This chapter deals with the theoretical and conceptual framework emanating from three distinct areas necessary for the present research study: first, from the body of literature related to the economics of the labour market with specific reference to job search theories; second, pertaining to social capital theories drawn more heavily from the domain of sociology and third from empirical literature concentrating on the intersections between job search methods and the social capital of individuals and its related outcomes.

According to Coleman (1988), there are two broad intellectual streams in the explanation and description of social action. One treats the actor as being socialized, whose behaviour is determined by social norms, rules and obligations. The actions of this person are shaped, constrained and directed by the social context. This stream of thought belongs to that of the sociologists. The other stream is that of the economists who view the actor as an independent self interest maximising entity having independent goals and line of action. Coleman views both these intellectual streams of thought to have serious defects. While the sociological view places too much of emphasis on the external environment with no internal initiative for the actor, the economic stream on the other hand, places too little attention on the social context, norms, interpersonal trust, social networks and social organisations all of which can actually influence a person’s actions.

Recognising these difficulties economist like Porath (1980) drawing from literature in anthropology, sociology as well as economics has developed what he calls as the
“F-connection” in exchange systems. The F-connection here refers to family, friends and firms where he explains how these forms of social organisations can affect economic exchange. Oliver Williamson (1975, 1981) has examined how different institutional forms within firms or in markets influence the way in which economic activity is organised. A sociologist like Baker (1984) has shown, how relationships develop among stock traders even in the most rationalised settings like that of the Chicago options exchange and how such relations affect trade. Granovetter (1985) criticizes the insufficient attention paid by economists on the importance of concrete personal relations and networks of relations which he calls as “embeddedness” in generating norms of expectations, trust and reciprocity.

It is in line with the above mentioned stream of thinking that a number of studies emphasising on the role of social networks in the process of job search and in influencing labour market outcomes have come into existence.

### 2.1 Job Search Theories and Models in Economics

The neo-classical theory of labour supply simplistically assumes the existence of perfect information in the labour market and therefore does not consider the time and costs involved in searching for a job. There is only one alternative to work and that is leisure. In other words, each worker is completely aware of the available job offers and the associated particulars and has to only decide on the number of hours he/she wishes to devote to work given the assumption of a single uniform wage rate prevailing in the market. This excludes the need to specifically search for a job and even the possibility of unemployment. Given that such a hypothesis does not fully explain the experiences of a typical worker in a dynamic environment, job search theory takes centre stage to explain individual worker behaviour in settings of imperfect information and uncertainty about jobs and wages.

In reality, the individual worker faces imperfect information about alternative wages that prevail and the job seeker is on the lookout for the highest possible wage offer for the services that he or she may supply. Stigler (1961, 1962) was the first person who highlighted this fact as being common in all markets characterised by imperfect information.
The basic search model explains the agent to be engaged in searching for a job as long as she hopes to improve her prospects of welfare by continuing the search. The duration of such search would depend on individual preferences and the overall environment in which the search takes place. Information on vacant jobs and available wage offers has to be obtained and evaluated. The process being costly provides a basis for explaining differences in unemployment spells of individual workers and the wages that they receive on being employed. The typical worker has a variety of earning opportunities but has to ‘shop’ to find the best one. The worker’s decision problem therefore involves choice of the strategy for ‘shopping’ and selection of a criterion to decide which wage offer is acceptable (Mortensen, 1986). The worker thus chooses from a sample of wage offers and settles for the employer with the highest wage offer. However, this search model makes certain restrictive assumptions in the form of accessibility to unemployment insurance for all without a job, not allowing a person to search for a job once employed and not being able to select the intensity of search for jobs. Such a model becomes unrealistic especially in the context of a developing country like India where workers can go without jobs for several months without unemployment insurance. This vulnerability can be experienced even in urban labour markets and in the most knowledge intensive services sectors like that of the Information Technology industry which is the current focus in this study. Besides, if we forego the assumption that job search ends with finding a job, on the job search becomes highly relevant in an industry like the Information Technology where working for too long a time in the same company is seen to be counterproductive in terms of future growth prospects of the worker. IT professionals search for new jobs even while being currently employed for prospects of better pay, working conditions or professional growth or some combination of all these factors. With regard to the intensity of job search, assuming this choice to be beyond the capacity of the worker is unrealistic as studies have revealed that workers use a number of search channels to find a job and that search intensity is a function of the number of search methods. Given that Information technology industry has almost 30% of its workforce employed through referrals, it is obvious that workers would be using multiple search methods instead of one and therefore search intensity of jobs is likely to be determined by the workers themselves.

Subsequently, the theoretical analyses of job search was based on the sequential “stopping” approach where the worker reviews wage offers one at a time and based on
the offers received until then, decides whether to stop or continue with the search. Thus the worker does not choose from a sample of wage offers all at one time but does so in a sequential manner reviewing each wage offer individually before deciding whether or not to continue with the search process (McCall (1970), and Mortensen (1970)). Holding job characteristics fixed, the decision to search depends on the reservation wage i.e. the lowest wage that the worker is willing to accept. The worker’s strategy would be to reject any wage offer which is lower than the reservation wage and to accept any wage offer which is higher than the reservation wage. The reservation wage is arrived at by equating marginal costs of continued search with the marginal benefits from the job offer in terms of current and future utility.

The determinants of this reservation wage in a theoretical framework which assumes the arrival rate of job offers to be exogenous over which the individual has no control received more attention (Narandranathan and Nickell, 1985) in job search theory. Here, the search effort has been treated as a uniform activity although there are clear differences in job search methods which happen to vary in terms of their money and time costs and some have been claimed to be more effective than others as suggested by empirical studies. Besides, it also needs to be kept in mind that arrival rate of job offers can be a function of the workers behaviour and local labour market opportunities (Weber, 2000). Burdett (1979) introduced a job search model in which a worker can choose the amount of time he wishes to spend on searching for a job (search intensity) as well as set his reservation wage. In other words, the individual does not choose from an exogenous distribution of wage offers over which he has no control. Holzer, (1988) extended the model to explain how a worker’s choice of different search methods could determine the arrival rate of job offers since methods differ in their costs and productivities. Thus individuals choose their search intensity across different search methods by balancing the costs and benefits of a given search method. The probability of accepting a wage offer depends on the reservation wage in the model. The search intensity is a function of search methods and the search costs a function of frequency and time costs per unit of search method respectively. Holzer (1988), distinguished between five methods of search: friends and relatives, responses to newspaper advertisements, state employment agencies, direct employer contacts (without referral), and “other methods” which include all the remaining methods included in the survey. Thus, job search which involves the
use of personal contacts is termed as informal while those through newspapers, state employment agencies etc. are termed formal. The model suggests that search intensity reflects expected returns to search. Higher predicted offers result in higher search intensity. At the same time, higher search costs will result in lower reservation wages especially for the unemployed group when compared to the employed counterparts due to high opportunity costs of foregone earnings. This also explains differences in search intensity of individuals.

