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Influence Capital in Boards: a study of ex-bureaucrats in India

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Abstract

One of the important roles which firm boards play is the resource provision role. In this study, we examine influence capital, a specific form of resource provision on boards. Two categories of government officials, i.e., Politicians and Bureaucrats tend to be the major providers of influence capital. While firm connections to politicians as board members has been examined in prior literature, connections to bureaucrats (and ex-bureaucrats) has not received the same level of attention. This is despite a sharp increase in the appointment of bureaucrats in company boards in the last few years. We analyze and provide evidence that industry regulation and foreign corporate ownership are major organizational determinants of selection of bureaucrats as board members. Further, it was also imperative to understand the differences in selection of *various categories of bureaucrats* as board members. We examined and find that *generalist* bureaucrats are more sought after by firms than *specialist* bureaucrats, usually as independent directors. Overall, this study provides an important initial thrust for studying bureaucrat board members as providers of influence capital.

Keywords Influence capital · Ex-bureaucrats · Corporate political activity · Board of directors

The selection of board members is one of the key decisions for modern corporations. These board members who possess business skills and wealth of experience help firms by increasing their legitimacy (Certo, 2003), survival rates (Singh, House, & Tucker, 1986), and financial performance (Hillman, 2005; Daily & Dalton, 1993), primarily

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with their monitoring and advisory contributions. While the monitoring role of boards has been discussed extensively in the vast literature on agency theory (e.g. Hillman & Dalziel, 2003), their advisory and resource provision roles have been discussed in the resource dependence theory (RDT) tradition (Pfeffer & Salancik, 1978; Hillman, Withers, & Collins, 2009).

However, in economies where the governments control a significant amount of economic activity, connections to government officials become very important (Peng & Luo, 2000). In such cases, boards often play the additional role of an influence capital provider and help firms in extracting influence rents (Ahuja & Yayavaram, 2011). Such influence capital is often provided by government officials (Hillman & Hitt, 1999; Ahuja & Yayavaram, 2011; Chandra, 2015). These government officials are usually politicians (*elected* government officials) or career bureaucrats (*selected* government officials).[1] The extant literature on Corporate Political Activities (CPA) has investigated this influence with the basic premise that the government is a key stakeholder (Freeman, 1984; Friedman & Miles, 2006; Albino-Pimentel, Anand, & Dussauge, 2018), and therefore firms require government connections to manage their dependence on government (Pfeffer & Salancik, 1978; Hillman et al., 2009; Rajwani & Liedong, 2015).

CPA literature has explored many interesting questions, such as the objectives of political strategy (McWilliams, Van Fleet, & Cory, 2002), the antecedents of corporate political strategy (Hillman & Hitt, 1999; Hillman, Keim, & Schuler, 2004; Dieleman & Boddewyn, 2012) and the performance impact of political connections (Hillman, 2005; Faccio, 2006; Hadani & Schuler, 2013) amongst others. However, most of this literature has focused on connections to elected government officials/politicians and has hardly paid attention to selected government officials/career bureaucrats who are generally career bureaucrats (Lester, Hillman, Zardkoohi, & Cannella, 2008; Holburn & Vanden Bergh, 2004). This omission is striking as career bureaucrats are an important category of government connections with marked differences in comparison to politicians (Chandra, 2015; Holburn & Vanden Bergh, 2004; Peng & Luo, 2000).

Whereas connections with politicians and career bureaucrats are postulated to provide important resources to the firm, there are many important differences in human, social and influence capital between these two categories (see Appendix 1)(Table 7). Bureaucrats usually have had a long tenure, a high level of education and formal administrative training. Politicians on the other hand, tend to have a wide variability in their educational attainment levels, they may or may not have administrative experience, and their zone of influence is likely to fluctuate depending on whether they are in or out of power. That leads to important differences in the provision of resources (Pfeffer & Salancik, 1978; Chandra, 2015; Holburn & Vanden Bergh, 2004) and their sphere of influence (Ahuja & Yayavaram, 2011) which bureaucrats as directors are able to provide in comparison to politicians (Chandra, 2015; Lester et al., 2008).

While the role of politicians as directors has been an area of study for long under the corporate political activities' literature (e.g. Hillman, 2005), the influence of bureaucrats has hardly been examined (Holburn & Vanden Bergh, 2004). The scant extant literature on bureaucrats as board members has examined how the social and human

[1] We have elaborated on the differences between elected government officials/politicians and selected government officials /career bureaucrats in the next section.

capital of ex-bureaucrats increases the likelihood of their selection to firm boards in the U.S. (Lester et al., 2008). There is a noticeable dearth of literature investigating firm-level connections to former bureaucrats. This inadequacy in attention in the literature in this domain files in face of the phenomena of sharp increase in the appointment of bureaucrats in company boards over last few years globally (Kang & Zhang, 2018; Lester et al., 2008; Fan et al., 2007; Ararat, Hakan, & Yurtoglu, 2010).[2] Accordingly, we attempt to plug this lacuna and understand the phenomena of the increasing trend of the rise in bureaucrat director appointments in firm boards by examining the firm and industry level antecedents to the selection of ex-bureaucrats in firm boards in this study.

Therefore, to address these gaps, our study makes two substantive contributions to the CPA field. Firstly, we examined the propensity to appoint ex-bureaucrats[3] in firms in regulated industries, and with higher foreign corporate ownership. Using RDT and Influence rents as our theoretical lenses, we build on prior work (e.g., Holburn & Vanden Bergh, 2004; Ahuja & Yayavaram, 2011; Chandra, 2015) and argue for the resource provision role played by bureaucrats and how they differ from resource provision role played by politicians in boards using a unique context in an important emerging economy wherein influence rents are likely to be more manifest. Secondly, among bureaucrats, we highlight the differences between *generalist* and *specialist* bureaucrats in their provision of influence capital and hypothesize that the variations in their provision of influence capital lead to differences in their likelihood of selection as board members. As such, therefore, we also examine bureaucrat level heterogeneity and its implications on the likelihood of selection of the bureaucrats as board members.[4] To the best of our knowledge, our study represents a pioneering effort in uncovering these important implications of having career bureaucrats on the boards of organizations.

In order to test our conjectures our research design involved the use of panel logistic and multinomial logit regression models and the creation of a unique dataset of board members in all NSE (National Stock Exchange) listed firms in India between 2007 and 2014. This dataset stitched from multiple sources consists of the name of the board members, their age, gender, educational background, and independence, whether the board members are current or former member of the Indian civil services and relevant financial information of the firms on which they are board members. Our results indicate that industry regulation and foreign corporate ownership are major determinants of selection of ex-bureaucrats as board members. In addition, we also find that

[2] The same trend is confirmed by analyzing our dataset from India (Reference to Figure 1). One such statistics suggests that proportion of NSE listed firms having at least one bureaucrat board member went on from about 18% to 25% between 2007 and 2014.

[3] The use of "ex-bureaucrats" rather than "bureaucrats" in our study was necessitated by the context of the study. In India, and in many other emerging economies, serving bureaucrats are not permitted to hold any office including board positions in private organizations. Therefore, in order to have a meaningful sample of bureaucrats serving on boards of companies, we need ex-bureaucrats, as in most cases, bureaucrats join a private entity after leaving government service either upon retirement or when they voluntarily step down from government service. The exceptions to this norm for serving bureaucrats as board members are when they are occasionally appointed by the government itself in non-government/semi-government entities.

[4] A few studies have examined the impact of influence capital provided through government connections through the boards of directors using samples that have included both bureaucrats and ex-bureaucrats. Consequently, in the subsequent discussions in the paper on the role of government connections, we have drawn on the arguments for their influence from these studies.

generalist bureaucrats are more sought after by firms than *specialist* bureaucrats, usually as independent directors, primarily for their greater influence capital and network bridging capabilities across government offices. Overall, we believe, this study provides an important initial thrust for studying bureaucrat board members as providers of influence capital.

Literature Review & Contextual Overview

The role of the board of directors has long been one of the major areas of research interest of organization scholars (e.g., Jensen & Meckling, 1976; Pfeffer & Salancik, 1978; Dalton, Daily, Ellstrand, & Johnson, 1998; Daily, Dalton, & Cannella, 2003). The broad areas of investigation have been board size, independence, composition, leadership structure, diversity and relation of all these with financial performance (e.g., Baysinger & Butler, 1985; Daily & Dalton, 1993; Kim & Cannella, 2008; Johnson, Schnatterly, & Hill, 2013). More recently there has been an increased interest in director characteristics specifically the determinants and impact of directors' social and human capital (e.g., Lester et al., 2008; Tian, Haleblian, & Rajagopalan, 2011; Khanna, Jones, & Boivie, 2014). Despite ample prior work on director characteristics, far lesser attention has been paid to one of the major forms of the provision of director resources, i.e., their influence on and their relationship with the government.

