-third of all global hedge fund assets are managed in New York. I selected Texas, another industry hub, as a second site to ensure my findings were not particular to the Northeastern USA. I wrote ethnographic field notes to record, interpret and reflect on social processes and local meanings observed during fieldwork (Emerson *et al.*, 2011).

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I coded and analyzed all interview transcripts and field notes following an inductive approach (Charmaz, 2006). Coding began with identifying fragmentary data to characterize and label analytical themes. Next, I implemented a series of focused coding to further investigate theoretically significant themes (Emerson *et al.*, 2011). Themes emerged around training, building relationships, network closure, fraternal bonding, mentorship and apprenticeship, familial investor bases and inter-firm monetary flows. I assigned each respondent a pseudonym and removed all firm identifiers to ensure confidentiality.

6. Organization of hedge funds

In contrast to the pyramidal structure of large investment banks, hedge funds feature a two-tier structure of partners and support staff, which provides few opportunities for internal advancement. For the most part, firms have one lead investment manager and the other partners cover non-investment functions, including legal, compliance and client services. While the average number of employees at hedge funds has not been systematically studied, the people I interviewed usually described the firm structure as flat and worked at firms with 5–25 workers. A handful of outliers had only one or two employees or up to 300 people. A common industry cliché is that with a little capital from friends and family, ‘two guys and a Bloomberg Terminal’—a stock market analysis and electronic trading platform—can start a hedge fund out of a basement or garage.

Despite its large financial impact, the hedge fund industry has a relatively small number of concentrated firms (approximately 9 925) (Acton 2016). The opportunity for high profits makes this industry competitive, which is compounded by the constant turnover of employees and firms that restructure in response to shifts in the stock market. In this context, social networks can at times be a resource and at others a risk. Workers anticipate downsizing and firm turnover by building networks both inside and outside of the firm that will enable them to locate future job opportunities. If a firm restructures or collapses, networks of trust and relations of loyalty may persist even when organizations disappear. This places a premium on networks and allows patrimonialism to flourish.

The following sections document the process of gaining access to, advancing within, and starting a firm in the hedge fund industry. First, I examine how hiring practices are determined by trust based on familiarity and loyalty to personal networks. Then I investigate how master/apprentice relationships groom protégés into a manager’s investment tradition. Finally, I explore how seed funding for new hedge funds often arises from personal and professional networks. These practices reveal the inner workings of a patrimonial system that reproduces the white male domination of the hedge fund industry.

7. Hiring practices at hedge funds

A college degree is generally mandatory in the hedge fund industry; however, a degree alone—even from a high-status institution—does not guarantee employment. Respondents said the most reliable route to secure employment is through social networks, such as alumni networks, close friends, family connections or past colleagues. One man found his first job from the father of a friend from boarding school. His experience was not unique. Brian, a white man who managed his own firm, critiqued what he called an ‘old-boys network’ and said, ‘If you know someone, you get a job. There’s no more meritocracy.’

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Among respondents who entered the industry through a connection in their broader social circle, I observed a gendered pattern: women were often recruited to positions in investor relations, while men were hired in investments. At a dinner party in the 1990s, a friend recruited one woman, Cynthia, to the industry, while another, Jennifer, entered in the early 2000s through a friend's husband. As the first woman vice president at a top-tier investment bank, Cynthia had extensive experience in financial analysis, yet her friend recruited her to work in client services, a position commonly held by women. Jennifer provided insight into why this happens. In social settings, people may recognize a woman for her relationship skills rather than her technical expertise. Jennifer identified how her friend's husband noticed her communication and relationship-building skills—desirable attributes for personnel in investor relations. The skills valued for these client-facing positions are gender and class coded, which may lead people to hire personal connections.

Vincent, a white man with over 25 years of experience, demonstrates how these gendered perceptions of fit become naturalized when he described the hiring process:

> There's a chemistry aspect to it. There's a connection between the interviewer and the interviewee, which goes something like, 'I could work with that person everyday. I'm going to spend a lot of time—probably more time than I spend with my wife—so I need to be able to get along with that person.'