Pellizzari (2004) uses the classification of job search into ‘formal’ and ‘informal’ to explain international variation in wage differentials between jobs found through formal and informal search channels. Blau and Robbins (1990) investigated the choice of search method and its relation to the number of contacts generated, the offer rates of jobs and the decision to accept a wage offer. It was found that direct applications to employers and advertisements generated the highest number of contacts; private employment agencies and direct applications yielded maximum job offers and friends and relatives and direct applications had the highest job finding rates.

Rees (1966) found that most jobs are obtained through information from friends and relatives. Information from friends and relatives were more productive in terms of generating acceptable wage offers and perhaps also more reliable in terms of conveying job related information. Besides, this method was also less expensive for the workers where they could exploit their social networks without incurring high search costs. For employers too, recruiting through referrals provided by existing employees serves as cheap and useful screening device since it is otherwise difficult to observe productive skills of employees before hiring them. It is also unlikely that existing employees will tarnish their reputation by recommending unworthy candidates to the workplace. Deeper insights on the benefits of referral job matches especially in terms of search costs from the perspectives of both the employer and employee were considered through qualitative interviews with Human Resource managers of IT industry in the current study.

Since each worker possesses a unique bundle of skills and attributes and because each job is different, firms require the communication of relatively large information about potential workers (Rosenblum, 2005). In other words, the transaction costs involved in job-matching are very high. Informal contacts are supposed to be a signal of worker
productivity, ensuring the right job for the right worker, thereby increasing the probability of a worker being employed (Mosca and Pastore, 2008).

Job search theory predicts that job-seekers compare the marginal benefits with the marginal cost for any given search alternative and would prefer informal contacts because these bring higher marginal benefits in comparison to formal methods of job search (Loury, 2006). Another line of reasoning is the one put forward by Goldberg’s (1982) hypothesis of nepotistic firms. According to him, firms would prefer to use referrals or nepotistic practices because they prefer to maximise utility rather than profits. They achieve this by distributing their profits to stakeholders, including employees within the firm.

### 2.2 Social Capital Theories and Concepts

A number of theoretical models in economics in the area of job search are based on the concepts developed by sociologists and this literature complements the economic studies which devote much attention to the role played by social networks in the job search process. Granovetter’s (1973) strength-of-weak-ties hypothesis and his seminal book, ‘Getting a Job’ (1974) gave stimulus to a string of research studies that brought about connections between social networks of individuals and the role played by them in shaping labour market outcomes. Before we examine these studies, it is first important to understand the definition of social capital and its various nuances since social capital emanates from social embeddedness of individuals within various networks.

Social capital has been conceptualized and defined in many and varied ways in social capital literature which has led to a justifiable confusion as to what constitutes social capital. For many social scientists the concept does not embody anything new. In Economics, the idea of social capital can be traced back to the writings of classical thinkers like Adam Smith. According to Smith (1759/1976), individuals guided by self-interest will build and maintain reputations of trustworthiness and it is this trustworthiness which is regarded as important for the functioning of the markets and for the enforcement of property rights. Trust has come to be understood as an important indicator of social capital reflecting the quality of social relationships. Alejandro Portes (1998) suggests that
in sociology the idea of social capital dates back to Durkheim. Durkheim laid emphasis on group life as an “antidote to anomie and self destruction”. Similarly, Marx drew a distinction between an “atomized class-in-itself and a mobilized and effective class-for-itself”. However, in contemporary literature, an attempt at providing a systematic analysis to the idea of social capital came through the works of Bordieu (1986), Putnam (1993) and Coleman (1988) which are considered to be seminal, path breaking studies in this field. Each understands social capital as a resource to collective action, the outcomes of which concern economic wellbeing, democracy at the nation state level, and the acquisition of human capital in the form of education, respectively.

Bordieu (1986), defines social capital 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 and recognition—to membership in a group—which provides each of its members with the backing of the collectively-owned capital, a “credential” which entitles them to credit, in the various senses of the word.” This definition throws light on various aspects of social capital. First, it suggests that resources could be actual or potential. The accessibility to resources is emphasized here; actual utilization of it is not a requisite to qualify as social capital. Second, the resources are not the property of the individual but rather emanate from a network or group to which the individual belongs. Third, relationships within a network are not similar. Families, friends, neighbourhood, civic community, associational memberships all differ in terms of relationships of trust, reciprocity, group norms or sanctions. Finally, the fact that social capital is collectively owned, gives each of its members an opportunity to bank on it when needed and also draw from these social resources.

The definition given by Bordieu (1986) has a different relevance in India when compared to the West. Social relationships that link individuals to others may be institutionalized if the linkages are created through memberships in formal organizations. This necessitates the presence of formal organizations. Informal social networks do not have this same dependency on institutions or organizations and excludes a formal structure of relationships. The degree of civic engagement in the form of memberships in groups, clubs or charitable organizations and trust among members is an indicator of social capital in the Western societies. The same may not hold well in Asian societies
like India where a rich source of social capital exists and operates in varied ways in the informal kinship, family and neighbourhood networks rather than through membership in formal organizations. These networks operate with strong bonds of mutual trust and reciprocity in relationships. The ability of families and individuals to deal with society at large and with the state in particular improves with high levels of social capital.

Lin (1999) defines social capital as resources embedded in one’s social networks, resources that can be accessed or mobilized through ties in the networks. This means that one could harness the benefits which come through sociability. The potentiality of social resources in generating positive returns to an actor is emphasised here. Through such social relations or through social networks in general, an actor may borrow or capture other actors’ resources (e.g., their wealth, power or reputation). In his work, Lin has showed how informal social resources are used in obtaining occupational mobility in the United States. The Information Technology industry in Bangalore which is the current focus of the study makes widespread use of referral recruitments to fill up positions. This provides an opportunity for existing employees to pass on job related information to prospective friends and relatives or other such contacts. It also magnifies the importance of creation and maintenance of social capital through social networks of friends, relatives, work related contacts and other such acquaintances if one is to be able to harness the resources available in these relationships for acquiring benefits in the labour market such as information about jobs.