The extant literature has clasified role of boards in two major functions, i.e. monitoring & control and resource provision (Carpenter & Westphal, 2001;Westphal, 1999; Hillman & Dalziel, 2003). While the monitoring perspective has been used mostly in the agency theory tradition; the resource provision perspective has been used from resource dependence theory tradition (Hillman et al., 2009). Most of the prior research on corporate political activity (CPA) has employed resource dependence theory as the main theoretical lens while examining political connections through the board of directors (e.g. Hillman, 2005). The resource dependence theory (Pfeffer & Salancik, 1978) provides perhaps the most compelling reasoning about firms opting for government connection through the board of directors (Mellahi, Frynas, Sun, & Siegel, 2016; Liedong, Rajwani, & Mellahi, 2017).

Public governance and administrative structure in India

The Constitution of India provides an administrative set-up for governance with distribution of power across its three major branches, i.e., the legislative, the executive and the judiciary. Firstly, the legislative branch consists of parliament, the members who are *elected* by the citizens. The primary role of the legislative is to legislate various policies that govern the country in manner consistent with the constitution and to serve public interest. Secondly, the executive comprises of the *union executive* and *permanent executive*. The *union executive/government* consists of a council of ministers with the Prime Minister as its leader to aid and advice the President (The Constitution of India, 2018; Jayapalan, 2001). The *permanent executive* consists of the government officials who are *selected* through a competitive national examination process, and who usually serve out their careers in the government (Ferguson & Hasan, 2013; Jayapalan, 2001). These officials support the legislative and the union executive by implementing the policies enacted by the parliament and also framing policies which are proposed by the union executive (NCERT, 2016). Thirdly, the judiciary is headed by the supreme court with a role to uphold the rule of constitutional law and for the purpose of checks and balances in the entire government.[5]

The members of the legislative are elected representative (politicians) and chosen directly by citizens and draw power from control over policies and administration. The leading members of the executives (bureaucrats) are selected by another constitutional body called Union Public Service Commission (UPSC) which conducts the examinations for these 'administrative services' which are considered prestigious but very difficult to pass.[6] Upon selection, all these candidates are appointed for permanent position in administration and allotted either generalist or specialist roles, based on the performance in the UPSC examination. These roles become permanent in their entire career, except in occasional short-term deputations. The selected officials are provided initial training (2 years), in dedicated academies (which vary for generalist bureaucrat and all specialist bureaucrat roles), on administrative knowledge and other required skills. Post-training, they are inducted into service and usually serve until superannuation. Even though they are under some control of the executive and legislative branches, the members of the permanent executive draw power from their superior human and social capital, long tenure/stability of service and strong network effects particularly in the specific service they have been selected (Chandra, 2008).

Differences in the influence of politicians and bureaucrats as board members

This election or selection of different government officials (politician and bureaucrats respectively) brings about differences across the benefits (see appendix 1) (Table 7) accruing to firms in appointing them in board role, as discussed earlier. Using the distinction between connections to politicians and connections to ex-bureaucrats alluded to in the earlier section (also see appendix 1)(Table 7), we postulate that bureaucrats are a superior choice in terms of balancing political / influence capital requirements and avoiding heavy costs for several reasons. First, in the *take* part of the social exchange of these interactions (Liu, Yang, & Augustine, 2018), firms may obtain internal and external legitimacy, insights about the local market in dealing with the policy and regulatory environment, and in managing environmental uncertainty (Brown, Yaşar, & Rasheed, 2018; Bucheli & Salvaj, 2018) as much, if not more, from ex-bureaucrats as from politicians. Second, in the *give* part of the social exchange of these relations (Liu et al., 2018), firms might have to bear much lesser cost in engaging with ex-bureaucrats compared to the politicians. While politicians may seek campaign funding and electoral support (Cui, Hu, Li, & Meyer, 2018) and social investment in her constituency or

[5] The reference here is to the federal legislature, executive and judiciary. The states also have their own legislative houses, executive and judiciary.

[6] About a million candidates apply for this exam which involves three qualifying stages –preliminary exam, main exam and interview. Finally, about a thousand candidates are selected (a success rate of 0.01%). Of these successful candidates, less than hundred are selected for generalist role (IAS) and rest are selected for various specialist bureaucrat roles.

financing her favorite projects (Liu et al., 2018); ex-bureaucrats are unlikely to demand such high returns in the exchange. Third, while politicians may become a liability when the government changes (Siegel, 2007; Bucheli & Salvaj, 2018), the influence of ex-bureaucrat connections is not likely to be affected in a similar manner. Further, ex-bureaucrats in comparison to politicians may have a more nuanced understanding of the stakeholders' expectations that might often be critical to the operations of foreign-corporate owned firms and this helps in addressing the stakeholders' concerns in particular and facilitating effective governance in general. Fourth, constitutionally, while politicians in India can take a board membership in any government owned and/or private organization without constraints, the bureaucrats cannot typically take such positions in private organizations while they are in service. They are also required to have some cooling off period after retirement before taking board positions in privately owned firms. They are, however, often *appointed* by the government on some of the government owned firms, autonomous organizations or in exceptional circumstances in any specific private owned firms as government nominee.

As noted earlier that the sources of power and the role in governance is dissimilar for elected representatives (politicians) and selected officials (bureaucrats) leading to differences in the nature of their influence which result in variances in benefits accruing to connected firms. These variances arise because while politicians may help in formulating/changing policies, awarding government contracts and obtaining tax benefits to favor connected firms (Hillman, 2005; Sen, 2017), bureaucrats may provide assistance to connected firms with their long and rich experience and networking with government agencies and regulatory bodies (Latif, Kamardin, Mohd, & Adam, 2013) which is largely the domain of the bureaucrats and where politicians do not have any direct role (Holburn & Vanden Bergh, 2004; Chandra, 2015).

As alluded earlier, in comparison to politicians, bureaucrats tend to have a higher level of education, formal administrative training and experience. Further they have a strong peer network which differs from the network of politicians. These differences could potentially lead to a different set of expectations which firms have from bureaucrats as board members as compared to politicians as board members. Despite these differences, there has been a dearth of studies focusing only on bureaucrats. Hiatt and Park (2013) note that one of the major limitations of the extant work on political connections has been that literature: "... *have almost exclusively focused on policy making by legislators and have neglected policy implementation by regulatory agencies—a serious omission, in that regulatory agencies have more contact with businesses than legislators do via day-to-day interpretation and execution of laws (Sabatier and Mazmanian, 1980)".*(p. 923).

The literature on bureaucrats as board members is sparse despite a steep increase in the percentage of government officials who have been appointed as independent directors (Korn/Ferry International, 2000). It is a common practice in several economies to appoint bureaucrats as directors. Some studies have reported this practice in the U.S. (e.g., Lester et al., 2008), China (e.g., Li & Qian, 2013; Pi & Lowe, 2011), Japan (Raj, Suzuki, & Yamada, 2013), Malaysia (e.g., Latif et al., 2013), and India (Narayanaswamy, Raghunandan, & Rama, 2012; Ghosh, 2006). This practice is not surprising, given the many benefits bureaucrats provide to the firms to which they are connected.

First, bureaucrat directors are likely to facilitate the interaction between the firm and the government as they 'serve as an intermediary' (Hillman, 2005), and might have influence over political decisions (Hillman, 2005). Raj et al. (2013) argue that bureaucrats as directors provide the firm with information on government procedures, government-buying expectations, predict government actions based on their tenure and contacts, and help facilitate government transactions. This relationship with government officials can put firms in common discourse with the government (Child & Tsai, 2005). Further, the relationship between the government and a firm enabled by the bureaucrats ensures that the firm obtains favorable treatment from government officials. Thus, bureaucrats may be agents of insurance against any indifference from regulatory bodies.

Second, the appeal of ex-bureaucrat directors is especially higher because they have a unique combination of human and social capital (Lester et al., 2008), and can provide valuable advice, particularly in public policy related matters. Hillman and Dalziel (2003) argued that former government officials bring with them a wealth of specific experience and expertise in order to accomplish their advisory and counsel duties. Bureaucrats as board members, by virtue of their experience and expertise, shape strategic decisions, strategic action, and performance (Castanias & Helfat, 2001; Datta & Datta, 2014; Wang, Feng, Liu, & Zhang, 2011). Bureaucrats are high-status directors who also signal firm quality (Certo, 2003; Miller & Triana, 2009; Higgins & Gulati, 2006). Consequently, bureaucrats also fit the description of directors with a specific type of social capital (Kim & Cannella, 2008).

