

A Study of Cultural Capital and Investment Banking

How to Increase the Number of African-
Americans in Investment Banking

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Major Aims and Significance

The aim of this study will be to—within the confines of one study—prove that there is a lack of cultural capital in lower income students of African American descent that has led to a low number of African-Americans in investment banking.

Although most of the past research in Cultural Capital has been on the racial disparities in participation of the arts, the principal investigator (PI) will look to prove that the racial disparities in the investment banking industry are due to a lack of cultural capital that is necessary to succeed in the industry. Essentially, the principal investigator is interested in the effects of cultural capital on African-American success rates and interest in investment banking.

The Principal investigator will perform one study in which there are two groups- one experimental, and a control group. Each group will include 50 African-American students entering their junior year of high school that attend New York City Public Schools, qualify for reduced lunch, have at least a 3.0 GPA and their PSAT scores are in the 65th percentile and above.

Group A will be the experimental group and group B will represent the control group. Each student in group A will be paired with an individual that is a director in investment banking. They will meet with this individual, which we will refer to as a “mentor” once every other month (6 times in one year; 18 during entire study). These students will upload required assignments onto a website created for the study before each meeting as well.

Students in both groups will be asked a set of questions in an hour long extensive interview to assess both their embodied and objectified culture, as well as their career interests before the study begins, and every six months throughout the study. The parents of each student will also be interviewed using the same set of questions at the beginning of the study.

The goal is to analyze the changes in embodied and objectified cultural over time (the three year time period). We will then analyze the data to measure changes in cultural capital. The principal investigator hypothesizes that the Cultural Capital of the students in group A will show a growth in cultural capital while the control group will not. The PI also theorizes that this increase in cultural capital will lead to an increase in interest in investment banking and success rates in securing internship positions.

It is important that we, as a society begin to research and attempt to understand why there is such a lack of diversity in investment banking. A student that graduates and enters investment banking makes a base salary of \$70,000 plus a \$10,000 sign-on bonus. These positions are very

competitive and the PI believes that because African Americans are overrepresented in the lower half of the income distribution, they do not gain the cultural capital through adolescence that is necessary to secure these types of opportunities (Magnuson & Waldfogel, 2008). This also means that there is an industry with very lucrative salaries, that is not accessible to an entire group of people due to their socioeconomic status and consequently due to race. The PI believes the root of this issue is a lack of cultural capital related to finance within the African-American community, and at higher rates in the low income portion of this community.

The PI is qualified to lead this experiment because she interned in Credit Suisse's investment bank during undergrad and then went on to be a full time analyst at JP Morgan after graduating with a B.A. in Economics and Psychology. She was also a participant in INROADS and Management Leadership for Tomorrow, two of the leading minority career prep programs for investment banking.

Background

African American's are underrepresented in the investment banking industry. The most recent statistics available by the U.S. Equal Employment Opportunity Commission state that, "employees within the industry are mostly white and mostly male" and found in a study performed in 2000 that Blacks were about 5% of the officials and managers in the large establishments during 1995- 2000.¹

The stagnant growth of African-Americans in investment banking and lack of diversity could be caused by a number of factors. One theory is that discrimination within the interview process is to blame despite an increase in recruiting through diversity career prep programs such as INROADS, Management Leadership for Tomorrow (MLT), and Students for Educational Opportunity (SEO) that partner with investment banks in the attempt to increase the number of African-Americans in the industry.

Tom Tyler, the chair of psychology department of New York University has written several articles that hint at distrust within race relations that have led to distrust of government institutions by African-American, which may have also led African-Americans to distrust financial institutions. In *The Psychology of Enfranchisement* Tyler writes of the political process that it is important to "view exclusion from participation as denying people a more important statement about group membership (Tyler & Gonzalez 2008)." African-Americans may not be interested in investment banking or be concerned with the financial services industry because of the lack of African-Americans actually participating in the industry.