Vincent compared relationships with co-workers to his spouse, implying a familial sense of intimacy. Consistent with research on hiring at elite firms (Rivera, 2015), Vincent's account reveals how cultural homophily enables access to otherwise closed-off firms.

Nicole, a white investment analyst in her 20s, described how chemistry, i.e., 'a good fit', is based on gender, race and class. Nicole recounted a time when she had to strongly advocate for a woman candidate who 'would be pretty heavily penalized in fit for being different'. In contrast, Nicole explained how men routinely vouched for other men by saying, 'He was on the same sports team I was on. I'm sure he's a good *guy* [author's emphasis]'. She remarked, 'It's like even if they don't know them personally, they'll still vouch for them as part of their extended social network. But if the *girls* are on different sports teams or don't have as much friend overlap, nobody will vouch for them'. Social networks produce trust, demonstrating how hiring practices are gendered, racialized and classed.

Nicole further stressed the importance of background: 'where people are from and where they went to high school, specifically'. Nicole described her firm as dominated by people who came from upper middle-class communities and attended high-status schools. Having grown up in a middle-class family in the Midwest, Nicole attributed her employment to her degree from an elite university. Elite institutions are a marker of cultural homophily that influence how people form bonds in a patrimonial system.

Hedge fund managers' loyalty to personal and professional allegiances impacts whom the manager hires and promotes. Karen, a white investment professional with over 20 years of experience, recounted a time she was denied a promotion:

> Even some of my closest male colleagues would still love me, tell me things, and then make different decisions because, 'Oh wait, I'm sorry but so and so's brother needed to get hired. Shit happens.' I don't think that's just reflective of working on Wall Street or at hedge funds or in venture capital, but when there's big money, greed, power, people protect their own. And sometimes it's the guy in the parish, the guy in the corner, the guy in the whatever.

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Karen emphasized that hedge fund managers demonstrate loyalty to their networks when conducting business deals and hiring employees. Because of the high stakes involved in this industry, people restrict access to resources according to relations of trust and loyalty, which are shaped by status beliefs about gender, race and class.

Several respondents cited managers who never hire women on principle. Others described how women were transferred from investment teams to support roles deemed better for women with children. Respondents attributed these practices to the belief that a woman's responsibilities at home would compromise her loyalty to the firm, especially in demanding positions such as trader or portfolio manager (PM).

Several men, however, expressed concern about their wives being weary of long hours with women colleagues. Justin, a white man who managed his own hedge fund, gave an example from a recent ski trip in Colorado. He recalled, 'One guy helped another guy get a job. It was a male-bonding thing, sitting in a hot tub. If a girl is there, it's gonna be weird ... It's okay to be there without my wife and kids, but if there's a woman [he trailed off].' Informal socializing facilitates access to jobs, yet some men expressed reservations about including women, because the activities may be deemed inappropriate for a married man to do with women. Justin's example provides insight into why women may miss out on key opportunities in this industry.

Hedge fund managers have considerable discretion over hiring and firing decisions. Since the industry is small and reputation-based, women have few options to pursue recourse for discrimination. This is especially true in small firms where the manager performs human resources functions. Women considered pressing charges a career-ending move, as it ruins one's reputation and trustworthiness. As Karen said, 'If you're a hedge fund, and it's your company, you can do whatever you please'. Karen, and others, commonly conflated the hedge fund and its manager, capturing the autonomy the manager has over the firm.

Gender is not the only factor involved in hiring: racialized networks facilitate or limit access. The dominant networks are white, making it difficult for minority men and women to find opportunities. As Sasha, a first-generation immigrant and woman of color raised in a lower-income family, said, 'I didn't get here because of my networks. I'm from Trinidad. My parents' networks aren't going to help me here'. Instead, she entered the industry as an accountant, a lower-status job with less pay.

