

“Каха Бендукидзе: империя, рожденная вирусом” (Kakha Bendukidze: An Empire Born of the Virus). *Kommersant Dengi*, no. 37 (97), 16 October 1996.

Interview with Kakha Bendukidze

It was from newspapers that he found out that he belongs to the country's top ten richest people. At that time, he was still driving his old Moskvich. Today, the Englishmen from Morgan Grenfell call him the “black hole” of Russian business. Ruslan Aralov speaks with Kakha Bendukidze, who serves as the head of the investment corporation NIPEK-Bioprocess and the chairman of the board of directors of JSC Uralmash.

Bendukidze's office in the Moscow district of Cheremushki is located in an unimpressive red-brick building. In Bendukidze's office, there is a painting a la Niko Pirosmiani showing Susanna bathing and old men watching her from behind the bushes. The old men's eyes are sad and hopeful. Susanna is beautiful. The bushes are trembling.

AR: Many of today's businessmen had jobs on the side in their student years – as construction workers or as “fartsovschiki” [people who bought foreign-made products and resold them at a profit]

KB During my university times, I was very inexperienced with money. Experience is when you have the object of research in your hands. I personally didn't have anything in my hands other than money for necessities. My parents were helping me financially.

Until 1987, i.e. until the establishment of a prototype of Bioprocess, I lived very modestly. When I was appointed head of laboratory, my colleague Anatoly Altshtein told me, ‘Kakha, you're already a Candidate of Science but you're still wearing these patched up jeans.’ I told him, ‘But that's the only pair I have.’

And in 1987, I was already earning seven to eight thousand rubles a month by doing biosynthesis.

AR: Wow!

KB: I had never earned that much. At that time, you could buy two cars for this money, or an apartment. And then I realized: actually, science is valuable!

We left government science, I emphasize, in order to make some money for this very research and production. I will emphasize: for production.

But we didn't leave just to go on the street. We went to science, again.

The five of us founded Bioprocess, and three of these people are working with me right now. Among the founding fathers there was, for example, Mikhail Yuriev (now Vice Speaker of the Duma). And everything was created so simply because in that Soviet planned system, in 1988, we knew how to produce a highly demanded product for a very narrow segment of the market, and that was fine chemistry elements.

Such compounds were almost not produced in our country, and imported ones had to be ordered somewhere from Los Angeles and it took a one and a half or even two years to wait till they would be synthesized there, till they would transport them here.

AR: And you earned seven to eight thousand rubles a month doing this?

KB: There are compounds that could cost around a million dollars for a few grams. Eight thousand was not the limit.

The only problem was – I would sit down and start calculating and thinking, where has all the money gone? It's not like I was a party animal, I didn't spend that much... but the money was gone.

A.R.: People say you did like to party. For example, at bioseminars...

KB: I would dance at seminars. It would be an evening, everyone would be dancing, me included. Then it would be midnight, some people would be dancing, and me too. And closer to the morning, it would only be me dancing.

I can still do it. I can do it, but it doesn't mean I can do it well. And in the past years I have gained respect for the work that I can do well, as a company director.

AR: Could you have devoted years and years to science, had capitalism not arrived in Russia?

KB: The probability is high. In any case, the environment in which I was working and communicating with others was very unique. When you have many smart people in the same place, this is like having a lot of money in the same place. Very exciting.

AR: As a company director, you are known for your explosive temper. You called a competitor a “fool” at a meeting of the Bank of Reconstruction and Development. Was it the nerves or your temper?

KB: You guessed wrong. Look, I used to be a biologist. I would pose questions to nature. Nature is an objective conversation partner, so if I didn't get answers to my questions, it meant the blame was on me.

Business, however, is like swimming in the sea of subjectivity. And it can very well be that someone else is to blame.

My colleagues from Bioprocess gave me a cup as a gift once, a long time ago. They had bought it in the US especially for me. It is written on the cup: “When I am good, I am very very good. When I am angry, I am just horrible.” A universal cup for all managers.

AR: And what about those accountants in whose office you found a sack of sugar (it was during the times of goods deficits) and dragged it outside?

KB: I dragged the sack outside but without any bad consequences. Of course, I belong to those managers who sometimes have to fire idle employees. But in NIPEK, this has come to be a rather rare procedure.

Right now, this company employs people who are able to react adequately to my... work tempo.

Sometimes, people come to this flurry of activity called NIPEK through their acquaintances. To be honest, I am already confused who recommended whom to me, and when. But we have few people who decide to quit voluntarily.

AR: And have you grown calmer by now?

KB: My character has changed: first, because I have become older. This process starts when you're 25. I have developed more self-control. I have become calmer. But this is some kind of explosive calmness. There are some things now that I cannot stand and of course when I see them, I explode.