Finally, bureaucrats may obtain critical resources required for the growth and sustenance of firms. Bureaucrats might compensate for a firm's lack of organizational factors and provide the required resources (Wang, Hong, Kafouros, & Wright, 2012) such as access to financial capital (usually on more favorable terms) through their influence (Hillman & Dalziel, 2003), which is especially important in emerging economies. Moreover, bureaucrats are helpful in obtaining various governmental approvals, including licenses and security clearances, by liaising with authorities. In specific industries, such as natural resources and infrastructure, they may be instrumental in obtaining mining licenses and land at prices that are substantially less than the market cost. They may also be useful in obtaining government contracts.[7]

It is therefore not surprising that some studies have noted the steep rise in the number of ex-bureaucrats as board members in the context of various economies. Ararat et al. (2010), for example, found that ex-bureaucrats, ex-politicians, and ex-military officers populate Turkish firms in addition to the controlling owners and other related parties while Latif et al. (2013) found that in Malaysia, ex-government officials positively affect performance. However, none of these studies considered the firm and industry-level determinants of the selection of bureaucrats (or ex-bureaucrats) as board members, which is the first step to understand the phenomenon of the steep rise in their board membership.

[7] While bureaucrats are in a position to directly influence the obtaining of various licences and permits, ex-bureaucrats help by using their contacts and networks within the government.

Cross-national differences on the association of bureaucrats with private firms

While there are several finer differences across countries on the bureaucrat's (executive government officers) role in private firms, based on extant literature, it can be classified broadly into three major systems.[8] First, there are countries which can be termed as *open* systems. The state perspective in these countries suggest supremacy of individual choice for the choice of work. In these countries, the bureaucrats selected for government offices are appointed for long term usually career appointments. However, there are significant lateral recruitments as well at various levels of hierarchy (McCubbins, Noll, & Weingast, 1987; Zheng, 2014). In other words, in these countries, it is not mandatory to appoint *only* internal officers for higher postings. Therefore, the bureaucrats can leave government service, join private firms as executive or board members and return to government posts, and can do so without significant constraints. The system, therefore, resembles the proverbial 'revolving door' between government and private organization for the bureaucrats (Zheng, 2014; Lester et al., 2008; LaPira & Thomas, 2014). The USA being the prime example of such a system.

Second, there are countries in which there is neither a 'revolving door' nor lateral entry into bureaucracy. However, the government appoints and/or encourages bureaucrats to the boards of the private firms after their retirement and in some cases during their service as well. We term it as *appointment* system. The state perspective behind these systems is facilitation and/or control over private businesses. Major examples of this system are Japan and China.

Thirdly, there are a large number of countries including India, which is the context of our study, where there is neither an *open* nor an *appointment* based system. The state perspective here considers government officers opting for private roles as a potential conflict of interest and discourages it. Nevertheless, current bureaucrats can resign from government offices and join private firm board, but they cannot rejoin government office later. We term it as the *closed* system. Like appointment system, there is typically no lateral entry in bureaucracy. Consequently, bureaucrats are available for board roles mostly after superannuation (or if they leave the service). Once they have superannuated, the government does not interfere in the ex-bureaucrat's choice of profession. These systems are prevalent in many countries. Examples of the other countries where similar systems prevail are Turkey, Malaysia, South Korea (Ararat et al., 2010; Latif et al., 2013; Siegel, 2007).

In closed systems, there is *exogenous* selection of bureaucrats by the firms compared to appointment system where it is *endogenous* due to government playing a facilitating role. While open systems are also exogenous in respect to selection of bureaucrats, the length of tenure and the nature of human capital differs widely for them before their joining the concerned board (Lester et al., 2008) thus affecting the identification. The closed system thus provides a cleaner context for understanding the phenomenon of increase in board appointments of bureaucrats compared to open and appointment systems.

[8] The differences may stem from the legal system, democratic and governance system, social differences, and specific requirements of the country as well as historical legacy among other reasons.

Theory and hypothesis development

Bureaucrats, ex-bureaucrats and industry regulation

Industries differ in terms of the level of government control and dependence on government (Stigler, 1971; Holburn & Vanden Bergh, 2008; Hillman, 2005; Hadani & Schuler, 2013). Regulated industries, for example, have a higher level of government control and intervention (Liedong et al., 2017). These industries are usually considered central to the public policy objectives of the government (García-Canal & Guillén, 2008; Lang & Lockhart, 1990). For firms, higher regulation in any industry increases the dependence on the government (Pfeffer & Salancik, 1978) and higher degree of uncertainty (White III, Boddewyn, Rajwani, & Hemphill, 2018) but also presents higher opportunities to gain influence rents from connections to government officials (Hansen & Mitchell, 2000; Ahuja & Yayavaram, 2011).

In regulated industries, thus, political strategy becomes important (Yoffie, 1988) and firm prefer to have *relational* approach to such political strategy (Hillman & Hitt, 1999) and therefore tend to establish connection to government (Rajwani & Liedong, 2015). Firms in regulated industries usually co-opt political directors on a long-term basis for obtaining competitive resources from them continuously (Hillman, 2005). Prior research has found that in regulated industries political directors improve firm value (Hillman, 2005; Hadani & Schuler, 2013). However, most of these studies (e.g., White III, Fainshmidt, & Rajwani, 2018; Liedong et al., 2017; Li et al., 2014) have largely considered political connections as homogenous and have overlooked the distinction between different *types* of these connections (i.e., politicians and bureaucrats) and their usefulness in regulated industries despite compelling evidences suggesting the same (Holburn & Vanden Bergh, 2008; Chandra, 2015).

We argue that ties to ex-bureaucrats in such industries are critical irrespective of ties to politicians owing to the following reasons. First, due to their long experience in different government organizations including regulatory bodies, bureaucrat directors provide a crucial understanding of the functioning of regulatory bodies and other government agencies (Peng & Luo, 2000). Bureaucrats also implement government policies and suggest changes from time to time and generally oversee the implementation of these regulations. Bureaucrat directors may also help firms by interpreting regulatory requirements. Thus, bureaucrat board members become a source of greater advantages (Hadani & Schuler, 2013) in regulated industries compared to other industries.

Second, bureaucrat directors play their resource provision role by serving as an intermediary between the government and the firm, providing firms an informal channel of communication to interact with the government and regulators (Peng and Heath, 1996). Further, bureaucrats might provide a window to the external environment to the connected firm, specifically on proposed changes in government policies (Kim & Cannella, 2008). More importantly, they bring along connections to key officials currently overseeing the regulations. For instance, empirical evidence concerning the influence of bureaucrat connections provided by Latif et al. (2013) indicates that ex-government officials in Malaysia are appointed as board members because of their ‘experiences and contacts’ in working with government bodies.

Third, in regulated industries, which are under the control of the government, connections to ex-bureaucrats may enable access to critical resources such as licenses and approval for doing business and could help firm to meet industry-specific compliances (Peng & Luo, 2000; Walder, 1995). They may also be helpful in obtaining favorable terms with regard to other government-owned resources (e.g., land and mining lease) and access to finances. In summary, owing to their prior experience with regulatory bodies, serving as influential intermediaries and an enabler of critical resources, bureaucrats as board members are more likely to be sought by firms in regulated industries.

Hypothesis 1 Appointing bureaucrats (and ex-bureaucrats) as board members is greater in regulated industries compared to less regulated industries.

Bureaucrat, ex-bureaucrats and foreign ownership

Prior research reported that higher levels of foreign corporate ownership are associated with a more professional and long-term approach to management and performance (Douma, George, & Kabir, 2006). This long-term approach involves understanding the local institutional and regulatory environment and formulating strategy accordingly. Foreign firms are at a disadvantage compared to their domestic peers in this respect, given the embeddedness of domestic firms in the local environment (Zaheer, 1995). However, foreign firms may mitigate this disadvantage by mimicking their domestic counterparts in establishing connections with government officials (Albino-Pimentel et al., 2018). Government officials can provide understanding of the local institutional and regulatory environment to the firm (White III, Boddewyn, & Galang, 2015), managing risk exposure and uncertainty in host country (Liu et al., 2018; Müllner & Puck, 2018; Peng & Luo, 2000) and granting legitimacy (DiMaggio & Powell, 1983; Brown et al., 2018; Bucheli & Salvaj, 2018). Thus, these connections can serve as important political resources (Frynas, Mellahi, & Pigman, 2006) or political capital (Siegel, 2007) for foreign owned firmed in navigating challenges posed by host country institutions and thereby increasing their competitive advantage (Sun, Mellahi, & Thun, 2010; Cui et al., 2018).

However, prior literature has also posited that these connections can become a liability particularly for foreign companies in case of change in the political regime (Siegel, 2007) or due to institutional transformation and economic and market evolution (Bucheli & Salvaj, 2018; Sun et al., 2010)) and even more so when these connections involve politicians (or elected officials). In addition, as alluded to earlier, connections to government officials who are either politicians or career bureaucrats involve social exchanges with *give* and *take* implications (Liu et al., 2018). Prior literature has not paid adequate attention to identify what constitutes an appropriate or optimal political connection when foreign firms choose to establish connections with government officials. Foreign firms often have to deal with these *give* and *take* trade-offs and have to take decisions concerning the nature of connections to government officials factoring these issues into account (Luo, 2003) which may have implications associated with considerable social and economic costs (Siegel, 2007; Luo, 2006). Consequently, compared to political connections, foreign firms are more likely to establish connections with bureaucrats for managing their dependency on the host government (Pfeffer & Salancik, 1978).