Karen recounted a time when she lost a wealthy client to a colleague on account of her gender and ethnicity:

> I was next in line to really get this client. And one of the guys who also covered the client went to my boss and said, 'They don't like women. And they don't particularly like Jews, so I don't think you should give them [to Karen].' And so my boss comes up to me and says, 'I don't think you should cover them. I don't think it's a good mix.'

When Karen's boss said, 'it's not a good mix', he explicitly referred to her gender and religious ethnicity. Her boss's perception of the clients' gender and racial biases lost Karen the account.

Hedge funds rely on personal connections and institutional social capital for hiring, because these forms of social organization foster a sense of trust and loyalty in an otherwise uncertain environment. These same connections, however, may prevent access to women and minority men. Gender and race, as systems of inequality, lead to segregated networks

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and deeply ingrained biases, influencing how people establish trust in a patrimonial system. Hedge fund managers face few pressures to change discriminatory ways.

8. Grooming in an investment tradition

Business schools offer few courses on hedge fund investment strategies, so technical skills are primarily learned on the job from another expert. A protégé exchanges loyalty for skills developed under the hedge fund manager's tutelage. The manager grooms an apprentice into his or her investment tradition and, if the protégé is successful, the manager provides the seed funding for the protégé to launch a fund. This instills a sense of trust, loyalty and even kinship.

'Hedge fund manager' generally refers to the primary investment decision-maker who founded the firm around his or her investment philosophy, which refers to a set of principles guiding a person's investment decisions. The formal title for a hedge fund manager is usually chief investment officer or PM. The manager serves as the charismatic leader whose vision of the markets determines the firm's strategy. According to one PM 'Every portfolio has to have a sole-portfolio-manager structure. There can only be one trigger puller for every portfolio. You can't have a co-PM model. It rarely works out'. Two PMs might have conflicting views on the markets that create tension. Instead, the portfolio must be guided by one distinct and unifying investment philosophy.

Throughout my fieldwork and interviews, workers routinely referred to hedge fund managers as 'chiefs' or 'kings'. One man who called them kings, caught himself (since he knew the study concerned gender), clarifying, 'I intentionally said king because it's *always* a man'. The industry's low numbers of women and minority men, combined with accounts of race-based networks, indicates the role of these chiefs and kings is not only gendered but also specific to race, ethnicity and nationality (see Robertson, 2014). Workers described the firm culture as akin to fraternities, suggesting racial homogeneity. The racial and ethnic connotation is apparent in references to firms spun off from larger institutions, such as investment banks. Respondents sometimes referred to these firms, usually predominantly white, as 'tribes' to describe the practice of a successful investment manager who leaves to start a separate firm—often funded by money raised from the previous firm and investors—and brings along his or her entire team. The terms *king*, *chief* and *tribe* reflect the way social ties are racialized in this industry.

Hedge funds socialize colleagues to feel 'like a family', as one man phrased it. Social bonding and dating practices in the industry create familial relationships. Firms encourage bonding by sponsoring social activities including dinners, fantasy football and sports teams. Firms even host off-site retreats where employees travel to scenic locations to go white-water rafting, alpine skiing or charity gambling. One firm has karaoke bar initiation rituals and hosts annual relay races. Respondents also reported the tendency for colleagues to date, especially because of the tendency to overwork: the long working hours provided little opportunity to meet a romantic partner outside the office. One man I met with at a conference recounted how at a friend's firm 'they are encouraged to sleep together'. He added that hiring materials feature married couples who met at the firm. At every co-ed event I attended, men commented on my appearance and asked me out explicitly on dates: one older man even suggested I meet his son and introduced me to his 'handsome young business partner'. Thus, boundaries between kin-like and kin-based relationships become blurred.