For instance, just now I had a visit from a foreigner. His goal? Very simple: he has business (and, between us, quite an okay business). And this man wants to borrow money from me for this business.

That's all. Ten words.

He spoke for an hour. Honestly, two years ago I would have kept listening to him, since he spoke so eloquently. But this time I didn't have the patience and told him, Get to the point, finally! (..)

KB: At least I learned to count. I am very careful with money.

A.R: A family trait?

K.B.: My father taught mathematics at Tbilisi University. Mom was and is in science and has achieved success. And my grandfather was one of the first factory owners in Georgia. He came to Tbilisi before the revolution at the age of twelve. By the time he turned 18 he had already his own mechanical workshop in Tbilisi, I think, and by 1920 it had grown, there was a plant. Here's a photo. My grandfather and an automobile.

A.R. What kind of automobile?

K.B.: His automobile that he made himself at his plant. They also did repairs but mostly constructed cars. During the New Economic Policy [in the Soviet Union of the 1920s] he was still an owner but under the Bolsheviks he was only a technical director.

And my grandfather's brothers helped build the first railway bridge over the River Kura. As well as first power plant in Georgia.

I think that is why I treat money with care because even as a child I saw that it takes hard work to earn it.

I always valued money. It is an equivalent of labor. For example, I come to a store now and see something that costs two dollars. But I know that this thing should actually cost half a dollar. I think this is unethical, even indecent to just pay two dollars for it. And the corporation's money – I don't see it, it's like an instrument. A screwdriver or tongs, a powerful engine.

AR.: In various conversations and from different people I heard that “Bendukidze doesn't pay his employees well – maybe he hasn't realized it yet, or maybe he's beyond it.”

KB. There is such a thing as a labor market. There are people that we need very much and there is (and you cannot get away from it) staff turnover. But when a person comes and says, I value myself at 650 dollars a month and won't work for 638 dollars – this is nonsense.

AR: So, you had eight thousand a month through Bioprocess. And mostly this money disappeared. But then, what money did Bioprocess invest in production? All businessmen are questioned where they obtained the starting capital.

KB. Bioprocess didn't invest huge amounts of money. During the Soviet times, it was more like sharing know-how: we signed contracts with research institutes, and their staff, after drinking tea during the day, would work for us in their free time in the evening. We would pay them an amount equal to their salary. Everyone was happy.

AR. There's little that people know about NIPEK, for example, much less than about the investments made by Menatep or “Russian Credit.” Is it your strategy to remain in the shade?

KB. There have been publications that indirectly touched upon us, in different business publications. I don't remember but I have filed them. I am a normal person, and a normal person likes when people write about him.

AR.: The history of your company and your personal history have a blank spot between 1988, when you were producing thin chemical compounds, and the moment when you started buying enterprises.

KB. We were just spending money! We spent a lot of money then on all kinds of industrial projects. And most of this money was lost.

We would invest in completely new kinds of products.

We produced video projectors, invested in the production of medical equipment, computer encephalographs.

Bioprocess didn't really have a structure or an organization at that time. We had specialists but no structure of specialists. Today, I think, the great value lies not in our real estate, not in our stocks, influence, or politics, but in our specialists who have learned to work together and with me over these years. They know what I am capable of, and I

know things about them. Now I know what kinds of tasks are realistic, which ones are senseless, and which ones would cost me a lot.
And at that time, the things we did... Even bred fish!

AR: Fish? You had special containers for them? This must have been so much trouble.

KB. It was just horrible. We had huge fish tanks, fish were swimming and reproducing in them, scaring our accountants who were desperate because it was impossible to keep track of what was going on. The fish would swim there, die...

We also grew flowers. All kinds.

From the very beginning I determined for myself that I am developing a long-term business. Any deviations were conscious. And all my mistakes happened within those deviations.

AR: How was NIPEK created?

KB. We were sitting in the “Peking” restaurant and came upon this idea. Really, we were having lunch. It was clear to us by then that we couldn’t move forward without big markets. Or rather it was possible, but without big returns.
We thought about oil, grain, such global products. And created NIPEK, during the Soviet times, under non-liberalized prices.

AR. And who were you having lunch with?

KB: In NIPEK, the managing team included Leonid Pavlovich Skobtsov – my deputy, Ivan Vasilyevich Gubenko (he is now the president of Nefteprombank), and Anatoly Stepanovich Gumenyuk, who is now the Chairman of the board of directors of the Timan Boxites company. We decided to attract resources and invest them in oil and oil processing.

We were one of the three companies that made public its emission prospect.

Converting into today’s exchange rates, we invested about five million dollars. At that time, it was quite an amount.

AR: And how did Uralmash come about then? So you have Moscow, factories, plants, and you were in Moscow as well. In management theory there’s a special term for it – geographic proximity. But Uralmash is a different story, you have to take a plane to get there.