Social capital as a resource for action has also been examined by Coleman (1988). In his words, “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’s idea of social capital reconciled the differences between self-interested individual and normatively driven individual who place importance on shared values and norms. It also points to the fact that individuals do not exist in isolation and are embedded within social structures. The accumulation of such social capital then reduces transaction costs through cooperation and coordination between people. This reduction in transaction costs could be one of the reasons why
referral recruitment found favour in the IT industry in Bangalore. The industry has more or less institutionalised the entire system of referral recruitments by publicising it in their registered official websites giving clear signals to professionals of how important it is to maintain social connections. This facilitates flow of information between workers in the industry about job opportunities and related information.

While Bordieu and Coleman emphasised on the attractiveness of social capital accumulation for individuals, it was Putnam (1993), the most well known theorist in the social capital map who developed it as an attribute of communities. He describes social capital to “features of social organization, such as trust, norms, and networks that enable participants to act together more effectively to pursue shared objectives”. In essence, social capital comprises of both structural aspects (that is connections between people or networks) as well as cultural aspects (that is, obligations, or social norms and values, and particularly trust). The social organisation that Putnam talks about is more applicable at the community level which can include participation of people in politics, civic groups, religious organisations, professional organisations and trade unions. However, features such as obligations, social norms and values can also exist at the level of informal networks such as that of family, friends and neighbourhood networks. Hall (1999) focuses on both formal and informal sociability networks though he agrees that problems of measurement necessitate an emphasis on voluntary formal associations.

Woolcock (2001), suggested that it was important to have a narrowed down and widely agreed upon definition of social capital so that critics and supporters could adhere to the same rules. He considered it necessary for any definition of social capital to concentrate more on its sources rather than on its consequences. The focus should be more on what social capital “is” rather than what it “does” (Social Analysis and Reporting Division Office for National Statistics, October 2001).

For the present study, we define social capital as networks of social relations that emphasise both the structure and quality of relationships (Stone, 2001). Nadel (1957), considers that conceptualising social capital as networks helps us to identify the structure of social relations as well as their content. Since social capital is network based, it is important to understand how features of the network in terms of the structural characteristics and quality of relationships (explained in detail in Section IV) will
determine labour market outcomes such as the method of job finding as well as the choice of search method for IT professionals besides explaining the possible payoffs that may come from the use of such networks.

The definitions discussed above clearly agree on certain aspects of social capital viz. that social capital is a resource; it can be accessed through membership in networks; it cannot be an exclusive property of the individual and that networks are not similar in their structural features or in the type of relationships they embody. Despite the agreement on these aspects, there still remains a substantial degree of debate in the conceptualization and measurement of social capital.

## 2.3 Methodological and Conceptual Debates in Social Capital Literature

Social capital has been defined in numerous ways and this has led to certain methodological debates in its operationalisation and measurement. Some of the debates revolve around the following issues.

a. Is social capital the resource of an individual actor or collective property?

b. Can social capital be equated to the resources that this capital generates i.e. are measures of outcomes of social capital the same as indicators of social capital.

c. Since social resources are available only through social networks, does social capital and network mean the same?

d. Does social capital refer to only mobilized capital or does it also include capital that can be accessed even if not used?

This section presents a brief review on each of these debates and relates each of the debates to the context of the present study.

### 2.3.1. Is social capital an individual resource or a collective property?

One of the popular debates in social capital literature relates to the distinction between the individual and collective aspects of social capital. This can be examined by
understanding the benefits and resources provided by relations and networks. *First, the access to information and certain kind of social life through relationships, second, the readiness of actors to become trustfully involved in risky ventures with other actors, third the production of support, help and solidarity, fourth, the availability of social control and a certain level of attention to the fate and actions of other members of the entire network, fifth, a climate of trust in the network, and lastly the validity of norms, values, and morality within a group, organisation or society* (Esser, 2008). While the first three depend on an individual’s own intentional effort, the last three represent cognitive aspects of social capital as collective goods. Castiglione (2008) distinguishes between relational social capital, which points to the resources that are available to the individual actor, and system social capital, which is property of the social structure. However, it may be observed that resources of the individual actor are appropriable as a social resource by others (Portes, 1998). “People may pay their debts in time, give alms to charity, and obey traffic rules because they feel an obligation to behave in this manner. The internalized norms that make such behaviours possible are then appropriable by others as a resource. In this instance, the holders of social capital are other members of the community who can extend loans without fear of non-payment, benefit from private charity, or send their kids to play in the street without concern.”

An important question that emerges here is, as to what are the motivations to provide charity or repay loans on time or obey traffic rules. In other words, what are the sources of social capital? According to Portes (1998), it could be due to norm introjections from childhood, or even being thrown together in a common situation leading to bounded solidarity.

According to Lin (1999), one perspective is to focus on the use of social capital by individuals i.e. how individuals access and use resources that are present in their social networks to gain some benefit (for e.g. finding a job). Thus at a relational level, social capital can be viewed similar to human capital where investments are made with expected return, benefit or profit. Another perspective is to focus on social capital at the group level. It raises questions of how certain groups develop and maintain social capital as a collective asset and how such a collective asset enhances the group members’ life chances (Lin, 1999). Lin concludes by saying that whether social capital is an individual or collective good, it is the interacting members who make the maintenance and reproduction of this asset possible.
One may say that social capital unlike human and physical capital can be generated only through relations with others and in that sense cannot be treated as individual property. At the same time, individuals with social capital can bank on these resources in times of need and use them to achieve various goals. Thus, social capital can be regarded as a resource for the community as well as for the individuals who comprise the community. Whether social capital is an individual resource or a collective one can also depend on the context in which it is being studied. Scholars like Bourdieu (1980), Flap (2002), Ericksen (1996), Lin (1999a, 2001) focused on social capital as a pool of resources for the individual which may be useful for attaining their goals whereas authors like Coleman (1990) and Putnam (1995a, 1995b) elaborated theories at the macro level where they viewed social capital as a collectively produced and owned entity from which the whole community may benefit. With specific reference to the present study, it may be said that the focus is on individual stock of social capital of IT professionals and how it influences their choices of job search methods along with explaining the pay-offs that may come from using this capital in terms of income and job satisfaction.