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Yet not everyone forges constructive bonds in these work settings. In some cases, sexual harassment prevented women from building trust with colleagues. One Asian-American woman lamented how men often make racialized and sexualized comments about her appearance. A male colleague made advances by saying, 'How do you keep so thin? Do you eat egg rolls?' She looked at me, raised her eyes, and opened her mouth in astonishment: 'You wouldn't believe the things people say to me'.

Other racial and ethnic minorities described difficulty in building relationships with white leaders. Matthew, a black man, reflected: 'The diversity problem is you have no black leadership. And when there aren't people in positions of power then the whole relationship game cannot be played.' According to Matthew, it is necessary to forge relationships with people in positions of power. Without black leadership, he explained, it is less likely a manager will identify a black man as having potential as a protégé, which involves recognizing the protégé as someone familiar. In white-male dominated industry, deep-seated beliefs about race inform perceptions of familiarity and prevent racial and ethnic minorities from advancing.

The importance of mentorship is evident in my interview with Jay, a Hispanic man with a decade of industry experience. When I asked Jay how he trained to work at a hedge fund, he responded:

> The business is very collegial. It feels like a family almost. One thing I learned immediately is there is a very strong mentorship environment. It's very patrilineal. What I noticed is, for example, my boss came from this place and he had been taught by this guy and then he had come from some other place. There was a very strong sense of that mentorship and master/apprentice type of relationship . . . One generation teaches the next generation who teaches the next generation. There's a strong sense of loyalty, there's a strong sense of kinship and family. It really does feel like a family.

Jay's response to my question about training immediately recognized mentorship as the way to gain the know-how of the industry. Family-like networks and master/apprentice relationships mold workers into future hedge fund managers. Jay specifically identified a patrilineal structure rooted in a sense of kinship and loyalty.

What Jay said next demonstrates the significance of tradition in patrimonial firms. Jay described how building relationships involves 'this organic process whereby you see people that have the same mentality, the same passion. It's very tough to explain from a data perspective; quantitatively, how do you quantify that? You just see it. You kind of feel it. It's organic.' Jay naturalized patrimonial structures by calling them organic, because he had been socialized into the tradition. According to Weber (2012), patrimonialism becomes recognizable when participants take the tradition for granted: it feels natural.

When I met Jay at a networking event, he was surrounded by younger professionals, a group noticeably composed of racial and ethnic minority men in a sea of white faces. As we talked, he stopped intermittently to introduce them to important contacts. I later realized they were his protégés. During our interview, I asked Jay how he developed these relationships. He explained, 'As you get older, wiser, more experienced, you seek somebody who reminds you of you, who has that same ambition, that same passion, that same drive. And you teach them all that you know.' He demonstrates how elite status is reproduced from one generation to the next. According to Jay, mentoring stems from a sense of familiarity, which provides a clue to the racial organization of this industry.

During fieldwork, I observed that networks form along racial, ethnic and national lines, as demonstrated by Jay's protégés. As minority men, Jay and his protégés highlight the

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underlying structure of the industry, because they counter the norm for white-dominated networks. Jay provided insights into how these networks become segregated. He described how 'people always try to place' him racially, as though he must be categorized. Jay said his ethnicity was a focal point of his professional interactions, suggesting that racial/ethnic identity is a primary marker through which people build relationships and professional networks.

Apprenticeships build the loyalty and trust underpinning the patrimonial structure and are an important factor in who advances in this lucrative industry. These master/apprentice relationships are predominantly among men and familiarity-based, which often prevents women and minority men from accessing the opportunities and rewards available in the hedge fund industry. Distinct from other mentoring relationships, when a hedge fund manager selects a protégé to groom and carry out his or her investment tradition, it may lead to the transfer of large sums of money.

9. Seeding a new hedge fund

Hedge fund managers launch firms by procuring initial investments, called 'seed' capital. Industry insiders call this process 'seeding', reflecting a distinctly reproductive concept of starting a firm. The initial funding usually stems from access to wealthy investors, elite networks and professional mentors. All reflect patrimonial structures enabled by trust networks based on a shared sense of loyalty among families, friends and colleagues.

