Labour markets are characterised by imperfect information. Workers have little information of job openings, wages or working conditions while firms have poor information of the reliability and productivity of the workers. Social capital is often perceived as a resource capable of reducing the magnitude of imperfect information in the labour markets. The role of social capital in job search can be traced back to the early 1960s. Individuals use their social connections to gain access to available openings and to get in-depth information about prospective jobs in the labour market. The Information Technology Industry in India hires nearly 35 percent of its employees through the referral hiring mode perhaps to reduce the frictions that can arise due to imperfect match between workers and jobs. Employee referrals seen from the perspective of companies is the other side of the same coin i.e. the use of social networks to find jobs by job seekers. But since not everybody would succeed in finding jobs through social networks, it is of interest to understand how social capital characteristics of individuals play a role in finding jobs through social networks. The first objective of the study tries to understand this aspect in the context of the IT industry.

Another area where social networks could impact the labour market is in explaining wage differentials and job satisfaction and the second objective aimed at examining this. Since use of employee referrals reduces transactions costs of hiring and signals the productivity levels of workers, it is possible that firms pay higher efficiency wages to workers hired through referrals. Given that jobs found through social networks facilitate transmission of intensive and qualitative information about all relevant aspects of work; this could result in better matching of one’s skills, experience and educational qualification with the job at hand and thereby lead to better job satisfaction at work place. The third and final objective of the study examined the perceptions of Human
Resource (HR) managers of IT companies with respect to referral hiring and its perceived benefits to get a glimpse into the demand side of the labour market.

The study is primarily explanatory in nature as it tries to model the determinants of the method of job finding, earnings and job satisfaction from a social capital perspective. The sample consisted of 281 IT employees and 25 IT firms in Bangalore. Maximum variation purposive sampling methodology was followed to select the respondents from various companies. Primary data was collected through structured interview schedule and online questionnaires.

The study found 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 controlling for all other variables. With respect to earnings the informal method of job finding exerted a statistically significant positive influence on annual earnings. However, it was seen that informal method of job finding is associated with lower levels of job satisfaction after controlling for all other variables. On the perceived benefits of referral recruitments by HR managers, the results revealed that there is a high level of agreement among HR managers with respect to the pre-hire benefits of referral hiring. 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.

This study is significant in terms of influencing changes in companies’ policies as well as job search behaviour of employees with respect to use of referrals or social networks in the labour market. It gives us a nuanced understanding of the potential benefits and dangers of using social networks in the labour market. More importantly, it helps us to realize that social capital is not an all purpose good and does not yield similar results in all circumstances. Differences in social capital characteristics of individual can produce different results in the labour market.