2.3.2 Are the measures of outcome of social capital the same as indicators of social capital?

A pertinent question relating to social capital is whether social capital can be equated to the resources that such capital generates. It is important to distinguish the resources themselves from the ability to obtain them by virtue of membership in different social structures (Portes, 1998). This means that social capital is not a natural given but must be constructed through investment strategies aimed at institutionalising social relations. An example of such constructed relations can be observed among people in their efforts to improve their sociability through social networking sites either professional or personal. The time and energy invested in construction and maintenance of these contacts can be visibly understood by the frequency with which people interact and also the fervour with which they increase their social resources through an increasing number of friends, professional contacts, friends of friends and even acquaintances. The absence of social ties can create fear of being “left out of the loop” on important decisions and information
(Woolcock, 2001). It is clear from the above that people invest in networks and not on resources that these networks may generate. Woolcock maintains that any definition of social capital must focus on its sources rather than consequences. For e.g. trust is an indicator of social capital and not social capital itself. It is an outcome of repeated interactions among individuals. Individuals invest in networks which produce trust but do not invest in trust per se. Trust, in the present study too, have been used as an indicator of the quality of network ties of IT professionals where quality is considered to be a cognitive aspect of social capital. Here, trust is not used in a generalised sense but is used in a specific context. It is the extent to which individuals trust other members in their networks with respect to job related opportunities and information.

Indicators used in social capital research can be classified into ‘proximal’ and ‘distal’ groupings (Stone, 2001). Proximal indicators are outcomes of social capital that are related to its core components of networks, norms of trust and reciprocity whereas distal indicators are outcomes social capital that are not related directly to its core components. In the present study, network characteristics such as size, density and diversity along with trust and reciprocity are proximal indicators of social capital whereas the method of job finding, income and job satisfaction are distal indicators or outcomes influenced by the proximal indicators. Each of these indicators will be discussed in detail in the Section IV of the chapter pertaining to the empirics of the current study.

2.3.3 Is social capital the same as social network?

Another critical area with regard to conceptualisation of social capital relates to whether social capital is the same thing as social network. 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). The former is referred to as the structural component of social capital while the latter is the cognitive component. Equating social capital with social networks will be equal to assuming that all networks work well and in similar ways in different situations. However, this is not the case. Without networks it is not possible to access or use the resources
embedded within it but network and network features cannot be equated with resources themselves (Lin 2001). Network characteristics such as being open or close, dense or sparse will in a great way influence the quantity and quality of resources available in a network. For example, for a given network, density or closeness in ties would mean enhanced sharing of resources among its members (Bordieu 1980; Coleman, 1990). In families, dense or close ties help members cope with adversities much better and also deal with day to day situations with ease. For instance in a family with strong ties, a situation like job loss of an adult earning member can be dealt with by giving support and encouragement to each other. Here weak ties connecting members of community through associations or clubs or professional networks are less likely to be helpful to cope with the distress of job loss. However, the transition from unemployment to work will be better achieved through weak ties connecting the member of the family with professional contacts or with people in high places in organisations or institutions. Sparse or open networks would mean increased access to varied resources, information or influence (Burt, 2001). Social ties with people who are different from oneself will promote linkages with a diverse range of networks and provide a wide range of opportunities but at the same time may be characterised by low levels of trust and reciprocity in relations (Narayan, 1999; Grootaert, 1998).

Coleman emphasises the cognitive or cultural aspects of social capital which can take on three forms; firstly obligations and expectations which depend on the trustworthiness of the social environment, secondly the capacity of information to flow through the social structure in order to provide a basis for action and thirdly the presence of norms accompanied by effective sanctions (Social Analysis and Reporting Division Office for National Statistics, Government of United Kingdom, October 2001). Portes (1998) gives an example of the Jewish diamond wholesalers market in New York, a tightly knit, closed community (structural characteristic of the network) which allows another merchant (it’s buyer) to inspect the quality of diamonds at leisure. This trusting behaviour (quality of social relation) of the wholesale merchant reflects the attributes of the social structure. The sanctions imposed on a cheating member could be as severe as losing family, religious and community affiliation which deflects any kind of deviance. Thus, the norms of trust and reciprocity, group norms and sanctions which characterise the social relationships facilitate market transactions.
In the present study, social capital is not equated with social networks directly but rather with certain features that embodies the network. These features broadly relate to network characteristics and the content of ties in the networks and exist at three main relational forms namely bonding social capital, bridging social capital and group networks. These are some of the measures that Bowling’s (1997) study of networks and social support had included. Measuring the characteristics of networks such as network size, proximity and density provides the most precise means of identifying the family beyond the household networks (Stone 2001). Details on the operational measures in the current study have been included in Section IV. It is also understood from existing theoretical and empirical literature that within social networks, there exist a distinction been strong and weak ties where weak ties refer to more impersonal and distant relationships between people such as friends of friends, professional contacts, colleagues at workplace or even strangers in group networks. Strong ties include emotionally close and confiding relationships such as the ones that exist among friends, relatives and family members.

We will now briefly review the theoretical propositions that have been used in the study with regard to strength of ties.

While literature is replete with arguments of the importance of informal networks in the labour market, the credit of bringing distinctions within informal networks goes to Granovetter’s (1973) work, “Strength of Weak Ties”. Here, he explains the importance of weak ties in the labour market in positively influencing earnings and job satisfaction. The rationale behind the strength of weak ties is that such ties, which consist of people who are distant from us and not likely to be socially involved with us, are less dense when compared to strong ties wherein many of the relational ties would be present. A person may have a collection of friends who are mostly in touch with one another and at the same time, also have a collection of acquaintances, few among whom know each other. Thus, strong ties are more likely to be densely knit when compared to weak ties. The importance of weak ties emerges from the fact that the acquaintances of a person are likely to have their own circle of strong ties and therefore, the acquaintance becomes a bridge, linking two different densely-knit clumps of close friends. From this, it follows that people with few weak ties are going to be insulated from the information that may be
transmitted from distant parts of the social structure, which may place such people in a disadvantageous position in the labour market. Thus people with weak ties will be better-fitted more in the labour market as they will get exposure to a diverse set of information, ideas and support. On the other hand, individuals who have strong, dense ties will have little exposure to diverse information mostly because the news and views that circulate among weak ties are likely to be repetitive and redundant.

