1.1 An Introduction to Social Capital

The idea of social capital has enjoyed a remarkable rise to prominence in social sciences research over the last decade (Isham, Kelly and Ramaswamy, 2002). There is no consensus among practitioners and theoreticians regarding the definition of social capital. Moreover, the multidisciplinary nature of the concept has led to several interpretations of the same. A broad definition of social capital defines it as a set of institutions, attitudes, values and relationships which influence the interactions among people and thereby contribute to social and economic development (Grootaert and Bastelaer, 2001). A much narrowed down definition of social capital defines it as resources embedded in one’s social networks that can be accessed or mobilized through ties in the networks (Lin, 2001). Such social relationships create the space for an individual to borrow or capture the resources of other individuals be it their wealth, power or reputation. Thus, social capital is a resource that individuals derive from specific social structures and then use to pursue their interests (Baker, 1990). The resources obtained through social relationships have the character of a gift for the recipient of such resources. Therefore, it is important to distinguish the resources themselves from the ability to obtain them by virtue of membership in different social structures.

Social capital has also been defined by its function. “It is not a single entity but a variety of different entities, with two elements in common: they all consist of some aspect of social structures, and they facilitate certain actions of actors—whether persons or corporate
actors- within the structure” (Coleman, 1986). This implies that social capital exists at varied levels of social organization and that the features or aspects of social capital are likely to differ at each of these levels. Also, the definition brings to light the instrumental character of social capital as it is defined in terms of the purposes it serves i.e. emphasizes the benefits of holding such capital. According to Portes (1998), the novelty of social capital comes from the fact that only the positive attributes of sociability are emphasised upon while the negative consequences of the same are ignored. He explains how sociability is brought into the framework of ‘capital’ to effectively convey that such non-monetary forms of capital can become important sources of power and influence just like one’s stock of monetary assets.

The first systematic contemporary analysis of social capital was produced by Bourdieu (1993), who defined the concept as “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition”. Bourdieu’s definition throws light on several aspects of social capital as is evident from various literatures that uses Bourdieu’s analysis. First, it explains that social relationships allow individuals to access resources possessed by others. Second, not all social relationships have the same characteristics. While some have clear structures, others are less institutionalised. For instance, friendship or neighbourhood ties have less definite contours when compared to associational memberships in clubs and formal organizations. Third, it subtly conveys that individuals who have access to networks will have a clear advantage over those who do not possess this access and therefore social capital could act as a means of social inclusion as well as exclusion.

While many studies focussed on defining social capital for individuals, it was Putnam (1998) who breathed a new life into social capital studies by focussing on the community as a unit of analysis. It delved into the ways in which members of a community interact and collaborate on common concerns. It is here that the role of institutions in facilitating civic and community outcomes was largely recognised. It broached into the subject of people’s involvement in formal and informal civic organisations and thus social capital became an indicator of developmental outcomes. Thus, studies on micro-credit, self-help groups, environmental movements, employment generation programmes etc. claim differential developmental outcomes based on the social capital stock or characteristics of the intended beneficiaries.
Another important contemporary source was the work of the economist Loury (2006) in the context of the analysis of racial discrimination in the labour markets. Loury criticised the undue emphasis placed by neoclassical theories on individual human capital skills. He argued that discrimination in the labor market would not reduce even after substantial investments in human capital owing to two reasons: One, the poor material resources and educational opportunities would be inherited from their poor black parents. Secondly, the poor connections of workers in the labor market would not give them the needed information about opportunities. In other words, poor endowments of social capital could result in reduced opportunities for the black. It is thus clear that social capital is important for facilitating a range of outcomes for individuals and communities alike. Most notable is the growing awareness that higher levels of economic wellbeing are not in themselves sufficient to achieve a range of positive community outcomes, but that social relationships are also essential (Narayan, 1999). In this context the role of social networks comes into play for explaining the benefits that flow from creation and maintenance of such networks. Conceptualising social relations as networks enables us to identify the structure of social relations (for example whether people know one another and what the nature of their relationship is) as well as their content (for example, flows of goods and services between people, as well as norms governing such exchanges) (Nadel, 1957).