Hypothesis 2 The likelihood of appointing bureaucrats (and ex-bureaucrats) as board members increases as the percentage of foreign corporate ownership in a firm increases.

In addition to the above conjectures, the other important factor determining the appointment of bureaucrats as board members may be the heterogeneity among them, specifically because of the nature of the service they come from, which further drives their experience and network.

Generalist and specialist bureaucrats and ex-bureaucrats as board members

In India, which is the context of our study, while bureaucrats are selected from the same qualifying exam (UPSC Exam), depending on their rank in that exam and preference, they are allocated either a generalist role (Indian Administrative Services [IAS]) or a specialist role (e.g., Indian Police Services [IPS], Indian Revenue Services [IRS], Indian Accounts and Audit Services [IA&AS], etc). Post selection, considerable differences evolve between their networks and thus their respective influence over time. The career progression of the IAS officers, the *elite* services of Indian Bureaucracy (Bertrand, Burgess, Chawla, & Xu, 2016), translates them into what Krishna (2010) asserts as "… very likely the largest cadre of generalist managers anywhere in the world." (page 435; Krishna, 2010). After selection, they are given 2 years of initial training including 1 year of on-the-job-training. After completion of training they are placed as sub-collector, usually looking after areas such as taxes, developmental projects, and enforcing laws in a district (Ferguson & Hasan, 2013: p 4). They are then promoted to district collector followed by divisional collector (Krishna, 2010). They are further promoted and regularly transferred to various public enterprises, and government ministries at state and centre and they reach the higher echelons of the bureaucracy with positions of under- secretary, joint secretary and secretary in due course of their tenure (Ferguson & Hasan, 2013; Krishna, 2010).

As generalist bureaucrats, are rotated across several government departments, ministries and regulatory bodies during their service, their *breadth* of experience in and exposure to various government functions is extensive by the end of their tenure. Likewise, their direct ties span across different sectors and regulatory bodies and they are able to serve as a bridge across all these agencies (Chandra, 2015; Gupta, 2015; McEvily & Zaheer, 1999; Oh, Chung, & Labianca, 2004; Peng & Luo, 2000). Moreover, indirect ties of IAS officers with other IAS officers, with whom they have closed networks have also varied and wide breadth of experience and similar network which may not be completely overlapping. Moreover, these generalist officers often are able to exert collective pressure on the government to the extent that many scholars who study the field of politics allude to them as the 'IAS lobby' (Tummala, 2002; Saxena, 2010). So, if indirect ties are also taken in consideration, the reach of their connections becomes even larger (Granovetter, 1977). Finally, the strength of network in their own service means that many of the current office bearers in regulatory agencies and government ministries, who are likely to take key decisions, are also accessible to the connected firm (Chandra, 2015; Scott, 1988). Thus, IAS officers typically, have high network centrality, superior capabilities to bridge ties, and the ability to surmount structural holes (Burt, Kilduff, & Tasselli, 2013). The major benefits associated with bureaucrat directors such as contacts with and influence over several government agencies are often more critical to firms.

Specialist ex-bureaucrats, on the other hand, have *depth* of experience, exposure and network in their own specialized domain (Peng & Zhou, 2005; Scott, 2011). Specialist officers such as those from IPS, IRS, IA&AS (See Appendix 2 for the full list) have networks that are more likely to be deep and confined to their own services, and less likely to be effective in bridging services and departments. Furthermore, as they are transferred *within* different functions related to their specialized domain, but not *between* different domains, their breadth of network is generally limited. For example, a bureaucrat from the IRS is likely to have enormous experience and expertise in taxation matters and government policies, but he/she may not have much experience on, for instance, on how the telecom policy of the government is likely to change.

So, owing to their generalized or specialized roles, the social and human capital of ex-bureaucrats varies significantly (Lester et al., 2008). Firms are aware about these differences in the ex-bureaucrat's social and human capital endowments and therefore they more are likely to appoint specialized bureaucrats in cases where they require a board member with adequate depth in that particular domain. In most other cases, firms are likely to appoint generalist bureaucrats in boards as the generalist bureaucrat is likely to provide multi-purpose benefits which provide breadth, in accordance with the arguments above. The same is also reported by several anecdotal evidences as reported in the popular media (Venkatesh, 2018). Therefore, we posit that firms are more likely to appoint generalist bureaucrats who possess high network centrality, superior capabilities to bridge ties, and the ability to surmount structural holes (Burt, 2004) which are valuable for most firms and cater to most situations which firms face as opposed specialist bureaucrats who serve narrower purpose.

Hypothesis 3a The likelihood of appointing generalist bureaucrats (and ex-bureaucrats) as board members is greater compared to specialist bureaucrats (and ex-bureaucrats).

Further, based on their strategic objectives and industry dynamics, firms may have a greater need for specific network characteristics of board members. Regulated industries have higher government control and have various types of regulatory requirements even in economies that have witnessed reform process in general economic environment (Peng & Luo, 2000). Firms in regulated industries, thus, have a greater need to surmount structural holes with several regulating agencies and thus have significantly higher contact with bureaucrats (Peng & Zhou, 2005; Burt, 2004). A generalist ex-bureaucrat might have a network comprising officials across these regulatory agencies, and hence, would be more useful than a specialist ex-bureaucrat. Thus, firms in regulated industries are more likely to be inclined to appoint generalist ex-bureaucrats.

Hypothesis 3b The likelihood of preferring generalist bureaucrats (and ex-bureaucrats) for appointing as board members is greater in regulated industries compared to other industries.

Methodology

We adopt quantitative analysis of secondary data for addressing the research question. As our main outcome variable is a dichotomous variable, we use panel logistical regression as our main model. As described in next paragraph, we have panel of observations over time, so we specifically use the panel logistic regression model for testing hypotheses 1 and 2 as per following model:

$$Y_{i,t} = \alpha + \beta\ X_{i,t} + \gamma\ Z_{i,t} + \varepsilon_{i,t} \tag{1}$$

where $Y_{i,t}$ is the dependent variable, which takes a value of 1 if the firm (i) in a particular year (t) has at least one bureaucrat (or ex-bureaucrat) board member, and 0 otherwise. $X_{i,t}$ is the vector of the explanatory variables, which includes board size, regulated industry, and foreign corporate ownership. $Z_{i,t}$ is the vector of the control variables.

Variables Our dependent variable, for hypotheses 1 and 2, is ex-bureaucrat board member which is a binary variable (= 1 if a firm has an ex-bureaucrat on its board in a particular year, and 0 otherwise). The main explanatory variables are regulatory industry (dummy variable, = 1 if a firm has its business in a regulated industry, and 0 otherwise), and foreign ownership (percentage). In line with the extant literature on director selection and antecedents of government connections, we controlled for organizational factors such as firm size and firm performance (Daily & Dalton, 1993; Hermalin & Weisbach, 1988) measured by previous industry adjusted profitability return on sales and total assets respectively ownership structure (Agrawal & Knoeber, 2001; Daily & Schwenk, 1996; Ozer & Alakent, 2013), board size (Markarian & Parbonetti, 2007; Boyd, 1990; Hillman, 2005), firm age (Chen, Hambrick, & Pollock, 2008; Lynall, Golden, & Hillman, 2003) firm size, business group affiliation (Chizema & Kim, 2010; Douma et al., 2006), and leverage (Mizruchi & Stearns, 1988; Withers, Hillman, & Cannella, 2012).

In addition, we include country level variables, ease of doing business (EODB) rating scores published every year by the World Bank (Bruton, Ahlstrom, & Si, 2015) and as well as a corporate governance reform measure, a dummy variable which is coded as 1 when the new Companies Act of, 2013 came into force in order to the check the effect of corporate governance reforms in India owing to the adoption of the Companies Act, 2013 and its impact of practice of appointing bureaucrat directors.[9]

Data and sample The main data source for the study is the Indian Boards database,[10] which provides information about the board members of NSE-listed firms from 2007 onwards. Apart from the name of the board members, the database also provides information about their age, gender, educational background, and independence. More importantly, the database provides information about whether the board members are current or former member of the Indian civil services. Overall, there are 11,798

[9] We thank two anonymous reviewers for their suggestions on including country level institutional variables into the models to increase the robustness of our findings.
[10] http://indianboards.com/pages/index.aspx (last access date 17/10/2019)

Table 1 Trend of Bureaucrat Directors in NSE Listed Firms

Year	Percentage of firms with at least one bureaucrat on board	Percentage of bureaucrat directors among all directors	Percentage of independent bureaucrat directors among all independent directors
2007	18.47	3.00	4.97
2008	19.27	3.19	5.16
2009	20.86	3.51	5.71
2010	22.73	4.08	6.35
2011	24.90	4.56	6.93
2012	25.36	4.75	7.22
2013	25.61	4.96	7.38
2014	25.86	5.16	7.84

directors in the database with 517 directors across 8 years. There are a total of 1455 firms with mean directorship of about 8 per firm per year. The unbalanced panel leads to 9942 total firm-year observations. From this, we excluded observations pertaining to government-owned firms, leading to a final sample of 7675 firm-year observations. 7114 of these observations pertain to domestic firms while 561 observations pertain to foreign firms. We supplemented this data with financial information from the CMIE Prowess Database.