Another important theoretical contribution with regard to the type of ties in the social networks relates to the ‘Strength of Position’ proposition offered by Lin, *et al.*, (1981). The contacts in a person’s social network could be horizontal or vertical. Here, horizontal ties refer to people who are in similar positions like oneself whereas vertical ties refer to those who are in different hierarchical level than oneself. The strength of position proposition is compelling in the sense that it explains how ties with people who are in higher positions than one’s own in the occupational structure could lead to better status attainment for oneself. Granovetter considered weak ties in general to work better in comparison to strong ties in gaining access to well paying and more satisfying jobs. Lin while endorsing the viewpoint of Granovetter on the role of weak ties extends the argument by saying that weak ties by themselves do not assure you of better outcomes in the labour market unless the weak ties also happen to be at a higher occupational position than one’s own position in the hierarchy. Thus, having weak ties in higher occupational positions would substantially bridge the social distance gap since the post-attained status of the person who used a higher status weak tie to find a job would have improved and he would have moved closer to the occupational position of the weak tie. Boorman (1975) observes that if one were to hear of a vacancy he would most likely pass it on to an unemployed strong tie rather than a weak tie. However, in situations where unemployment is low, people prefer weak ties all the time since it requires less investment of time and effort. Extending the argument further, one may say that while weak ties are generally more useful, it is the strong ties that are given greater preference as the recipients of information over weak ties. For example, an IT Project Manager (a high status position) is more likely to pass on the information of a vacant position in his company to an unemployed or actively job seeking friend or relative than to an acquaintance or distant contact other things remaining the same. Thus, having high-status contacts among strong ties are likely to benefit individuals more than high-status weak ties especially during hard times like a job loss.
Lin et al (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. Flap and Volker (2001) conducted a study to address the question regarding the extent to which 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.

Before specific characteristics and quality of networks can be studied, the type of network being studied must be identified. Putnam (1998) distinguishes between informal networks which includes ties between family, kin, friends and neighbours, whereas formalities include ties to voluntary associations and the like. Formal networks of societal relations are those that extend beyond family and kin are often described as civic or institutional (Baum et al 2000). One classification categorises social capital into three types: informal ties, generalised relationships and societal relationships (Stone and Hughes, 2002) based on the interaction that one has with individuals, groups and institutions. Another influential classification is bonding, bridging and linking social capital based on network features such as openness or closeness and density of relations. Bonding social capital is said to exist in dense or closed networks, bridging social capital is seen in overlapping networks where resources and opportunities belonging to a group can be shared with a person belonging to some other group and linking social capital which involves networking with people in positions of authority and power (Narayan, 1999; Woolcock, 2000). Here, family and friendship ties maybe regarded as bonding ties, neighbourhood and other civic ties as bridging ties and institutional connections as linking social capital (Stone et al, 2003). Another classification by Lin (2008) is based on the intensity and reciprocity of relations. The inner most layer characterised by intimate and confiding relationships engaging in intense interactions governed by strong norms of trust and reciprocity is binding capital. The intermediary layer composed of strong and weak ties generally share resources and opportunities but all members do not have direct interaction with one another. This is bonding social capital. The outer layer is characterized by shared membership and identity that comes through membership in a group or association such as a club, clan or church etc.
In the context of the present study, social capital is manifested in three main relational forms: at the level of bonding, bridging, and group networks (Nanavati, 2009). Detailed operationalisation is included in Section IV.

### 2.3.4 Does social capital refer to only mobilized capital or even capital which is accessible even if not mobilised?

Yet another conceptual debate that revolves around the idea of whether social capital refers to only mobilised resources or also includes potential resources even though not mobilised or put to use. Here one must distinguish between the motivation to accumulate social capital for its intrinsic value such as pursuance of individual and generalised trust, adhesion to value systems, participation in democratic life from social capital as an instrument in reaching economic or social aims in which sense social capital is an input of the production function, and the sole criterion of its utility lies in its capacity to enhance total factor productivity (Castiglione, Deth and Wolleb, 2008). In one approach, social capital is conceived in terms of its capacity – the pool of resources embedded in one’s social networks - and the expectation is that the richer or greater the capacity, the better the return. Thus, the description entails the linkage between *accessed social capital* and its expected return. In another approach, social capital is defined in terms of its actual use in production and the expectation is that better the capital used the better the return. This description focuses on *mobilized social capital* (Lin, 2001). Accessed social capital thus explains the degree of access to resources even though they may not be put to use i.e. it emphasizes the capacity of capital to generate returns. On the other hand, mobilized social capital reflects the actual use of a particular social tie to gain some benefit. Lin contends that mobilised capital reflects better the relationship between capital and attainment but nonetheless excluding the potential capacity of capital to generate returns should not be excluded. Returns to accessed capital are not always concrete in terms of visible outcomes but would have still played a role. For instance when asked whether a person used personal contacts while searching for a job, the answer may be ‘no’. This could be because one was not actively searching for a job or did not mobilize help from personal networks. But this does not exclude the fact that even without searching for a job, unsolicited job offers may have come to an individual through personal con-
contacts which would have helped in taking a well-informed decision about a certain job. Here, social capital has bought about invisible returns which cannot be relegated to the background. The idea of the potential capacity of capital to generate returns is not unique to social capital and can also be found with other forms of capital such as human and cultural capital. In the case of human capital, more attention is devoted to capacity such as education and on the job training rather that knowledge and skills i.e. capital to generate returns such as higher earnings (Lin 2001). It should also be noted that not all forms of mobilised capital may be advantageous for the actor and sometimes accessed capital may bring in better returns. For instance, having used informal networks in finding the current job might have resulted in a wage penalty rather than a wage premium whereas accessed capital in the form of unsolicited job offers from friends and relatives might help improve outcomes for two reasons. One, it facilitates a comparison between job offers through different sources which may help an individual in making well informed decisions. Two, there are likely to be more number of offers if social contacts also contribute in conveying job openings and this helps the individual to set a higher reservation wage.

The current study also emphasizes on the idea of mobilized capital to show the relationship between capital and attainment. The question raised is whether the stock of social capital influences the method by which one found the current job, again, without making claims that jobs found through informal sources are better than the formal ones. But the fact that a job has been found using network ties implies mobilised social capital. The method of job finding has then been linked to pay-offs if any related to earnings and job satisfaction. The study undertakes to find out whether jobs found through social networks of a worker are better when compared to those found through formal sources in explaining earnings and job satisfaction. Here, earnings or job satisfaction is a concrete measurable outcome of the use of networks in finding jobs in the labour market and will help establish or refute the claim that informal sources of job finding are better than formal ones.

