7.1 Findings and Implications

The present study on Social Capital and Labour Market Outcomes in the Information Technology Industry in Karnataka is a multi-disciplinary study as it borders on the realms of Economics and Sociology. The study borrows the conceptual framework of social capital from the discipline of sociology and uses the same to explain economic outcomes such as finding a job, earnings and job satisfaction. It also explores important concepts of institutional economics in the labour market such as transaction costs and information asymmetry.

The classical job search model assumes that job offers are beyond the control of the job seeker as they are exogenously determined. A few studies show that the process by which job offers arrive can be a function of the search behaviour of workers. Workers’ may search across different methods to find jobs but eventually may succeed only through particular methods as jobs can be found both through formal and informal methods. Since informal methods use personal contacts in finding jobs, it stresses the importance of analysing social networks in the labour markets. The study, therefore, through its first objective modelled the determinants of the method by which jobs are found by primarily focussing on the social capital embedded in the social networks of employees although it also considered non-social capital factors such as socio-demographic, human capital and firm-specific factors in the analysis as presented in Chapter IV.
The study found that roughly half of the respondents (49.1 percent) in the sample found jobs through informal methods. Of all the respondents who found jobs through informal methods, only 42 percent found jobs through work-related contacts while 58 percent found jobs through close friends and relatives. This brings us to an important implication that even in an urban, technologically driven industry like the IT industry, the relevance and role of close personal ties of friends and family is relatively high in comparison to work-related contacts in finding jobs.

The characteristics and quality of social networks are consistent with theoretical predictions. Bonding social networks of individuals exhibited high density, low diversity, high levels of trust, high frequency of meeting which is typical of strong ties.\(^1\) However, an irreconcilable difference with theory was observed in the case of bridging ties. Bridging social networks were also characterised by high frequency of meeting and high levels of trust. Besides, the size of bonding and bridging networks were also almost the same. Since bridging ties are more distant from oneself in terms of levels of trust, emotional closeness, reciprocity etc. it was expected at least from a theoretical perspective that they would display the characteristics of weak ties. But it was observed that bridging ties with work place/professional contacts also display characteristics of strong ties. It goes to show that in Asian societies like India, we cannot expect people to strictly demarcate their relationships as ‘professional’ and ‘personal’. The line of differentiation between friends and work place contacts is a thin one and perhaps blurs over time. Colleagues become friends and friends often become colleagues when they are referred to jobs in the same company.

It is quite interesting to observe that among the social capital variables that were significant predictors of the method of job finding all belonged to the realm of bonding social capital. The results show that certain attributes of bonding networks such as professional and educational diversity of bonding network; quality of bonding network as expressed in terms of trust as well as frequency of meeting had a statistically significant impact on the method of job finding after controlling for several other social and non-social capital variables. The study in parts is consistent with Granovetter’s (1973) ‘Strength of Weak Ties’ theory who claimed that weak ties with people who are different from us and with whom we are less socially involved will act as bridges to connect us to

\(^1\)Refer Appendix-1
the resources that they possess. Thus people with few weak ties will have less access to such potential resources. The results show that high levels of trust and high frequency of meeting among bonding ties which are regarded to be the defining features of strong ties, lower the chances of finding jobs through informal methods. However, the results also show that high levels of professional and educational diversity within bonding networks which are a defining feature of weak ties decreases the likelihood of finding jobs through informal methods. This contradicts the ‘Strength of Weak Ties’ prediction. Thus, it may be wrong to conclude theoretically that all bonding ties are strong ties and all bridging ties are weak ties. Rather, there can be varying degrees of strength within strong and weak ties. Also, it must be borne in mind that the study is specific to the IT industry which has quite a homogenous educational level among its workforce and the nature of tasks it typically performs. In this case, having a diverse professional or educational network may not convey useful job opportunities since the emphasis shifts from a network perspective to an industry perspective.