However, it should be clear that while social capital is contingent on social networks, they are not equivalent or interchangeable terms. Networks provide the necessary condition for access to embedded resources in networks. Rather, variations in networks or network features may increase or decrease the likelihood of having a certain quantity or quality of resources embedded. Thus, network features should be seen as important and necessary antecedents exogenous to social capital. For example, for a given network, density or closure of networks may increase the sharing of resources among participants as individuals and/or as a group (Bourdieu, 1983/1986; Coleman, 1990). On the other hand, sparse or open networks may facilitate access to better or more varied resources or information, control or influence (Burt, 2001; Lin, 1999). Hence, what is needed is to specify conditions under which certain network features such as density or openness lead to the capturing of certain resources that generate certain kinds of returns (Burt, 2001).
1.2 Social Capital and Labour Markets

The role of social capital in job market search can be traced back to as early as 1960’s. Individuals use connections with others, such as friends and social and professional acquaintances to maintain information networks (Stigler, 1962). There are differences among workers in their use of the variety of available informational outlets (Rees, 1966). Similarly, employers use different channels to fill positions. In this context, formal sources of information include state and private employment agencies, newspaper advertisements, school and college placement services and, more recently the Internet (Kuhn and Skuterud, 2000). Informal sources include referrals from employees, direct inquires by job seekers and indirect ones through social connections. Heterogeneity of workers and jobs complicates the acquisition and evaluation of information that both buyers and sellers must have before an exchange takes place (Stigler, 1962). Referrals from employees act to reduce labour market imperfections such as information asymmetry and adverse selection. Inadequate information has two main consequences; one employer’s are unable to measure the true productivity of workers since employment contracts do not specify all aspects of the workers’ level of effort nor helps in fully measuring the productivity of workers. Hiring through employee referrals reduces this information problem since existing employees have already undergone a prior screening process indicating a certain level of productivity. When such employees refer their other friends or relatives, they are careful enough not to tarnish their reputation and hence ensure a certain level of productivity. Second, since workers are heterogeneous in skills and other characteristics they may be misallocated to tasks leading to the problem of adverse selection. Prior knowledge about the prospective candidate through an existing employee helps to reduces chances of imperfect matches. Coase (1937) had noted that there are a number of costs associated to using the market where the cost of acquiring a good is much more than the price of the good. Various costs such as search and information costs, bargaining costs, enforcement costs etc. add to the cost of procuring the good. This applies to labour markets as well where the ‘good’ in question is acquiring human resources. Social networks can be considered as a powerful means to foster the diffusion of information and knowledge, reducing transaction costs and lowering the uncertainty of employment.
1.3 A Brief Review of Literature

While the term “social capital” has been used in several ways, it can be defined as networks of social relations which are characterized by norms of trust and reciprocity and which lead to outcomes of mutual benefit (Bourdieu 1993; Coleman 1998; Putnam 1993). For individuals, this can mean access to social connections that help the processes of getting by or getting ahead. For communities, social capital reflects the ability of community members to participate, cooperate, organize and interact (Putnam, 2000). Included in this definition are a person’s family relationships, kinship networks, friendships, acquaintances, civic attachments and institutional ties. At an aggregate level, there is evidence that social capital influences economic and political outcomes (Arrow, 1972; Fukuyama, 1995; Knack and Keefer, 1997; Putnam, 1993). At an individual and family level it has been found that social capital is related to a range of outcomes including health status (Baum et al. 2000; Lochener et al. 1999) and educational attainment and child well being (Coleman, 1988; Marjoribanks and Kwok, 1998). In the context of developing economies studies on social capital have examined the role of social networks in harnessing micro credit thereby having far reaching implications on rural population (Larance 1998; Dowla 1995; Katrine 2003; Singh 2004).

Studies in India have emphasized the role of social capital in the development processes (Chopra, 2002) and its role in reduction of poverty (Morris, 1998). Studies specific to Information Technology (IT) industries and social capital have focused on the role of individual social capital and access to venture capital of Indian IT regions (Aydogan, 2003); and the role of social capital as a locational determinant of the Indian IT industry (Taube, 2005). There are also some studies that have focused on Indian immigrants in the labour markets in Canada (Nanavati, 2009); of migrant construction workers in Goa (Fernandez, 2012) and the circular migration of Indian and Chinese entrepreneurs and engineers (Fei, 2007). All these studies have given a social network perspective.