Having summarised the conceptual debates of what social capital is, what it constitutes and how it is measured, the analysis would be incomplete without the inclusion of its downsides. Most studies on social capital put forward the positive consequences of sociability and most often ignore the dark side of it. Portes (1988) lists the downside of
social capital as exclusion of outsiders, restriction on individual freedom and downward levelling of norms. Studies on the role of social networks on labour markets have shown how the use of network referrals in jobs could lead to the exclusion of outsiders who have little or poor contacts. Use of social networks is shown to have their impact on occupational segregation, in creating inbreeding bias and generating wage differentials (Delattre and Sabatier, 2004; Pellizari, 2004). It also seems plausible that women may differ in the social capital characteristics in comparison to men in their ability to access network resources and may therefore, be placed at a more disadvantageous position in the labour market. Women tend to get excluded from the more influential networks at the disposal of men, which exacerbate inequalities in the labour market. The present study, therefore, looks into the gendered interactions of social capital to see whether social networks in the IT labour market work similarly for men and women alike.

There can be negative externalities for those outside the social capital producing networks since freedom of association also means freedom to exclude (Warren, 2008). Portes (1988) notes, “Adam Smith…..complained that meetings of merchants inevitably ended up as a conspiracy against the public. The public, of course, are all those excluded from the networks and mutual knowledge linking the colluding groups. Substitute for ‘merchants’, white building contractors, ethnic union bosses, or immigrant entrepreneurs, and the contemporary relevance of Smith’s point becomes evident”.

To summarise, the externalities of individual investments in social relationships can be positive for participants, but negative for the broader society. But despite the downsides of social capital, its attractiveness as a concept in positively influencing individual, societal and developmental outcomes remains high for policy makers. Though it is not possible to reach conclusive agreements on what social capital really is or what it constitutes, it benefits to understand the intellectual debates concerning the conceptualisation, operationalisation and measurement of this concept. The confusion in the current literature due to multi-dimensionality of the concept points to the need for more rigorous and systematic measurement, conceptualisation and theoretical refinement of the idea. However, the present study has made a modest attempt to bring about clarity in the conceptualisation and measurement of social capital keeping in mind the larger context in which it is being studied.
2.4 Empirical studies on the role of social capital in labour markets

Economic models assume that workers and jobs are matched through a search whose costs and benefits are equalized at the margin but in most real labour markets, social networks play a key role (Granovetter, 1995b). Employees and employers in the labour market learn about one another from personal sources whose information they trust, an example of what has been called “social capital” (Lin 2001). This has obvious links to theories of asymmetric information with the difference that unlike in most such models, here it is a case of bilateral asymmetry where both employer and employee have information about their quality but not about the other (Granovetter 2005). Imperfect information in the labour market has been summarised by Pissaridis (2000) as below:

“Trade in the labour market is a nontrivial economic activity because of the existence of heterogeneities, frictions, and information imperfections. If all workers were identical to each other and if all jobs were also identical to each other, and if there was perfect information about their location, trade would be trivial. But without homogeneity on either side of the market and with costly acquisition of information, firms and workers find it necessary to spend resources to find productive job matches. The heterogeneities may be in the skills possessed by workers, on the one hand, and those required by firms, on the other. They may be in the information possessed about the job. Or, they may be in the location of jobs, and workers and in the timing of job creation in different locations. In this environment there is uncertainty about the arrival of good jobs to job-seekers and good workers to hiring firms…”

The fact that labour markets are characterised by imperfect information was duly recognised in the theoretical models put forward by Stigler (1961); Mortensen (1970); Mc Call (1970) and Narendranathan and Nickell (1985) and has been elaborated in Section I pertaining to job search theories and models in Economics.

These market frictions make the process of job search costly as well as time consuming and it is here that social networks play their role. People maintain social networks largely for non-economic reasons but social interactions in these networks unavoidably transmit information about employers, employees and jobs continuously. There are many theoretical models and empirical studies that emphasize on the role of social networks in
the labour market but much lesser on the determinants of the search methods. Studies focusing on jobs found through informal methods of job search have focused more on the outcomes such as its influence on earnings, job satisfaction, quit rate and transitions to employment. But there are much fewer studies on factors influencing the choice of search method or even the method of job finding. This is important because the benefits that are likely to come through social networks in the labour market are contingent on finding a job through such networks in the first place. Besides, whatever little studies that have been done in this area are related to the determinants of the search methods of the unemployed. On-the-job search methods and its determinants have been neglected. The present study is an attempt to do that. We first review existing empirical literature on the determinants of job search and job finding methods and later turn our attention to the returns associated with different methods of search.

There are few studies that have looked into the determinants of search methods and in most cases have paid attention to the search determinants of the unemployed. Individual, household and neighbourhood characteristics seem to constrain or facilitate the choice of search methods (Carson, 1995; McGregor, 1983; Wittenberg, 2001; Dinkelmann 2004; Boehm and Taylor, 2002; Heath, 1999; Ponzo and Scoopa, 2008). Individual age, marital status, education along with local labour market environment such as the employment or unemployment rates in the region seems to influence the individual’s choice of a search method. Some studies have also focused on gender differences in the choice of search method (Osberg, 1993; Heath, 1999). The variety of search methods and search intensity is also seen to be function of the duration of unemployment (Osberg, 1993; Schmitt and Wadsworth, 1993; Schroder et al, 2002). Another factor identified in the literature to be influencing the choice and use of search channels is the native-immigrant differences (Frijters et al, 2005).

The studies mention above mainly focus on non-social capital aspects of job search determinants. We now move on to social capital determinants of job search methods and methods of job finding with an emphasis on the influence of the type of tie on outcomes of job search. Granovetter’s study in 1974 contends that information flow within networks facilitates job mobility such as finding a new job. According to his study, professionals more often learn about new job openings through personal contacts rather than
through impersonal or formal routes. The study was conducted on technical, managerial and professional workers and concluded that 56 per cent of workers used personal contacts to find jobs. This study sparked a series of similar studies that looked into the role played by social networks in job search and job finding. However, he also contended in his paper titled “The Strength of Weak Ties” published in 1973 that not all personal contacts are equally useful in finding jobs and that structure of social network of an individual plays an important role. It is here that he distinguished between ‘strong’ and ‘weak ties which was later tested by several other researchers. We bring to discussion some of these studies. Also, very few studies have explored the role of social network characteristics such as size, density and diversity and trust in gaining access to or in the use of personal networks but have concentrated more on factors that determine the use of strong or weak ties. We first turn our attention to the role of social network characteristics on the use of personal ties in the labour market to find jobs before turning our attention to the distinctions in the outcomes related to strong and weak ties.