Respondents described how they located initial investors through familial, racial, ethnic and religious networks. For example, Jeffrey, a white man, explained how he found investors when he launched a hedge fund in the 1990s:

> The client base was primarily some very large European families . . . My partners were very, very wealthy European families that were plugged into that world. There was no way you or I or anybody was going to pick up the phone and call these families . . . Wealthy French people don't take outgoing calls. It was very much a network effect.

Jeffrey accessed wealthy networks only by having a business partner from a rich European family. People without ties to family wealth could never access these investors.

Other respondents procured investments from their own social networks. Brian, introduced before, single-handedly ran his own hedge fund with $200 million under management for 20 years. He initially raised several million from his social networks: his former manager at an investment bank, the parents of ex-girlfriends, his family, his religious community, his contacts from an Ivy League business school and a colleague's father and his poker friends, who invested in Brian because he seemed 'trustworthy'. Brian recounted how his investment-banking mentor invested because he had trained Brian, demonstrating the importance of mentorship in facilitating seed funding.

White men dominate power-holding positions in the industry, and Brian and Jeffrey reflected the norm for white-dominated networks of investors. My sample, however, was more racially and ethnically diverse than the industry as a whole.[2] This allowed me to identify considerable variation in the experiences of racial and ethnic minorities. I found that some racial and ethnic minorities benefited from access to transnational capital flows. In

2 This is based on my field observations. Although information is available on hedge fund managers, I found no systematic data on the social demographics of the entire industry.

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these cases, people profited from non-white networks of wealth from places like Mexico, India and China. For example, one hedge fund manager, Jerry, secured funds from familial and professional wealth to launch his own fund in his 20s. Jerry, a Hispanic man, attributed part of his early success at an investment bank to his personal access to the assets of Mexican and Mexican-American families: He 'mobilized money from Mexican assets transferred across the border because of the conflict in northern Mexico, in places like Juarez'. At industry events, I also met several racial/ethnic minority men who worked for family wealth offices in India. These men's access to wealthy Indian families provided access to capital that did not rely on white-dominant, US-based networks.

Race and ethnicity structured access to rewards in different ways, depending on nationality and social class status. While racial and ethnic minorities who were not US-born or otherwise had access to wealthy networks abroad were at times able to generate alternative opportunities to access capital from wealthy elites, those who were US-born often recounted experiences with racism that blocked opportunities. Several racial/ethnic minority respondents stressed how their personal networks did not endow them with the same capital as their white colleagues, preventing them from launching a firm. As Matthew, introduced before, explained:

> [The diversity problem] starts from one thing and one thing only. Two separate people want to start a hedge fund using the exact same concept for the fund. One will have access to people with capital. The other will not. That's the difference between who can start a hedge fund and who can't.

Matthew's account supports previous research that documents how black financial professionals struggle to access white wealth (Bielby, 2012). This combined with the dearth of opportunities for mentorship, as Matthew identified before, causes them to miss out on opportunities to start their own firms.

Because of the large sums of money at play, highly successful hedge fund managers transition their firm structures into family wealth offices to manage their personal fortunes. Examples include George Soros, Carl Icahn and Steven Cohen (Copeland, 2014). Soros is providing $2 billion in seed funding for his firm's current chief investment officer, Scott Bessent, to launch his own firm (Burton, 2015). After Bessent's departure, Soros' son will take over managing the family's investment office. Similarly, upon his retirement, Warren Buffet plans to transfer leadership of Berkshire Hathaway to his son. Other billionaire hedge funders provide the funding for their sons to launch their own firms. For example, Andrew Marks, the 28-year-old son of billionaire Howard Marks of Oaktree Capital Management, is launching a firm with a $200 million seed investment from his father.

