8.1 Answering the Research Questions

In the previous decades, there has been a considerable amount of research examining the effects of personal contacts on labor market outcomes. This research provided important insights about the conditions under which social networks contribute to inequalities. Yet, the question *why* personal connections contribute to inequalities was neglected. The use of personal contacts can be evaluated in both negative and positive terms. On the one hand, personal contacts can be considered as an irrational phenomenon. The existence of friendship ties creates incentives to hire a friend instead of even better but personally not known other applicants (*particularism*). On the other hand, the use of contacts is a necessary consequence of an important information problem in labor markets: employers are uncertain about the abilities and the prospective behavior of applicants and these uncertainties are reduced by informal recruitment (*intensive search*).

The recent history of post-communist countries shows the importance of understanding the causes of network effects. The state-socialist political and economic system created a society where arranging things through personal contacts was necessary to promote individual well-being. Although the transition to capitalism eliminated the particular political and economic system that induced networking, inherited contacts and the culture of networking might be useful to cope with a problem induced by the transition itself: the decrease in living conditions. Additionally, due to changes in educational and labor market institutions, firms find themselves in a more uncertain labor market. Not surprisingly, based on the ideas of path-dependence, the general hypothesis was put forward that network resources are extremely useful in post-communist societies (Sik 1994).

This book made an attempt to assess this hypothesis empirically. The research was restricted to the Hungarian labor market. In order to assess the importance of personal contacts, two questions were posed. The first question is whether network resources are helpful to find job opportunities through personal contacts. The second question is whether better jobs can be obtained through personal contacts than through other channels. In order to understand the causes of path-dependent features, a third question was posed, namely whether observed contact effects are due to particularism or to intensive search.

Our research questions were examined using data about young job seekers who left vocational secondary schools in 1998. The data are from a survey with two measurement points. Data about network resources, job finding methods, and several labor market outcomes
were collected in the period starting with December 1998 and ending with February 1999. In October 1999, respondents were approached to increase the sample of employees, on the one hand, and collect information about job tenure, on the other hand. The basic advantage of this data set is that it allows the interpretation of statistical relationships in terms of network and contact effects. The research design is limited to the extent that it does not include a survey of firms, which would increase the quality of firm and job level information.

Our first research question was whether network resources increase the chances of finding a job through either a high status contact or through an employee referral. This question was examined in Chapter 5. We found two processes that work in opposite directions. On the one hand, high status family members decrease the probability of finding a job through personal contacts. On the other hand, among those who found a job through contacts, high status family members are helpful to find a job through high status contacts. These opposite effects imply that network resources do not have an influence on the chances of finding a job through high status persons or employee referrals.

Our second research question was whether high status contacts or employee referrals help one to find a good job. This question was examined in Chapter 6. Our findings are fully consistent with accumulated evidence on contact effects (see Chapter 2). Personal contacts in general do not lead to better jobs than formal job finding methods, but they often lead to better jobs than direct job finding methods. The effects of personal contacts become apparent when we take into account the characteristics of the contact person. Both high status contacts and employee referrals are helpful to find jobs in firms and occupations which are likely to provide long-term earnings advantages. Additionally, high status contacts inform job seekers about opportunities that are associated with better earnings opportunities. Finally, employee referrals increase the chances of keeping the job. To summarize, the use of high status contacts and employee referrals provides advantages over those who find a job through other channels. In other words, our study replicated the theory of employee referrals and social resources theory in a new research setting.

The first and the second research questions are closely linked to a two-step modeling strategy, which assumes that social network effects on labor markets are mediated by the personal contacts (see Section 1.5). Given the answers to the first two research questions, we can also answer the question that motivates research into network effects in labor markets, namely whether network resources are an additional determinant of inequalities. Although contact characteristics have a substantial impact on the distribution of earnings opportunities, the characteristics of the contacts are independent of network resources. As a consequence, network resources do not contribute to inequalities.

The first two research questions were concerned with the description of how network resources affect inequalities. Additionally, our research also aimed to explain the observed contact effects. This aim was expressed by the third research question, namely whether intensive search or particularism generates the observed contact effects. This question was examined in Chapter 7 by testing four hypotheses. Similar to the logic of crucial experiments,
Chapter 8. Conclusions

These hypotheses were developed in order to distinguish between intensive search and particularism. We found contradictory evidence with respect to the organizational conflict hypothesis. Unfortunately, we had no sufficient evidence to evaluate the other three hypotheses. Therefore, we remained uncertain about the mechanism that generates employee referral effects. In other words, our study cannot answer the question whether the particularism or the intensive search mechanism generates the observed contact effects. Nevertheless, based on the observation that personnel departments do not increase the chances of careful screening, our conjecture is that the particularism mechanism might operate in the Hungarian labor market.

