The previous chapter gave an understanding of how social capital has been linked to major labour market outcomes such as the choice of job search, the method of job finding, earnings and job satisfaction. It dealt with theoretical discourses which support such linkages apart from providing a conceptual framework which helps in operationalisation of key concepts. The empirical context for the study has been provided by the Information Technology Industry as various newspaper reports show that the industry hires nearly 35 percent of its employees through their employee referral program. What operates as employee referrals from the view point of employers imply the harnessing of social networks from the viewpoint of job seekers. Bangalore is a major IT hub in India and represents almost all of Karnataka’s exports accounting for nearly 97 percent of software exports from Karnataka in the year 2005. The Information and Communication Technology (ICT) cluster in Bangalore alone accounts for 1500 IT firms out of the total 3500 IT firms in India (Sarawgi, 2012).

This chapter, thus, deals with an overview of the Information Technology in India, its role in economic development, its growth phases and components, the nature and composition of work and workforce and a special emphasis on human resource issues in the industry particularly its hiring practices.

### 3.1 Information Technology and Economic Development

The emergence of the Information Technology and IT enabled services industries in the country has often been considered symbolic of India’s integration into the global economy.
India’s competence in IT, more particularly in software and IT enabled services has received global attention (Electronics and Computer Software Export Promotion Council (ESC) Statistical Year Book 2010-11). This sector is expanding into varied verticals and service offerings and also increasing its geographic penetration. The huge success of the Indian IT-ITES industry can be attributed to the favourable government policies, burgeoning demand conditions, healthy growth of related industries and competitive environment prevalent in the industry (Sarawgi, 2012). The contribution of this sector to Indian economy can be gauged by its contribution to the GDP which grew from 1.2 percent of GDP in 1997-98 to 7.5 percent in FY 2012 (Nasscom Resource Centre).

The IT industry has the potential to increase growth prospects in the long run through increased productivity in every sector of the economy. Information Technology was considered to be the key growth driver in the US economy bringing about fundamental changes and permanent growth prospects for the economy (Greenspan, 2000). The role of IT in economic development beyond just mere growth would depend on comparative advantage in providing IT product and services, domestic and international demand, positive spillover to other sectors of the economy and impact on governance (Singh, 2006). It is imperative, therefore, that the government makes IT use accessible to every section of the society along with removing infrastructural constraints, making labour laws flexible and strengthening the training and education system (Ibid).

India has a comparative advantage in terms of cost in the global IT sector. It is in a position to add high value services and products since it has a large pool of workers with software and language skills. The industry’s share of total Indian exports (merchandise plus services) increased from less than 4 percent in FY 1998 to an estimated 25 percent in FY 2012 (NASSCOM Resource Centre). Aggregate revenue for the Indian IT-BPO industry FY 2013 is estimated at USD 109 billion and is estimated to increase to 118 billion by FY 2014. Of this, 64 billion is contributed by IT services, 23 billion by Business Process Management (BPM), 18 percent by Software products and Engineering Research and Development (ER&D) and 13 billion by Hardware (NASSCOM Resource Centre). Aggregate IT software and services revenue (excluding hardware), is estimated at USD 88 billion in FY 2012 growing by about 14.9 percent over FY 2011 (NASSCOM Resource Centre). Export revenues (including hardware) accounted for USD 69 billion in FY 2012 growing by over 16.3 percent over the previous
Within software and services exports, IT Services accounts for 52 per cent, BPM 20 per cent and Engineering Research and Development (ER&D) and Software products account for 14 percent and Hardware 0.4 percent in FY2014E. Despite the uncertain global macroeconomic scenario, the industry continues to be a net employment generator. It has added 166,000 people in 2014, thus providing direct employment to about 2 million in the last decade and indirectly employing 10 million people (NASSCOM Resource Centre). As per a report released by McKinsey and Co., IT industry is expected to generate about 22 million jobs by 2015. The industry has embraced some successful growth strategies such as focussing on emerging technologies, increasing customer-centricity, deepening focus on new markets and adopting new business models (Nasscom Resource Centre).

The IT-BPO sector’s role and relevance in the Indian economy as obtained from NASSCOM’s resource centre has been shown in Figure 3.1. The figures are as on FY 2011.