The role of social networks in the labour market has been reviewed under the following broad themes: The first relates to the question of how social networks of workers relate to the process of job search: the cost-benefit considerations, the socio-demographic characteristics of job seekers using informal networks and the potential returns from the
use of differential network types. The second theme in the review reflects on the demand side considerations for using employee referrals.

One of the most cited reason for extensive job search through family and friends are the high returns associated with such search. Finding jobs through friends and relatives result in the higher number of offers per contact and the highest number of acceptances per contact (Blau and Robins, 1990). Another important reason is the low costs associated with informal search mechanisms since family and friends are capable of providing labour market information without requiring financial investments on the part of the job seeker. Granovetter (1995) said that even if expected returns from family and friends are low, job seekers may still rely on friends and family implying that low costs are the motive for doing so. Holzer (1988) also showed that reliance on friends and family to find jobs had little to do with the probabilities of receiving wage offers. Osberg (1993) also argued on similar lines and showed that friends and family are frequently relied upon even though the probability of finding jobs through such sources is quite low particularly during times of recessions.

One of the important contributions in economic research has been the development of the idea that social capital could have an influence on labour market outcomes. Since the publication of Granovetter’s seminal book, ‘Getting a Job’, in 1974, economic sociologists have devoted much attention to the role played by personal networks in the job search process. One of the major tasks of the labour market is to coordinate signals between employers and their potential workforce (Ehrenberg and Smith, 1997). Lin, Ensel, and Vaughn (1981) probed the relation between tie strength and occupational status attainment. They found that the use of weak ties in finding jobs has a strong association with higher occupational achievement only insofar as the weak ties connect the respondent to an individual who is well placed in the occupational structure. Lin (2003) published an article to argue that social capital, or diverse resources embedded in social networks, offers a competitive advantage in the labour market. A significant advantage of having such embedded resources is in receiving job-related information in routine exchanges. However, strong ties connecting family members and close friends are proved to reduce labour precariousness (Sabatini, 2006). Strong contacts are assumed to have strict priority as recipients of information about the existence of job vacancies, while maintenance of a given strong contact requires more time than does maintenance of a weak contact.
(Boorman, 1975). Flap and Volker (2001) conducted a study to address the question as to what extent job satisfaction can be explained as the revenue of social capital. The findings suggested that the structure of the network and the content of the ties matter. A large number of studies have also focused on the wage effects of recruitment and job finding methods. Here again the type of ties used seemed to influence wages. The wage effect of weak ties was seen to be positive but only for high status individuals. Elliot (1999) shows that use of informal networks by less educated workers leads to lower wages. Some studies have also shown that the wage effects of weak ties and work related ties diminish when educational qualifications are controlled for (Bridges and Wayne 1986; Marsden and Hurlbert 1988). Examined in terms of the general effect of social networks on wages, studies have shown that social networks are shown to have their impact on occupational segregation, in creating inbreeding bias and generating wage differentials. An econometric evaluation of the effects of the social network’s mobilization, as a job search strategy, on wages found the effect of social network on wages to be negative (Delattre and Sabatier, 2004). Pellizzari (2004) documents large cross-country and cross-industry variation in the wage differentials between jobs found through formal and informal methods. Since the probability to get a job offer increases with the number of employees in the network, the existence of social networks induces dispersion when wages are subject to bargaining (Fontaine, 2004).

