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Beyond Convergence: Uncovering the recruitment patterns of white-collar employees in a peripheral economy

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Abstract

The recruitment of labor is influenced by social, market, and technological factors. While corporate strategies have been extensively studied in the field of business history, systematic analyses of human resource recruitment practices—particularly those utilized by large modern organizations operating—remain a compelling topic for further exploration. This article addresses this concern by examining the hiring practices of a leading commercial bank during the period from 1915 to 1937, using manually collected personnel data. Our analysis reveals that the sector-wide employment practices were rather akin to those of its industrialized competitors in the US and Europe. However, what's more significant is that we draw attention to the bank's employment of a double insurance policy and preference for local candidates as cultural aspects of its hiring procedures. We argue that these features were developed in response to the uncertain business environment and overall challenges faced in a developing context.

Keywords: Emerging Markets, Institutional Voids, Recruitment, Labor Management, Personnel Policy

1. Introduction

Due to the importance of recruitment practices in employment relations, there is a wealth of literature on core economies in the field of business history[1]. Recruiting strategies in peripheral regions, such as the evolution of modern staffing management and hiring practices in service sectors, remain a compelling area of study, particularly in markets marked by underdeveloped institutions and unstable environments (Gao et al., 2017). Investigating how firms adapt to these constraints enhances our understanding of labor and human resource management. For example, Decker (2005) highlights HR transformations in the financial industries of post-colonial African countries following the end of British Empire, while Wezel and Ruef (2024) examines intra-organizational inequality within the Dutch East India Company during the 18th century, analyzing personnel programs that distinguished between Dutch and non-Dutch employees. These studies emphasize the importance of understanding recruitment and HR strategies within dynamic historical and regional contexts.

Drawing on a manual collected micro-level data from primary sources, we carry out a systematic investigation of the recruiting activities of a leading commercial bank, Shanghai Commercial and Savings Bank (hereafter SCSB), in China over the first decades in the 1900s. Our research findings present compelling evidence that supports the notion of integrating various Western recruitment practices that had already entered China by the 20th century. Among these practices were formal procedures for job applications, structured interviews, and arrangements resembling those of an internal labor market (hereafter ILM)[2]. The study then brings to light a notable convergence occurring in human resource management (HRM) practices across both developed and developing nations, particularly within the context of large service-oriented enterprises. This suggests that despite differing economic backgrounds, companies in various countries are increasingly adopting similar HRM strategies to effectively attract and manage talent.

The study also reveals distinctive elements in SCSB's recruitment strategies, including the implementation of a double insurance policy and a preference for hiring candidates from the local region. These unique features in recruitment were developed in response to the business uncertainty and overall hostile environment prevalent in a developing context. These findings should be construed as evidence that banks in China

have developed policies and practices grounded in surrounding social norms and cultural contexts to ensure that new hires furnish accurate information, thereby reducing the information asymmetry between employers and employees. The Chinese case, therefore, presents its own resolutions to agency problems, which have been enduring challenges in HRM on a global scale (Akdere & Azevedo, 2005).

The Chinese case is relevant intellectually, adding to research gaps in existing literature because it not only adding new setting to explore established core debates but rather revealing different business responses to the changing contexts that rarely observed in history of industrial countries. Institutional voids, the shortage of skilled labors, unstable social environment collectively challenged the hiring policies to select best labors for firms (Gao et al., 2017; Živojinović et al., 2019; Liedong et al., 2020). Existing Latin-American experiences shows a colonial route with a dominance of multinational companies in the recruiting practice. For instance, mining multinationals in Chile often recruited foreigners to managing and middle-management positions even in the post-colonization. The enclave tendency led to an exclusion of Chileans, hence the prevention of managerial knowledge transfer (Ranestad, 2017). In contrast, China, despite experiencing a prolonged period of constrained autonomy, took a different path by prioritizing local talent and culturally compatible hiring practices[3]. Exploring these alternative trajectories of managerial practices expands the existing literature and provides a contrasting perspective to the experiences of industrialized countries.

Furthermore, during the early 20th century, blue-collar workers represented the majority of the workforce, leading to extensive studies on hiring practices for lower- and middle-level positions (Thornthwaite, 2012). At the same time, research also delved into the selection of top managers and managerial staff, particularly in regions experiencing development or formalized colonization. These studies provided insights into employment trends and organizational structures across various societal levels. (Schuler & MacMillan, 1984; Schuler et al., 2002; Decker, 2022). The hiring process is particularly interesting because white-collar employees should not be regarded merely as interchangeable laborers due to their possession of specialized skills that are crucial for the fulfillment of their diverse roles. Unlike traditional blue-collar roles, white-collar jobs frequently operate in settings where direct supervision and efficiency monitoring are difficult to implement, thereby amplifying the issue of asymmetric information in management (Bergh et al., 2018; Hopp et al., 2009).

Consequently, it becomes imperative for employers to design mechanisms that

effectively promote employee incentives and motivation. This is particularly pertinent within the financial sector, where the complexity of tasks and the demand for precision necessitate a highly skilled workforce. Conducting a systematic investigation into white-collar labor management, especially in the burgeoning banking sector of China in early 20th century, offers significant contributions to the existing body of literature. By examining management practices in early Chinese banks, researchers can glean valuable insights into the development of strategies that enhance employee performance and satisfaction in specialized work environments.

2. Theoretical foundation to understand the recruiting activities

This section provides a theoretical framework as well as empirical background for analyzing recruiting activities. By reviewing existing literature, it aims to highlight the role of recruitment behaviors in academic discussions and their importance for modern enterprises in HRM.

Grounded in the theory of transaction costs, as articulated by scholars such as Chandler (1977), Coase (1937), and Williamson (1975), employers face the fundamental decision of whether to externalize labor activities in the marketplace or to internalize them within the confines of their organization. This decision hinges on an evaluation of the relative costs and benefits associated with each coordination mode.

Analyzing the hiring processes employed by large corporations' sheds light on the extent to which these firms rely on the external labor market, thereby reflecting early time labor decisions influenced by transaction costs. Traditional British enterprises, often smaller and family-owned, were typically loosely organized (Gospel, 1988). In the nineteenth and early twentieth centuries, British employers preferred market mechanisms and externalized their labor activities (Fitzgerald, 1988). Managers adjusted their workforce through recruitment and layoffs in response to changing demand, filling higher-level positions with both internal and external candidates, and setting wage levels based on external market indicators (Wilson & Thomson, 2006; Gospel, 1992, p. 24). In contrast, as firms increasingly relied on external equity financing in the USA, Germany, and Japan, the distinction between ownership and managerial control became more pronounced. This shift significantly influenced labor management practices, leading to bureaucratic approaches and internal coordination systems. Consequently, firms implemented comprehensive employee welfare programs,

including lifetime employment, seniority-based wages, and extensive fringe benefits[4].

Among the recruiting literature, two major issues exist, calling for further research in this area. Firstly, while literature on industrial countries in earlier periods has been extensive, there is a growing interest but limited supply in how enterprises in emerging markets arrange their HRM practices to respond to the social and economic environment (e.g., Faure, 2006; Tignor, 2007). Developed economies typically offer several advantages over emerging markets, including superior access to quality education and healthcare, more robust legal systems with a stronger rule of law, better protection of property and intellectual rights, and greater political stability (Austin et al., 2017). These advantages have historically influenced HRM practices, leading to distinct approaches in developed versus developing contexts. Given these differences, HRM practices in emerging markets have had to adapt to unique challenges and opportunities, resulting in a different landscape compared to developed economies.

Consequently, scholars increasingly advocate for expanding research perspectives to include areas like recruitment decisions (Ranestad, 2017; Keneley, 2017), labor training (Abdelrehim et al., 2022; Yeh, 1995), wage determination (Seltzer & Simons, 2001; Boot, 1991) , career ladders (McKinlay, 2013; Rei, 2014), and corporate culture (Chan, 1996; van den Broek, 2011) beyond Europe, North America, and Japan, thereby incorporating the historical narratives of other regions (Jones & Zeitlin, 2008; Austin et al., 2017). This expansion is crucial for developing a more nuanced and globally representative understanding of business practices.

Secondly, studies of hiring activity on the early 20th century predominately concentrated on lower- and middle-level, especially blue-collar-type workers, since these have been the main group of employees over most of the time period in early 20th century (Gospel, 2009). The tendency has much the case in the emerging contexts. The research gap has much progressed recently as there are studies on the selection of top managers and managerial employees in developing regions and formal colonized areas (Schuler & MacMillan, 1984; Schuler et al., 2002). Nonetheless, thorough assessment of the hiring activity is still lacking in the research vein. This question is particularly interesting because white-collar employees are not simply hired hands, employed when needed at whatever rates the market will bear and then just as quickly let go. Rather, corporations must consider strategies that benefit the profitability of the company by thinking systematically about gaining the loyalty, cultivating the efficiency, enhancing the security, and improving the satisfaction of the company's workforce.

Given the research gaps in existing studies, an examination of recruitment activities in service corporations within a developing context enables us to determine whether these enterprises have followed the same trajectory as those in advanced economies regarding labor decisions in modern enterprises. In particular, with the advent and proliferation of modern enterprises in developed economies from the 19th century onwards, there has been a global trend toward the internalization of employment relations (Sundstrom, 1988; Howlett, 2004; Rei, 2014). This trend features the rise of ILM (Doeringer & Piore, 1971) within organizations, where external recruitment is mainly restricted to a few entry-level positions, while higher-level roles are usually filled through internal promotions, establishing specific entry points for personnel within firms (Morley et al., 1979). After decades of development, the theory evolved into what is known as personnel economics (Lazear & Oyer, 2012). The progress of this field emphasizes the implications and impacts of ILM on various aspects, such as promotions (DeVaro & Waldman, 2012; Liang et al., 2019), compensation structures (Gielen et al., 2010; O'Halloran, 2012), and teamwork (Hamilton et al., 2003; Bloom et al., 2007). By assessing whether hiring from the external labor market is mainly restricted to a limited number of entry-level positions, an analysis of recruitment activities reveals the key personnel entry points that characterize ILM, as well as the degree to which there is a conscious emphasis on developing and promoting existing staff within the organization.