**Fig. 3.1** Role of IT-BPO Sector in Indian Economy
(Source: Nasscom Research Centre)
The IT industry has been claimed by NASSCOM as the sector having the highest impact on the economy of India. The statistics to support this claim has been provided in terms of the growth trajectory, the contribution to employment and exports, FDI potential, cross border acquisitions and its share in global sourcing market. The IT-BPM Sector’s impact on the Indian economy has been shown in Figure 3.2.

![Graph showing IT-BPM Sector’s Impact on Indian Economy](image.png)

**Fig. 3.2** IT-BPM Sector’s Impact on Indian Economy  
(Source: NASSCOM Strategic Review 2013)

To summarise, according to NASSCOM the governing apex body of the Indian Information Technology Industry, “The IT-BPO sector has become one of the most important growth drivers for the Indian economy. The industry has been positively influencing the lives of people in active direct and indirect ways such as by providing employment, improving standard of living and diversity among others. The industry has played a significant role in transforming India’s image from a slow moving bureaucratic economy to a land of innovative entrepreneurs and a global player in providing world class technology solutions and business services. The industry has helped India transform from a rural and agriculture based economy to a knowledge based economy.”

### 3.2 Growth phases of Information Technology Industry in India

Software industry was almost absent in India until about 1960, the reason primarily being that the Government protected the hardware industry through high tariff barriers

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1This section draws heavily from Bhatnagar (2006) and Sarawgi (2012).
and licensing. In 1972, the Government formulated the Software Export Scheme which made the provision for hardware imports in exchange of software exports. The growth of the Indian software industry began in the 1970s when TATA’s formed TCS (Tata consultancy services) in the domain of outsourced application work. In a few years time, they sent their engineers for training in the USA Burroughs. This led to the formation of a new company called Tata-Burroughs later. However conflict of interests between the two companies led to breaking of the alliance. An Indian electrical engineer at TCS trained in the USA took over the management of TCS in 1969 and founded the Computer Society of India with professionals and fellow scientists from Tata Institute of Fundamental Research. A large number of these professionals later joined as policy makers in the government which helped a great deal in dealing with administrative and procedural constraints in India’s economy which was more or less following a closed economy model during the 1970’s and 1980’s. Many other companies came into existence after witnessing the success of TCS.

The first phase (1968-84) saw the emergence of ‘bodyshopping’ in the software industry. The growing reputation of skilled software engineers in India coupled with a shortage of engineers in the US and Europe provided this opportunity where Indian engineers were sent abroad mostly to the US to do onsite programming for billable projects. The large Indian diaspora in the US made bodyshopping extremely successful. Indian professionals working in American IT companies facilitated connections between US firms and firms in India largely reflecting the social capital dimension of professional networks.

During the decade between 1980 and 1990, software exports did not gather momentum primarily because such exports were heavily dependent on the imports of hardware which was costly and procedurally cumbersome. Besides infrastructural facilities for software development were lacking. To resolve these issues, a New Computer Policy in 1984 simplified the procedures and also reduced the import duty on hardware for software developers. The Government in 1986 formulated the software policy which further liberalised the IT industry and made software industry independent of the hardware industry. In 1990, Government established Software Technology Parks of India to boost the exports of software and services.
Over a period of time, with the development of infrastructure and communication technologies in India, a reverse trend was observed with respect to bodyshopping. Foreign clients started giving business to Indian firms to conduct their work off-shore in India. This was made possible because of the increasing confidence of the foreign clients in the capabilities of the Indian software professionals as well as the high quality standards that were maintained by the Indian companies.

Keeping in mind the growth potential of the IT industry, the government played a proactive role in promoting off-shore work for the industry. Some of the steps that had been taken involved policy reforms to open the sector, development of telecommunications and necessary infrastructure, setting up of software technology parks (STPs) and single window clearance for regulatory compliance.

Most IT companies today have moved up the value chain and are engaged in high end software services business. They have persistently improved productivity, expanded into new geographical regions, vertical domains and businesses. Second-generation IT entrepreneurs are venturing into setting up of product oriented companies. The industry has caught media attention due to their best practices in management, high market capitalization and high salaries and benefits for their employees.

### 3.3 Composition of Indian Information Technology Industry

Using NASSCOM membership, we can say that the Indian software industry consists of large and growing number of firms. With just 36 members in 1988-89, its membership has grown to 1250 members in 2010 and continues to grow further.

