

**Long-term hiring strategy in short-sighted environment:
sketch on the recruitment patterns of white-collar employees
in a peripheral economy**

Abstract

How labor is recruited depends on social, market, and technological environment. Given the discipline of business history evolved around the corporate strategies of developed economies, whether emerging markets followed the same trajectory in broad changing contexts still remains overlooked in literature. The article contributes to the literature by scrutinizing the hiring practices of Shanghai Commercial & Savings Bank (SCSB) using a manually collected personnel data from 1915 to 1937. While our scrutiny confirms the bank's convergent hiring strategies as their contemporary industrialized counterparts, we also feature the double insurance policy and locality preference as a cultural element in its hiring activity. We argue that these features in recruitment were invented to response to business uncertainty and overall hostile environment in a developing context.

Keywords: Emerging Markets, Institutional Voids, Recruitment, Chinese Modern Bank, Labor Control, Labor Management, Personnel Policy

1. Introduction

Since China was forced to open its door to the international market since end of the 19th century, approaches to staff management of had evolved from traditional family business foundations to organizational and bureaucratic exercises.

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. Yet, certain aspects of recruiting strategies in peripheral regions, such as the transfer of modern staffing management and hiring patterns in service sectors have not been analysed to a great extent in the literature. These topics remain interesting because firms in emerging markets featured underdeveloped institutions and frequent environmental shifts (Gao et al., 2017). Observing firms' responses subject to the constraints greatly expand our understanding of the management of labor and human resources.

The research deficiency calls for a systematic examination of HR management in developing contexts. Our study contributes to the literature by conducting a systematic analysis of the recruitment patterns of a leading commercial bank in China during the first few decades of the 20th century.

Drawing on a manual collected micro-level data from primary source, we carry out a systematic investigation of the recruiting activities of a leading commercial bank in China over the first decades in the 1900s.

Our examination confirms the general patterns of western practices already adopted in China, such as ILM.

The Chinese case is relevant intellectually 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. 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 practices¹ . Exploring these alternative trajectories of managerial

¹ Existing studies on history of HRM in China often put emphasizes on the traditional indigenous

practices expands the existing literature and provides a contrasting perspective to the experiences of industrialized countries.

Additionally, 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. 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. Nonetheless, thorough assessment of the hiring activity is still lacking in the literature vein. This question is particular interesting since white-collar employees are not simply hired hand, equivalent to any other tool of production, employed when needed at whatever rates the market will bear and then just as quickly let go. Rather, given the turbulent environment, cooperation must consider strategies that benefits to the profitability of the company of thinking systematically about gaining the loyalty, cultivating the efficiency, enhancing the security, and improving the satisfaction of the company's workforce.

The current studies on hiring activity in the early 20th century primarily focused on lower- and middle-level workers, especially those in blue-collar roles, as they constituted the majority of the workforce during that time. This trend has continued in recent times as well. However, there is a significant research gap in understanding the hiring activity in its entirety. While there have been some studies on the selection of top managers and managerial employees in developing and colonized regions, a comprehensive assessment of hiring activity is still lacking in the literature. This question is particularly intriguing because white-collar employees are not merely treated as expendable resources. In the face of a turbulent environment, companies must adopt cooperative strategies that contribute to their profitability. This involves thinking systematically about methods to cultivate employee loyalty, enhance efficiency, improve security, and increase overall workforce satisfaction. It is essential to fill this gap in the literature to gain a deeper understanding of the nuances associated with hiring practices and their impact on organizational success.

This trend has largely carried over into emerging contexts. Recently, there has been progress in filling this research gap, with studies emerging on the hiring of top-tier managers and administrative staff in developing regions and areas once colonized. However, a comprehensive evaluation of hiring practices remains a void in academic

financial institutions, such as Qianzhuang and Piaohao, highlighting the informal, cultural-based patterns, e.g., fellow-townsmanship as the mechanism for exploring and exploiting business opportunities (Liu et al., 2015); Personal networks and referrals to seek bank talents (Ma, 2004).

literature. This query gains significance since white-collar workers aren't merely temporary assets, similar to other production tools, hired at market rates as needed and quickly dismissed. Instead, in a volatile environment, companies must devise strategies that not only enhance profitability but also systematically focus on fostering employee loyalty, boosting efficiency, strengthening security, and augmenting overall job satisfaction.