Additionally, a foundational explanation for the ILM tendency is attributed to the concept of firm-specific human capital, as initially proposed by Becker (1962). This theory suggests that the unique skills and knowledge acquired by employees within a particular firm significantly contribute to their value and productivity[5]. For personnel management, Frank and Obloj (2014) found that firm-specific human capital can lower agency costs by aligning employee performance with company objectives. This underscores the significance of firm-specific knowledge in enhancing organizational efficiency through strategic human capital management within the ILM framework (Hatch & Dyer, 2004; Mayer et al., 2012). By examining the educational and professional backgrounds of new hires, we can better understand the specific human capital that these individuals bring to the organizations, thereby assessing the relevance and applicability of Becker's theory in a developing context. This assessment is crucial for understanding how well the theory holds in varying economic and organizational environments.

Lastly, HRM has persistently contended with agency problems, wherein the goals of employees (agents) diverge from those of the firm's owners or managers (principals) (Fama, 1980). This misalignment can result in inefficiencies and conflicts, necessitating the implementation of strategic measures to align these objectives. By closely examining the recruitment patterns and activities of early businesses, we will be able to gain valuable insights to how they addressed the issue of asymmetric information between employers and employees (Carlos 1991; Hejeebu, 2005; Jones & Ville, 1996). In particular, this scrutiny helps us understand the policies employed to identify and hire individuals with high growth potential at the inception of their careers[6].

A classic example in the literature is the referral arrangement for white-collar jobs. In Scottish banking during the 20 years leading up to 1914, employees were rarely recruited anonymously through open channels; personal connections, such as those from existing bank employees or important clients, were essential (McKinlay, 2002; Murphy, 2015). A case study on UBA Australia in the same period confirms this common practice, arguing that banks utilized the referee arrangement to assess applicants' personal networks, thereby mitigating the asymmetric information between employer and employee (Seltzer & Merrett, 2000). When hiring new employees at banks in the Kingdom of Naples in the eighteenth century, moral character was valued more highly than technical proficiency. Apart from being referred, newly admitted candidates had to furnish a certificate of christening as an additional proof of their ethical attributes (Avallone, 1999).

In colonial settings, HR and recruiting strategies are characterized by specific features. In a latest research, Decker systematically analyzes the HR and recruitment strategies employed by five different companies, offering detailed case studies focused on British multinational corporations operating in Ghana and Nigeria (Decker, 2022). She shows that colonial-era hiring policies were deeply influenced by racial bias and a preference for expatriate staff, but with variations across different types of businesses. As political changes occurred, companies began to adapt their approaches, although they were slow to fully overcome these colonial legacies. In India, domestic enterprises (DEs) and multinational corporations (MNCs) demonstrate differing HRM strategies. Contrary to expectations, DEs in India prioritize more effective HRM practices than MNCs, despite the latter's global presence (Melhem et al., 2024). In Brunei Darussalam, MNCs are observed to be more stringent in recruitment and training, emphasizing qualities such as 'devotion to task' and 'self-motivation', while DEs tend to rely more on

internal appointments (Fattaah et al., 2022). Historical accounts of colonialism in the Asia Pacific indicate that labor recruitment was shaped by the interactions between colonial powers and local workers, underscoring the specificities of place-bound labor recruitment (Bonus, 2021)[7]. Furthermore, the hiring of foreign judges in domestic courts—a practice rooted in colonialism—reflects attempts to incorporate international legal standards into local systems (King & Bookman, 2022).

Together, these studies reveal the intricate, context-driven realities of labor practices in colonial and postcolonial settings. Building on this foundation, there is fertile ground to explore specific cases that illuminate how hiring norms diverged across industries, regions, and power structures—enriching our understanding of these layered historical landscapes with fresh, granular insights.

3. The context and the primary data source

a. SCSB and its business environment

The SCSB was founded in 1915, the second year after the start of World War I, with just 7 employees and 100,000 Chinese dollars in registered capital, which was less than the capital of a significant money house at the time (He & Xuan, 2015, p.15). However, in the decade that followed, this "small bank" developed quickly and became one of the largest commercial banks in the nation, occupying an important position in the development history of the old Chinese banking industry.

The development of the bank was successful for a number of reasons. Importantly, the founder Guangfu Chen's entrepreneurial spirit and personal reputation laid the groundwork for the SCSB's explosive growth (Lan, 2016). In the first twelve years after the bank's founding, Chen came up with a number of creative business ideas that set SCSB apart from competing organizations. For instance, he promoted small savings and pledge exchange businesses. Later, to further enhance operations, he also promoted foreign exchange and established travel agencies. As a result, the company experienced significant growth, with loans growing by 36.6 times, deposits by 55.24 times, and assets and liabilities by 58.7 times, respectively.

Chen Guangfu was not only a successful banker but also a significant public figure who represented China on the international stage. Chen's leadership was instrumental during a period marked by economic challenges in China, as he advocated

for reform and modernization in banking practices (Jiang, 1988)[8]. Furthermore, his active participation in international banking forums allowed him to showcase China's financial capabilities, thereby enhancing the nation's reputation on the global stage (Shanghai Archives, 2009)[9]. His contributions exemplified the blend of financial acumen and national pride that defined his illustrious career. Since Chen attended college in the US in the 1900s, his background made it easier for the bank to adopt modern management practices in a fiercely competitive environment. Chen maintained positive connections in the industry on a national and international level. All of these social ties served as conduits for him to acquire modern management experiences, which in turn enabled him to establish a contemporary business using a modern management concept. As a result, SCSB adopted a multidivisional, decentralized managerial structure (the M-form enterprise), unlike other banks that continued to have a mixed organizational structure that included both traditional and modern arrangements[10]. By the early 1930s, the head office had set up various independent business departments such as the foreign department, savings department, trust department, securities department, agricultural department, salt industry department, and warehouse department (Institute of Finance in Shanghai Branch of the People's Bank of China, 1990, p.10). This managerial structure allowed SCSB to grow its client base and rank among the biggest Chinese commercial banks. As shown in Figure 1, the deposits increased rapidly starting from 1928 and reached 89.78 million yuan in 1930 (more than 1.5 times the growth in 1926), ranking first among all private banks. The number of branches and employees of SCSB also continued to increase. By June 1937, the total deposits had reached 200 million yuan, with a maximum of 111 branches and 2,775 employees.

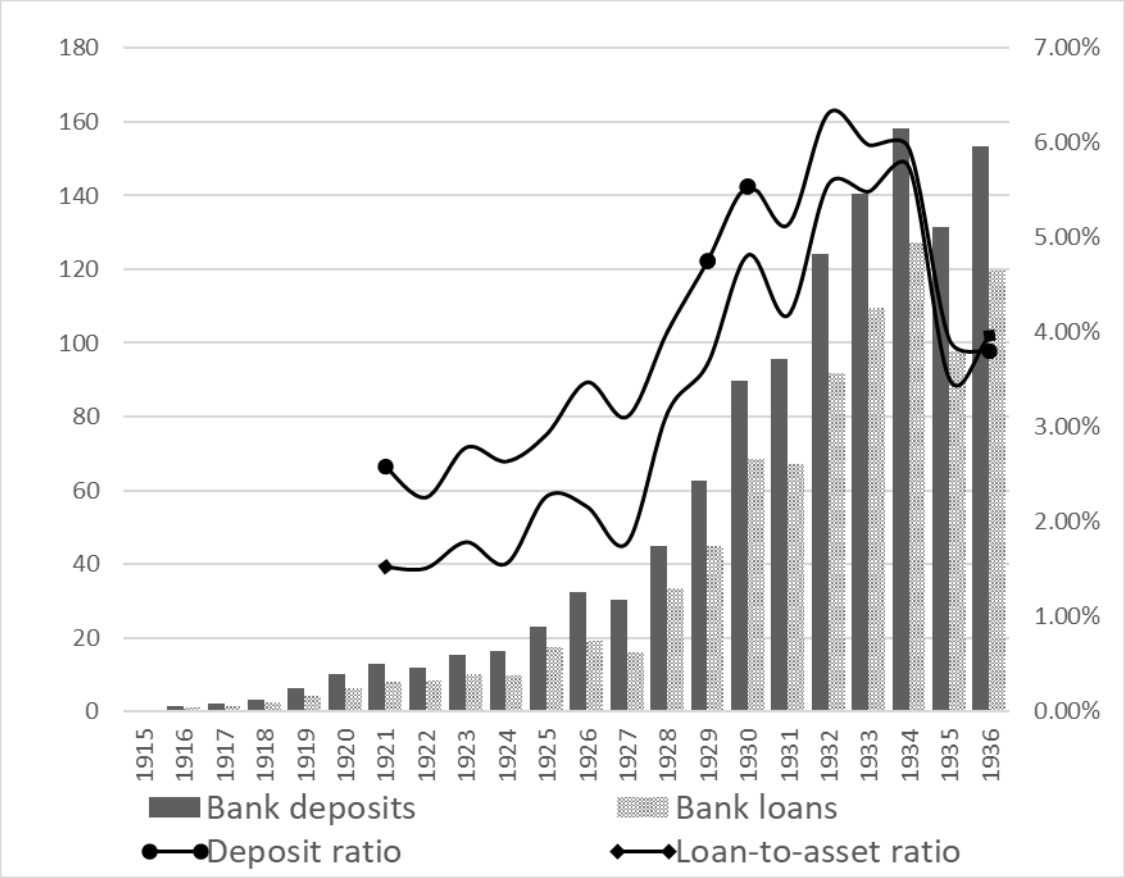


Figure 1. SCSB deposits, loans, and the proportion of total deposits and loans of important banks nationwide, 1915-1936 (unit: million Chinese Yuan)

Source: collected by hand from (Institute of Finance in Shanghai Branch of the People's Bank of China, 1990).