George Dent, Professor of Law at Case Western Reserve University Law School, also discusses the role of trust in his paper *Race, Trust, Altruism, and Reciprocity*. He suggests that because

“trust and altruism tend to be reciprocated, government can encourage these traits by publicity.” He goes on to discuss how this build in trust can lead to improvement in racial inequality (Dent, 2005). So while these other factors have been taken into account in the lack of African-Americans in investment banking, the principal investigator (PI) believes that the most fundamental factor and reason for this lack of diversity is due to a lack of cultural capital within the African-American community (in the area of finance/investment banking).

Cultural capital was a concept developed by Pierre Bourdieu, to explain the ability of elite managers and professionals to transmit their privileged status to their children, a process he referred to as social and cultural reproduction (Bourdieu, 1977). Paul Dimaggio, a professor of sociology at Princeton University wrote that “Bourdieu’s notion of cultural capital is a flexible and powerful tool for understanding the relationship between culture, power, and inequality in contemporary societies (Dimaggio, 1982).” It is through this lens that the PI proposes a study on the role of cultural capital on one’s choice to enter the field of investment banking.

According to Bourdieu, members of the “dominant class” tend to invest in their children’s “cultural capital”—an easily familiarity with prestigious forms of culture—as a means of ensuring their success (Dimaggio 1982). Cultural capital is also generally (and variously) defined as proficiency in and familiarity with dominant cultural codes and practices—for example, linguistic styles, aesthetic preferences, and styles of interaction (Aschaffenburg & Maas, 1997). As mentioned earlier, the majority of investment bankers are white, and according to Bourdieu’s theory this would mean that this cultural capital would be being transmitted from generation to generation within one race. This is also important to note because it is a well known fact that the majority of people currently working in investment banking were able to gain access to the field because of their social networks (Bell, 2002).

Bourdieu also contends that cultural capital consists of familiarity with precisely those subjects that schools do not teach but that elites value, then including art and music permits us to tap dimensions of cultural capital that are inculcated outside the school (Bourdieu, 1986). The PI believes that African Americans are not gaining this cultural capital available to the elite outside of the classroom that is necessary to succeed in investment banking.

Although there has been research on the cultural capital, it has been centered on the arts and the rates of participation in high culture arts by blacks versus whites. There is also little to no research on the topic of cultural capital outside of its affect on school success. Although a brief overview of past literature on cultural capital will be given, it is important to take note of the fact that the proposed work will be using and measuring cultural capital in reference to the industry of investment banking—which has never been done in past research.

In Paul Dimaggio's *Cultural Capital and School Success: The Impact of Status Culture Participation on the Grades of U.S. High School Students* he found that "measured intelligence explains no more than 15 to 30% of the variation in students' high school grades (Dimaggio 1982)." To test the hypothesis that cultural capital significantly influences grades, separate regressions were executed for female and male eleventh graders. He found that teachers communicate more easily with students who participate in elite status cultures, give them more attention and special assistance, and perceive them as more intelligent and gifted than students who lack cultural capital (Dimaggio 1982).

In this study Dimaggio analyzed data from a random sample of white respondents to PROJECT TALENT to, in part, measure cultural attitudes. Dimaggio suggests that his results suggest that it is important to distinguish among the three dimensions of cultural involvement in assessing and explaining their effects. He also discovered that returns to cultural capital are greater for students from high status homes than from low status backgrounds (Dimaggio, 1982).

Dimaggio found that educational attainment is a very imperfect proxy for cultural capital and that single measures of "cultural capital" or participation in status cultures are inadequate. It suggested that it may be important to assess the differing role cultural capital may play in the mobility strategies of different class segments; and to compare the influence of cultural capital in different kinds of educational and occupational settings.

Because of the lack of research on cultural capital, the article *The Intergenerational Reproduction of Cultural Capital: A Threefold Perspective* contributed heavily to the development of the proposed work that will be discussed. This paper analyzes the three manifestations of cultural capital. Kraaykamp and Eijck found that the most elaborate studies measure effects of parental cultural capital in its institutionalized (education) as well as its embodied (cultural participation or taste) state on children's educational attainment (Kraaykamp & Eijck, 2010).

In this article Kraaykamp and Eijck compare the three states of cultural capital in the process of the intra- and intergenerational transmission of resources. In particular they analyzed the impact on children of parental institutionalized, embodied, and objectified cultural capital.