One type of classification divides the IT industry on the basis of size into small, medium and large firms. It has been observed that Indian IT firms vary from large sized to small sized firms with medium size and emerging firms in the intermediate category. The IT-BPO sector is dominated by large players in terms of their contribution to total export revenue and employment though in terms of absolute numbers the emerging and small firms dominate the scene.

Yet another classification divides the IT industry on the basis of the nature of business and is as given below:
**IT Services** - This segment has a market size of USD 46 billion during FY 11 with over 73 per cent of the revenue coming from the export market. The Banking and Financial Services Industry (BFSI) has been a major segment in this sector.

**Business Process Outsourcing (BPO)** - The segment has a market size of USD 17.3 billion during FY 11 with the US accounting for 60 percent of the export market. 81 percent of the revenue in this segment comes from the export market.

**Engineering Design and Product Development** - This segment has a market size of USD 12.9 billion during FY 11. Exports contribute to over 70 per cent of the revenue in the segment.
CHAPTER 3

**Hardware**- The hardware segment has a market size of 11.8 billion during FY 2011. 80 percent of the revenue in this segment comes from domestic market which is seeing good growth due to rising use of personal computers in India.

The IT software and services segment of the Indian IT industry is more buoyant than the hardware segment. The IT services and software constituted 58.5 percent of the total revenues of the IT industry in 2004-05 followed by the hardware segment which constituted 21.3 percent of the total revenue and finally the ITES-BPO segment constituting 20.2 percent of the revenue and finally (Singh, 2006)

The present study has included only the IT services and Engineering design and product development segment of the IT industry which alone constitutes 88 percent of the aggregate revenues of this industry in 2014. The study has not included the BPO and the hardware segments of the industry. This is primarily because the nature of work involved is quite different and does not follow the water-fall model of IT development. This model

<table>
<thead>
<tr>
<th>Table 3.1</th>
<th>Composition of the Indian IT industry by Size of Workforce and Contribution to Total Export Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category</td>
<td>Number of players</td>
</tr>
</tbody>
</table>
| Large sized| 7                  | 43-45%                     | 30%                  | • Fully integrated players offering full range of services  
|            |                    |                           |                      | • Large scale operations and infrastructure                      |
| Mid sized  | 75-80              | 35-37%                     | 30-35%               | • Mid tier Indian and MNC firms offering services in multiple verticals  
|            |                    |                           |                      | • Dedicated captive centres                                      |
| Emerging   | 300-350            | 9-12%                      | 15-20%               | • Players offering niche IT-BPO services                             
|            |                    |                           |                      | • Dedicated captives offering niche services                        |
| Small      | >3500              | 10-12%                     | 15-17%               | • Small players focussing on specific niches in either services or verticals  
|            |                    |                           |                      | • Includes Indian providers and small niche captives                |

**Source:** www.ibef.org (compiled from NASSCOM, Aranca Research)
has been used to understand how software work gets divided into different stages and how being part of these different stages explain wage differentials in the industry.

A third type of classification segments the industry into the market for exports and the market for domestic consumption.

The IT sector contributed 25 percent of the country’s total exports in the year 2007-08 (Datt and Sundaram, 2009). Software exports constituted 64 percent of the total miscellaneous services export in the country in 2007 (RBI, India). The other components of these miscellaneous services are Business (27 percent), Financial (5 percent) and Communication (4 percent). The market size of the Indian IT industry in USD billion with export and domestic market composition has been shown below for the period 2007-11.

**Sector wise export revenues**

Total exports from the IT sector touched USD 59 million during FY 11. IT services exports has been the major contributor with over 57 percent of the total IT exports.
coming from this segment alone. The IT services segment is followed by BPO and Engineering services and Hardware which comprises of 23.9 per cent and 19.3 percent respectively of the total IT exports. In year 2011, in terms of USD billion, IT services stood at 33.5 billion USD followed by BPO contributing 14.1 and Engineering and Hardware services 11.4 billion USD.

![Market size of IT industry in India (USD billion)](source: www.ibef.org)

Fig. 3.5 Market size of Indian IT Industry by Revenues
(Source: www.ibef.org)

The contribution to IT industry’s revenues by its domestic and export markets for the period of 2009-13 has also been shown below along with the contribution of its various sub-components for the FY 2013E.