We offer evidence that, despite the bank's organizational and structural adherence to the modern enterprise model as a reaction to the hostile external environment, the bank continued to substitute culturally specific networking for formal institutional arrangements in its hiring activities.

We make use of the thorough personnel records of SCSB, discovering that, despite the bank's operations in several major cities, new hires from the Yangzi delta (Greater Shanghai region, GSR hereafter) were preferred throughout the entire sample period. In addition to the local clerks, new hires with this native place identity made up the only significant community in bank branches, even in locations far from Shanghai.

2. The context and the primary source

SCSB and its business environment

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. Conflicts between warlords and competition from foreign banks presented difficulties for the development of modern Chinese banks. SCSB was founded in 1915, the second year after the start of World War I, with just 7 employees and 100,000 Chinese Dollar 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, according to recent literature. 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 business. Later, in order to promote 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.

Since Chen attended college in the US in the 1900s, his background made it easier for the bank to adopt modern management 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 had 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 arrangement. Specifically, 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). The M-form 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.

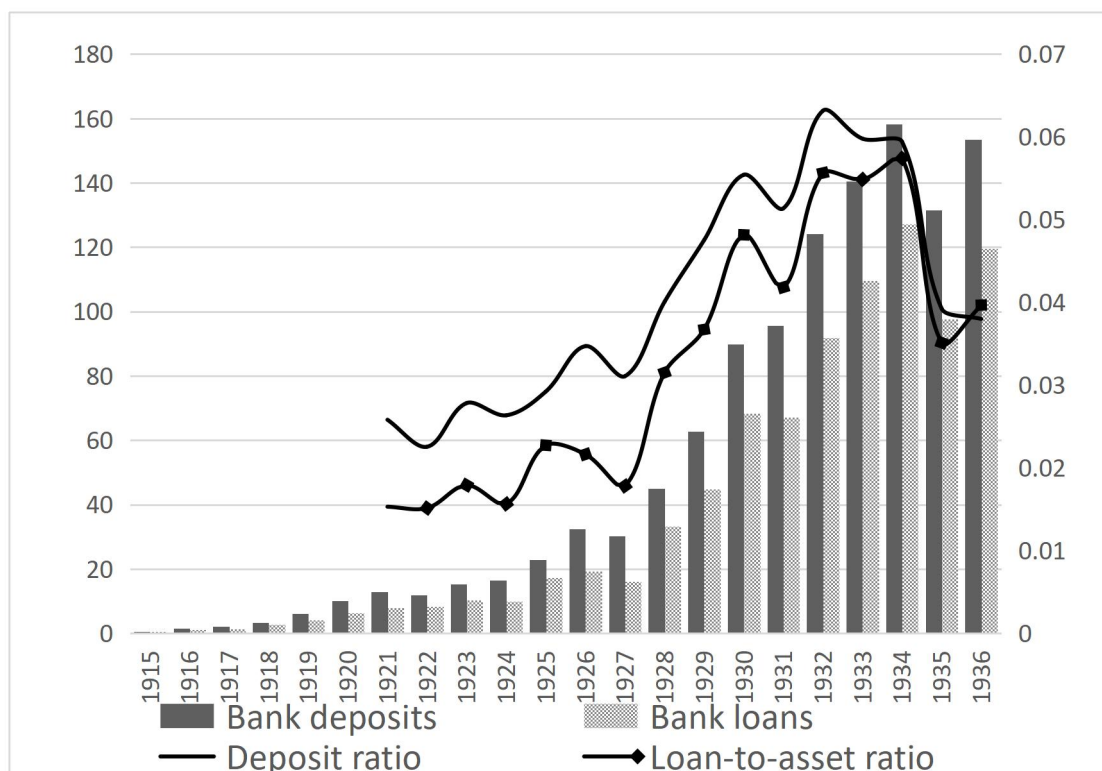


Figure 1 SCSB deposits, loans, and the proportion of total deposits and loans of important banks nationwide, 1915-1936 (unit: million yuan)