Social networks do influence access to personal contacts as well as the type of contact since the use of a contact is determined by its availability in an individual’s social network. Individuals with high network density are less likely to use weak ties in comparison to individuals with low network density (Calzavara, Research Paper 145, 1983). Network density explains the degree or extent to which individuals in a network know each other. A dense network will have most of its members knowing one another (Stone, Mathew and Gray, 2003). Network diversity explains differences among network members and is another important social capital characteristic which influences use of personal contacts. It has been measured differently in different studies. Some of the network differences appear to be on the grounds of ethnicity, language, education, profession and nativity. While one of the studies emphasize that network homogeneity rather than heterogeneity facilitate the use of personal contacts (Calzavara, 1983), another study reports network diversity to facilitate the use of personal contacts since it gives access to varied sources of information (Stone et al, 2003). The study by Nanavati (2009) reveals that higher bridging social capital as well as higher social networking increases the odds of executing a job search through personal contacts. Here, bridging social capital refers to people who are different from oneself in terms of religion, ethnicity and language while social networking refers to membership to various organisations. The studies mentioned above point
out to the fact that labour markets are not perfect as assumed in classical labour market models and labour mobility is constrained by a number of social and organisational structures of which imperfect information happens to be a pertinent one. This leads one to rely on personal networks as a source of information on job openings.

The following section brings a discussion of the literature pertaining to the strength of ties in determining labour market outcomes. Much attention has been devoted to the discussion on the determinants of the use of weak or strong ties in one’s network. Here, weak ties refers to people who are distant from oneself such as acquaintances, work place contacts, friends of friends while strong tie refers to those who are close to oneself such as friends and family with whom one shares high levels of trust, emotional closeness and frequency of interactions. These were some of the defining features by which Granovetter (1973) distinguished between strong and weak ties. Studies reveal that educational levels determine the preference for weak ties where individuals with higher educational levels tend to use them (Ericksen and Yancey, 1980). Workers who are highly educated and highly placed were able to access contacts with similar educational and occupational statuses and could use these contacts to avail job opportunities (Lin et al, 1981a, 1981b; Wegener, 1991).

As is evident from the literature above, studies in the Indian context do not exist perhaps due to unavailability of large scale social survey data. The present study aims to fill this research gap since networks and network characteristics are not the same across countries. Asian societies work quite differently in comparison to their Western counterparts when it comes to norms of trust and reciprocity or participation in groups and associations. While in the West, participation in formal organisations is an important aspect of maintaining social relationships, in countries like India it could just mean chatting over a cup of coffee with your neighbour. Levels of trust and reciprocity are also likely to be higher in Asian societies when compared to the individualistic Anglo-Saxon societies.

Next we turn our attention to empirical studies that have explained the effects of jobs found through social networks primarily on wages and in some cases job satisfaction both of which are the focus of the current study too. We begin with studies that have used a social network argument to explain wage differentials. While some have studied
the impact of social networks on wages in general, others have focussed on testing Granovetter’s weak tie hypothesis which creates a distinction between strong and weak ties within social networks. Another point to be noted is that the studies on the use of informal contacts in explaining wage differences are not unanimous in their findings. Some studies explain a positive income effect or a wage premium associated with the use of informal contacts while others have found a negative income effect or a wage penalty. There are two strands of theoretical arguments that may be extended in explanation of these differences. One rests on the notions of uncertainty and imperfect information in the labour market due to heterogeneity of workers and heterogeneity of job requirements. In such cases, better matches between employers and employees can be achieved by the use of social networks. The other theoretical argument rests on the notion of monetary costs. The process of job search being costly and difficult may prompt workers to depend on their social networks to find a job but the job opportunities that emerge may be restricted by the characteristics of the network. This is because networks are heterogeneous in characteristics and all networks do not function equally well. Naidoo and Santos, (2011) explains that the above mentioned arguments can be organised around two competing hypotheses; the “good matches” hypothesis by Rees (1966) and “limited choices” hypothesis by Loury (2006).

We use a similar line of argument to classify literature. Loury (2006) explains that if workers use contacts as a last resort because they have few other choices, they are likely to receive lower wages when compared to workers who will enjoy a positive wage premium by the use of social networks but whose choices are not limited to their networks. Empirical literature suggests that education and occupational position also interact with the use of informal contacts in determining wages. While use of informal contacts is seen to lower wages for less educated individuals (Elliot, 1999), the income effect of using informal contacts is positive only for high status individuals (Wegener, 1991; Rosenbaum et al., 1999). This could be because use of informal contacts by the less educated could be perceived by employers as a signal of their poor productivity.

Pistaferri (1999) argues that a wage discount may occur due to unobserved worker characteristics or from unobserved job ones since accessing jobs through social networks will be available only in small firms which pay lower wages. Granovetter (1995) observed
that workers are more likely to rely on contacts during periods of recession exposing their desperation for a job or lack of options to prospective employers resulting in lower earnings. Pellizzari (2004) argues that the relative efficacy of social contacts will depend on the demand side of the labour market i.e. the search strategies of the employers. He shows that in industries where firms are willing to invest more in formal recruitment channels, wages paid to those who use social networks would be lower. Simon and Warner (1992) show that referred job seekers set higher reservation wages, given that prospective firms do not have to speculate about the true productivity of the job seeker. This idea expands upon the classical reservation wage framework of wage determination by contending that the reservation wage itself could be a function of the use of referrals in finding jobs.

On the demand side of the labour market, hiring through referrals transmits labour market information more efficiently and reduces friction in the process of job search leading to higher firm profits and possibly lower wages (Montgomery, 1991; 1992). Conversely, firms may offer higher wages due to existence of information asymmetry so as to prevent work shirking and increase worker effort (Soderbom et al, 2005; Fafchamps and Soderbom, 2006). This also supports the efficiency wages theory where higher wages are paid to ensure higher productivity at work place and information on productivity of the prospective worker comes from an existing employee. However, Kugler (2003) suggests that employee referrals lower the costs of monitoring and therefore firms can pay lower efficiency wages. Using the weak tie-strong tie distinction, Bridges and Villemez (1986) explored the generalizability of the conventional belief that weak ties provide higher income than jobs found through other means. The results showed that the effectiveness of weakly related and work related informal contacts reduces when worker productivity characteristics are controlled for.

With respect to job satisfaction, Weilgosz and Carpenter (1987) examined whether different methods of job search influenced the duration of job search and job satisfaction. The study found that though informal channels of job search are considered to convey a particular type of qualitative information which makes it more efficient, the study did not find evidence to support this position in terms of job satisfaction. A paper by Fong and Chen (2005) finds that both strong and weak ties were found to be more
satisfying than jobs found through other formal methods thereby lending support to both the effectiveness of informal ties in general and weak ties in particular. Flap and Volker (2001) contended that social capital is not an all-purpose good but one that is goal specific. Networks of strategic, work related ties improve an employee’s job satisfaction with instrumental aspects of job such as income, security and career related opportunities. But it is the closed networks of identity based solidarity ties that improve an employee’s satisfaction with the social aspects of job such as the general social climate at work and cooperation with management and colleagues.