An array of literature shows that socio-demographic characteristics of job seekers seem to influence the methods of search. Model (1988) found that individuals of a particular ethnic background (in this case Blacks, Italians and Jews) tend to refer individuals of the same ethnic background for jobs. A particular view of informal network states that personal networks gravitate towards gender homophily and may result in occupational gender segregation (Drentea, 1998; Marsden and Campbell, 1990) and earnings inequalities (Green et al, 1999). Ibarra (1992; 1997) observes that personal networks of men and women differ mostly on account of power and influence. Loury (1977, 1981) in his critique of the neo-classical theory of racial inequality stated that racial inequalities could continue primarily because of the inherited poverty from parents and due to poor social connections and lack of information for the young black workers in the labour market. By extension of the same argument, socially backward class and caste categories could also face the same type of discrimination due to poor social networks. Lindsay, Greig and
McQuaid (2005) showed that individuals in rural communities relied heavily on social networks for obtaining a job. A number of studies also showed how the employment and earnings status of job seekers and social contacts influence the use of social networks. Wahba and Zenou (2003) found that conditional on being employed, the probability to find a job through social networks, relative to other methods, increases. Armengol and Jackson (2004) contend that employed workers will pass along information only if they cannot use the information to improve their own wages. Similarly, Topa (2001) showed that employed social contacts were more likely to provide information to jobseekers than unemployed social contacts. Unemployed social contacts more often use the information to find their own jobs.

On the demand side of the labour market, Holzer (1998) suggests that employers regard referrals from employees as more informative and reliable than direct applications and use them as relatively cheap screening and signaling mechanism. Rees (1966) argues that employees only refer capable workers to ensure that their own reputation with their employer is not tarnished and suggests that good jobs are usually found through informal networks and personal contacts. Montgomery (1991) develops a search model in which employers use informal information recruitment methods as a way of screening potential employees to ensure that they are of high productivity, suited to the job and workplace culture. Marsden (2001) finds informal referrals are most effective for complex jobs, and can benefit managerial or professional employees most. Employers use employee networks as screening and incentive mechanisms to improve the quality of recruitment. However, Iversen et al (2009) showed a negative relationship between network use and the skill intensity of jobs.

A few observations emerge from the literature reviewed above. Firstly, there appears to be a major gap with respect to systematic studies on the topic of social networks in the labour markets in India. Industry level analysis of social networks is also completely missing. Secondly, social capital exists at varied levels; individual, neighbourhood, workplaces and community levels. The nature of social capital differs at each of these levels. Thirdly, social networks do not have homogenous characteristics and network features often vary thus leading us to believe that social capital is not an all purpose good.
The differences in network features can result in differential outcomes for those who mobilise the resources in these networks. Fourthly, most studies on social networks and their use in the labour markets have been gender neutral or gender invariant thus calling for a greater attention to details. Fifthly, there are benefits as well as downsides of using social capital in the labour market, both from the demand as well as the supply side of the labour market. An understanding of these issues leads us to our research problem.

1.4 Statement of Research Problem

Matching a worker with a job is a formidable task for the labour markets and at the same time reflects the efficiency of the labour market. However labour markets are characterized by a certain degree of information asymmetry which leads to the markets being inefficient. Employers are not always able to get the right workers for their jobs because they know too little about the worker characteristics. Similarly, workers too have inadequate information about job opportunities which can make the process of job search costly and difficult. The role of social networks emerges at this juncture. The Information Technology industry hires nearly 35% of its employees through the referral hiring mode perhaps to overcome the problems of asymmetric information and to reduce the frictions that can arise due to imperfect match between workers and jobs. Most firms in the industry maintain and promote an incentive based referral recruitment system which is also publicized on their official websites. The industry has crucial issues confronting them with regard to gaining access and control over a sufficient supply of qualified knowledge workers. This concern has found its reflections in the complaints of the industry with regard to shortage of skilled manpower at innumerable discussions during various industry sponsored forums on human resources issues. Thus gaining access to information about potential workers is crucial for successful human resource formation in these companies. When hiring takes place through the employee referral mode, those who find jobs through such mode have essentially mobilized their social networks. But since not everybody finds jobs through social contacts and some also find jobs through formal channels such as through campus placements, employment consultants and by applying through newspapers or job portals, it would be of
interest to understand what factors could possibly play a role in finding jobs through social networks. Resources embedded in social networks also called as the stock of social capital, are not similar for everybody. This raises the question as to who prefers to use informal networks to find jobs and more importantly who succeeds in finding jobs through particular methods. The type of ties between people in social networks or the characteristics of such ties are likely to be different for different people. For instance, women’s networks are considered to be different from men because of their limited ability to network. Similarly, socially disadvantaged or marginalized categories of people may not have the same type of access to networks especially in terms of access to people in position and power. Thus, the chances of finding jobs through informal methods may not be the same for everyone. Similarly, literature also points out that differences in human capital may also be seen as an important factor in deciding who succeeds in finding jobs through particular methods of search. Levels of skill, educational attainment and experience can have a bearing on the success of finding jobs through different methods of search. In the specific context of an industry level analysis, firm level characteristics could play an important role in determining the role of social capital from the demand side perspective of the labour market.