Figure 3.6 show that exports dominate the revenue stream of the IT industry. In the year 2013, IT services contributed greatest to the revenues in the industry followed by BPM, Engineering research and development and software products and finally the hardware segment. The IT services segment dominates the industry’s revenue to be followed by BPO, Hardware and Software and Engineering services in that order.

### 3.4 Work force in Indian Information Technology Industry

Software engineers, BPO workers and others employed in IT-related occupations constitute new categories of global technical workers or knowledge professionals in
India (Upadhya and Vasavi, 2008). One of the major reasons behind the emergence of India as a successful global player has been the absolute advantage that it possesses in the supply of skilled software professionals. There are clear advantages for foreign clients to outsource work to India in terms of reduced wage costs. Salaries of Indian workers are $1/3rd$ to $1/5th$ lower than that of the worker in the USA for comparable work (Arora et al, 2001). Given that offsite work is more cost effective in comparison to onsite work for foreign clients, India has managed to execute large projects and has been able to transition from mostly onsite work to a favourable mix of onsite and offshore work (Athreye, 2005b).

Fig. 3.6 Revenue break-up of export and domestic market of Indian IT-BPM Industry
(Source: NASSCOM Strategic Review 2013)

Estimates of IT related employment from NSSO surveys reveals that there are two categories of “IT workers”; workers engaged in IT industry and those engaged in IT occupations. Workers engaged in IT industry may not be necessarily undertaking IT occupations. Similarly, workers engaged in IT occupations may not be working only in the IT industry but in IT departments of any industry (Basant and Uma (2004). The current study includes only those professionals who are involved in IT related operations and also working in the IT industry.
Fig. 3.7 Employment and Skill Base of Indian IT Industry
(Source: NASSCOM Strategic Review 2013)
The following figure shows the employment figures in the IT industry. It also shows the educational levels of its workforce along with the various academic disciplines they come from.

It has been observed that the Indian software industry has a strong preference for engineers and this did not just include electrical or computer engineers but engineers in any discipline with a 4 year undergraduate degree plus a non-degree in software tools. This study done by Arora et al, (2001) found some important reasons for this preference. First, the undergraduate engineering degree acts as a good screening mechanism given that there is high competition for admission to engineering colleges and only those of higher quality make it. Second, engineering admission imparts a set of problem solving skills and methods of thinking logically that help quick adaptation to technology, domains and tasks. Third, most of the software exports initially required software workers to work onsite in the US on temporary work permits, engineers would qualify for these permits or H-1 B visas much easier.

Though employment in the industry has not been very stable after the global meltdown, IT jobs still manage to be a highly desirable career choice for India’s educated youth because of prospects of high salaries, foreign travel and career mobility (Arulmani and Nag-Arulmani 2006).

### 3.5 Nature of software work

Much of existing literature on software work exists using the Western experience. There are few studies in the Indian context from the point of view of labour processes. Existing literature points out two broad views with respect to software work: one which supports the idea that software work is highly fragmented also known as ‘task fragmentation’ view and the other which rejects the idea of task fragmentation and routinisation of work. According to Watson (1995), software jobs are fragmented into planning and conception part on the one hand and execution part on the other. This means that low-level workers engaged in the execution part perform tasks that do not require higher order analytical and creative skills while those who engaged in design and conception tasks require creative and analytical skills (Ilavarasan, 2008). Kraft (1977, 1979) had explained factors that
led to this routinisation in his pioneering study. He identified the factors to be the use of high level languages, pre-ordered programmes and structured programming. Structured programming would require a project to be divided into smaller modules where each module would be assigned to a group of separate programmers. These programmers would engage in activities which do not require analytical skills and a given programmer would also be detached from the knowledge of other modules.

Routinisation of work is also endorsed through institutional means such as the differences in the nature of training, pay and career path available to software workers. While high level workers such as designers, developers and managers come from engineering and science institutes; coders and testers on the other hand would come from polytechnics. Aspray (1999) in their study contend that higher level workers had doctoral or masters degree whereas lower level workers did not possess such high qualifications. Kraft (1977) also noted that workers engaging in different tasks also came from different socio-economic backgrounds. He observed: “...parents of coders and low-level applications programmers were of modest economic and educational backgrounds. They were typically high school graduates and worked as blue-collar or clerical employee. The situation of analysts, managers and high level programmers was very different. Their fathers counted among their ranks professionals of various sorts; physicians, lawyers, research scientists, etc.”