8.2 The Merits and Limitations of the Study

This book makes two important contributions to the study of the relationship between personal contacts and labor market outcomes. Both contributions are related to the data and methods we used. First, our study of contact effects, reported in Chapter 6, substantially improves on earlier analyses of the relationship between personal contacts and earnings (or statuses). Contrary to a typical getting–a–job study using a sample of employees, our study using a sample of job searchers allowed the decomposition of the cross–sectional relationship between contacts and earnings into three parts. The decomposition corresponds to three explanations why employees who found their job informally might earn more than others do. The first is that job seekers using personal contacts become aware of above–average earnings opportunities. The second is that contacts increase the chances of getting a job. The third is that people who got their job informally are promoted earlier, thereby their salary grows faster. We found empirical support for the first account. In the light of existing studies, this is not surprising: it is known that personal contacts have a negative impact on the growth in salaries (Corcoran et al. 1980, Simon and Warner 1992) and neither employers nor job seekers are willing to reject applicants and jobs (Devine and Kiefer 1991).

Second, our presentation of evidence in terms of marginal effects allows researchers to compare contact effects to the effects of human capital characteristics. Employee referrals and high status contacts seem to be more important than education in accessing good jobs. For example, referrals and high status contacts are more likely to lead to jobs with foreign property or to large firms (the advantage ranges from 10 up to 16 percent; see Table 6.6). To take another example, the rate of returns to high status contacts in terms of starting salaries is approximately twice as much as the returns to education (consult Table 6.8). Note that one unit change in our education variable reflects one or two years of additional schooling because apprentice education last three years while vocational secondary and technical education last 4–5 years. Thus, contacting of a high status person is as important as having 2-4 years of additional vocational education!
Our finding of relatively large returns to personal contacts underscores several concerns with respect to the institutions of the Hungarian labor market. Students of the Hungarian labor market argued that, due to changes in the system of education and training, educational credentials are less trusted than before (see Section 1.4). Mistrust in educational credentials is one of the possible causes of finding contact effects in labor markets. Additionally, investments in institutions constraining particularistic practices are likely to be small in transforming societies.

Although our research documents the importance of personal contacts in getting a good job, we do not know the causes of these effects. As a consequence, we do not know whether large returns to personal contacts are due to the mistrust in educational credentials or to the absence of legal rules that would constrain particularism. Thus, we cannot single out exactly which labor market and educational institutions are responsible for the observed contact effects.

Our failure at this point is related to the research design we used. Recently, it was argued that the test of theoretical hypotheses that aim to distinguish mechanisms requires data about the demand side of the labor market (Marsden and Gorman [forthcoming], Fernandez et al. 2000). Unfortunately, it is very demanding to supplement data about job searchers with data from a survey among firms. The collection of data about job searchers had clear priorities: description is logically prior to explanation and the description of network effects requires data about job searchers. Since both intensive search and particularism have implications that can be examined using data about job seekers and employees, the idea of a survey among employers was rejected. The price to be paid is that no information is available to test our conjecture that personnel departments do not constrain particularism.

We were also able to give a detailed description of how the acquisition of job information through high status contacts or referrals depends on social networks. The finding that network resources facilitate the contacting of high status people supports social resources theory. The finding that having unemployed or inactive people in the family discourages people from informal search is consistent with several empirical studies carried out in other settings. However, we found an unexpected negative effect of family resources on the chances of finding a job informally. Further, we did not find evidence for the effect of other network resources variables. These negative findings raise the question whether it was appropriate to measure the family network resources variables with dummies. Additionally, the measurement of the network resources outside the family variable is not reliable due to the retrospective name generator items. The use of retrospective network items is the dark side of our research design aiming to maximize the number of respondents who found a job opportunity. Thus, the problems associated with the description of network resources effects are other prices to be paid for the successful description of contact effects.
8.3 Suggestions for Future Research

Our research made an attempt to answer the questions how networks contribute to inequalities and what are the mechanisms and institutions that generate these network effects. Thus, our study can be seen as a contribution to the social capital research program (Flap 1999). Our empirical findings have three important implications for researchers who wish to contribute to this research program.