For testing hypotheses 3a, we analyze the univariate data, specifically, the proportion of ex-bureaucrat directors who are generalists. We coded a bureaucrat director as 'generalist' if she was part of Indian Administrative Services (IAS) and specialist if she was part of any other specialist services such as Indian Police Service (IPS); Indian revenue Services (IRS), Indian Accounts and Audit Services (IAAS).[11] For hypothesis 3b, we used a panel multinomial logit model as we wanted to test across different categories- only IAS board member; only non-IAS board member; both IAS and non-IAS board member with no bureaucrat board member as base category.

Results

We first document the phenomenon of a steep rise in the selection of ex-bureaucrats as board members in India before moving to test the hypotheses.[12] Column 2 in Table 1 shows that the proportion of NSE-listed firms that have at least one bureaucrat (or ex-bureaucrat) director has risen consistently from 18.47% in 2007 to 25.86% in 2014. This is a rise of over 40% in seven years. Column 3 in Table 1 indicates the proportion of ex-bureaucrat directors out of the total population of the boards of directors across all firms. This proportion increased from 3% in 2007 to 5.16% in 2014 (an increase of about 72%). Column 4 in Table 1 indicates the proportion of independent ex-bureaucrat

[11] Appendix 2 provides an indicative list of various services.

[12] As mentioned earlier in the paper in footnotes 1 & 2, in the Indian context, the bulk of the bureaucrats serving on the boards of various companies in our sample are ex-bureaucrats, consequently, we refer to these bureaucrats as ex-bureaucrats in the subsequent sections of the paper.

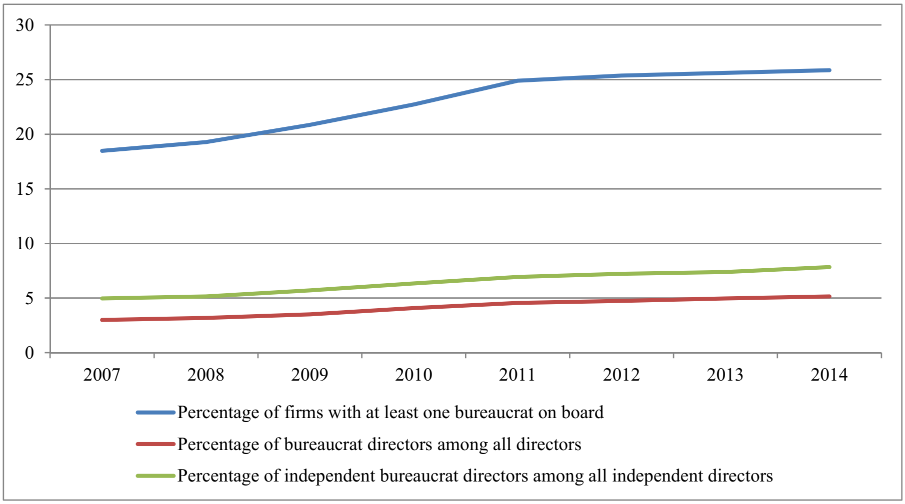

Fig. 1 Trend graph for ex-bureaucrats over years

directors among the total independent directors across all firms. This proportion increased from 4.97% in 2007 to 7.84% in 2014, an increase of nearly 58%. These indicators are plotted in Fig. 1, and clearly show a steep rise in the number of ex-bureaucrats as board members in Indian firms, especially as independent directors.

Table 2 presents the descriptive statistics and correlations. As expected, board size is highly correlated with firm size (0.43). Among other correlations, firm size is correlated with business group affiliation (0.30) and foreign institutional ownership (0.49). The remaining correlations are very small in magnitude, despite some of them being significant. Thus, we expect multicollinearity not to be a major concern here. Table 3 presents the first set of logistic regression results corresponding to hypotheses 1 and 2. Model 1 includes control variables only. In this model, the coefficients of board size and business group affiliation are positive and significant, while the coefficient of promoter[13] ownership is negative and significant. Model 2 in Table 3 is the full model with all key explanatory variables. Hypothesis 1 suggested that firms in regulated industries are more likely to have an ex-bureaucrat board member. The coefficient of the regulated industry variable is 1.385 ($p < 0.05$). In terms of economic significance, it indicates an approximately three times[14] increase in the odds of an ex-bureaucrat board member in regulated industries compared to non-regulated industries. Hypothesis 2 suggested that firms with higher foreign corporate ownership are more likely to have an ex-bureaucrat board member.

We measured foreign ownership as foreign corporate ownership (FORC) and Foreign Institutional Ownership (FORI). The coefficient for FORC is 0.027 ($p < 0.1$), indicating that one-unit (1 %) change in FORC leads to approximately 3% increase in the odds of an ex-bureaucrat board member.[15] Among the control variables, the coefficients of firm size, board size and business group affiliation as well as country

[13] According to section 2(69) of the Companies Act, 2013, 'Promoter' is a person who has control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise.

[14] (e^1.382–1) × 100

[15] (e^0.027–1) × 100

Table 2 Descriptive statistics and Correlation Matrix

	Mean	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
1. Bureaucrat Director (dummy)	0.20	0.40	0.00	1.00															
2. Highly Regulated Industries	0.17	0.37	0.00	1.00	0.07*														
3. Government Ownership (%)	0.12	1.67	0.00	37.74	0.07*	0.04*													
4. Foreign Corporate Ownership (%)	6.54	17.40	0.00	90.00	0.00	−0.01	−0.02												
5. Foreign Institution-al Ownership (%)	6.57	9.39	0.00	75.71	0.12*	0.10*	−0.01	−0.05*											
6. Board Size	8.24	2.43	4.00	14.00	0.26*	−0.02	0.09*	0.01	0.23*										
7. Return on Sales	0.28	0.46	−0.11	2.59	0.08*	0.36*	0.00	−0.03*	0.16*	0.00									
8. Total Assets (log)	8.98	1.46	6.33	13.55	0.24*	0.17*	0.04*	0.06*	0.49*	0.43*	0.14*								
9. Debt-Equity ratio	1.06	1.35	0.00	6.23	0.03*	0.06*	−0.03*	−0.13*	−0.02	0.06*	0.03*	0.18*							
10. Firm Age	30.70	19.95	6.00	90.00	0.02	−0.05*	−0.02	0.12*	0.01	0.18*	−0.05*	0.19*	0.01						
11. Domestic Corporate	9.28	8.06	0.00	64.77	−0.04*	−0.03*	−0.01	−0.18*	−0.19*	−0.17*	−0.08*	−0.17*	0.10*	−0.09*					

Table 2 (continued)

	Mean	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Ownership (%)																			
12. Domestic Institutional Ownership (%)	5.90	7.32	0.00	84.35	0.12*	0.03*	0.01	0.04*	0.25*	0.24*	0.03*	0.42*	−0.05*	0.30*	−0.18*				
13. Promoter Ownership (%)	44.94	20.82	0.00	93.00	−0.04*	0.01	−0.06*	−0.62*	−0.19*	−0.04*	0.02	−0.08*	0.09*	−0.13*	−0.12*	−0.24			
14. Business Group dummy	0.56	0.50	0.00	1.00	0.11*	0.00	0.04*	−0.13*	0.11*	0.22*	0.09*	0.30*	0.02	0.24*	−0.14*	0.19*	0.13*		
15. Ease of Doing Business	50.52	6.12	41.92	58.76	0.07*	0.00	0.00	−0.01	−0.03*	−0.05*	−0.01	0.09*	−0.01	0.05*	0.00	−0.12*	0.07*	−0.03*	
16. Companies Act	0.03	0.18	0.00	1.00	0.06*	−0.02	0.01	0.01	0.06*	0.04*	0.01	0.08*	−0.04*	0.06*	−0.06*	0.02*	0.00	0.04*	0.25*

*$p < 0.05$; Number of Observations =7675

Table 3 Results of Logistic Regression on Selection of Bureaucrat as Board Member

	Model 1 (Controls)	Model 2 (Main Model)
Highly Regulated Industry (dummy)		1.385*
		(0.606)
Foreign Corporate Ownership (%)		0.027+
		(0.014)
Total Assets (log)	0.767***	0.684***
	(0.177)	(0.181)
Board Size	0.774***	0.781***
	(0.069)	(0.070)
Foreign Institutional Ownership (%)	−0.009	−0.000
	(0.018)	(0.019)
Government Ownership (%)	−0.110+	−0.090
	(0.062)	(0.057)
Domestic Corporate Ownership (%)	−0.004	0.011
	(0.018)	(0.020)
Domestic Institutional Ownership (%)	−0.023	−0.011
	(0.021)	(0.022)
Promoter Ownership (%)	−0.030***	−0.014
	(0.009)	(0.012)
Business Group Dummy	0.916+	1.028*
	(0.469)	(0.472)
Return on sales	0.433	0.315
	(0.332)	(0.345)
Debt Equity Ratio	0.040	0.040
	(0.096)	(0.096)
Firm Age	−0.017	−0.019
	(0.012)	(0.012)
Ease of Doing Business	0.200***	0.202***
	(0.024)	(0.024)
Companies Act	1.086*	1.091*
	(0.479)	(0.481)
YEAR Dummies	Yes	Yes
Constant	−33.432***	−34.238***
	(1.780)	(1.851)
Wald Chi-Square	369.375	370.241
Pseudo R-square (McKelvey & Zavoina's R-Sqr)	0.0631	0.0655
Number of Observations	7675	7675