The growth of this bank coincided with a unique transitional period, characterized by turbulence and instability. When China began to open up to the outside world at the end of the 19th century, the domestic financial sector underwent changes as a result of the growth of capitalism in China and the involvement of foreign banks. Chinese joint venture banks and privately funded commercial banks proliferated in the early 20th century, and SCSB was just one of many privately run commercial banks. However, conflicts between warlords and competition from foreign banks presented significant challenges to the development of modern Chinese banks.

Although a nominal national government existed during the period, the country was fragmented by warlords, leading to widespread regional conflicts (Spence, 1990). The government's control was limited to the capital and its surrounding areas, making it unlikely to establish a developed system of social trust across the nation. Additionally, regional conflicts increased communication costs between different districts (Fairbank

& Goldman, 2006). These factors complicated the operation of nationwide businesses. However, the branches of Chinese modern banks were distributed throughout the entire country, making it crucial to diminish the asymmetric information between banks and potential clerks.

Traditional native banks, such as Qianzhuang (钱庄) and Piaohao (票号), developed their own recruitment processes to address these challenges and select suitable employees. Nonetheless, due to the differences in organizational structure, these methods could not be effectively applied to Chinese modern banks. A typical Qianzhuang was very small, consisting of an average of twenty-five people, with operations restricted to a town and rarely extending beyond a city (Huang, 2005). Therefore, Qianzhuang only recruited local individuals who were introduced by clients or stakeholders. Piaohao, on the other hand, established branches throughout the nation, but their capital amounts and scale of operations were significantly smaller than those of modern banks (Huang & Shanxi Branch of China People's Bank, 2002). Consequently, Piaohao primarily recruited new clerks from Shanxi province, where most of them were headquartered. The new hires received training at the head office in Shanxi before being assigned to various branches (Wang, 2020).

Table 1 provides a comparative analysis of the size and operational scale of typical institutions, highlighting the distinctions between modern and traditional financial institutions in China. The differences in the business scope among the three types of banks significantly influenced their competitive dynamics. While there existed an inherent competition due to some overlapping business activities, the business decisions—including recruitment practices—demonstrably diverged. Modern Chinese banks, such as SCSB, must navigate these complexities while simultaneously contending with traditional local banks. Although competition was a fundamental aspect of this landscape, collaboration was also prevalent, as modern banks frequently partner with traditional banks to facilitate specific transactions (Glahn, 2016).

Table 1. The comparison among modern banks, Qianzhuang, and Piaohao

	Financial Institution	Year	No. of Branches	Capital Amount (Taels)
Modern	Bank of China	1934	157	17,875,000
	Central Bank of China	1934	34	14,300,000

banks	Bank of Communications	1934	71	7,150,000
	Kincheng Bank	1934	23	7,150,000
	Yien Yieh Commercial Bank	1934	10	7,150,000
Qianzhuang	Shun kang	1933	--	500,500
	Geng yu ming ji	1933	--	386,100
	Cheng yu sheng ji	1933	--	386,100
	Fu kang	1933	--	357,500
	Jun tai	1933	--	300,300
Piaohao	Ri sheng chang	1914	35	382,800
	Wei tai hou	1921	33	350,000
	Wei feng hou	1916	26	283,200
	Xin tai hou	1916	22	260,000
	Wei sheng chang	1921	26	240,000

Source: The data of Chinese modern banks, Qianzhuang, and Piaohao were separately compiled from Bank of China (1934, pp. B.1-B.341), Central Reserve Bank Survey Division (1944, pp. 18-31), and Huang & Shanxi Branch of China People's Bank (2002, pp. 638-665).

Besides these challenges, the privileges granted to foreign banks operating in China conferred a significant competitive advantage over Chinese modern banks (Fairbank, 1987). Since the opening of treaty ports, imperialist powers imposed numerous unequal treaties on China, largely facilitating the operations of foreign banks in China like the Hongkong and Shanghai Banking Corporation (HSBC) (Hsü, 2000). These treaties enabled foreign banks to control China's customs and salt tax revenues (Cheng, 2003, p. 76), granted them exemption from Chinese laws and regulations, and placed them beyond the oversight of the Chinese government. This afforded them a level of freedom unavailable to their Chinese counterparts, allowing them to make decisions with a singular focus on optimizing business operations.

b. The shift towards formal hiring practices in the banking sector

The Chinese financial industry has a rich history dating back to the 16th century (Ye & Pan, 2001, p. 115). In the ancient traditional society prior to Western influence, hiring practices in the indigenous financial business were often informal and unstructured.

Positions were filled through word-of-mouth referrals (Chen, 1997, p.69), with hiring managers relying heavily on personal networks and recommendations (Lan, 2016). The lack of formalized hiring procedures often resulted in limited diversity and unequal opportunities in the workplace, with positions typically being filled by those with connections to current employees or management (Cai et al., 2008).

This recruitment system faced unprecedented challenges during the Western invasion of China, which was part of what historians often term the 'scramble for China' during the late 19th and early 20th centuries (Su, 1984). This period represented an era when Western powers competed intensively for spheres of influence, trade privileges, and territorial concessions in China (Fairbank & Liu, 1980, p.109). The profound transformations brought about by events such as the Opium Wars (1839-1842, 1856-1860) and the subsequent unequal treaties fundamentally reshaped China's political, economic, and social landscape (Hsü, 2000, p.192). In this rapidly evolving environment, traditional Chinese institutions were forced to reconsider their long-established practices, including their conventional recruitment policies, as they attempted to adapt to these new circumstances.

In particular, verifying the credentials and histories of potential personnel from diverse backgrounds was extremely challenging during the turbulent time, especially when national recruitment efforts were being undertaken[11]. The costs associated with identification and verification were prohibitively high, and in some instances, verification was impossible. Consequently, traditional pre-employment screening methods, which often relied on individual networks and ad-hoc recruitment practices, became inefficient and sometimes entirely ineffective[12]. This situation prompted banks to seek innovative recruitment techniques that could more accurately assess applicants' true abilities. In response to these challenges, banks began to incorporate modern recruitment practices, such as standardized interviews and examinations, aimed at reducing the information asymmetry between themselves and potential employees (Boot, 1991; Seltzer & Merrett, 2000). These new methods were crucial in ensuring that banks could reliably evaluate candidates, thereby improving the overall quality of their workforce[13].

The requirement for trustworthy workers is another factor driving banks to adopt more contemporary formal recruiting procedures in the Chinese social context. With the exception of certain regions, notably Shanghai, which was able to sustain stability due to the safeguards provided by colonial and treaty arrangements, other economically

dynamic provinces situated at key transportation hubs—such as Guangdong, Shandong, Henan, and Hubei—were subjected to extended conflicts among warlords (Hsü, 2000, p.484). Communication, postal routes, and transportation often experienced prolonged interruptions, resulting in the inability of bank branches and headquarters to connect (Liu, 2019, p.163). In certain regions, employees working in branch offices have experienced a notable disconnection from the central headquarters, resulting in instances where they enjoy considerably greater discretion than usual [14]. This uncoupling can, in extreme cases, lead to a work environment where decision-making authority is heavily decentralized. Consequently, the importance of hiring employees with exemplary qualities becomes paramount; they represent an inelastic necessity that must be thoroughly addressed during the recruitment process. Modern formal recruiting processes, which involved a lengthy series of procedures, including interviews, written tests, and physical assessments, obviously surpass the traditional simple and informal hiring methods in the sector, as they were more capable of revealing applicants' true ability and quality[15].

This hiring trend has been further amplified by the scarcity of skilled labor. During the early 20th century, China's educational system transitioned from a traditional Confucian-based structure to a modern, science-focused model. This shift, however, resulted in a shortage of suitably educated workers for the banking sector. Most clerical roles required at least a secondary school diploma or its equivalent, yet such education was not readily available due to the lagging educational system (*The Bankers Weekly*, March 13, 1923, p.12). Consequently, the quality of secondary education was poor, and the system was out of sync with global trends (*Henan Political Monthly*, January 1935, p.73). Moreover, university entrance exam results were disappointing, particularly in Chinese, mathematics, and foreign languages - subjects where training was significantly lacking (Wang, 2002, p.82). As a result, employees often needed extensive and expensive training before they could carry out their duties effectively, a cost that fell squarely on the employers. The critical question for businesses was thus how to balance the need for on-the-job training and practice with the associated costs.

In such scenario, businesses began to recognize the value of hiring based on skills and qualifications rather than personal connections. The introduction of formal job applications and interviews became more commonplace, allowing businesses to assess candidates based on their abilities and potential fit within the organization. Additionally, the use of psychometric tests and other assessment tools started to gain

traction, providing a more objective way to evaluate candidates.

These changes had a substantial effect on the service sector. Formal recruiting procedures enabled businesses to attract a larger applicant pool, thereby increasing workforce diversity (Liu, 2016, p.20). It also led to a more meritocratic system in which individuals were hired on the basis of their talents and qualifications as opposed to their personal connections (Liu, 2016, p.28). Using carefully gathered personnel records, we provide a comprehensive review of the aforementioned factors in the following section.

c. Data source

The data is unique because it includes details on the professional paths of every employee who was a part of a company's entry cohorts between 1915 and 1937—roughly 1400 distinct employees. The primary source of the information is the Shanghai Archives' collection of SCSB employee resumes[16]. The data kept on the bank employees is also extremely thorough. The personnel files contain personal data about the employees, such as their names, birthplaces, ages, levels of education, employment history, residential addresses, and guarantors, among other details. These records describe the backgrounds of the employees and include information on their salaries and positions throughout their entire careers at the SCSB by 1937, which is most important for research purposes.