Another area where social networks could impact the labour market is in explaining wage differentials after controlling for several other variables. Job search models in economics assume that the arrival rate of job offers is determined exogenously. An economically rational job seeker would continue to search for a job until he is able to find one which offers a wage that at least matches his reservation wage. The probability of finding a job within certain duration has been linked to the idea of this reservation wage and search efforts of the job seeker. The determinants of this reservation wage have achieved more attention and little attention has been paid to the relative efficacy of alternate job search methods. It is quite possible that those who are well connected are likely to set higher reservation wages given that they have opportunities to network for jobs and a greater choice of jobs thereby enhancing their bargaining power. Therefore, there are high chances that those who find jobs through informal methods also earn higher than others. Most theories explaining wage differentials have focused more on the human capital framework. Finding jobs through informal networks could explain the variation among earnings among several other factors. This argument stems from the fact
that given the information asymmetry with regard to worker characteristics, it seems plausible that firms may be willing to pay higher wages for workers about whom the referrers have given prior information. Therefore, explaining wage differentials exclusively through traditional human capital framework would be inadequate. Also, literature points out that jobs found through informal networks are considered to improve the quality of job matches as they facilitate better, qualitative flow of information between the employer and the worker. Thus, the extent of job satisfaction that employees experience cannot be merely seen as an outcome of individual and human capital characteristics alone, the influence of a job search type needs to be examined. Another potential area where job search method could impact upon the labour market is in terms of satisfaction that one may experience at work. Given that jobs found through social networks facilitate transmission of intensive and qualitative information about all relevant aspects of work; this could result in better matching of one’s skills, experience and educational qualification with the job at hand and thereby lead to better job satisfaction at work place. Thus, while impact of job search method on wages reflects the material returns from a job, its effect on job satisfaction emphasizes the non material rewards from work.

In the above said context, it would be of interest to understand how social networks influence the choice of job search method among several other factors and how the job search method chosen in turn affects certain labour market outcomes namely earnings and job satisfaction. Issues such as these are discussed from the workers angle and therefore deal with supply side of the labour market. However, the processes of worker employer matches have also to be studied from the demand side of the labour market too, namely the employers. Since imperfect information exists with regard to understanding worker characteristics, employers in certain industries would prefer referral based recruitment practices due to its merit in giving substantial information about the potential worker. Besides it also lowers transaction costs for the firms which can use the networks of its employees as a cheaper screening and signaling mechanism as compared to formal methods of recruitment. Besides the information achieved through these methods are likely to be more reliable for both the employer as well as the employee. However the relative efficacy of different search methods in matching the potential employer with the worker may differ from industry to industry and also depend on the perceptions
of the industry on the benefits of hiring through referrals. The present study makes an attempt to understand these aspects as well.

### 1.5 Research Questions

Some related research questions that would be raised through this study are:

1. Does an individual’s stock of social capital affect his chances of finding jobs through either the formal or informal methods of search?
2. What factors explain the differences in earnings of individuals with similar human capital characteristics? In particular, can finding jobs through social networks explain these differences?
3. Do men and women achieve similar returns from the use of social networks to find jobs?
4. Can finding jobs through social networks explain the returns from the use of networks or do the type of ties within networks matter?
5. Do IT firms prefer hiring through employee referrals? What could be the possible reasons for such preference if any?

### 1.6 Objectives of the study

1. To examine how social capital characteristics of IT employees relate to the method of job finding.
2. To analyze whether method of job finding can explain differences in earnings and job satisfaction.
3. To understand the extent of referral hiring in the IT industry and the perceived benefits associated with referral hiring.