**Nature of software work in India**

Prasad (1998) supports the task fragmentation view in the Indian context. She opines that the ISO 9000 series quality certification of the International Organisation for Standardization, Geneva requires that all activities of a project should be documented. This reduces the dependence on the skill and implicit knowledge of a particular worker and ensures that work continues unhindered by finding a replacement for a worker who leaves a project mid-way.

Cusumano et al. (2003) and Heeks (1998) claim that most Indian firms follow the ‘waterfall model’ of software development. According to this model, software work primarily consists of four stages: analysis and specification of software requirements,
design of software, coding/writing and testing, and delivery and installation. Workers involved in the first two phases are considered to be performing high skill jobs and those in the latter two stages are considered to be engaged in low skill jobs.

The Indian software industry is predominantly export oriented. The Western clients execute the higher order work onsite and the ‘support and maintenance part’ of the software development cycle is outsourced to India. However, the Indian IT market is slowly developing a product orientation which is otherwise dominated by the services sector. The software development and engineering services segment of the IT industry has steadily improved its share to the industry revenue from 3.4 USD billion in 2004-05 to 9.6 USD billion in 2008-09 (CII Report 2010). Some of the major companies involved in software product development are Infosys, Ramco and Tata Consultancy Services. The present study includes both the services and product segment of the IT industry as there are firms which are involved in services and products exclusively and some which engage in both.

The above mentioned literature does suggest that there could be routinisation of tasks in the IT industry that may lead to differentials in pay, job satisfaction and career path of employees engaged in different tasks of software work. The present study therefore looks into these factors in influencing the salaries and job satisfaction of software workers. At the same time it also intends to look into the recruitment practices of these companies since the area of interest and concern is the widespread use of referrals for recruitments by these companies.

It would also be of interest to note at this point that the revenue of the software services segment is directly linked to the number of projects it executes and the number of workers involved in a project. On the contrary, product companies have fewer employees and higher labour productivity. This might also provide a reason to speculate on the hiring practices of both these segments of the industry for the reason that product companies may require more understanding of the workers productivity levels before employing them when compared to services’ company. This gives reason to think that product based companies may employ through referrals provided by existing employees to ensure high productivity at work place. It is also quite possible that the requirement of varied skill levels for jobs would have an impact on the preferred mode of hiring by the companies.
Companies may want to hire workers for high skill jobs through employee referral mode given that there is a high trust factor and a lower risk of ending up with a wrong match for a high skill position. Both nature of business as well as skill level of the job has been considered in the present study.

The last section of this chapter therefore tries to examine existing literature mostly in the form of newspaper reports on the recruitment practices of the IT industry.

### 3.6 Characteristics of IT workforce in Indian Information Technology Industry

The key success factor of the Indian IT industry is the absolute advantage it has with respect to the supply of skilled software professionals. The IT industry though is predominantly service oriented and has the lower end of software tasks outsourced to itself, prefers to hire highly skilled personnel especially engineering graduates so as to impress upon their Western clients of the higher qualifications that its workforce possesses. This gives them an opportunity to tap more business. Table 3.2 shows National Sample Survey Organisation (NSSO) data on educational level of India’s workforce in general and IT workforce in particular for the year 2004-05.

While nearly 40 percent of total population and 39.7 percent of all workers in India are not literate, there is not a single non-literate worker in the IT sector. Similarly, there is no worker who is literate but without formal education in the IT sector. The distribution of workers across below primary, middle and secondary schools for all workers is 8.8 percent, 13.9 percent and 15.2 respectively whereas the comparable numbers in the IT sector are much lesser with 0.5 percent, 1.9 percent and 1.3 respectively. The percentage of workers with secondary and tertiary education among all workers is 14.2 and 5.7 respectively but is much higher in the IT sector at 25.4 percent and 71 percent respectively. With respect to possession of technical education, about 60.4 percent percent of workers in the IT sector possess technical education while in all workers category it is only a miniscule 2.5 percent. Table 3.2 clearly shows that workers in the IT possess higher educational as well as technical qualifications when compared to the national average of all workers.
Gender composition of IT industry

The IT industry is skill specific and therefore places a higher constraint on the participation of women. It has been observed that there are only about two female workers for every ten male workers. Female workers constitute 32.5 percent of the total workforce (both urban and rural) in 2004-05. In the case of total IT workforce (both rural and urban) female contribution is only 18.3 while the male contribution is 81.7 percent indicating high gender disparity and poor contribution of women in the sector (Motkuri, 2009).