The data collection process faced several challenges, including incomplete or ambiguous personal information, name duplications, and the use of courtesy names instead of full names, which complicated accurate record matching. To address these issues, the study supplemented archival data with additional resources, as outlined in Table 2. This multi-source approach, as suggested by Decker (2013), significantly enhances the reliability of the data by clarifying ambiguity and ensuring a thorough analysis of individual identities.

Table 2. Supplementary Resources for Archival Data

Resource Type	Details	
Internal records	The Historical Records of Shanghai Commercial and Savings Bank (上海	This book was compiled by the Institute of Finance in Shanghai Branch of the People's Bank of China and published in 1990. It contains

	商业储蓄银行史料)	the information about the Shanghai Commercial and Savings Bank from its establishment in 1915 to the outbreak of the Sino-Japanese War in 1937.
Periodicals	The Bank Weekly (银行周报)	The Bank Weekly was founded by the Shanghai Banking Association in 1917 and ceased in 1950. It was the most comprehensive periodical that reflected the contemporary situation of the whole financial industry, including personnel management.
	The Haiguang Journal (海光)	Haiguang is an internal publication of SCSB, which covers all aspects of SCSB, including the bank's personnel strategy, the work situation of the bank's employees, and their spare time.
Speeches	A Collection of Chen Guangfu's Diaries and Speeches (陈光甫日记言论集)	This book, edited by He Pin and Xuan Gang and published by Shanghai Far East Publishers in 2016, is a collection of the diaries of Chen Guangfu, the founder of SCSB, from 1915 to 1949, as well as his lectures on SCSB's managements and the development of the Republican China.
	Letters Collection of Shanghai Bankers 1918-1949 (上海银行家书信集)	The book was compiled by the Shanghai Archives and published by Shanghai Cishu Publishing House in 2009. This book collects the letters and telegrams of thirty-three groups of bankers from 1918 to 1949, covering basically all aspects of the development of China's financial industry in the Republican China.
Biographical Dictionaries	The Dictionary of Republican Figures (民国人物大辞典)	The book was compiled by Xu Youchun and published by Hebei People's Publishing House in 2007. This book contains information on more than 17,000 people from all kinds industries during the Republic of China.
	Biographical Dictionary of Republican China	The book was edited by Howard L. Boorman, and more than 80 people participated in the editing, including famous historical figures such

		as Chang Kia-ngau and Ping-ti Ho.
	Dictionary of the History of the Republic of China (中华民国史大辞典)	The book, edited by Zhang Xianwen, was published by Jiangsu Phoenix Publishing House in 2002. It includes 16,000 important words and treaties in the fields of finance, laws and regulations, and political movements during the Republic of China.

Notes: See main text

The archival data were finally compiled into a dataset comprising over 20 key variables. For quantitative analysis, educational levels were classified into four distinct categories: primary, secondary, university, and traditional education, to account for the diverse educational backgrounds recorded in the archives. Furthermore, employee ages as of 1937 were utilized to calculate their ages at entry, while other critical variables such as work experience and initial wages were organized systematically to facilitate detailed analysis. A snapshot of the final dataset is provided in the appendix I for reference.

4. The hiring process in SCSB

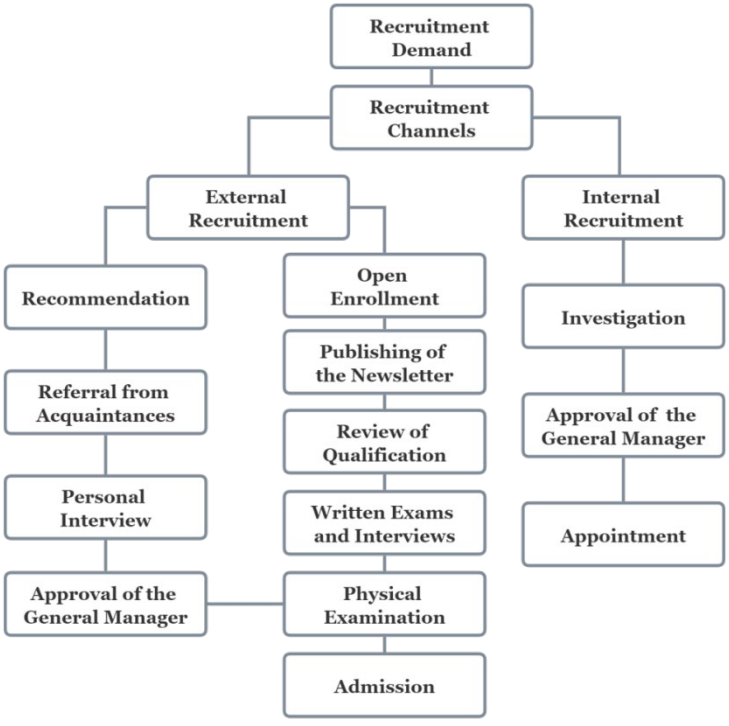


Figure 2. The hiring process in SCSB

The HR department in the bank is responsible for recruitment work. After establishing the positions and number of employees to be recruited, suitable talents are sought based on job responsibilities. This requires different recruitment channels, which can be divided into internal recruitment and external recruitment, complementing each other. Senior management personnel at SCSB are mostly selected and promoted internally, while external recruitment channels are targeted at grassroots employees. Internal recruitment saves the bank's recruitment costs and can quickly and effectively supplement middle and senior positions. However, there may not always be suitable talents internally for recruiting a large number of junior employees and specific expert consultants, so it is also necessary to attract outstanding talents through external recruitment channels. Out of the 1408 employees during the sample period of 1915 to 1937, 1179 were chosen through external recruitment, the majority of whom began their careers in low-level positions. 19 clerk positions, mostly in senior positions, were filled internally by bank veterans.

Recommendations and open recruitment are the primary external hiring strategies. Due to the outdated nature of contemporary Chinese education and the dearth of banking professionals, new-style banks first appeared at the beginning of the 20th century with only moderate strength. As a result, when SCSB first started up, the majority of the bank's employees were from traditional money houses and foreign banks. In 1930, the bank switched from primarily using recommendations to primarily using examination-based hiring, primarily hiring university and high school graduates as trainees, as the size of the bank gradually increased and the demand for recruits increased. Then the bank screens the personnel in various ways. First, the applicants are subject to qualification review. SCSB requires applicants to fill out an "application form" (including personal information and guarantor information, etc.). After the review is passed, the candidates are also required to write a self-introduction before they can take the exam (Liu, 2016, p.5).

SCSB focuses more on the comprehensive abilities of its employees during the screening process. Bank employees need to possess intelligence, integrity, and physical fitness. The examination is an important part of the screening process and is conducted through a combination of written tests and interviews. The evaluation criteria for the written test are standardized, objective, fair, and highly reliable (Dong & Li, 2011).

Additionally, the examination method is simple, cost-effective, and suitable for large-scale personnel selection. Banks require candidates to have a secondary or university education level, so the written test is strictly used to assess candidates' comprehension abilities and basic knowledge levels.

The written test results, however, can only evaluate one component of a person's aptitude. Interviews are necessary for this screening. SCSB has established evaluation standards for interviews, conducting thorough evaluations of applicants' attitudes, speaking manners, attire, physical condition, and other internal and external factors (Institute of Finance in Shanghai Branch of the People's Bank of China, 1990, p.796). The interviewer will also enquire about the applicant's prior employment and experience, positions held in the past, strengths, reasons for quitting previous jobs, family circumstances, such as the existence or absence of parents, the educational attainment and line of work of siblings, career aspirations, and willingness to accept assigned tasks after employment. Candidates must also go through a physical examination to make sure their physical health is in good condition.

After the interview, the issuance of guarantees and employment follows. Guarantees are also used as one of the screening methods to assess the credibility of individuals, their family background, or social relationships. There are two types of guarantees: one is a deposit insurance, where employees pay a deposit upon admission, which, although a deposit, accrues interest[17]. The other type is the guarantor system, where all new employees must have a guarantor. This has actually become a common practice among banks, with guarantors typically having considerable assets or social prestige[18]. Finally, before bank employees pass the exam and are formally hired, there is a probationary period during which their performance is assessed. If they are found to be incompetent, they will be dismissed[19]. Only after passing the aforementioned screening process can one become an official bank employee. It can be seen that at that time, becoming a bank employee was not easy, as the banks had high requirements for employees and the competition for exams was fierce. This resulted in a very low acceptance rate for banks. In 1920, the SCSB announced the recruitment of junior bank employees (the first recruitment of this kind by the bank) and received 307 applicants, of whom only twelve were formally admitted (Liu, 2014, p.258).

5. Quantitative description of the new employees

Following a qualitative description of the hiring procedure in the preceding part, this section aims to provide quantitative answers to the following questions: who are these people the bank prefers for recruitment? What characteristics did these new hires possess? How are these clerks classified in the job hierarchy? And, from 1915 to 1937, what were the main characteristics of the new entries? We will have a clear picture of the hiring dynamics over the course of the twenty years by displaying the results.

Table 3 gives a quick overview of the traits of employees as they joined the bank workforce[20]. With a total of 589 inexperienced clerks and recent graduates made up the largest proportion during this time. The remaining recruits, a total of 1408 people in our sample, came from labors with prior work experience.