Data source: Institute of Finance in Shanghai Branch of the People's Bank of China

The shift towards formal hiring practices in the banking sector

The Chinese financial industry, which has a rich history dating back to the 16th century, underwent a remarkable transformation in its hiring practices during the first few decades of the 20th century. This period marked a shift from traditional, informal hiring practices to more structured and professionalized processes. In the ancient traditional society before the western invasion by end of 19th century, 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 on personal networks and recommendations (Ma, 2004). The lack of formalized hiring procedures often resulted in a lack of diversity and equal opportunity in the workplace, with positions often being filled by those with connections to current employees or management (Wilson & Yang, 2016). However, as the 20th century progressed, there was a shift towards more formalized hiring practices. This was largely driven by the rapidly growing scale of production and size of the enterprise. The employers of modern financial institutions recognize that bank employees are not just mere hired hands but valuable assets to the company. They should be managed in a way that enhances their usefulness, gains their cooperation,

and ensures their ongoing significance. 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. 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. Using carefully gathered personnel records, we provide a comprehensive review of the aforementioned factors in the following section.

Data source

Our data is unique because it includes details on the professional paths of every employee who was a part of a company's entry cohort between 1915 and 1938—roughly 1400 distinct employees. The primary source of the information is the Shanghai Archives' collection of SCSB employee resumes². 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,

² Shanghai Archives: Q275-1-1273, Q275-1-1274, Q275-1-1275, Q275-1-1276

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.

3. 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 factors³. 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

³ Institute of Finance in Shanghai Branch of the People's Bank of China, 1990, p.796

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 interest⁴. 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 prestige⁵. 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 dismissed⁶. 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).

4. 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.

To avoid discussing certain phenomena without providing a clear explanation for why they occur, the section concludes with a theoretical discussion attempting to delve deep enough into interpretation to reveal the underlying dynamics and stages of firms' recruiting behaviors in the developing context.

⁴ 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)

⁵ The guarantor system will be discussed in detail later in the paper.

⁶ Shanghai Archives: Q275-1-182, p.3

Table 1 gives a quick overview of the traits of employees as they joined the bank workforce⁷. 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 tasks⁸.

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.

⁷ 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.

⁸ In the following analysis, we will reinforce the assertion by providing more compelling evidence from the econometric results.

Table 1
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 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

While Table 1 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 2 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 managers⁹.

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 combining 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) explain 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 internal labor market 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

⁹ 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.

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 (Berger & Herstein, 2014).

Table 2 also contains other key traits of new employees by the rankings, such as age, education background and wage. These figures confirm again that an internal labor market (ILM) exists 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 figures of the recruitment of SCSB from 1910s to 30s features a modern enterprise organizational structure, which is completely different than the traditional Chinese business organization as well as ancient financial institutions.

In contrast, the hiring trends show that Chinese banking, a forerunner in China's modern service industry, exhibits similarities to its contemporaries in advanced economies. That is, entry-level positions were the major port of entrance of the bank career; successful selected tended to have similar characteristics in terms of the age, education, and starting wage payment. With this, the selection process created a group of uniform clerks who would serve as the foundation of the banking industry. Along with restrictive internal labor market, extensive regulatory frameworks, and sophisticated staff monitoring and evaluations, the hiring procedures ensure that officers remain dependable and committed, thereby lowering turnover and improper selection from scratch (Hill, 1982; McKinlay, 2002; McKinlay & Wilson, 2006; Seltzer, 2000; Seltzer & Merrett, 2000).

Table 2

Summary Statistics of Each Entry Cohorts by Job Hierarchy

Average entry age					
Entry cohorts	Unskilled staff	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

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

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

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

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

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

Note: 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.