$^{+}p < 0.10$, $^{*}\ p < 0.05$, $^{**}\ p < 0.01$, $^{***}\ p < 0.001$; Standard error in parenthesis level variables (ease of doing business and companies act) are positive and significant. Overall, the results support hypotheses 1 and 2. In our dataset 1634 firm-year observations have at least one IAS (generalist) ex-bureaucrat(s) on board while only 245 observations have only non-IAS (specialist) ex-bureaucrat(s) on their board suggesting support for hypothesis 3a, which predicted that generalist ex-bureaucrats (i.e., IAS officers) are more sought after for board appointment (t-stats = 34.91).

Table 4 presents the regression results corresponding to hypothesis 3b. We ran the multinomial logit model to determine the difference in the selection of generalist and specialist ex-bureaucrat directors). We created four categories for the purpose: only IAS ex-bureaucrat(s) as board members; only non-IAS ex-bureaucrat(s) as board members; both IAS and non-IAS ex-bureaucrat(s) as board members; and no ex-bureaucrats as board members. The last category was the base category for the analysis. The comparison of results in column 2 (only specialist/non-IAS ex-bureaucrat directors) and 3 (both specialist/non-IAS and generalist/IAS board members) with those in column 1 (only generalist/IAS ex-bureaucrat directors) suggests that the coefficients of the highly regulated industry significant for firms connected only with generalist/IAS ex-bureaucrats (0.261; $p < 0.01$), while the same is not significant for firms connected with only specialist ex-bureaucrats and firms connected to both specialist/non-IAS and generalist/IAS categories thereby supporting hypothesis 3b.

There are some other differences across categories. For instance, the coefficient of business group affiliation is positive and significant in column 1, but negative and significant in column 2, indicating that business group firms mainly appoint generalist ex-bureaucrats.

As alluded to earlier, our models also included country level variables, such as the ease of doing business (EODB) rating scores. Our results show that EODB score has a positive and significant effect on selection of bureaucrat directors indicating a higher likelihood of bureaucrat selection in boards as business reforms unfold. This is in line with the phenomenon that has been observed in many market economies such as the US (Kang & Zhang, 2018; Korn/Ferry International, 2000; Lester et al., 2008). We also checked the effect of corporate governance reforms in India owing to the adoption of the Companies Act, 2013 and its impact of practice of appointing bureaucrat directors. Our results suggest a positive and significant effect of corporate governance reforms (The Companies Act, 2013) indicating that the importance of increased requirement of independent directors has been fulfilled to some extent by the appointment of higher number of bureaucrats on firm boards. Finally, in addition, we have also provided the odds ratio / relative risk ratio corresponding to all variables for Tables 3 and 4 which are reported in Appendix 3 (Table 8) and 4 (Table 9) respectively.

Robustness tests We performed several robustness tests to validate our results. First, in addition to our main random-effect model, we employed population average model (Table 5), which runs on Generalized Estimating Equation (GEE) principle (Neuhaus, Kalbfleisch, & Hauck, 1991). Our results using GEE Models remain robust and are similar to those in primary models. Second, we also ran the regression over entire sample i.e., including government owned firms in our sample (Table 6). As anticipated, the government ownership influences the appointment of bureaucrats and is significant and our principal results remain unchanged. Third, in unreported results, we also split our dataset in a 70:30 proportion by randomly selecting observations and find that the

Table 4 Results of Multinomial Logistic Regression on Selection of IAS and non-IAS Bureaucrat as Board Member

	Category 1 (Only IAS bureaucrat)	Category 2 (Only non-IAS bureaucrat)	Category 3 (both IAS and non-IAS bureaucrat)
Highly Regulated Industry (dummy)	0.261**	−0.074	0.210
	(0.092)	(0.206)	(0.253)
Foreign Corporate Ownership (%)	−0.005	0.010	−0.008
	(0.003)	(0.007)	(0.010)
Total Assets (log)	0.269***	0.174*	0.019
	(0.032)	(0.070)	(0.086)
Board Size	0.213***	0.133***	0.325***
	(0.015)	(0.033)	(0.042)
Foreign Institutional Ownership (%)	−0.012**	0.013	0.017
	(0.004)	(0.009)	(0.011)
Government Ownership (%)	0.039*	−53.671	−49.152
	(0.016)	(6039.883)	(6714.248)
Domestic Corporate Ownership (%)	0.003	0.023*	0.018
	(0.005)	(0.010)	(0.014)
Domestic Institutional Ownership (%)	0.007	−0.017	0.059***
	(0.005)	(0.014)	(0.011)
Promoter Ownership (%)	−0.009***	0.015**	0.004
	(0.003)	(0.006)	(0.008)
Business Group Dummy	0.336***	−0.483**	0.106
	(0.078)	(0.158)	(0.212)
Return on sales	0.204**	0.277+	0.490**
	(0.071)	(0.146)	(0.162)
Debt Equity Ratio	−0.056*	0.060	0.054
	(0.027)	(0.049)	(0.062)
Firm Age	−0.009***	−0.000	−0.002
	(0.002)	(0.004)	(0.004)
Ease of Doing Business	0.031***	0.016	0.062*
	(0.009)	(0.018)	(0.026)
Companies Act	0.376*	0.300	0.313
	(0.180)	(0.390)	(0.441)
Year Dummies	Yes	Yes	Yes
Constant	−7.120***	−7.729***	−11.374***
	(0.525)	(1.103)	(1.549)
Pseudo R-square (McFadden's R2)	0.094		
Cox-Snell R-Square	0.114		
Wald Chi-square	929.512		
Number of Observations	7675		

+ $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; Standard error in parentheses; Base category is the firms with no bureaucrat director in that particular year results are similar directionally and in the magnitude of the estimates of both the samples, but the significance levels are lower in 30% sample perhaps due to reduced degrees of freedom.[16]

Post-hoc analysis Our dataset contains 110 firm-year observations that have at least one ex-bureaucrat as an executive board member while 1754 firm-year observations have at least one ex-bureaucrat as an independent board member out of total 7675 firm-year observations. This suggests that ex-bureaucrats are more likely to be selected as independent directors rather than as executive directors (t-stats = 42.04). The higher prevalence of ex-bureaucrats as independent directors could be linked to the spate of legislative requirements in several corporate governance legislations around the world of a minimum percentage of independent directors (Ferrarini & Filippelli, 2015; Correa & Lel, 2016). Furthermore, ex-bureaucrats serving as independent directors are likely to serve multiple objectives (i.e., provision of expertise, counsel and independent advice) for firms when they seek an ex-bureaucrat on their boards for their influence capital.

Discussion

The importance of government officials in developing economies cannot be overstated. Peng and Luo (2000) posited that firms have a higher resource dependence on government officials than on other firms; therefore, connections with government officials are more important than those with executives at other firms. To stress the importance of government officials, one of the executive respondents in their study (Peng & Luo, 2000) interestingly states, *"All of these [government] officials, who can be regarded as your "mothers-in-law," absolutely have to be pleased. If you fail to do that, you may be forced to close your factory without knowing what's wrong at all.... On the other hand, if these "in-laws" are happy, they can make life a lot easier for you. Sometimes they make you think they have the magic touch to make anything happen. For example, they can procure cheaper materials for you, provide priority access to infrastructure, and promote your products in state-controlled distribution channels* (p 495). The present study finds support in assertion of Peng and Luo (2000) and reveals a steep increase in the number of board positions occupied by ex-bureaucrats in India. Though similar observations have been made in other contexts such as the U.S. (Kang & Zhang, 2018; Lester et al., 2008) and Malaysia (Latif et al., 2013), the phenomenon remains understudied. Our study provides a significant step in the direction of bridging this gap and offers several important contributions to management research and practice.

Though the influence over the executive body of government and regulatory agencies is one of the key prospective CPA resources for firms, prior research has paid less attention to the interaction of firms with this important set of government officials (for e.g., Holburn & Vanden Bergh, 2004; Holburn & Vanden Bergh, 2014; Buchholz, 1990). Holburn and Vanden Bergh (2004) find that interest groups including firms "*decide to influence one branch of government rather than the other in order to*

[16] The authors thank the reviewers for several suggestions on the methods.