The wage data reveals that experienced workers (both financially and other) tend to have a higher starting payment, with an average wage of 43.21 and 43.31 respectively. This is considerably higher than the average wage of inexperienced workers at 26.39, and the overall worker average of 36.20. The initial wage payment policy for new clerks, in contrast to the spot market wage scheme, demonstrated the employers' willingness to pay a wage premium for workers' experience even when they were assigned to the same position and tasks[21].

The education level shows a heavy leaning towards mid-school education for inexperienced workers (70.97%), while a more balanced distribution is observed for financially experienced and other experienced workers (50.37% and 50.97% respectively). High education is most prevalent among other experienced workers (20.63%). The education structure implies that work experience and education can serve as substitutes in a setting where modern education was in short supply.

Table 3. Characteristics of workers at the time of entry by work experience

	Inexperienced Workers	Financial Experienced Workers	Other Experienced Workers	All Workers
Observations	589	407	412	1408
Entry age (percentile rank):				
Min	15	16	15	15
25%	19	21	23	20
50%	20	25	27	23
75%	22	31	33	28

Max	49	49	50	50
Average entry age	21	27	29	25
Wage in Chinese Yuan (percentile rank):				
Min	10.00	10.00	10.00	10.00
25%	20.00	30.00	30.00	20.00
50%	20.00	35.00	35.00	30.00
75%	30.00	45.00	50.00	40.00
Max	300.00	360.00	320.00	360.00
Average wage	26.39	43.21	43.31	36.20
Education (in %)				
Traditional edu.	6.62	23.34	18.69	14.99
Primary school	2.72	11.06	5.58	5.97
Mid-school	70.97	50.37	50.97	59.16
High edu	15.28	6.63	20.63	14.35
Unknown	4.41	8.60	4.13	5.54

Notes: Details see main texts.

While Table 3 provides a snapshot of the bank's new members at the timing of entry, we still need to know what positions the newcomers went to fill and what characteristics they possessed. By further listing summary statistics for various entry cohorts during the research period by their ranking, Table 4 aims to respond to these queries. Since position titles in the primary sources are redundant and complicated, we simplify the job titles along the job hierarchy into four groups: unskilled laborers, servants, clerks, and senior managers[22].

Firstly, the number of entrants varies significantly by rank and cohort as we break down the new employees by ranking and time. During the start-up stage of the company, only 18 workers were hired in the 1910s, while in contrast, 334 and 1167 were hired in the 1920s and 30s, respectively. The exponential growth in hiring numbers not only reflected the business expansion of the bank, but also indicated the swift growth of the entire banking industry at that time. The majority of entrants are junior staff, particularly in the 1930s, suggesting that lower-rank positions are more accessible to new entrants. Senior staff positions, on the other hand, are the least populated across all cohorts. Taking this fact combing with the rapid growth of SCSB, it implies that upper-level positions were in general filled internally. It suggests that the Chinese bank had already developed an internal labor market-type arrangement by the

turn of the 20th century, which featured limited number of low-level ports of entry (Liu, 2016, p.4). In this way, the bank was able to rely less on the external labor market and implement more in-house training and greater job security to ensure that officers remained reliable and committed throughout their time at the bank (McKinlay, 2002; McKinlay & Wilson, 2006; Seltzer, 2000). The idea of externalizing and internalizing decisions (Coase, 1937) explains some of the hiring pattern discussed above. Companies can externalize decisions in a number of ways, including by using outside subcontracting models for production, hiring as many people as they can from outside labor markets and letting them go. Yet, in order to invest and build up long-term human capital, the bank required dependable employees with whom banks setup long-term employment relations. Given the short supply of skilled labor and turbulent social environment being subject to the bank, SCSB had every reason to internalize personnel decisions, like the hiring structure we illustrated above, to coordinate its ILM arrangement.

Additionally, the majority of workers across all ranks and cohorts are employed in the regional branch offices, followed by the headquarters. This implies that employment opportunities may be more prevalent in branch offices. The M-form organization (Chandler, 1977), which the employer adopted, and which employed a multidivisional, decentralized managerial structure, was in fact used by SCSB to expand their business. To complement the extensive business coverages in urban and, particularly, rural areas, subbranches and offices were set up. Therefore, the uneven distribution of new hires between the bank's headquarters and city branches was simply a reflection of that organization's structure. Comparing the Chinese bank to its counterparts in industrialized nations like the US, where the firm structure transitioned from U-form to M-form during the late 19th and early 20th centuries and gained popularity by the 1960s (Palmer et al., 1993), the Chinese bank came across as surprisingly accommodating in its adoption of the modern enterprise structure. This finding, therefore, refutes the conventional wisdom that China's businesses have lagged behind in making the switch to modern management from agri-based managerial practices (Li et al., 2009).

Table 4 also contains other key traits of new employees by the rankings, such as age, education background and wage. These figures confirm again that an ILM existed within the company. According to our statistics, the average age of major group of hires (junior personnel) was only 24, and the majority of them were recent graduates

with no professional experience. When compared to unskilled workers, the mean real wage was similarly very low (implicating a wage premium for schooling in the early stages of a career of almost nil!). The attributes of the young newcomers laid the foundation for long-term relationships between employers and employees, as well as seniority-based pay structures, which are prerequisites for running a successful ILM (Doeringer & Piore, 1971).

Overall, the recruitment figures of the SCSB from the 1910s to the 30s showcase a modern enterprise organizational structure, which differs greatly from traditional Chinese business organizations and indigenous financial institutions. In traditional enterprises, the U-form management structure was prevalent, where the firm was centrally managed as a single unit, given their focus on a small scale and local market (Shanghai Branch of The People's Bank of China, 1960, p.479; Zhang, 2016). Consequently, historically, owner-financed and controlled firms often exhibited a personal form of paternalism (Yao et al., 2022). In contrast, the scale and complexity of modern banks in China indicated that the conventional form of organizational structure was difficult to coordinate and unsuitable, given that modern banks functioned at the national and even worldwide level (Cheng, 2003, p. 24). As a result, by the 1930s, the development of equity financing and the division of ownership and management in the Chinese contemporary banking sector had become standard procedures (Ma, 2018). The transition made it possible for labor to be handled more bureaucratically, with robust ILM arrangements. Hiring patterns in Chinese banks were comparable to those of their counterparts in advanced economies like the US and Japan[23]. Specifically, entry-level positions served as the primary entry point for a banking career, and successful candidates tended to share similar characteristics in terms of age, education, and starting wage payment. As a result, the selection process created a cohort of uniform clerks who formed the foundation of the SCSB long-term development. Alongside a restrictive ILM, extensive regulatory frameworks, and sophisticated staff monitoring and evaluations, the hiring procedures ensured that officers remained reliable and committed, thereby reducing turnover and improper selection from the outset (McKinlay, 2002; McKinlay & Wilson, 2006; Seltzer, 2000; Seltzer & Merrett, 2000).

Table 4. Summary statistics of each entry cohorts by job hierarchy

Panel A: Average entry age					
Entry cohorts	Unskilled staff[24]	Junior staff	Regular staff	Senior staff	Total
1910s	-	24	25	-	24
1920s	29	23	36	38	25
1930s	32	24	35	38	25
Total	31	24	35	38	25
Panel B: Average entry wage					
Entry cohorts	Unskilled staff	Junior staff	Regular staff	Senior staff	Total
1910s	-	18.82	40.00	-	20.00
1920s	22.37	27.59	128.00	200.00	32.30
1930s	28.77	33.04	119.55	207.00	37.20
Total	27.76	31.97	118.59	205.53	36.20
Panel C: Number of entrants					
Entry cohorts	Unskilled staff	Junior staff	Regular staff	Senior staff	Total
1910s	-	17	1	-	18
1920s	27	187	5	4	223
1930s	144	975	33	15	1167
Total	171	1179	39	19	1408
Panel D: Education level of staff in comparison by ranks					
	Unskilled staff	Junior staff	Regular staff	Senior staff	Total
Traditional edu.	86	114	7	4	211
Primary school	15	69	-	-	84
Mid-school	49	770	10	4	833
High edu.	-	174	20	8	202
Unknown	21	52	2	3	78
Total	171	1179	39	19	1408
Panel E: Employment history in comparison by ranks					
	Unskilled staff	Junior staff	Regular staff	Senior staff	Total
Inexperienced	49	534	4	2	589
Financial experienced	33	349	14	11	407

Other experienced	89	296	21	6	412
Total	**171**	**1179**	**39**	**19**	**1408**

Panel F: Where were new hires assigned within the organization

	Unskilled staff	Junior staff	Regular staff	Senior staff	Total
Headquarter	29	467	23	7	526
Branch	101	550	10	12	673
Subbranch	25	99	1	-	125
Office	16	63	5	-	84
Total	**171**	**1179**	**39**	**19**	**1408**

Notes: Details see main texts.

6. Elements of recruitment in a comparative perspective

The above discussion emphasizes the convergence of the hiring practices of the Chinese bank to the industrial countries' experience. But in practice, the banking business is complicated by nature, the many aspects of which provided the employees with both opportunity and incentive to behave opportunistically by disguising their true ability or intentions in the recruitment and subsequent work in the bank (i.e., asymmetric information). Therefore, bank employers globally have developed quite standard processes in the hiring activity to reduce asymmetric information between employer and their clerks, such as education requirement as signaling their true ability and employment deposit before employment to prevent potential work shirking. In emerging markets, the issue of asymmetric information can be exacerbated by institutional voids (Khanna et al., 1997), such as underdeveloped institutions and frequent environmental shifts. Given the time period in question features political instability, violence, macroeconomic fluctuations, and even war, this section investigates the vehicles adopted by the SCSB that differ from their western counterparts, trying to answer why the bank was able to find reliable employees in challenging, uncertain, and underdeveloped business environments.

a. The dual insurance for hiring

Utilizing referrals to launch a career became a necessity in the majority of cases

globally in the early 20th century among many recruitment processes (Holzer, 1987). But the Chinese case presents alternative requirement besides the common practice in terms of the third-party insurance and warranty in the employment (employment deposit). That is, both referrals and guarantors were prerequisites for clerks to get on board, besides an employment deposit as we discussed in the prior section.