Composition of IT workforce by caste and religion

SC/ST categories of workers are the most disadvantaged group with respect to IT sector employment. In the case of religion, Muslims are relatively more disadvantaged than...
other religious categories when viewed in terms of their share in population and total workforce. Table 3.3 explains the same.

### Table 3.3  Contribution of social groups (caste and religion) to IT workforce

<table>
<thead>
<tr>
<th>Educational Level</th>
<th>Distribution in %</th>
<th></th>
<th></th>
<th>WPR</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 General Education</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Not Literate</td>
<td>40.3</td>
<td>39.7</td>
<td>0</td>
<td>41.2</td>
<td>0</td>
</tr>
<tr>
<td>Literate w/o formal Edn</td>
<td>2.4</td>
<td>2.4</td>
<td>0</td>
<td>42.2</td>
<td>0</td>
</tr>
<tr>
<td>Below Primary</td>
<td>15.8</td>
<td>8.8</td>
<td>0.5</td>
<td>23.3</td>
<td>0.01</td>
</tr>
<tr>
<td>Primary</td>
<td>13.8</td>
<td>13.9</td>
<td>1.9</td>
<td>42.2</td>
<td>0.03</td>
</tr>
<tr>
<td>Middle</td>
<td>12.5</td>
<td>15.2</td>
<td>1.3</td>
<td>51.1</td>
<td>0.02</td>
</tr>
<tr>
<td>Secondary</td>
<td>11.5</td>
<td>14.2</td>
<td>25.4</td>
<td>51.6</td>
<td>0.33</td>
</tr>
<tr>
<td>Graduates</td>
<td>3.8</td>
<td>5.7</td>
<td>71.0</td>
<td>62.9</td>
<td>2.34</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>42.0</td>
<td>0.18</td>
</tr>
<tr>
<td>Technical Education</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>None</td>
<td>98.5</td>
<td>97.5</td>
<td>39.6</td>
<td>41.3</td>
<td>0.08</td>
</tr>
<tr>
<td>Below Graduation</td>
<td>0.9</td>
<td>1.5</td>
<td>16.9</td>
<td>69.0</td>
<td>2.06</td>
</tr>
<tr>
<td>Graduation and above</td>
<td>0.6</td>
<td>1.0</td>
<td>43.5</td>
<td>70.8</td>
<td>7.95</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>42.0</td>
<td>0.18</td>
</tr>
</tbody>
</table>

**Note:** 1. Usual Status – Principal and subsidiary; 2. Rural and urban combined; 3. WPR – Work participation rate.

**Source:** NSS 61st (2004-05) Employment and Unemployment Survey unit record data.

In every thousand IT workers, only two workers belong to ST, 30 to SC, 245 to OBC and the remaining 724 belong to the ‘other category’. Thus, it may be said that ‘other’ community occupies an overwhelmingly large share of the IT workforce and there is an under representation of SC, ST and OBC in comparison to their numbers in the ‘all worker’ category.

With respect to the present study gender and social category are important variables that can influence labour market outcomes especially in the context of social networks. The marginalized groups in the IT workforce such as women and certain caste and religious
groups may never be able to improve their position if the ‘others’ who dominate the industry’s workforce use their social networks to refer people with socio-economic characteristics similar to theirs to the industry. This can exacerbate existing inequalities especially if IT companies prefer the use of social networks of their existing employees in the hiring process. The next section is an examination of the hiring practices in the industry.