Existing research has indicated differential pay-offs from the use of particular methods of search although there is not much consensus in results. While some studies report positive payoffs from the use of social networks, others report a negative outcome. The present study through the second objective in Chapter V examined these payoffs from the use of social networks in finding jobs in terms of earnings and job satisfaction since these represent both pecuniary and non-pecuniary aspects of work respectively. Additionally, it also delved deeper into the nature of relationship between the respondent and the personal contact through which the job was found to examine whether the nature of ties impacted earnings and job satisfaction.

Social capital variables do seem to exert a statistically significant impact in all the three model specifications. Stated more generally, in terms of the method of job finding it can be seen that informal method of job finding brings with itself a positive income premium. However, this should be interpreted cautiously. There is no clean income effect emerging from the use of personal contacts in job finding as seen in Model I. There are important intersections that emerge from the data as a whole. Firstly, skill levels of the job without interactions with any other variable shows a positive impact on income where high skill jobs are associated with higher income levels. But when interacted with the method
of job finding shows a negative impact on income. It is seen that respondents engaged in relatively low skill jobs will benefit from the use of personal contacts whereas those in high skill tasks will face a negative income penalty. This result is not very encouraging at a time when the IT industry is poised to take off to the next level of growth which will see a growing number of companies engaging in product development through established Research and Development (R&D) centres. This will require highly skilled personnel capable of conceptualising products and designing the needed software in a way that will create a good market for them. Viewing it from the supply side of the labour market, employees having the intellectual capital to perform these tasks will not benefit from the use of social networks in locating such jobs as they are associated with the likelihood of lowering incomes. Though the result was not statistically significant, perhaps it explains why respondents engaged in high skill jobs had a lower probability of finding jobs through informal methods\(^2\) in the first objective. But when viewed from the employers’ side, they stand to gain as employee referrals will bring in intensive information about such prospective high skill candidates otherwise not easily available. However, they will not be able to recruit such candidates through referrals since they are more likely to find jobs through formal sources. Thus, there arises a conflict of interest between the demand side and supply side of the labour market.

Occupational status of the contact exhibits a clean income effect where jobs found through personal contacts in high status positions than oneself bring in income gains. The variable does not interact with the nature of tie which means that it does not matter whether the relationship between the referrer and the refereed is weak or strong; what matters is the occupational status of the referrer. The data revealed that nearly 73.2 percent of the respondents found jobs through high status contacts\(^3\) and that perhaps reasons out the positive relationship between informal method of job finding and annual income in the OLS Model I. It should also be borne in mind that both men and women used high status contacts equally well with 72.4 percent of men and 74.5 percent of women using high status contacts to find jobs. Thus, there appears no apparent disadvantage for women in accessing high status contacts to locate jobs. However, the

\(^2\)Refer Table 4.24, Chapter IV
\(^3\)Refer Table 5.12, Chapter V.
fact that all people may not be similarly endowed with high status contacts in their networks cannot be discounted. If some have less or no access to such contacts, they could be called social capital poor as they are deprived of being linked to people in higher position and power. But if higher paying jobs come through high status contacts, the logic of ‘who you know’ rather than ‘what you know’ would prevail.

Strength of tie measured through the composite index as well as on the basis of source of contact did not exert a statistically significant impact on annual income though it showed that strong ties are better than weak ties in bringing positive income gains. This contradicts Granovetter’s ‘Strength of Weak Ties’ argument which purports that weak ties are more dynamic in achieving positive outcomes than strong ties by connecting us to a wide range of resources. It is interesting to observe through descriptive statistics that an overwhelmingly large proportion of respondents (92.8 percent) have found jobs through strong ties when measured with the help of the composite index but a much lesser proportion (58 percent) when measured based on source of contact. It appears that even when respondents reported having found jobs through professional/work related contacts, the actual tie strength between them as measured by degree of closeness, reciprocity, frequency of meeting and level of confidence was very high. On the contrary, studies that have taken place in the Western context point out to professional/work related contacts as weak ties and ties with friends and family as strong ties. Our data reveals a different picture. This implies that classifying ties as strong or weak on the basis of source of contact can be methodologically incorrect. A more appropriate method would be actual measurement of tie strength through an index such as the one provided by Granovetter (1973).