Table 5 Results of Logistic Regression on Selection of Bureaucrat as Board Member (Population Average Model)

	Model 2 (Main Model)
Highly Regulated Industry (dummy)	0.340*
	(0.167)
Foreign Corporate Ownership (%)	0.009**
	(0.003)
Total Assets (log)	0.212***
	(0.040)
Board Size	0.166***
	(0.013)
Foreign Institutional Ownership (%)	−0.001
	(0.003)
Government Ownership (%)	−0.006
	(0.016)
Domestic Corporate Ownership (%)	−0.001
	(0.004)
Domestic Institutional Ownership (%)	0.000
	(0.004)
Promoter Ownership (%)	−0.003
	(0.002)
Business Group Dummy	0.382**
	(0.141)
Return on sales	0.039
	(0.062)
Debt Equity Ratio	−0.020
	(0.018)
Firm Age	−0.004
	(0.003)
Ease of Doing Business	0.029***
	(0.004)
Companies Act	0.136+
	(0.073)
YEAR Dummies	Yes
Constant	−6.417***
	(0.375)
Wald Chi-Square	460.021
Number of Observations	7675

$^{+}p < 0.10$, $^{*}\ p < 0.05$, $^{**}\ p < 0.01$, $^{***}\ p < 0.001$; Standard error in parenthesis

*influence agency d*ecisions (p. 460) while emphasizing that that not just the legislators but implementing agencies operating under legislators also influence policy outcome

Table 6 Results of Logistic Regression on Selection of Bureaucrat as Board Member (Full Sample Model-Including Government Owned Firms)

	Model 2 (Main Model)
Highly Regulated Industry (dummy)	1.366*
	(0.614)
Foreign Corporate Ownership (%)	0.026+
	(0.014)
Total Assets (log)	0.888***
	(0.190)
Board Size	0.701***
	(0.067)
Foreign Institutional Ownership (%)	−0.006
	(0.019)
Government Ownership (%)	0.149***
	(0.021)
Domestic Corporate Ownership (%)	0.011
	(0.020)
Domestic Institutional Ownership (%)	0.011
	(0.022)
Promoter Ownership (%)	−0.004
	(0.013)
Business Group Dummy	0.092
	(0.489)
Return on sales	0.373
	(0.345)
Debt Equity Ratio	−0.075
	(0.090)
Firm Age	−0.007
	(0.012)
Ease of Doing Business	0.185***
	(0.023)
Companies Act	0.738
	(0.457)
YEAR Dummies	Yes
Constant	−34.385***
	(1.857)
Wald Chi-Square	499.912
Pseudo R-square (McKelvey & Zavoina's R-Sqr)	0.106
Number of Observations	8116

$^{+}p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; Standard error in parenthesis significantly as "*…these agencies are frequently responsible for interpreting, implementing and enforcing the statutes through the design of administrative regulation*" (Holburn & Vanden Bergh, 2004; p. 458). Therefore, a member of a permanent executive branch of the government becomes crucial in dealing with regulations. We therefore turn the spotlight on bureaucrats (*selected* officials) rather than politicians (*elected* officials) as apart from being understudied, the nature of their influence differs. Accordingly, we hypothesized and tested the firm and industry level determinants of the selection of current and former government executives as board members across listed Indian firms. This we believe represents an important contribution to the extant literature particularly resource dependence theory (Pfeffer & Salancik, 1978). The study contributes to our understanding in several other ways as well.

First, as expected, the results suggest that firms in regulated industries have a very high likelihood of appointing an ex-bureaucrat as a director compared to firms in non-regulated industries. These ex-bureaucrats are expected to bring influence capital and aid the firms in such industries where non-market forces are pre-dominant compared to market forces. This could mean that despite economy-wide market reforms, the industry dynamics in regulated industries in emerging economies are still largely driven by the government and connections to government officials matter in these industries.

Second, our study also sheds light on a firm's ability to recognize the *transactional* aspects of the relationship associated with government connections and thereby optimizing decisions accordingly. In particular, it is striking to observe that foreign corporate owners mostly choose ex-bureaucrats over politicians as board members. This interesting choice implies that foreign corporate owners typically factor in the give and take trade-offs (Liu et al., 2018) associated with co-opting politicians or ex-bureaucrats. The preference for latter as board members reveals foreign corporate owner's predilection for investing in *long term transactional relationships* which ex-bureaucrats facilitate and that are aligned with their long-term strategy.

Third, a major contribution of our work has been to understand the heterogeneity among bureaucrats and its impact on resource provision and influence capital. Our results suggest that firms prefer generalist officers, who serve as a bridge across various government/regulatory offices owing to the resource provisioning role that they play in the boards particularly in form of providing influence capital with regard to government/regulatory offices (Burt, 2004; Peng & Zhou, 2005; Lester et al., 2008; Scott, 2011). These government officials have been part of some of these regulatory bodies and understand their functioning better (Chandra, 2015). On the other hand, specialist officers are chosen largely for their deep domain understanding and unique human capital resources and less for the generic provision of influence capital.

Fourth, while not explicitly hypothesized, from the results, it can be observed that board size appears to be consistent predictor of the selection of ex-bureaucrats as board members. One reason may be the legislation (The Companies Act, 2013) in India, which mandates a minimum of one-third independent directors on the board in the case of separation of board chair and CEO, and half of the independent directors in the case of non-duality of CEO and board chair. This means that larger boards will require more independent directors, and ex-bureaucrats with their social, human, and influence capital become an automatic choice for one of these board positions.

Further, Kang, Cheng, and Gray (2007) noted that board size influences diversity and increases the breadth of services. Firms with a larger board may be seeking diversity in every aspect, and ex-bureaucrat directors may provide them diversity with their government experience. Such diversity is appealing, even if considered from the supply side and the socialized perspective of director selection in a way that bureaucrats themselves may prefer larger boards, which provide them the possibility of a network of social elites from diverse backgrounds (Koenig, Gogel, & Sonquist, 1979), and increase their social capital (Withers et al., 2012). In addition, we also observe that firm size positively influences the selection of ex-bureaucrats as board members of the firm. Put differently, larger firms' connections to ex-bureaucrats indicate that they may be complementing their economic resources with government connections in order to fuel growth. Furthermore, larger firms usually have a larger board, which makes ex-bureaucrat appointment relatively easier.

In sum, by analyzing organizational determinants of the appointment of ex-government officials (other than elected representatives) on firm boards, we contribute to the literature on corporate political strategies by extending the understanding of firms' connections to executive officials of the government (Hiatt & Park, 2013). In doing so, we complement the work of Lester et al. (2008) on the individual characteristics that drive the demand for inclusion on boards by examining the firm-level and industry-level determinants of ex-bureaucrat selection as a board member. Second, we also enrich recent theoretical work on influence rents (e.g., Ahuja & Yayavaram, 2011) by depicting ex-bureaucrats as another source of gaining influence capital. Third, we document the increasing role of board of directors in India in general and independent directors in particular, thereby addressing the call made by Yiu, Lam, Gaur, Lee, and Wong (2018) to further work on independent directors in Asia.

Limitations & future research The current study limits itself to the organizational *antecedents* of ex-bureaucrat appointment on boards. This research does not take into account performance-related *consequences* of ex-bureaucrat appointment on firms' boards. It would be important to understand the phenomenon of ex-bureaucrat appointments with regard to the board member's actual contribution to the performance of the firm. Further, we only study macro (firm level and industry level) factors and do not delve into micro factors such as job analysis and design that pertain to these personnel. Therefore, our study limits itself to organizational factors in trying to uncover antecedents of bureaucrat appointment in boards. Similarly, we did not consider the supply side of the equation, i.e., how ex-bureaucrats select particular firm(s) when offered a board membership or for that matter how bureaucrats benefit as a consequence of the provision of influence strategies.

The logistic regression models that we employ only determines the likelihood of bureaucrats being appointed as board members. It may also be interesting to examine models that inform us on the number of bureaucrats in the boards of these organizations. Future work in this direction can complement this study to provide a holistic perspective of bureaucrat (and ex-bureaucrat) selection to boards. It would also be interesting to understand how these board positions provide benefits to ex-government officials. Another related dimension is the availability of bureaucrats and why only some of them join boards. Future research can potentially explore these interesting aspects of the phenomenon. This study also limits itself to the *selection* of ex-bureaucrats, only briefly describing the *process* of influence. However, the process of influence generation is important, and future work could examine the details of how these directors aid firms. An in-depth case study approach might provide deeper insights into the process.

Conclusion

Our findings indicate that firms in regulated industries, and foreign corporate ownership have a higher likelihood of appointing an ex-bureaucrat on their board. In particular, our results further indicate that bureaucrats are predominantly chosen as independent board members rather than as executive directors. One the most interesting and important findings of our work is that generalist bureaucrats are more sought after by firms than specialist bureaucrats, usually as independent directors, primarily for their higher influence capital and network bridging capabilities across government offices. Our study thereby underscores the need to match the firm's resource endowments and the choice of bureaucrat connections optimally. Overall, we believe, this study provides an important initial thrust for studying bureaucrat board members as providers of influence capital.