The embodied state refers to cultural capital in the form of long-lasting dispositions of the mind and body (Bourdieu 1986). Therefore, embodied cultural capital is very much tied to an individual body, including the brain. It is, according to Bourdieu, "external wealth converted to an integral part of the person, into a habitus," and therefore "cannot be transmitted instantaneously (unlike money, property rights, or even titles of nobility) by gift or bequest, purchase or exchange (Bourdieu, 1986)."

Embodied cultural capital is accumulated in a lifelong process of socialization and it takes place in large part unconsciously. The accumulation of embodied cultural capital covers the entire socialization period, which therefore creates cultural distinctions that feel like natural differences, and results in the reproduction of embodied cultural capital being the best hidden form of intergenerational capital transmission.

Cultural capital in its institutionalized form transcends the biological limits of capital in the embodied form. Bourdieu calls the institutionalized state of cultural capital “a form of objectification which must be set apart because... it confers entirely original properties on the cultural capital which it is presumed to guarantee (Bourdieu, 1986).” According to Bourdieu and Passeron, school success is strongly determined by the embodied cultural capital students bring from their families of origin. Yet, because educational differences tend to be unjustly attributed to differential ability rather than to cultural resources transmitted within the family, Bourdieu argues that, to some extent, academic credentials serve to legitimate the social transmission of privileges (Bourdieu & Passeron 1977).

The objectified state of cultural capital refers to “cultural goods (pictures, books, dictionaries, instruments, machines, etc) (Bourdieu, 1986). The possession of cultural objects so far has received little attention in the cultural capital or cultural reproduction literature. Unlike embodied or institutionalized cultural capital, objectified cultural capital can be immediately transmitted. However, this transmissibility only applies to the material objects and not to the way in which these objects are to be appreciated (which, again, draws upon embodied cultural capital).

Michele Lamont and Annette Lareau wrote a paper entitled *Cultural Capital: Allusions, Gaps, and Glissandos in Recent Theoretical Developments* in 1988 and proposed to limit the definition of cultural capital to what they consider the most important and original aspects of the concept: Widely shared, high status cultural signals (attitudes, preferences, formal knowledge, behaviors, goods, and credentials) used for social and cultural exclusion (Lamont and Lareau 1988). Most empirical research has referred to *highbrow* culture in the interpretation of cultural capital.

In their study Kraaykamp and Eijkelink limit cultural capital indicators to legitimate or high status cultural signals although they agree with Lareau and Weninger that the concept of cultural capital does not preclude the inclusion of more popular elements.

In their study, Kraaykamp and Eijkelink found that a strong intergenerational transmission of cultural capital occurs. Highly educated parents (institutionalized capital) provide their children with the resources to do well in school. Parents who frequently engage in high-brow cultural activities (embodied capital) inculcate an interest in high-brow activities in their children. The central role of embodied cultural capital probably lies in the fact that it shares its cognitive or

experiential component with institutionalized cultural capital and its taste-related component with objectified cultural capital. That is what makes it strong also as a predictor of other states of cultural capital, or as an explanation for intergenerational correlations. In addition, embodied cultural capital does not seem to become less important (Kraaykamp and Eijcklimit, 2010).

Although objectified cultural capital is positively related to respondents' own institutionalized and embodied cultural capital, there also seems to exist, an alternative mode of material appropriation that consists of direct inheritance, either of the goods themselves or of the inclination to acquire them.

Kraaykamp and Eijck conclude that the fact that the three states of cultural capital are so strongly related at both the inter- and the intra-generational level demonstrates once more that cultural inequality is very much present today and rather persistent (Kraaykamp, & Eijck, 2010).

Proposed Work

It is based off the aforementioned research that the PI proposes the following research to increase cultural capital in the African Americans that will hopefully lead to an increase in the number of successful African Americans in investment banking.