I found no record of this being done for daughters, which is consistent with research on other family businesses (Bessière, 2014). My interview with Justin, a hedge fund manager previously introduced, provided insight into why. One of his daughters works in finance. He expressed reservations about directing her into hedge funds. He said, 'Do I want to steer my daughters into this industry? I would help them out, but I don't know [if I want them to], because it's very much an old-boys industry.' Justin expressed concern about his daughters' well-being entering into an industry dominated by men, which may help to account for why sons rather than daughters appear to follow their father's careers.

Some investment strategies are sustained with a small asset base, so for larger hedge funds, seeding other small firms allows for more opportunities to profit. Investment

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networks formed from master/apprentice relationships reveal a patrimonial firm structure where a manager begins a lineage of affiliated firms whose funds bolster the manager's overall asset base. As a seed investor, the manager usually receives a percentage of the firm's total revenue (Jurish *et al.*, 2010). The protégé in return gains access to ongoing guidance, which is evident in the similar investment strategies and profit margins.

The example often cited in the industry is Julian Robertson who earned the nickname the 'Wizard of Wall Street' because he was the most successful hedge fund manager in the 1980s and 1990s (O'Keefe, 2008). He launched his firm, Tiger Management, in 1980. Over the course of 20 years, the firm averaged net returns of 25% a year and peaked at $22 billion in assets. Today, Robertson actively manages his own money from his family office atop a Park Avenue skyscraper (Abelson, 2015).

Robertson's protégés founded successful firms commonly referred to as the 'Tiger Cubs'. For some, Robertson provided the seed funding, reflecting a practice of reciprocity. The number of affiliated firms—the Tiger Cubs and Grand Cubs—is estimated to be 120 with over $250 billion in assets under management (Altshuller *et al.*, 2014). This amounts to roughly 8% of the total $3.2 trillion in assets managed by the industry (Preqin, 2017). Tiger Cubs are top firms including Lone Pine Capital, Viking Global Investors, Tiger Global Management and Maverick Capital. Since 2006, Robertson's protégés outperformed the Standard & Poor's 1500 Index by 53.9% (Altshuller *et al.*, 2014). The firms feature similar investment strategies and returns, suggesting Robertson groomed them into his model. In other words, they feature a shared investment tradition.

Robertson generated wealth not only from his own investment fund: he trained a series of protégés and funded them to start their own firms. Thus, he benefitted from hiring, grooming and seeding his protégés. The Tiger Cubs demonstrate how seeding practices do not only stem from familial ties, but also from family-like ties within a patrimonial firm.

10. Conclusion

The hedge fund industry demonstrates how three patrimonial practices—hiring, grooming and seeding—reproduce social class inequality within the financial sector. A notable hedge fund manager may establish a patrimonial lineage of firms guided by his or her investment tradition. The manager receives ongoing financial benefits from grooming and investing in these protégés. With few exceptions, managers are predominantly white men, because beliefs about gender and race bind patrimonial allegiances, shape perceptions of trust, and structure access to rewards. These findings demonstrate how the social and cultural capital provided by socioeconomic status is both gendered and racialized. While some members of racial and ethnic minorities may benefit from access to transnational capital flows, others encounter racism and blocked opportunities. Thus, gender and race are not interchangeable but interact with one another and other systems of social inequality such as nationality and social class.

A product of the expansion of the US financial sector, growth in the hedge fund industry suggests a shift toward smaller firms funded through trust-based networks. Charles Tilly (2001) predicted the return of networks of trust as the fabric of enterprise in late-stage capitalism. To guard against risk and uncertainty, people place trust in stronger forms of social organization, such as familial, religious, and ethnic communities. Highly uncertain environments, e.g., financial crises, lead trust networks to close off and restrict social exchange (Cook, 2005). In an era of financial uncertainty, investors may lose trust in large financial

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institutions and instead build local networks that provide a sense of stability. The hedge fund industry captures a movement toward less regulated firms driven by patrimonial networks of trust. Patrimonialism limits resource distribution and exacerbates inequality, which helps to account for the financial sector's role in widening inequality.