5. Elements of recruitment in a comparative perspective I: The dual insurance for hiring

The above discussion emphasizes the convergence of the hiring practices of the Chinese bank to the industrial countries' experience. However, we find two key aspects that differs from western enterprises regarding selecting its employees, as a response to the changing environment, and social context.

Firstly, both referral and guarantors were prerequisite for clerks to get on board. In primary personnel records, 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. 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. 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. 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. 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 is that 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 context, a guarantor who was obliged by employment contract to take potential loss for the employee seems the first order choose for any firm.

6. Elements of recruitment in a comparative perspective II: 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 (McDonald, 2012). 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 (Watson, 1982). We want to find out if these norms were enduring and reflected in the recruitment activities because the literature has not yet examined the existence of cultural factors in hiring processes. Specifically, we investigate whether hiring practices gave directors' birthplace-related candidates (also known as candidates with cultural identity, or CCI thereafter) an advantage when beginning their careers.

Figure 3 provides a descriptive statistic of the birth origin of the employee composition by bank branches cross the whole country. The headquarters, which located in Shanghai, had the greatest number of clerks with total number of 527. Among them, over 430 workers were CCI, composed almost 86% of the total employees. The disproportion of the CCI in branches persistent over all branches in directors' birth regions (DBRs), with branches in Shanghai, Nanjing and Wuxi hired 89%, 95% and 96% new clerks from locals, respectively. It implies that bank hiring

policy in DBRs were only open for applicants with local background into the career ladder, foreigners were isolated from the bank work opportunities.

In the meantime, SCSB also operated in other metropolitan areas and financial hubs, such as Wuhan and Tianjin, which are thousands of kilometers away from DBRs. We also examined the composition of new employees in these branches. Despite the distance from the DBRs, we also observed a trend towards a preference for CCI in the recruitment process. Figure 3 details the employee composition by locality in different cities. Except for Guangzhou, all the branches outside of DBRs had a higher proportion of CCI. For example, branches in Hankou, which is 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 employer's belief that only workers with a locality identity were trustworthy and reliable, despite the bank being formed based on modern western institutions cross the country.