Along with income, the effect of method of job finding on job satisfaction was also included in the current study since this represents the non-pecuniary aspect of work life. It was found that finding jobs through informal methods decreases the likelihood of increasing job satisfaction level and therefore contradicts the notion of reduced information asymmetry for the worker who has prior information about the job characteristics through the referrer. However, the result should be interpreted with caution since it does not make much sense to differentiate between high and very high levels of job satisfaction as they both fall on the same side of the scale i.e. the higher side. Nevertheless,
it gives us an understanding of the factors that affect the degree of satisfaction from being satisfied to being highly satisfied. It was found that informal methods of job finding were associated with lower job satisfaction levels. This could be explained by the fact that nearly 92 percent of the respondents found jobs through strong ties (measured in terms of composite index). Although the strength of tie was not seen to be a statistically significant predictor of job satisfaction it was seen to lower the levels of job satisfaction. The composite index measured the strength of tie between the respondent and contact by the degree of emotional closeness, trust, confidence and frequency of meeting. There is a high chance that when ties are extremely strong, the implicit trust in the relationship lowers the need to know more about the job that is recommended by such ties. The flip side is therefore that one enters the work place with incomplete information and is later likely to feel disappointment if reality does not match expectations.

Gender was included in the study since payoffs from the use of social networks may not be even for men and women alike. Gender as such was seen to be an important predictor of job satisfaction where women were likely to experience relatively lower levels of satisfaction than men. However, its interactions with the method of job finding or tie strength did not reveal any statistically significant results. This brings us to the point that women in general in the IT industry experience lower levels of satisfaction than men but this difference does not seem to have anything to do with the method of job finding or the type of ties used to find jobs. With respect to annual income, gender neither has a pure effect nor an interaction effect with the method of job finding or with the strength of ties in influencing income.

Among the human capital variables, skill level of the job which also reflects skills embedded in an employee did not exert any influence on the method of job finding. However, it showed statistically significant results in explaining annual earnings as well as job satisfaction in the main models where higher skills were associated with higher earnings and higher levels of satisfaction. However, skills did not exert a statistically significant impact on job satisfaction in the second and third models where only those who found jobs through informal methods were considered. Skills impacted earnings positively in all the three models. Work experience did not impact job satisfaction but impacted earnings positively in the main model. It was not seen to be a significant
variable in the earnings model with sample size of 138. Designation was seen to be an important predictor variable of annual earnings in all the three models where every subsequent increase in designation, there was a positive return in terms of higher earnings after controlling for other variables. However, it was not a statistically significant variable either in determining the method of job finding or in explaining job satisfaction. Educational level of the worker did not influence the method of job finding or job satisfaction in a significant way but impacted annual income positively in the main model alone.

With respect to firm specific characteristics, companies that are diversified into both products and services were negatively associated with the informal method of job finding as well as with annual earnings (in the 138 sample size) but were positively associated with job satisfaction in all the three models (both 281 and 138 sample sizes). Since these companies are larger in size in comparison to companies that are exclusively into either products or services, they are less likely to engage in employee referrals as they may have the financial capacity to establish formal recruitment systems within themselves or even outsource these functions to consultancy firms. However, they do not appear to be great pay masters in the industry but yet seem to provide higher job satisfaction to their employees. Most of these players were big names to reckon with in the industry and hence employees probably were willing to trade off higher job satisfaction with lower incomes.

The final part of the study focuses on the demand side of the labour market where perceived benefits of referral recruitments were captured from the perspective of the senior Human Resource (HR) managers of 25 different IT firms. The results revealed that there is a high level of agreement among HR managers with respect to the pre-hire benefits of referral hiring. These relate to more appropriate resumes, better information about the nature of job, a higher acceptance rate of job offers and substantial cost savings to the company. However, with respect to cost savings, it may be said that a combination of pre-hire and post-hire consequences can result in cost savings. There was comparatively lower level of agreement on post hire consequences of referral hiring such as referred workers displaying similar professional ethics and characteristics or reporting lower turnover rates than non-referrals. The test of association between perceptions about
referral hiring and the extent of referral hiring was also conducted. The results showed that if employers believed that referrals exhibited a higher level of understanding of the job content than non-referrals, it would be associated with more referral hires.