Our empirical analyses were guided by the assumption that network resources have no direct causal effect on labor market outcomes (two-step modeling strategy). This assumption turned out to be fruitful since we were able to understand why network resources do not affect the distribution of earnings in Hungary. As the idea of social capital gains popularity among social scientists, there is a tendency to describe the total effect of social networks on labor market outcomes and to explain the empirical findings using the assumption that networks are capital that bring returns. This tendency is often due to the absence of information about intermediate outcomes. Nevertheless, this procedure is flawed because networks should not be described as capital when it is not shown which processes generate these returns (Baron and Hannan 1994). The two-step modeling strategy opens the black box of network effects and shows how networks bring returns. Therefore, the research program of social capital should rely on the two-step modeling strategy; otherwise, social capital remains a metaphor.

The second implication is that future research should combine economic and sociological theories. We used insights from both search theory and structural theories to understand the relationship between network resources and the characteristics of the person who passed the job information. We tested both an economic and a sociological theory when we described the effects of personal contacts on labor market outcomes. In the light of our empirical findings, reliance on both economic and sociological ideas at the same time was necessary. Otherwise, we would not be able to give a complete picture about the conditions under which personal contacts lead to better jobs and to explain why network resources do not affect inequalities. Our study demonstrates that a complete description of network effects needs both economics and sociology, in general, and search theory, the theory of employee referrals, and social resources theory, in particular. Yet, students of network effects rarely use search theoretic ideas and the theory of employee referrals in empirical work. Search theoretical ideas are often mentioned, but only in theoretical discussions. Furthermore, despite some overviews and applications (Marsden and Gorman [forthcoming], Fernandez et al. 2000), sociologists seem to be largely ignorant about the theory of employee referrals.\textsuperscript{61} However, sociologists cannot

\textsuperscript{61} The ignorance of sociologists about the theory of employee referrals and the negative evaluation of search theory is probably due to the influence of Granovetter (1974). In Section 2.4, we mentioned that the strength of weak ties hypothesis stems from Granovetter’s criticism of search theory. Ignorance about the theory of employee referrals is associated with the originality of Granovetter’s work. Granovetter’s own research question, i.e. how people became aware of job opportunities, and his answer to this question, the famous strength of weak ties hypothesis, were not explicitly related to the theory of employee referrals and they were original contributions. The reception of Granovetter’s work was guided by focusing on the originality of his
ignore the theory of employee referrals. I argued that it plays an important role in the strength of weak ties hypothesis (see Section 2.4). Additionally, students of social resources theory might pose research questions which they think as new problems, but which are indeed old and elaborated within the theory of employee referrals (Lin 1999: 484). Our research can be viewed as an appeal to sociologists that, next to the use of social resources theory, they should rely on the theory of employee referrals, but not on the strength of weak ties hypothesis.

Finally, more attention should be paid to the development of explanatory hypotheses. The failure to identify the mechanism behind contact effects might be associated with the current (under)development of theoretical ideas. Although substantial empirical evidence was accumulated about the importance of personal contacts in getting a good job, less effort was made to develop hypotheses that can distinguish between different intensive search and particularism mechanisms. Additionally, a recent attempt to distinguish between competing explanations (Fernandez et al. 2000) considers only the elements of the theory of employee referrals, but it does not analyze social resources theory. As a consequence, there are no discussions, let alone a consensus, about the implications of various mechanisms our research could have relied on. Future research should take particularism seriously and conduct case studies in order to disentangle the implications of intensive search and particularism (cf. Fernandez et al. 2000).62

62 The most nagging question such case studies should answer is what do personnel departments do in Hungarian firms, in general, and what is the role of personnel departments in the setting of wages and recruitment, in particular.

question and theory. However, Getting a Job is not a work with a single theoretical perspective: there are several pages documenting that Granovetter was aware of and influenced by the work of Rees.

62 So far only one strategy was proposed in the literature to differentiate between particularism and intensive search: the distinction between help (“putting in a good word”) and providing information. However, the insider-outsider version of particularism seems to contradict this distinction: employees have control over hiring decisions, and they pass job information to their friends and relatives without giving additional help.