In primary personnel records of SCSB, new hired must have found both a referral and a guarantor simultaneously, which upends the conventional practices in the western banks. Normally, candidates of western banks were only required to seek references from two or three individuals to test their social network and background (Seltzer, 2000). The referrals themselves do not imply any obligation to compensate for losses caused by employees' fraudulent or negligent actions. On the other hand, a "guarantor" is a person who, as part of an employment contract between a bank and its employees, agrees to pay for any losses caused by employees' fraud or carelessness. Although the referral-based recruitment improves the quality of recruitment workplace match (Simon & Warner, 1992), the Chinese bank obviously found it was not enough. The reason may be twofold. First, agency costs reduced in employment relations by referrals was not sufficient to set off the potential loss of any misbehaviors made by employees in turbulence. Thus, the bank looked for alternative instrument to increase the opportunity cost of bad employees. In the western context, the instrument was insurance-kind of financial warranty, such as working deposit (bond) or employee insurance (Union Bank of Australia Limited, Instructions, p.8.). These instruments were by no means the tool of an enterprise to overcome the asymmetric information between employer and employees in political and social unrest. Therefore, the bank needed a more directly and effective vehicle to generate deterrence, preventing against fraud and misconducts. Indeed, traditional Chinese businesses have a long history of using the guarantors in the personnel management (*The Banker Weekly*, January 19, 1937, p.11; Huang, 2002, p.611). Therefore, it is not surprising that modern bank in a weak institutional society relied traditional arrangement to tackle against uncertainty in the recruitment.

Another reason that the bank chose the belt-and-braces hiring approach results from the favoritism involved by the referral arrangement. A downside of recruiting through referral may involve favoritism, which can be costly for firms (Bramoullé & Goyal, 2016), particular in an environment where employees' background was

untraceable or tracking costly for firms. In this regard, a guarantor who was obliged by employment contract to take potential loss for the employee seems the first order choose for any firm.

Our argument can be enhanced by further quantitative tests. First, we examine whether selecting a better guarantor guaranteed the assignment of the individual candidate to a more important position. In the primary data, guarantors' liability is also recorded. That is, the maximum sum of a guarantor assumed for any losses caused by the employee's misconduct. The sum varied to reflect the quality of the guarantor found by the job candidate. In a simple regression model, the dependent variable is a dummy for the initial position of employees in the bank, where working in the headquarters = 1 and working in other branches = 0. The underlying idea is that new employees who have a quality guarantor are more likely to be assigned to a significant position because they assume greater liability, thereby reducing asymmetric information. In our context, starting work from the Shanghai headquarters provided the job candidate with a significant advantage for a successful career beginning.

The main explanatory variable is the logarithm of the liability sum of the guarantor. Other control variables include the employee's age at entry, education level, work experience, birthplace, and year of entry. Table 5 shows the benchmark regression results in the first two columns, and the controlled variables are added in the last two columns. It can be observed that the coefficient of the key variable "Liability sum" is significant at the 1% level and positive, indicating that the higher the liability sum of the guarantors carry, the more likely employees are to be assigned to the head office. Interestingly, the coefficient of "Work exp in finance" is significantly negative, suggesting that employees with financial industry experience are less likely to be assigned to the head office compared to those without prior work experience. This may be because employees without experience are usually trained at the head office, while those with previous financial experience are spread across various branch institutions. (He & Xuan, 2015, p.121)

Table 5. Effect of guarantors' liability on employee's workplace

	Dependent variable: working in the headquarters = 1 and working in other branches = 0			
	(1)	(2)	(3)	(4)
Liability sum	0.409***	0.340***	0.472***	0.387***

	(5.20)	(4.24)	(5.31)	(4.16)
Age of entry			0.000751	0.00534
			(0.06)	(0.43)
Primary Edu			0.365	0.431
			(1.05)	(1.19)
Secondary Edu			0.844***	0.910***
			(3.51)	(3.64)
College Edu			1.409***	1.495***
			(5.02)	(5.23)
Work exp			0.0926	0.175
			(0.55)	(1.00)
Work exp in finance			-0.666***	-0.577***
			(-3.77)	(-3.19)
Constant	-3.758***	-1.126	-5.150***	-2.990*
	(-4.46)	(-0.65)	(-5.48)	(-1.70)
Birthplace	YES	YES	YES	YES
Time control	NO	YES	NO	YES
R^2_pseudo	0.0867	0.109	0.130	0.150
N	1257	1253	1250	1246

Notes: This table presents the regression outcomes on whether selecting a better guarantor guaranteed the assignment of the individual candidate to a more important position. The dependent variable is a dummy for the initial position of employees in the bank. The main explanatory variable is the logarithm of the liability sum of the guarantor. * p < 0.1, ** p < 0.05, *** p < 0.01.

As supporting evidence, we further examine whether selecting a better guarantor can help the candidates get a quick promotion. According to Yan and Tang (2020), the promotion speed of employees in modern Chinese banks is defined as: $\text{Promotion speed} = \frac{\text{Last year's salary} - \text{Salary at the time of entry}}{\text{Years of working in the bank}}$. The dependent variable is the logarithm of the promotion speed, the main explanatory variable is the logarithm of the liability sum of the guarantor, and other control variables include the employee's age at entry, education level, work experience, whether they work at the head office, hometown, and year of entry.

Table 6 presents the regression outcomes. The first two columns of the table show the basic regression results, where column (2) controls for the year of entry and the last two columns present the results after including these control variables. The coefficient of the key variable "Liability sum" remains significant at the 1% level and

positive across all specifications. The statistically significant rise in the rate of employee promotion is, on average, 0.17 to 0.2 when guarantors' liability increases by one unit, indicating that guarantors' liability has a favorable impact on the speed of employee promotion, ceteris paribus.

Table 6. Effect of guarantors' liability on employee's promotion speed

	Employee's promotion speed			
	(1)	(2)	(3)	(4)
Liability sum	0.207***	0.185***	0.194***	0.172***
	(11.21)	(10.13)	(10.34)	(9.08)
Age of entry			-0.00627**	-0.00474*
			(-2.33)	(-1.79)
Primary Edu			-0.0404	-0.0171
			(-0.62)	(-0.27)
Secondary Edu			0.137***	0.165***
			(2.88)	(3.43)
College Edu			0.440***	0.476***
			(7.50)	(8.21)
Work exp			-0.168***	-0.148***
			(-4.28)	(-3.97)
Work exp in finance			-0.171***	-0.152***
			(-4.52)	(-4.28)
If headquarters			0.0777**	0.0383
			(2.43)	(1.26)
Constant	-0.193	0.595**	-0.0596	0.722**
	(-0.95)	(2.31)	(-0.29)	(2.47)
Birthplace	YES	YES	YES	YES
Time control	NO	YES	NO	YES
R^2	0.188	0.283	0.294	0.371
N	1176	1176	1110	1110

Notes: This table shows whether selecting a better guarantor can help the candidates get a quick promotion. The dependent variable is the logarithm of the promotion speed, the main explanatory variable is the logarithm of the liability sum of the guarantors for individual employees. The first two columns of the table show the basic regression results, where column (2) controls for the year of entry and the last two columns present the results after including these control variables. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

The empirical results reaffirm the significant role that a guarantor plays in shaping an individual employee's long-term career trajectory within the banking sector right from the moment they enter the organization. New hires who have the backing of a dependable guarantor will typically be placed in positions that are relatively more advantageous when compared to those whose guarantors possess only average qualities. Moreover, this initial advantage appears to have an enduring effect over time, as those employees who started their careers with robust endorsers tend to achieve promotions at a faster rate from a statistical perspective.

With the outcomes, it suggests that the modern Chinese bank had developed a unique strategy to tackle the challenges of information asymmetry, employing mechanisms different from those utilized by foreign banking institutions to identify and select trustworthy candidates, thereby improving their capacity to build a reliable workforce for their operations. The dual insurance arrangement underscores the importance of social connections and trust in professional settings, especially in an environment characterized by social instability and a relative lack of consistent law enforcement.

b. Cultural factor in the recruitment

Another concern is that business organizations often have a rich history of leveraging cultural factors, such as social connections to promoting businesses (Cohen et al., 2017; Rowley et al., 2017), forming alliance (Nakaoka, 2022), coordinating inter-firm corporate policies and competition (Buch-Hansen & Larsen, 2021), and receiving external resources (Wilson et al., 2018; López-Morell & O'Kean, 2008). In Chinese context, these practices are deeply rooted in the country's ancient philosophies and societal norms, which have shaped its business landscape for centuries (Cai et al., 2008). In particular, banks featured unique pattern of networking based on personal relations (Sheehan, 2005), and these relations often arise from "common shared attributes," such as "locality (native place), and kinship (Cai et al., 2008). As a result, we frequently see the formation of Chinese regional business groups and cliques, consisting of individuals from the same birthplaces, known as locality preference (Yao & Zou, 1997). Because these individuals with same identity share similar backgrounds, cultural values, and social norms (Xie & Yuan, 2020), the locality preference can help reduce transaction

costs and coordination burdens in an economic sense (Kong & Ploeckl, 2022; Kong et al., 2023).

Because the literature has not yet examined the existence of cultural factors in hiring processes, we want to learn if these norms were enduring and reflected in the recruitment activities in a modern enterprise. We specifically look into whether hiring practices gave birthplace-related candidates for directors (the employer)—also referred to as candidates with cultural identity (CCI)—a career advantage.