The study highlights the growing importance of another type of government connection to address political strategy challenges, i.e., bureaucrat's (or ex-bureaucrat's) connections in addition to more documented political connections. These connections present managers a choice in terms of political strategy. While the impact of ex-bureaucrats on policy is relatively limited (as compared to the political executive), their social and human capital may be important asset to companies. In addition, the associated stability with ex-bureaucrat connections is another area of choice whereas politicians may present hold-up issues and also there is threat of them losing in elections (Sun, Hu, & Hillman, 2016; Fisman, 2001). Based on firm requirements, environmental and institutional factors, firms may choose to co-opt politicians or bureaucrats thus providing flexibility with their political strategy. In this vein, this study's detailing of the differences in the social and human capital of ex-bureaucrats compared to politicians in Appendix 1 (Table 7) are helpful to managers in determining the suitability of having either politicians or bureaucrats on the boards for pursing their objectives.

Second, within the realm of ex-bureaucrat connections, the study further investigates and brings out an important difference among generalist and specialist bureaucrats. Our work indicates that generalist ex-bureaucrat connections are more important than domain specialist ex-bureaucrats for firms seeking influence capital. The generalist ex-bureaucrats can be a useful bridge across a large number of diverse government offices compared to specialist ex-bureaucrats who are likely to be experts in largely only one domain. Managers, thus, may choose the type of ex-bureaucrats based on the specific resource requirements that they are seeking (Hillman et al., 2009).

The overall implications of our work are that it provides a much needed impetus for director selection in the context of corporate political strategy. This study therefore lays the ground for further research in this important but largely overlooked area of corporate political connections through bureaucrats.

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Appendix 1

Table 7 Differences between Ex-bureaucrats and Politicians with regard to what they bring to the board of which they are a member

Parameter	Former/current bureaucrat	Politician
Human capital	Long career experience mostly cross functional	May or may not have long experience
	Higher education and formal administration training	May or may not possess higher education and less possibility of administrative training
	Administrative experience of large department/ organization	Varied Administrative experience of government function and policy formulation
Social capital	Network of service officers across department	Network of other politicians
Influence Domain	Regulatory and compliance agencies, information from the actual proposers and drafters of policy documents (fellow bureaucrats)	Broad policy formulation and vetting the proposed policies. Influence over government and civic bodies when in power
	Uniformity in terms of influence over the board tenure.	Varied influence depending on winning or losing election and also the position of affiliated political party in the union executive.
Functional	More of an advisory and network resource role utilizing social and human capital.	More of facilitating role utilizing their influence.
Expectations	A higher degree of certainty in expectation from such directors in performing their role.	A relatively lesser degree of certainty due to dependence on other politicians (from other parties) for affecting policy.

Appendix 2

List of various Services that UPSC conducts (based on the 2017 advertisement)[17]

(i) Indian Administrative Service
(ii) Indian Foreign Service
(iii) Indian Police Service
(iv) Indian P&T Accounts & Finance Service, Group 'A'
(v) Indian Audit and Accounts Service, Group 'A'
(vi) Indian Revenue Service (Customs and Central Excise), Group 'A'
(vii) Indian Defence Accounts Service, Group 'A'
(viii) Indian Revenue Service (I.T.), Group 'A'
(ix) Indian Ordnance Factories Service, Group 'A' (Assistant Works Manager, Administration)
(x) Indian Postal Service, Group 'A'
(xi) Indian Civil Accounts Service, Group 'A'
(xii) Indian Railway Traffic Service, Group 'A'
(xiii) Indian Railway Accounts Service, Group 'A'
(xiv) Indian Railway Personnel Service, Group 'A'
(xv) Post of Assistant Security Commissioner in Railway Protection Force, Group 'A'
(xvi) Indian Defence Estates Service, Group 'A'
(xvii) Indian Information Service (Junior Grade), Group 'A'
(xviii) Indian Trade Service, Group 'A' (Gr. III)
(xix) Indian Corporate Law Service, Group "A"
(xx) Armed Forces Headquarters Civil Service, Group 'B' (Section Officer's Grade)
(xxi) Delhi, Andaman & Nicobar Islands, Lakshadweep, Daman & Diu and Dadra & Nagar
Haveli Civil Service, Group 'B'
(xxii) Delhi, Andaman & Nicobar Islands, Lakshadweep, Daman & Diu and Dadra & Nagar
Haveli Police Service, Group 'B'
(xxiii) Pondicherry Civil Service, Group 'B'
(xxiv) Pondicherry Police Service, Group 'B'

[17] https://www.upsc.gov.in/sites/default/files/Engl_CSP_2017.pdf (accessed on 18th October 2019)

Appendix 3

Table 8 Results of Logistic Regression on Selection of Bureaucrat as Board Member (Odds-Ratio)

	Model 1 (Controls)	Model 2 (Main Model)
Highly Regulated Industry (dummy)		3.995*
		(0.606)
Foreign Corporate Ownership (%)		1.027+
		(0.014)
Total Assets (log)	2.153***	1.982***
	(0.177)	(0.181)
Board Size	2.168***	2.185***
	(0.069)	(0.070)
Foreign Institutional Ownership (%)	0.991	1.000
	(0.018)	(0.019)
Government Ownership (%)	0.896+	0.914
	(0.062)	(0.057)
Domestic Corporate Ownership (%)	0.996	1.011
	(0.018)	(0.020)
Domestic Institutional Ownership (%)	0.977	0.989
	(0.021)	(0.022)
Promoter Ownership (%)	0.970***	0.986
	(0.009)	(0.012)
Business Group Dummy	2.499+	2.794*
	(0.469)	(0.472)
Return on sales	1.541	1.370
	(0.332)	(0.345)
Debt Equity Ratio	1.041	1.041
	(0.096)	(0.096)
Firm Age	0.983	0.982
	(0.012)	(0.012)
Ease of Doing Business	1.221***	1.224***
	(0.024)	(0.024)
Companies Act	2.963*	2.977*
	(0.479)	(0.481)
YEAR Dummies	Yes	Yes
Constant	3.03e^-15***	1.35e^-15***
	(1.780)	(1.851)
Wald Chi-Square	369.375	370.241
Pseudo R-square (McKelvey & Zavoina's R-Sqr)	0.0631	0.0655
Number of Observations	7675	7675

$^{+}p < 0.10$, $^{*}\ p < 0.05$, $^{**}\ p < 0.01$, $^{***}\ p < 0.001$; Standard error in parenthesis

Appendix 4

Table 9 Results of Multinomial Logistic Regression (Relative Risk Ratio)

	Category 1 (Only IAS bureaucrat)	Category 2 (Only non-IAS bureaucrat)	Category 3 (both IAS and non-IAS bureaucrat)
Highly Regulated Industry (dummy)	1.298**	0.929	1.233
	(0.092)	(0.206)	(0.253)
Foreign Corporate Ownership (%)	0.995	1.010	0.992
	(0.003)	(0.007)	(0.010)
Total Assets (log)	1.309***	1.190*	1.019
	(0.032)	(0.070)	(0.086)
Board Size	1.238***	1.143***	1.383***
	(0.015)	(0.033)	(0.042)
Foreign Institutional Ownership (%)	0.988**	1.013	1.017
	(0.004)	(0.009)	(0.011)
Government Ownership (%)	1.040*	0.000	0.000
	(0.016)	(6039.883)	(6714.248)
Domestic Corporate Ownership (%)	1.003	01.024*	1.019
	(0.005)	(0.010)	(0.014)
Domestic Institutional Ownership (%)	1.007	0.983	1.060***
	(0.005)	(0.014)	(0.011)
Promoter Ownership (%)	0.991***	1.015**	1.004
	(0.003)	(0.006)	(0.008)
Business Group Dummy	1.400***	0.617**	1.111
	(0.078)	(0.158)	(0.212)
Return on sales	1.226**	1.320+	1.632**
	(0.071)	(0.146)	(0.162)
Debt Equity Ratio	0.946*	1.062	1.056
	(0.027)	(0.049)	(0.062)
Firm Age	0.991***	1.000	0.998
	(0.002)	(0.004)	(0.004)
Ease of Doing Business	1.032***	1.016	1.064*
	(0.009)	(0.018)	(0.026)
Companies Act	1.457*	1.350	1.363
	(0.180)	(0.390)	(0.441)
Year Dummies	Yes	Yes	Yes
Constant	0.001***	0.000***	0.000***
	(0.525)	(1.103)	(1.549)
Pseudo R-square (McFadden's R2)	0.094		
Cox-Snell R-Square	0.114		
Wald Chi-square	929.512		
Number of Observations	7675		

$^{+}p<0.10$, $^{*}\ p<0.05$, $^{**}\ p<0.01$, $^{***}\ p<0.001$; Standard error in parentheses; Base category is the firms with no bureaucrat director in that particular year; Number of Observations-7675

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