### 3.7 Hiring Practices in Information Technology Industry

Despite the fact that abundant supply of knowledge workers gave India its competitive edge to become the favourite outsourcing hub for the Western clients, discussions in various industry forums have raised the problems of labour shortages, attrition and cost escalation in training new recruits. The industry perhaps tries to address this problem partially by relying on employee referrals during hiring. It is believed that employee referrals account for about 30 percent of hiring. The existing staff members get benefited by way of a fixed amount paid to them by the employers for every successful hire based on their recommendation. Companies benefit too in terms of savings on costs associated with the search process (Business Line, Aug. 30, 2012). Infosys BPO hired almost 30 percent through employee referral programme while iGatePatni hired about 24 per cent of employees through the referral plan in 2011 (Business Line, Aug. 30, 2012). The reasons stated by the companies for such type of hiring was the cost effectiveness for companies and an incentive for employees to earn extra money leading to a win-win situation for both. Besides, for the prospective candidate the information provided by a friend or ex-colleague is a good reference point and a source of unbiased information about a job opening. Employees also find this as an opportunity to continue their camaraderie with their friends and ex-colleagues in the present company thereby improving the social climate at work.

Retention of referred candidates was found to be better than those coming from other recruitment means besides the fact that companies did not require to go through the mundane cross-checking of an individual’s credentials in the first round (Simhan, 2012, Business line). It is also been told that companies use employee referrals to identify candidates for positions that are harder to fill up and therefore the rewards being
offered to find candidates to such positions are also much higher. Incentives for employees who assist in filling up such critical positions can range from laptops, tablets, overseas trips to even appraisal points (Simhan, 2012, Business Line). Employee referral programmes are useful in identifying candidates who are actively seeking a job besides the possibility that referred candidates tend to be of better quality given the fact that employee’s reputation is at stake. A major IT company Cognizant calls its referral programme as BAY which means “Bring Another You” thus endorsing the fact that companies expect employees to bring in quality candidates just like them into their fold (Simhan, Business Line, 2012).

Since employees are acclimatized to a certain work environment and culture, they are in the best position to explain the same to a candidate expressing his/her interest in joining the organisation. The possibilities of a job mismatch which arises due to a gap between what is expected before joining and what is experienced after joining is thus reduced for the candidates.

However, there are disadvantages too of such a system. The greatest disadvantage as stated by an employee of Ma Foi, the employment consultant firm is that this system will lead to referral spamming and flood the system with irrelevant resumes. This flooding takes place as employees are motivated by incentives to keep referring their friends, relatives or ex-colleagues. The screening process of HR teams thus becomes tedious. It is also observed that groups or factions may be created within the organisation when each one tries to promote their own friends thereby creating cliques. This could impact the organisational culture negatively.

India’s top technology firms are struggling to attract the right talent and so most of them have preferred to hire at least a quarter of their staff through referral schemes. There are promotional schemes like fun games and globe signing activities wherein employees pledge to bring their friends. The preference for referral hiring has its own economic reasons. The cost of such hiring is much lower than picking up talent through a consultancy (Kandavel and Mishra, ET Bureau, 2010). The toughest staffing battle takes place in the 3-8 years experience category of engineers who account for nearly 40-43 percent of wage costs of delivery staff (Kandavel and Mishra, ET Bureau, 2010). With high demand for this category of workers, the impact of inflationary pressures in
this segment is high. In such cases, finding the right talent through employee referrals without having to tap them from the market at high costs makes sense.

Thus, we may say that the IT industry’s contribution to the GDP has increased significantly over the years with the software and services segment leading this growth both in the domestic and foreign markets. It has an immense employment potential especially for the pool of educated and skilled workers in the country. Though the current nature of work outsourced to India may be low skill, as the industry matures over time, the potential for high skill and non-routine work is likely to emerge given that there are a number of companies which are increasingly taking to product development. Also as the industry expands into new geographies and increases its share in the global market, the shortages in the supply of skilled workers and managing the existing talent pool will become a challenge. The use of employee referrals in this period of labour shortages, high attrition and increasing labour costs may be one of the steps in the direction of addressing these problems.

As suggested by various news reports above, it appears that the Information Technology industry prefers to hire through its employee referral programmes. The considerations could be manifold; lower cost, better job matches, higher productivity of workers and so on. Therefore, this provides a rationale to understand the role of social networks in this market since these networks are harnessed both by employers as well as employees in hiring and job search respectively. The study will therefore examine the social capital characteristics of IT employees. It will explore how these characteristics will impact their decisions of search choices and also how these characteristics will influence the method of job finding. Finally, the influence of job finding methods on pecuniary and non-pecuniary aspects of work such as income and job satisfaction will be analysed. The next chapter focuses on analysing the determinants of the method of job finding.