Figure 3 presents descriptive statistics on the birth origin of employees in bank branches across the entire country. The headquarters, located in Shanghai, had the largest number of clerks, totaling 527. Among them, more than 430 were CCI workers, accounting for approximately 86% of the total employees. The disparity in CCI representation among branches persisted across all branches in directors' birth regions (DBRs), as branches in Shanghai, Nanjing, and Wuxi hired 89%, 95%, and 96% of new clerks from locals, respectively. This suggests that the bank's hiring policy in DBRs only favored applicants with a local background, while foreigners were excluded from work opportunities within the bank.

Meanwhile, SCSB also operated in other major cities and financial centers, such as Wuhan and Tianjin, which are thousands of kilometers away from DBRs. We also analyzed the composition of new employees in these branches. Despite the distance from the DBRs, we noticed a tendency towards a preference for CCI in the hiring process. Figure 3 provides a breakdown of employee composition by location in different cities. With the exception of Guangzhou, all branches outside of DBRs had a higher percentage of CCI. For instance, branches in Hankou, located 1000 km from DBRs, had over one third of their new employees with CCI. In Zhengzhou, a major commercial hub in central China, over two thirds of the new hires were CCI. The preference for local employees reflects the bank's belief that only workers with a sense of belonging to the local community were trustworthy and reliable, despite the bank being established based on modern western institutions across the country.

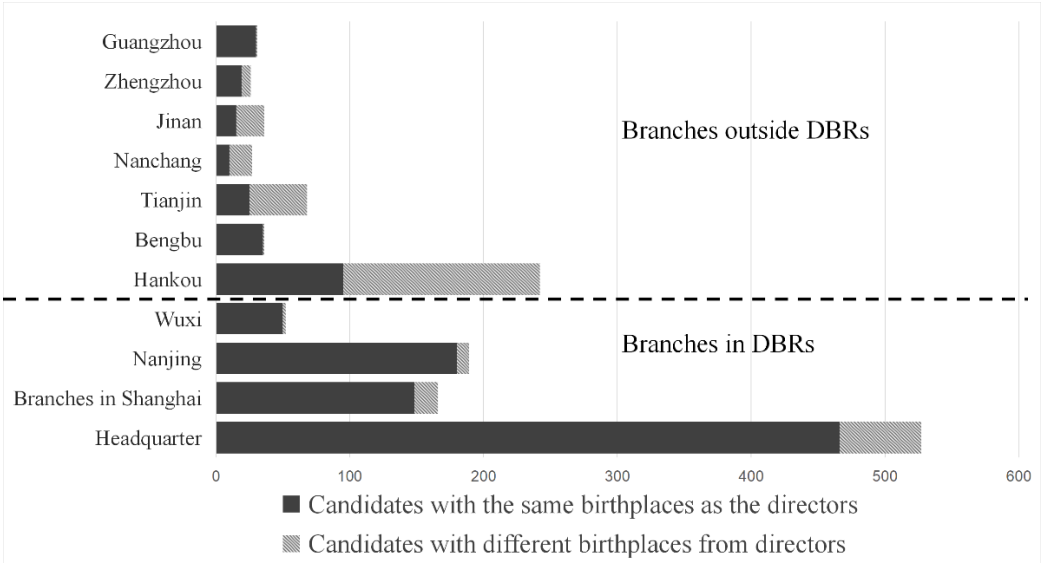


Figure 3. The birth origin of employees in bank branches

Another question regarding the preference for localities is whether CCI had better opportunities to begin their careers. To investigate this, we conducted regressions of position rankings on CCI across the entire sample. The dependent variable in this analysis is the initial position assigned to new workers, which is categorized into four groups: junior employee=1, junior employee=2, regular employee=3, senior employee=4. The primary explanatory variable is a dummy variable indicating whether an employee's birthplace matches that of the director's (i.e., CCI). This primarily includes Jiangsu, Zhejiang, Anhui, Fujian, Guangdong, and other locations based on the birthplaces of directors in the history of SCSB (the organization being studied) in our dataset. The model also takes into account the employee's age at entry, education level, work experience, whether they were assigned to the headquarters, and the timing of their entry.

Table 7. Regression of position rankings on CCI

	Position Rankings			
	(1)	(2)	(3)	(4)
CCI	0.110***	0.100***	0.0530**	0.0461*
	(3.97)	(3.22)	(2.00)	(1.69)
Age of entry			0.00418**	0.00525*
			(2.33)	(1.83)
Primary Edu			0.157***	0.173***

			(3.00)	(2.97)
Secondary Edu			0.343***	0.352***
			(10.05)	(7.65)
College Edu			0.565***	0.569***
			(13.60)	(10.23)
Work exp			-0.0526*	-0.0593**
			(-1.82)	(-2.12)
Work exp in finance			0.156***	0.147***
			(5.41)	(5.33)
If headquarters			0.0444*	0.0357
			(1.89)	(1.53)
Constant	1.854***	1.900***	1.440***	1.472***
	(76.18)	(61.06)	(23.92)	(18.11)
Time control	No	Yes	No	Yes
R^2	0.0117	0.0368	0.165	0.186
N	1330	1330	1322	1322

Notes: The table shows the estimate on the regressions of position rankings on CCI across the entire sample. Column (1) and (2) do not account for workers' traits that could potentially influence their initial position assignment; columns (3) and (4) introduce controls that may impact the assignment of individual employees. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

The results are presented in Table 7. The coefficients of CCI exhibit the expected signs, indicating a positive relationship with hierarchy ranking, regardless of other controlled characteristics. Specifications 1 and 2 do not account for workers' traits that could potentially influence their initial position assignment. The coefficients of CCI are highly significant. In columns 3 and 4, we introduce controls that may impact the assignment of individual employees. Although the coefficients lose significance at the 1% level, they remain statistically significant at the 5% (specification 3) and 10% (specification 4) levels. This outcome confirms that new recruits with a locality identity (CCI) are assigned to better positions compared to their peers without such an identity, ceteris paribus.

In sum, we provide suggestive evidence in this section to show that a cultural phenomenon based on local preference was existed in SCSB's hiring activity. Applicants with the same place of birth as the directors (owners) were given preference for hiring and were also given a better starting position for their careers, other factors being equal. This result supports recent research on the cultural characteristics of

modern Chinese banking and shows that the modern service sector still relies on informal institutions to some extent for hiring.

We suggest that this dependence on cultural elements can be explained as the firms' reaction to the outside hostile environment. By far, numerous research on business in emerging market emphasizes the impact of social and economic environment on corporate behaviors (Lu et al., 2009; Hoskisson et al., 2000). In Chinese context, the bank had faced a large pool of applicants with their background verification being hard and costly. This lack of transparency led to a significant information gap, causing mistrust and insecurity among the workforces. Employers struggled to maintain a stable workforce and foster a positive work environment. The lack of trust and open communication acted as barriers to the effective functioning of the banks (Seltzer, 2011). In such circumstances, SCSB recruiting workers from its own regional network became the first order optimal choice. This is because CCI shared common cultural attributes with the management, such as dialects, values/belief, and business attitude, thereby reducing the costs regarding communications and control[25]. Another reason is that China business has a rich history of using locality identity (native place) and and kinship (Greif & Tabellini, 2010) as a mean to promote trust. For example, ancient merchants often form business cliques based on the same birthplace or belonging to related clans to coordinate corporate policies, deal with risk and unexpected hazard (Liu, 1988; Brook, 1981). By intentionally choosing candidates who are beginning their careers at the bank and assigning them to advantageous roles, the bank can guarantee that its future workforce originates from the same cultural network. This strategy changes the dynamic between the employer and employees into a repeated game, greatly bolstering the deterrence of misconduct and fraud.

7. Conclusion

This article examines the recruitment practices in a modern service sector within the developing context during the early 20th century, focusing on the case of SCSB in China. The study sheds light on the hiring strategies adopted by the bank in a challenging and uncertain business environment.

The findings of this research highlight the convergence of SCSB's hiring practices with those of industrialized countries, demonstrating the bank's adoption of western practices such as formal job applications, interviews, and assessment tools.

However, the study also reveals two key aspects that differentiate SCSB from its western counterparts. Firstly, the bank implemented a dual insurance policy in its hiring process, requiring candidates to have both a referral and a guarantor. This practice deviated from the common western practice of seeking references, as the guarantor assumed responsibility for any losses caused by employee misconduct. This unique requirement aimed to reduce asymmetric information and enhance trust between the bank and its employees. Secondly, SCSB exhibited a strong preference for hiring candidates from the local region, particularly the Yangzi delta. This locality preference was driven by cultural compatibility and shared values, reducing communication and control costs for the bank. By intentionally selecting candidates from its own regional network, SCSB fostered a sense of community and loyalty among its employees, contributing to a more stable workforce and a positive work environment.

The case study provides valuable insights that address pertinent questions within the existing literature. Notably, firms in advanced economies have historically established distinct labor market structures that emphasize the recruitment, promotion, and compensation of employees from within the organization, rather than primarily depending on external labor markets, a trend that emerged in the early 20th century. However, there is a paucity of direct evidence available regarding the application of such ILM practices in developing countries. The paper subsequently affirms the existence of ILM arrangements within the developing context and enhances the relevance and applicability of ILM theories through an examination of new employees and the human capital they contribute to a large financial institution.

Moreover, the research findings offer valuable insights into how large service firms mitigate information asymmetry between employers and employees from a hiring perspective. The analysis reveals that, to acquire accurate information from new hires, corporations often establish institutions and procedures that are tailored to their specific sectors, while also taking into account the prevailing social norms and cultural contexts.