The proposed study will include two groups of students –one experimental group and one control group. Group A will be the experimental group and group B will be the control group. Each group will consist of 50 students from the NYC area that attend public school. All will qualify for reduced lunch, have a minimum grade point of average of 3.0 and will have scored within the 65th percentile and above on the PSAT during their sophomore year. There will be 25 females and 25 males in group A and group B will have the same composition. Each student in both groups must be entering their junior year of high school and must be planning to attend college. Each student in group A must commit to the required 18 meetings and assignments as well as the required interviews. Each student in group B must commit to participating in the required interviews.

The study will begin in June after the sophomore year of high school and will conclude in the June after the freshman year of college. Each student in both group A and B is required to apply to both SEO-U and INROADS during freshman year of college.

The parents of the students in both groups will be questioned before the study begins to gauge the state of the three types of cultural capital. Institutionalized cultural capital will be measured as educational attainment in years. This range will be from 1-21 to include education from Kindergarten through a doctorate degree. The parent with the highest schooling level will represent the parental education variable.

Embodied Cultural capital will be measured by the responses to a set of questions during an extensive hour long interview to gauge the cultural capital of the parents in terms of the financial services and investment banking. The questions include (but are not limited to):

1. *Have you invested money in the past five years? If so- what did you invest in?*
2. *Do you watch CNBC. If the answer is yes, how often?*
3. *Do you read The Wall Street Journal, The Financial Times, or Barron's?*
4. *Do you know what investment banking is? Sales & Trading?*
5. *What are the major economic indicators?*
6. *Have you ever taken a corporate finance class?*

We will operationalize objectified cultural capital as the possession of certain cultural goods. Respondents will be asked questions that include:

1. *Do you have a subscription to a Newspaper? If so which ones? (only write down the names of finance related newspapers)*
2. *Do you own Liar's Poker?*
3. *Do you own the Seven Habits of Highly Effective People?*
4. *Do you own Fabozzi's Handbook of Fixed Income Securities?*
5. *Do you own Wall Street Words by David Scott?*
6. *Do you own any type of securities (bonds or stock)?*

The more questions the parents can respond to in the affirmative, the higher the cultural capital will be considered/measured to be.

Each student in both group A and group B will also be interviewed for an extensive one hour interview using the same set of questions to measure their current embodied and objectified cultural capital.

Because embodied cultural capital is considered the most central manifestation of cultural capital- we would expect the students whose parents scored the highest in cultural capital on this portion of the survey to also score highest in their first interview.

An additional set of questions will be asked of each student to gauge interest in the finance industry. These questions will include:

1. *What do you expect to major in during college?*
2. *What are your top three career choices?*
3. *If you could invest to buy any material object, what would it be?*
4. *What is your favorite subject in School?*
5. *What do you feel are your strengths?*
6. *If you could take a free college course, what would kind of course would it be?*

Each student in group A will be placed with a man who is an investment banker who is at the level of Director within their firm. This person will meet with the student every other month for the three years (total 18 meetings). The answer to question three, “If you could invest to buy any material object, what would it be?” will be used as incentive to actually learn how to invest.

Each meeting will be progressive, build off one another, and will be an hour and a half in length. The student must always upload their assignments a week in advance of the meeting with their mentor. The last meeting will include the construction of a portfolio based on the state of the markets that would lead to the type of returns necessary to buy the object mentioned in the student’s answer to question 3. Below is the structure of the first and second meeting. The following 16 meetings will follow the same structure while different in substance (in discussion). The titles of the four subsequent meetings are also noted as examples.

1. Investment Banking (An Introduction)

- a. Discuss the article the student picked in preparation for the meeting (and was uploaded to the website prior to meeting). The mentor will answer any questions the student may have had and discuss the larger relevance of the article to what is currently taking place in the financial markets.
- b. The student will then speak with the mentor about the definition of investment banking that he/she has found in their own research in preparation for the meeting (which was also uploaded to the website prior to meeting). The mentor will guide the discussion and answer any questions the student might have.
- c. By the end of this session the student should thoroughly understand the concept that is also the title of the session. So-in this particular session- the student should understand the role of the investment bank and the different divisions within the institution. For example, the coverage banking division, the sales & trading division, and research division.