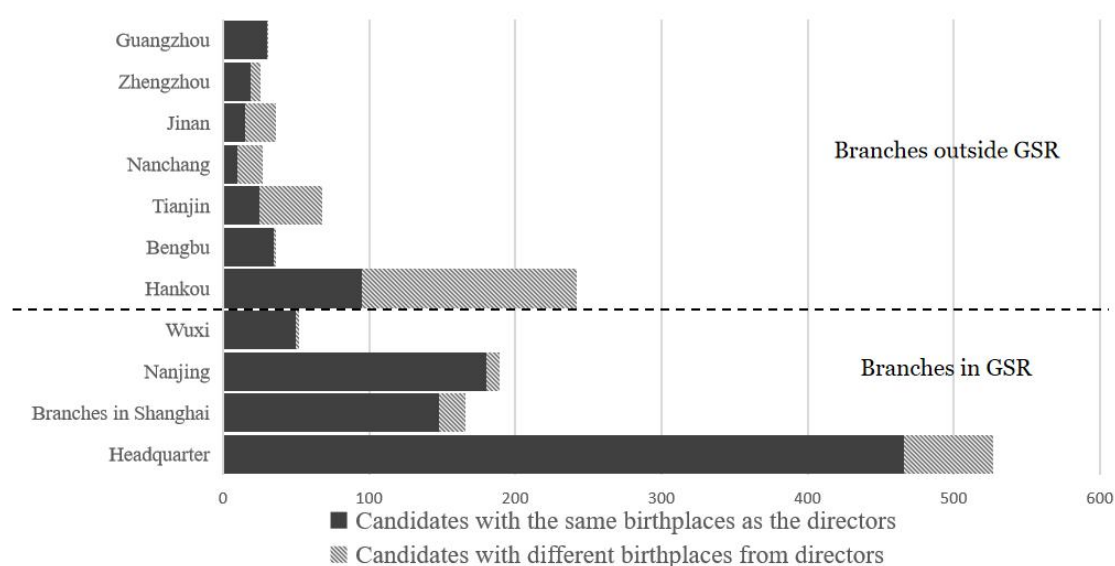


Figure 3 Birth origin of the employee composition by bank branches

The second question regarding the locality preference is whether CCI were at better positions to start their careers. To test, we have run regressions of the position rankings on CCI throughout the sample. The dependent variable is the initial position assigned to new workers, which is divided into four categories: junior employee=1, junior employee=2, regular employee=3, senior employee=4. The main explanatory variable is a dummy - whether an employee's birthplace is the same as the director's (i.e., CCI), which mainly includes Jiangsu, Zhejiang, Anhui, Fujian, Guangdong, and

other places based on the birthplaces of the directors in the history of SCSB in our dataset. The model also controls for the employee's age at entry, education level, work experience, whether they were assigned into the headquarter, and the timing of entry.

	(1)	(2)	(3)	(4)
CCI	0.110*** (3.97)	0.100*** (3.22)	0.0530** (2.00)	0.0461* (1.69)
Age of entry			0.00418** (2.33)	0.00525* (1.83)
Primary Edu			0.157*** (3.00)	0.173*** (2.97)
Secondary Edu			0.343*** (10.05)	0.352*** (7.65)
College Edu			0.565*** (13.60)	0.569*** (10.23)
Work exp			-0.0526* (-1.82)	-0.0593** (-2.12)
Work exp in finance			0.156*** (5.41)	0.147*** (5.33)
If headquarters			0.0444* (1.89)	0.0357 (1.53)
Constant	1.854*** (76.18)	1.900*** (61.06)	1.440*** (23.92)	1.472*** (18.11)
r2	0.0117	0.0368	0.165	0.186
Time control	No	Yes	No	Yes
N	1330	1330	1322	1322

t statistics in parentheses

* p < 0.1, ** p < 0.05, *** p < 0.01

The results are shown in Table 3. The coefficients of CCI all have the signs predicted i.e., positive related with the hierarchy ranking, regardless of whether other characteristics are controlled. Specifications 1 and 2 do not control workers' traits that may have a potential impact on their initial position assignment. The coefficients of CCI are highly significant. In column 3 and 4, we add controls which may have an impact on the assignment of individual employees. Although the coefficients lose significance at 1% level, but it still statistically significant at 5% (specification 3) and 10% (specification 4) level. The outcome confirms that the new recruits with locality identity (i.e., CCI) were assigned into a better position to kick start comparing to their peers without such locality 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; Wang et al., 2022). 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 . 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 ¹⁰. Another reason is that China business has a rich history of using locality identity (native place) 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 deliberately selecting candidates who are starting their careers in the bank and placing them in favorable positions, the bank could ensure that its future workforce comes from the same cultural network. This approach transforms the relationship between the employer and employees into a repeated game, significantly enhancing the prevention of misconduct and fraud.

¹⁰ During the Ming and Qing dynasties, Huizhou merchants based their business on blood and clan ties, emphasizing the selection of managers and fellows among clan descendants and reinforcing common beliefs through large-scale settlements and ancestor worship(Cai et al., 2008);In the long-term practice, money changers have inherited and developed the traditional business ethics and management methods, with "honesty" and "credit" as the principle(Chen, 1997, p.125).

7. Conclusion

This article examines the recruitment practices in a modern service sector within the developing context during the early 20th century. The article contributes to the literature by scrutinizing the hiring practices of Shanghai Commercial & Savings Bank (SCSB) using a manually collected personnel data from 1915 to 1937. While our scrutiny confirms the bank's convergent hiring strategies as their contemporary industrialized counterparts, we also feature the double insurance policy and locality preference as a cultural element in its hiring activity. We argue that these features in recruitment were invented to respond to business uncertainty and overall hostile environment in a developing context.

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