Further research could explore the long-term effects of these recruitment practices on employee performance, job satisfaction, and organizational outcomes. Additionally, comparative studies across different industries and regions would provide a more comprehensive understanding of recruitment patterns in developing contexts. Such research endeavors would contribute to the broader field of business history and enhance our knowledge of the management of labor and human resources in diverse environments.

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Appendix I

Table A: Snapshot of Personnel Dataset of the SCSB

No.	Name	Gender	Place of origin	Age	Age of Entry	Education	Education level	Work experience	Years of Service	Guarantor	Service Office
1	Lee Tongchun	male	Jiangsu Jiangning	42	21	Graduated from Shanghai Private Commercial School	Middle School	Jiangsu Bank Served for three years	3	Tang Shaochao	Dayang Huohao
2	Wang Junhao	male	Jiangsu Qingpu	22	18	Graduated from Shanghai High School with a Bachelor's Degree in Commerce	Middle School	Deputy Manager, Zhejiang Industrial Bank		Zhang Qinxian	Shanghai Lixin Accounting Firm
3	Zheng Songshi	male	Jiangsu Suzhou	40	36	Shouzhen school	Traditional Education	Zhonghe Bank in Jiangsu Tonghe		Shao Yixuan	Tongshang Bank
4	Zheng Baochang	male	Fujian Minhou	45	31	Master of Commerce, Columbia University, USA	University			Lin Zezheng	Beijing-Shanghai/Shanghai-Hangzhou BOTA
5	Dong Saiyu	male	Jiangsu Dantu	36	27	YMCA Secondary School	Middle School	Nine years at Shanghai Jiaotong Bank	9	Zhu Zhaoxuan	Shangye Chuxu Bank

Note: The table continues with additional columns extending to the next page.

No.	Guarantor's property	Referrer	Entry date	Year of entry	Job transfer date	Year of job transfer	term of job	Bank Type	Position	Salary
1		Tang Shoumin	16/4/1916	1916	1/1/1934	1934	18	Head Office	Deputy Manager	600
					1/6/1934	1934	18		Deputy Manager	
					8/8/1935	1935	19		Deputy Manager	
					11/3/1936	1936	20		Manager	
					1/1/1937	1937	21		Manager	
2	30000		6/2/1933	1933	1/11/1935	1935	2	Head Office	Assistant	40
3	40000	Tang Hegeng	28/4/1933	1933	1/1/1937	1937	4	Head Office	Assistant	90
4	30000	Lin Zezheng	2/4/1923	1923	1/1/1937	1937	14	Head Office	Secretary	300
5	60000	Zhu Dongfu	9/4/1928	1928	1/6/1934	1934	6	Head Office	Assistant	110

Notes

1 For example, Berger (1981); Davis (2000); Gospel (1992); Hyman & Price (1985); Kaufman (2008); Kocka (1980).

2 Since the 19th century, there has been a global shift towards internalizing employment relations in modern enterprises, characterized by the development of ILM (Boyce & Ville, 2002). These markets typically limit external recruitment to a few entry-level positions (Doeringer & Piore, 1971), while higher-level roles are filled through internal promotions. This trend highlights the importance of internal talent development and the strategic focus on promoting existing staff members, ensuring that leadership roles are occupied by individuals who are already familiar with and aligned with the company's culture and objectives (Ariga et al., 2000).

3 Existing studies on history of HRM in China often put emphasizes on the traditional indigenous financial institutions, such as Qianzhuang and Piaohao, highlighting the informal, cultural-based patterns, e.g., fellow-townsmenship as the mechanism for exploring and exploiting business opportunities (Liu et al., 2015); Personal networks and referrals to seek bank talents (Lan, 2016).

4 For instance, the US (Jacoby, 1981; Meyer, 1981), Japan (Aoki, 1990; Hashimoto, 1990), and Germany (Counch, 2003).

5 According to this theory, when a worker acquires firm-specific skills, the value of these skills to the employing firm differs from their value to other firms, giving rise to an ex-post bilateral monopoly. Consequently, firms must offer competitive long-term contracts that align with the worker's value to the organization. Upon commencement of the contract, the present value of the remaining wages must meet or exceed the alternative wages available elsewhere.

6 For example, recruiting and training youth between the ages of fourteen and twenty, who had no immediate family in England, the Hudson Bay Company not only safeguarded their fur trading skills from being transferred but also created a loyal workforce likely to stay with the company for a long time (Carlos, 1991).

7 Works on HR strategies at HSBC, as well as Chinese banks abroad, are discussed. Smith (2016) examines the comprador system and how HSBC has shed the cultural and institutional legacies of colonialism, while Koll (2014) illustrates how a Chinese bank operated overseas.

8 He implemented modern management techniques and financial reforms at Shanghai banks, particularly focusing on risk management and operational efficiency. These efforts led to significant improvements in the stability and growth of the banks, ensuring

their resilience during economic downturns and enhancing their competitive edge in the financial sector.

9 In July 1929, Chen Guangfu attended the International Chamber of Commerce meeting in Amsterdam as China's representative. By engaging with international economists and bankers, he successfully showcased China's financial strengths, thereby enhancing the country's global reputation in the banking sector.

10 The M-Form Enterprise, or Multi-divisional Form, is an organizational structure commonly used by large corporations. It features a decentralized management approach, wherein the company is divided into semi-autonomous divisions or units that operate independently while being overseen by a central corporate office. The concept of the M-Form Enterprise (Multi-divisional Form) was primarily developed and popularized by Alfred D. Chandler Jr., a prominent business historian and organizational theorist. Chandler introduced the M-Form structure in his seminal works, particularly in "Strategy and Structure: Chapters in the History of the Industrial Empire," published in 1962. In this book, he analyzed the organizational structures of large American corporations and highlighted how they evolved to manage complexity, market dynamics, and scale.

11 Wu Kejia, the human resources manager of SCSB, once complained that “hiring staff is a challenging task because of the need to verify and assess their qualifications... Finding talented individuals is difficult, and once they are found, keeping them is also tough.” (*Haiguang*, November 6, 1932)

12 One example of a conventional financial institution in China that relied extensively on personnel networks to acquire new hires is Qian Zhuang (钱庄), which faced the hazards of widespread fraud and personnel speculation during that time (Wang, 2021).

13 In 1930s, the recruitment for SCSB was based on examinations, with a significant proportion of applicants being high school graduates. Subsequently, they became the backbone of the bank's business expansion. For instance, over one-third of the staff at the Qingdao branch joined the bank through standardized examinations. (Wu, 1991, p. 121).

14 A typical example is Chen Boqin, a sub-branch manager of the NCB in Zhengzhou, a major city in central China. In his 1934 diary, Chen wrote that “Zhengzhou is the regional transportation hub and the intersection of two main railroads. Therefore, it has traditionally been a battleground in warlord conflicts... there were both large and small wars every year during the years I worked in Zhengzhou… during a war, communication and logistics were often hindered…” (*Xing Ye You Cheng*, March 9, 1934, p.12)

15 This assertion is both supported by economic theories as well as historical evidence. In theory, scholars have shown that a standardized and formalized recruitment process benefits personnel management by reducing asymmetric information in employment (Münstermann et al., 2010; Lazear & Gibbs, 2014, p.9). In practice, the Chinese bank's entry examination encompassed not only banking and accounting knowledge but also general knowledge across a wide array of industries. Through these written tests, banks assessed candidates' intellectual competence. Subsequently, candidates who passed the written test underwent an interview, where the bank evaluated their appearance, speech, and physique. Lastly, a physical examination was conducted. Ultimately, only those candidates who demonstrated excellence in intellect, character, and physical fitness were selected to join the bank (Institute of Finance in Shanghai Branch of the People's Bank of China, 1990, p.795).

16 Shanghai Archives: Q275-1-1273, Q275-1-1274, Q275-1-1275, Q275-1-1276

17 SCSB regulations: Admitted personnel are required to bring 1000 yuan as a deposit on the day of joining the profession. The deposit will earn an annual interest rate of 8% and will be paid regularly. If the individual leaves the bank within three years due to personal reasons, the deposit will not be refunded. After three years, regardless of whether they leave or not, the entire deposit will be refunded. (Shanghai Archives: Q275-1-182, p. 3)

18 The guarantor system will be discussed in detail later in the paper.

19 Shanghai Archives: Q275-1-182, p. 3

20 It is important to note that among the various characteristics of new employees, prior work experience is one of the most crucial elements to consider when deciding whether or not to hire someone by the bank. Based on the employees' work history, we divide the clerks of each cohort into three categories in order to make the illustration more understandable: bank rookies with no prior work experience, clerks with prior employment in the financial sector (including modern banks and traditional Chinese financial institutions), and workers with experience in fields other than banks.

21 In the following analysis, we will reinforce the assertion by providing more compelling evidence from the econometric results.

22 The SCSB had a detailed job description and employment hierarchy (Shanghai Archives: Q275-1-185). As the organization grew, the organizational documents were updated approximately every five years. This information serves as the basis for our classification and ensures its accuracy.

23 The discussion on the historical development of ILM of the US and Japan refers to Brandes (1976); Jacoby (1979).

24 SCSB maintained positions such as security and warehouse guards for the routing of

daily operations. The positions were filled by groups of laborers who were outside of the bureaucratic system and did not receive the same benefits as other bank employees. In our discussion of white-collar jobs in the bank, we therefore minimize the significance of unskilled laborers. The only reason unskilled employees are displayed here is to maintain data integrity.

25 During the Ming and Qing dynasties, Huizhou merchants relied on blood relations and kinship to select managers and partners among their clan descendants and strengthened their common beliefs through large-scale settlements and ancestral worship (Cai et al., 2008). In the long-term practice, Qianzhuang inherited and developed traditional business ethics and methods, based on the principles of "integrity" and "credit" (Chen, 1997, p.125).