The empirical literature on social networks discussed above can be summarised as follows:

a. Workers use social networks to find jobs and a great percentage of jobs are found through such channels at least in the context of the countries in which these studies have taken place.

b. Differences in socio-demographic and economic factors influence the access and use of social networks in job search.

c. All social networks are not equally efficient and differ in terms of their characteristics.

d. The heterogeneity in the characteristics of social networks can bring about differential outcomes in the labour market in terms of duration of search, earnings and job satisfaction.

e. Most findings in the empirical literature can be explained with theoretical concepts of imperfect information, transaction costs and efficiency wages.

2.5 Operational definitions and empirical measures in the current study

The present study on the basis of the above literature identifies earnings and job satisfaction to be the most important returns from the use of social capital in the labour market. Earnings here represent the gross annual income of the respondent in his or her current job. Job satisfaction has been measured using a single item indicator through a question which captures the idea. Social capital variables used in the study have been elaborately
discussed in the theoretical and conceptual section. The study distinguishes outcomes of income and job satisfaction between formal and informal search methods first and then goes on to distinguish informal methods further by classifying the tie strength as weak and strong. Additionally, the study also examines the strength of position argument put forward by Lin (1981) who proposes that the occupational position of the contact through which the job is found influences the status attainment of the individual and thereby associated incomes. A high status contact is more likely to help a person move up the occupational status when compared to a low status contact. The rewards at higher occupational positions also tend to be higher in terms of income attainment.

The focus of the present study is to examine the role of social networks in the Information Technology labour market in Bangalore. We first try to model the determinants of the method of job finding among IT employees and in particular examine the influence of a given stock of social capital on the method of job finding. While the key explanatory variables are the social capital related variables, other variables of interest such as age, gender, social category, educational qualification, experience, type of ownership of company, type of IT company and type of work performed has also been included in the study. A novelty of the present study is that a network accessibility index has been used which is a composite index measuring the accessibility to resources in the social networks of individuals not merely their presence. The index has been developed by Hatala (2007).1 This index should help us to understand whether accessibility to networks can influence the method of job finding for of an individual.

The method of job finding would broadly include formal and informal methods. Job finding through friends and relatives, professional contacts, colleagues, friends of friends, professional networking sites such as Linked In, Twitter etc. and associations like Alumni groups, sporting or hobby clubs etc. are part of informal methods of search. Finding jobs through formal channels include employment consultants, advertisements in newspaper or job portals, campus placements and direct approaches to employer. Since jobs are also found through job notifications on web portals like naukri.com or monster.com, it was considered to be included as part of advertisements. The industry domain being Information Technology, it was also important to consider professional networking sites like LinkedIn,

1Details of the index are provided in Chapter IV, Section 4.1.21
Twitter etc. which could be an important source of job related information. Also included in such group networks were associations particularly the Alumni associations.

Social capital factors that can influence the method of job finding include structural characteristics of social networks and the quality of ties in these networks. Networks are broadly categorised into three types namely bonding, bridging and group networks. Bonding ties are close, trusting ties with family, friends and relatives. Bridging ties constitute work-related or professional ties, friends of friends and acquaintances. These are considered more distant from oneself in terms of emotional closeness, trust and reciprocity, and the time spent. Group networks refer to the memberships that individuals have in various associations and clubs including online networking sites. The structural characteristics in these networks refer to the size, density and diversity of networks. The size of bonding networks is measured by the actual number of friends and relatives through whom work-related ideas, information or support could be gained. The size of the bridging network is measured by the actual number of work-related or professional contacts that an individual has and could share career-related information with. The number of associational memberships in clubs, societies and online networking sites represent the size of group membership. The density of ties in bonding networks is measured by the extent to which friends in the friendship network of a respondent know each other. This is to understand the presence of relational ties among friends. Diversity of ties is examined to understand the extent of heterogeneity among bonding ties. Three types of diversity are considered here namely linguistic, educational and professional diversity. Linguistic diversity is measured by the extent to which friends differ in their mother tongue; educational diversity in terms of the extent of differences in educational attainments of friends from oneself and professional diversity in terms of differences of occupations or professions of friends from oneself. Quality of bonding ties has been captured through frequency of contact among network members and the levels of trust across network types namely bonding, bridging and group memberships. These measures have been adapted from a study by Stone et al (2003).

Jobs found through informal networks have been further classified on the basis of the strength of tie into strong ties and weak ties. This was done to test the Weak Tie hypothesis put forward by Granovetter which says that jobs found through weak ties result in better job
outcomes in the form of higher income and job satisfaction. In the present study, the strength of tie between the respondent and the contact through whom the job was found has been captured through the amount of time spent together, levels of trust and confiding relations, reciprocity in relations and emotional closeness shared between them (Granovetter 1973). An alternative approach that has been used in the study is to examine the strength of tie based on the source of contact through whom the job is found. Jobs found through informal contacts of friends and relatives is said to be found through a strong tie while those found through work related contacts and acquaintances is considered to be through a weak tie.

An alternative proposition that has been tested is the strength of position proposition put forward by Lin (2000) who explains that while weak ties does perform better in the labour market than strong ties but only if they connect oneself to people in higher hierarchical positions than oneself. In the present study the strength of position has been defined as the horizontal or vertical positioning of the referrer (the contact) with the referred (the job seeker). It was measured by asking the occupational position of the contact through whom the job was found in relation to one’s own occupational position at the time of being referred to the current job. If the contact belongs to the same occupational position as oneself it is categorised as horizontal positioning while a contact in a higher occupational position than oneself is categorised as vertical positioning.

On the demand side, perceived benefits from referral hiring were captured through a set of nine statements provided to HR managers on a four point Likert scale. These statements were a combination of the pre-hiring and post-hiring consequences of referral hiring mostly focussing on aspects of transaction costs, information asymmetry, homophilous ties and turnover rates. The extent of referral hiring taking place in the IT companies was also examined. It has been defined as the percentage of referral hires to total hires by a given firm.

To summarize, the study tries to examine the role of social capital on the following aspects of the labour market namely:

1. The method of job finding.
2. Annual income and job satisfaction
3. Perceived benefits of referral hiring