

Cos Infusing Influence Capital into Boards

Corporate India bringing in ex-bureaucrats as independent directors in strategic appointments

ET ANALYSIS

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ET Intelligence Group: Erstwhile government administrators are carving a niche for themselves at India Inc's boards.

By roping in former revenue secretary Tarun Bajaj at the beginning of this month, Hindustan Unilever (HUL) became the second Nifty 50 and third FMCG company in the past six months to appoint a former bureaucrat as an independent director. While Nifty company Larsen & Toubro appointed one in October, HUL's peers — Dabur and Colgate-Palmolive — did so in November and July, respectively.

HUL already has former bureaucrat Sanjiv Misra and State Bank of India ex-chairman OP Bhatt as independent directors.

Even as public sector companies are pulled up for not appointing

NSE-listed non-PSUs with maximum former bureaucrats on boards

COMPANIES	NUMBER OF BUREAUCRATS ON BOARD
Dabur India	6
ITC	4
Bharat Road Network	4
Apollo Tyres	4
CCL Products (India)	4
Anant Raj	3
Century Plyboards (I)	3
Welspun Enterprises	3
Larsen & Toubro	3
Religare Enterprises	3



Former bureaucrats who are independent directors at most number of listed cos

DIRECTOR NAME	NO. OF COMPANIES
AN Roy	7
Amit Kiran Deb	6
Deepa Gopalan Wadhwa	5
Dinesh Kumar Mittal	5
UK Sinha	5
Sumit Bose	5
Veerayya Chowdary Kosaraju	5
Sudha Pillai	4
Meera Shankar	4
Nirupama Rao	4

Source: primeinfobase.com

the required number of independent directors, former bureaucrats are being taken on by the private sector in that role. Erstwhile bureaucrats accounted for about 6% of independent directors appointed by all listed companies in this fiscal year till date, according to Prime Database. This proportion is higher, at 13%,

in the case of the top 200 companies based on market capitalisation.

Experts view these as strategic appointments for companies that are seeking to build influence capital. Among the Nifty 50, 26 have appointed retired bureaucrats as independent directors. ITC, Maruti Suzuki, Adani Enterprises, Adani Ports & SEZ, Bharti

Airtel, Hindalco and HUL have a higher proportion of former bureaucrats among independent directors.

Former Sebi executive director JN Gupta gave three broad reasons why former bureaucrats are chosen as independent directors.

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"First, companies appoint ex-bureaucrats because they can use their contacts for getting things done," said Gupta, who is managing director of proxy advisory firm Stakeholders Empowerment Services. "This could be instrumental in ease of doing business. Second, they bring prestige to the company. And finally, their varied experience across different administrative areas can be useful."

They have practical experience dealing with agencies, police and local administration, among others, which is helpful for the companies, he said.

Several IPO-bound companies ha-

ve made former bureaucrats independent director months before their share sales. These include Cello World, Vishnu Prakash R Punglia, Yatharth Hospital, Concord Biotech, Yatra Online, Sapphire Foods, CarTrade Tech and KIMS.

A paper by researchers from IIMs Lucknow and Bangalore published in the Asia Pacific Journal of Management in 2020 described bureaucrats-turned-board members as providers of influence capital. The study by researchers Kshitij Awasthi and Rejie George indicated there was a higher propensity to appoint ex-bureaucrats in firms operating in regulated industries and those with higher foreign corporate ownership.



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Also, generalist bureaucrats are more sought after by firms rather than specialists as independent directors, primarily for their greater influence capital and network bridging capabilities across government offices.

Adani Group has retired bureaucrats on the boards of all its listed companies, except Adani Wilmar.

Reliance Industries has two former bureaucrats and one former public sector banker among its seven independent directors.

IN FOCUS

On the other hand, some sectors prefer bureaucrats with particular experience.

For instance, former economic affairs secretary Atanu Chakraborty joined HDFC Bank as chairman and independent director in 2021.

Former Comptroller and Auditor General of India Rajiv Mehrishi was appointed independent director this year at the demerged Jio Financial Services. He is also on the boards of Piramal Enterprises, Dabur and Tata Power.

The trend is by no means confined to India. The study cited above described three kinds of countries that

see the practice. First are those like the US, where there is a revolving door between government and private organisations. Then there are countries such as Japan and China, where the government appoints or encourages bureaucrats to join the boards of private firms after their retirement and, in some cases, during their service as well.

Finally, there are several countries like India where government officers opting for private roles is seen as a potential conflict of interest and is discouraged. While bureaucrats can resign from government and join corporate boards, they cannot rejoin government later. In the case of post-retirement appointments, the government does not interfere.

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