### 1.7 Hypothesis

1. Social capital characteristics are likely to influence the method of job finding.
2. Finding jobs through informal methods is associated with higher level of earnings.
3. Informal methods of job finding are positively related to job satisfaction.
4. Perceived benefits of referral hiring will be associated with the extent of referral hiring that takes place in IT companies.

### 1.8 Operational definitions and measures

**Social capital:** The title of the thesis is “Social Capital and Labour Market Outcomes: A Study of Information Technology Industry in Bangalore”. We therefore begin with operationalising the term ‘social capital’. Social capital refers to resources embedded in the social networks of individuals that are mobilized for outcomes of mutual benefit. Social networks are examined at three relational levels; bonding social capital, bridging social capital and group memberships.

**Bonding social networks:** Ties that are characterized by intimate and confiding relationships such as between close friends is termed as bonding social capital.

**Bridging social networks:** Ties that generally share information and resources, but not all members necessarily maintain equally strong and reciprocal relations with each and everyone else. This would primarily include work related or professional ties.

**Group networks:** These networks are characterised by shared membership and identity, even though the members may or may not interact among themselves. Here, a collectivity or institution provides the backdrop for the membership or identity. For instance membership in hobby clubs, alumni associations, charitable associations including online social and professional networking sites like Twitter, Facebook, LinkedIn etc. are considered to be part of group networks.

**Information Technology (IT) Industry:** IT industry will include only those workers who are working in software companies and engaged in software work. It does not include workers who are doing IT related jobs in the IT departments of other industries. It also does not include hardware or networking professionals within the IT industry since the

---

These are briefly described in this section. More elaborate discussion will follow in Chapter 2 and in Chapters 4, 5 and 6 along with the analysis.
type of job performed, the nature of skill involved and the related occupational positions are different from software jobs. This heterogeneity would create difficulties in examining the impact of firm specific and skill specific characteristics to be accounted in explaining differences in methods of job finding, earnings or job satisfaction. Besides, the highest contribution towards revenue in the IT industry comes from software firms.

**Operationalisation of constructs in Objective 1**

**Social capital characteristics:** The first objective tries to examine the influence of social capital characteristics on methods of job finding. These are measured in terms of the structural characteristics and quality of bonding, bridging and group networks.

- Structural characteristics of social networks: Structural characteristics of networks are measured through network size, network density and network diversity.
- Quality of social networks: Quality of networks is examined through levels of trust and frequency of meeting among network members.

**Method of job finding:** The method by which the current job is found is divided into formal and informal methods. Formal methods of job finding include those that are found through employment consultants, newspapers and job portals, direct approaches to employers and campus placements. Informal methods of job finding include those found through social contacts like friends and family, workplace contacts, friends of friends etc.

**Operationalisation of constructs in Objective 2**

The second objective explores whether the method of job finding has any influence on labour market outcomes such as earnings and job satisfaction.

**Earnings** — Earnings in the study are the pecuniary returns from work. It refers to the gross annual income being earned in the current job.

**Job satisfaction** — Job satisfaction is a single item measure which tries to capture the level of satisfaction that one experiences at work based on different aspects of the job such as autonomy at work, security of job, stability, income, stress and social atmosphere.
Operationalisation of constructs in Objective 3

**Extent of referral hiring** — Percentage of referral hires to total hires by the firm.

**Perceived benefits of referral hiring** — Perceptions of HR managers’ on the advantages of referral hiring.

### 1.9 Research Design

**Type of Study**

The study is primarily explanatory in nature as it tries to model the determinants of the method of job finding. Subsequently, it also models the determinants of the level of earnings and job satisfaction. The third objective is descriptive in character as it limits itself to understanding the perceptions of HR managers and the extent of referral hiring in the IT industry with simple descriptive statistics.

**Area and Unit of Study**

The study has been carried out in Bangalore city which is regarded as the IT capital of India; also sometimes addressed as the Silicon Valley of India. The population of interest was IT employees and IT firms. In objectives 1 and 2 the unit of study is the IT employee while in objective 3, the unit of study is the IT firm.