To summarise, we may say that social capital characteristics particularly bonding social capital characteristics play an important role in influencing the method of job finding through informal methods of search. Strength of tie proposition of Granovetter (1973) was found to be partly relevant when bonding social network characteristics were analyzed. With respect to earnings and job satisfaction the method of job finding exerted a statistically significant influence on annual earnings but a negative influence on job satisfaction. Strength of tie proposition (1973) could not explain differences in earnings or job satisfaction but strength of position proposition by Lin (2000) seemed to be extremely relevant in explaining earnings differentials.

The study also draws our attention to a methodological issue with respect to measuring the strength of tie. The more appropriate method of measurement is by measuring the actual tie strength through a composite index rather than being judgemental in saying that workplace ties are weak ties and that friends and family are strong ties. Similarly, bonding ties are not necessarily always strong or bridging ties weak. There could be differences in the structural characteristics and quality of each network such that the term ‘weak’ or ‘strong’ becomes relative within each network type.

Considering that a good percentage of job seekers’ get jobs through social networks and nearly 35 percent of recruitments take place through the referral hiring mode, it is important to understand what governs their use in the labour market and the consequent outcomes associated with it. The study was a modest attempt to examine the same. It is not feasible at this point to generalise whether use of social networks as seen from a job seeker’s perspective or employee referrals from the employers’ perspective are good or bad for the labour markets. One of the biggest criticisms levelled against the use of referrals has been the ‘inbreeding bias’ which gives repeated opportunities for certain category of people while excluding the others from effectively competing for available jobs. This bias takes place when those who are already employed refer friends to available positions in the organisation on the considerations of age, sex, caste or language. The problem would be less pronounced if the industry has an adequate representation of different
socio-demographic categories of people. But if some categories have a higher representation than others, it could accentuate the inbreeding bias if the pre-dominant hire mode happens to be through referrals. Another important aspect is that even within various socio-demographic groups there could be differences in pool of network resources that people possess. Since not everybody is endowed with the same amount of social contacts, some may get left out in an industry which hires a substantial number of people through referral mode.

7.2 Suggestions for future research

The study is a first step towards a systematic analysis of the role of social networks in the labour market. Similar studies can be conducted in different sectors and industries if they provide the necessary context to examine social networks. For instance, studies of this kind in the informal sector economy will be very useful considering the overwhelming importance they assume in the Indian economy and the potential role that social networks could play in finding jobs and in influencing a range of associated outcomes. In terms of methodological improvement, a cluster typology approach could be developed which can help in classifying respondents on the basis of the stock of social capital they possess and then this could be used to understand how a given stock of social capital for each cluster influences labour market outcomes in varied ways. However, this would require large sample sizes. Future studies could also concentrate on finding the convergence in ideas with respect to the use of social networks from the demand as well as supply side of the labour markets. A list of potential advantages and disadvantages from the use of social networks/employee referrals could be drawn up for a factor analysis and could be used to understand the mutual benefits or threats that come through the use of referral networks for employers as well as job seekers. This would help in drawing concrete policy recommendations for search methods as well as hiring practices in the labour markets.

7.3 General Conclusions

The rationale for the use of referrals by employers in the IT industry is justified by the existence of information asymmetry and high transaction costs associated with hiring
and training. From the employees’ perspective, relying on social networks to find jobs brings in higher returns in the form of higher earnings. Since there is no evidence from this study of networks creating inequalities for women or the socially disadvantaged groups like the backward classes, we could say that use of social networks in the labour markets to hire or to find jobs is more like a win-win situation for both employers as well as employees. However, it is important to note that this study is only an insiders’ view of the industry. Respondents who participated in the survey are all currently employed in various firms in the industry. It is possible that the outsiders’ who could not make it to the jobs in the industry might reveal a different picture altogether.