2. Equities

- a. Discuss the article the student picked in preparation for the meeting (and was uploaded to the website prior to meeting). The mentor will answer any questions the student may have had and discuss the larger relevance of the article to what is currently taking place in the financial markets.
- b. The student will then speak with the mentor about the definition of equity that he/she has found in their own research in preparation for the meeting (which was also uploaded to the website prior to meeting). The mentor will guide the discussion and answer any questions the student might have.
- c. By the end of this session the student should thoroughly understand the concept that is also the title of the session. So-in this particular session- the student should

understand the meaning equity/stocks. For example they should understand that buying a share of stock in a company is essentially buying ownership in that company. They should understand the pros/cons of owning stock versus debt and the larger picture of equities vs other financial instruments.

3. **Fixed Income**
4. **Emerging Markets**
5. **Mergers & Acquisitions**
6. **Buy Side vs Sell Side**

During each meeting the “mentor” will answer any questions the student might have about the given assignment. Anything the student did not understand will be explained. Each student will also have to come to meeting prepared to discuss an article from *The Wall Street Journal*, *The Financial Times*, *Barron's*, or *Bloomberg*.

Every six months each student in both groups will be interviewed with the same questions asked in the first interview to measure changes in cultural capital. At the end of the study each student in both groups the student will be interviewed once again so that changes can be measured. We will also take note of how many students were able to secure internships versus the control group during the freshman year of college.

The hypothesis is that this type of mentee intervention will increase the cultural capital of the students in group A, while there should be no growth in cultural capital in reference to investment banking observed in group b. This increase in cultural capital, in the form of both embodied cultural capital and objectified capital, will also lead to an increased interest and competence in investment banking and the financial services industry (that we believe will also not be observed in the control group). Students in group A should be better qualified for the competitive interview process and have higher success rates in securing an internship than in group B. If this is the case, then it may be possible to implement this type of program on a wider scale to increase diversity in investment banking.

We will also test the students using the Raven's Progressive Matrices as well as the Stanford-Binet IQ test prior to the study. We also give the students an EQ test and the GRIT test (prior to test) and analyze the data to observe any additional correlations outside of those related to cultural capital. These measures will be taken in the event that we find no changes in measurement of cultural capital (we will look to these other factors to observe if they can be correlated to any changes observed during the study).

The PI will be applying for additional funding to finish out the longitudinal study to find out what majors were completed, and if students went on to apply to MLT or SEO- as well as if they entered analysts programs after earning an undergraduate degree.

Time Table & Dissemination Plans

The study will begin in June 2012. The students will have just finished their sophomore year and will be entering their junior year of high school. The parents of each student will be given the extensive one hour interview in June 2012. Each student will also take the extensive one hour interview in June 2012.

The meeting with the mentor will take place every other month, on the last Saturday of that month, beginning in June 2012. The student must upload their required assignment onto the “*linked in*” website a week in advance to the meeting with their mentor.

This equates to a total of eighteen meetings and eighteen assignments (dates of meetings are below).

Year 1	6/30/12	8/25/12	10/27/12	12/29/12	2/23/13	4/27/13
Year 2	6/29/13	8/31/13	10/26/13	12/28/13	2/22/14	4/26/14
Year 3	6/28/14	8/30/14	10/25/14	12/27/14	2/28/15	4/25/15

The study will conclude in April 2015. Each student will be given the same extensive one hour interview in December 2012, June 2013, December 2013, June 2014, December 2014, and April 2015, in addition to that given in June 2012.

The principal investigator intends to write an article about the study and its results. This article will be submitted for publication in several journals including *The American Journal of Psychology*, *Journal of Cross-Cultural Psychology*, *Culture & Psychology Journal of Occupational and Organizational Psychology*, *Developmental Psychology*, *Research in Social Stratification and Mobility* and *The American Journal of Sociology*. It will also be submitted to several magazines and newspapers such as *Diversity Inc.*, *BusinessDiversity*, *Enterprise*, *The Wall Street Journal*, and *Barron's*.

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¹<http://www.eeoc.gov/eeoc/statistics/reports/investmentbanking/index.html>