**Sources of Data collection**

Secondary sources of data have been collected from NASSCOM which is the apex governing body for the IT industry. Other sources of secondary data include books, newspaper reports, journal articles and other reports such as from India Brand Equity Foundation (IBEF), Confederation of Indian Industry (CII). Primary data has been collected from IT employees as well as IT firms with the help of a personal and online structured interview schedule respectively.

**Sampling design**

Non-probability sampling design was chosen for the study due to unavailability of a sampling frame and unwillingness of HR managers to allow their employees to participate.
in the survey due to restrictive company policies. The sample consisted of 281 IT employees and 25 IT firms. Maximum variation purposive sampling methodology was followed to select the respondents from various companies. This was done to get an adequate representation of employees across experience, skill, educational and occupational categories. The IT firms were also chosen purposively since only HR managers in senior positions would have been capable of providing the required information. Therefore, only those companies where HR managers were willing to share information and participate in the survey could be included.

Data Analysis Techniques

The first objective has been analyzed with the help of a multiple logistic regression method where the method of job finding is the dependent variable. The second objective uses an ordinary least squares regression model and a multiple logistic regression model for analyzing the determinants of earnings and job satisfaction respectively. Descriptive statistics showing important cross tabulations has been shown for all three objectives to add value to the interpretations. The software used for analyzing the data is STATA.

1.10 Chapter Scheme

The first chapter deals with the introduction to social capital and its role in labour markets followed by a brief review of literature. It also lays down the research problem, the broad objectives of the study and the research design to accomplish the objectives. The second chapter examines available literature more deeply in terms of the theoretical and empirical framework and lays down the empirical framework of the current study towards the end. The third chapter gives a background of the Information Technology industry, its growth phases, its composition and the nature of operations, the characteristics of its workforce and finally the referral hiring practices prevalent in the industry. The fourth chapter deals with the analysis of the determinants of job finding methods; the fifth examines the influence of job finding method on earnings and job satisfaction and the sixth chapter deals with perceptions of IT firms towards referral hiring.
The final chapter i.e. seventh chapter deals with the summary and conclusions that emerge from the study.

### 1.11 Significance of the study

Indian software industry has emerged as a major player in the global software industry. However, it occupies only a marginal position in the world market and Indian exports have been largely low value output. In order to compete in the high value segment there is a need to focus on issues of labour and its competitiveness. One such issue concerning the competitiveness of labor is the efficiency and effectiveness relating to job search. The study showed that social networks of existing employees can serve as important resources for firms to hire through referrals. This can reduce costs and lower informational problems for firms. Job seekers too can benefit if they can execute successful job searches through personal contacts. However, filling up vacancies through referrals could also mean that some people do not get a chance to effectively compete for jobs in the labour market resulting in a kind of bias that favors only some people. This study is significant in terms of influencing changes in companies’ policies as well as job search behaviour of employees with respect to use of referrals or social networks in the labour market since it tells us who benefits from the use of social capital the most. It gives us a nuanced understanding of the potential benefits and dangers of using social capital in the labour market. More importantly, it helps us to realize that social capital is not an all purpose good and does not yield similar result for all people in all circumstances. Besides, studies on social capital in India have been mostly on examining the role of social capital in influencing community outcomes such as environmental conservation or poverty reduction. The current study becomes important from the viewpoint of actual and perceived influence of social capital on labour markets which is relatively unexplored in present studies.

### 1.12 Limitations of the Study

One of the important limitations of the study is the restricted sample size. This was primarily because of strict HR policies in several companies which prevented...
employees in participating in surveys which required information on their earnings and job satisfaction levels. Another limitation was the use of non-probability sampling technique which is considered to be less scientific in comparison to probability sampling designs. Inadequate sampling frame and the need to get adequate representation of employees with specific characteristics resulted in the choice of a maximum variation also known as heterogeneous purposive sampling design. Addressing the limitations in terms of specific objectives, it may be said that with respect to determinants of job satisfaction in Objective 2, responses were skewed towards one side of the Likert scale i.e. the higher side. There could be some respondent bias here since most employees were approached through the respective HR managers of various companies.