Previous research has contradictory findings on the US elite. Mark Mizruchi (2013) identifies a socially and politically fragmented elite, while others attribute rising earnings to tight elite networks that practice compensation benchmarking (DiPrete *et al.*, 2010; Kim *et al.*, 2015). A study of local elites finds that the most influential segments feature a high level of cohesion, and less gender, racial and class segregation (Cornwell and Dokshin, 2014). Focusing on one industry, however, reveals an interconnected—and potentially politically mobilized—financial elite where patrimonialism structures relationships among white men and facilitates gender, racial and social class segregation, especially among the most influential members.

This article expands on research on wealthy elites by examining mechanisms generating patrimonial structures in the US financial sector; however, it does not examine the implications for the US government. Future research should investigate broader political ramifications. First, hedge funds have a long history of collapsing currencies—as in the case of George Soros who 'broke the Bank of England' by short-selling the British pound—and of causing international financial crises such as those in Asia in the late 1990s (see Pitluck, 2014).

Second, the ties between government officials and Wall Street warrant additional investigation. Notable examples of politicians associated with Goldman Sachs include former Treasury Secretary Henry Paulson, former Head of the S.E.C. Arthur Levitt, former House Majority Leader Dick Gephardt, and former White House Chief Strategist Stephen Bannon. This trend extends to hedge funds. After Ben Bernanke completed his second term as Chairman of the Federal Reserve, the $25 billion hedge fund Citadel appointed him senior advisor. Bernanke's predecessor, Alan Greenspan, has also worked as a consultant for several hedge funds. More recently, Robert Mercer, hedge fund manager of the $65 billion Renaissance Technologies, invested millions in Donald Trump's presidential campaign and in Breitbart News, of which Stephen Bannon is a founding member (Mayer, 2017). Hedge fund founder Anthony Scaramucci also briefly served as White House Communications Director in 2017. Further research is necessary to investigate 'revolving door' or patrimonial relationships that extend from finance to the state.

Third, hedge funds managers have become increasingly intertwined in international affairs. For example, hedge fund creditors led by billionaire Paul Singer of Elliott Management mobilized legal interventions to reclaim over nearly $100 billion of bonds lost in the 2001 Argentine default. Singer targeted Argentine government assets, foreign exchange reserves and prominent politicians' personal assets. In 2012, Singer seized an Argentine naval vessel as collateral for the sovereign debt. The US Supreme Court ruling on behalf of the credit holders prompted a second Argentine default in 2014. Argentine President at the time, Cristina Fernández de Kirchner, accused Singer of extortion of government funds.

By revealing the inner workings of elite networks, the theory of patrimonialism provides deeper insight into how elites protect their interests and maintain their independence. Patrimonialism in the hedge fund industry entrenches inequality by identifying, grooming and seeding future generations of financial elites. As Wall Street networks overlap with worldwide political systems, patrimonialism has broader implications for both the economy and government. Several respondents cited how the networks characteristic of patrimonialism foster information sharing that may veer into illegal practices. One respondent claimed

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that 'illegality is rampant', citing insider trading. These kinds of patrimonial practices warrant closer examination, whether in finance, government or other sectors. The study of patrimonialism is especially pressing, as we do not know how patrimonial networks in finance may affect public policy and systemic inequality more broadly.

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Appendix

Table A1. Respondents' characteristics

Characteristic	Number
Age	
20–29	6
30–39	15
40–49	16
50–59	7
60–69	1
Education	
Doctorate	9
Masters	13
Bachelors	23
Gender	
Women	22
Men	23
Role	
Investments	24
Sales	15
Support	6
Tenure	
Less than 10 years	12
10–20 years	19
More than 20 years	14

All names are pseudonyms to maintain confidentiality and protect respondents' privacy.

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