KB. It was the end of 1992, and the privatization started. I actively disliked Chubais’ program, I believed and still believe that it was some kind of a combination of an unfair scheme with an ineffective scheme. So I was walking around thinking, Everything is wrong about it!

And then I thought, Why, I am saying all these things to myself but privatization is continuing, independently of me.

So we decided to play by their rules.

We developed two main approaches for ourselves: first, targeted privatization, for specific enterprises related to our activities – this included chemical industry, where we had much better knowledge than in machine-building, due to our training. And secondly, “blanket” privatization.

So I took a reference book, I think it was published by the Committee for State Property, which contained a list of all Russian enterprises, their asset value, employment figures, etc.

AR: But still, why not Moscow?

KB: I could feel it at that time already that privatization would take a different path in Moscow. In Moscow, the competition was strong

So we excluded Moscow and some republics. Excluded the agriculture, forest industry, transport enterprises. We were left with a lot of objects.

Then I excluded enterprises that didn't fit some of my criteria. Still, we were left with a lot of remaining objects.

Among the machine-building enterprises, Uralmash was among the top five best ones. It wasn't suffering from a rollback in production, and it never worked for the defense industry, except for producing some howitzers.

At NIPEK governing board's meeting everyone started protesting – let us discuss seriously, without fantasizing. So we spent more than an hour discussing it. For some reason, people thought that buying Uralmash was from the realm of fantasy.

But I insisted.

I calculated that our package of vouchers, 130 000 pieces, would be enough to purchase from 11 to 17% of Uralmash's package. In the end, it was 18%.

AR: Of course you didn't provide any information on the results of the auction?

KB: We tried hard to conceal everything but somehow there was an information leak and it was like a bomb exploding. What, Uralmash?! Sold to Kakha Bendukidze?! How could it be, Bendukidze the Georgian is the Chairman of Uralmash's Board of Directors? Impossible!

AR. There were rumors that “Mikrodin” would transport their vouchers by truckload to the auctions. You did the same?

KB. Not at all! What we invested in Uralmash would have fit in the trunks of two Zhiguli (Lada) cars

AR.: Any reaction from the Antimonopoly Committee?

KB: But NIPEK-Bioprocess wasn't trying to monopolize anything. If I had bought a metal plant in Elektrostal, then yes. Uralmash was producing its stuff and it keeps producing it.

AR: Everything went so smoothly with the auctions – but what about competitors? No one was interested in Uralmash?

KB: It was another one of our forecasts which proved to be completely accurate. When we started doing serious business, there were very few investors like us. We worked for a year without anyone intervening.

A.R.:For a year, no intervention??

KB. Nothing. So we would take our vouchers, come to an auction – and this involved tens of other enterprises besides Uralmash – and there was no one! There was no auction! So we would purchase our stake and leave.

AR: But surely you met competitors later. How is your relationship with the owners of other investment companies and banks, if it's not a secret?

KB: It's no secret – with many of them, we're on friendly terms. For instance, I know many people from "Most" and have great respect for them. As friends and as experts. I also know people from "Mosexpo", from "Moskovskaya Nedvizhimost"... This is not friendship between companies, these are people-to-people connections.

AR: Five years ago, Bioprocess was a medium-sized trading and industrial company with a total turnover of maybe ten million dollars. And at that time, with ten million dollars, you encountered the criminal business of the early 1990's. Has the latter changed since then? A new modus operandi?

KB. Well, due to the universal introduction of banditism, things have become less harsh. This is a semi-joke.

I think the boundary has become less pronounced. And business has changed. But potential danger has increased.

So I still have to make decisions on all kinds of slippery questions.

AR. Do you mean security?

KB: Including security. Right now, I drive a simple Volvo, it's not bullet-proof. And until recently I was actually driving a Moskvich [Soviet car brand]. And I understood a long time ago that it is much easier to drive without a flasher than to speed along the shoulder lane with flashing lights.

AR. But still, you have done it in the past, fast driving?

KB. Once my bulletproof jeep pulled up to the office and it had a crack in the windshield. Everyone thought: well, someone fired at Kakha.

Actually, in the reality it was different. The driver in the car in front of us hits the brakes very suddenly, our jeep also hits the brakes - and I smash my forehead into the windshield.

Security guards really do have an impact on my life. It's like being in a vise grip, and you feel like a squeezed part inside it.

It's like being under house arrest, only the name is different.

For example, I feel a bit blue and would like to visit someone tonight. But I am not allowed to do it. Why not? Sometimes I don't really understand it myself.

AR: And do you have to go with three guards into the door in your apartment complex? Big guys surrounding you?

KB. No, not really. The house where I live is just a normal house. But the entire house is guarded. This was my neighbor's idea.

This fact keeps you tense. It's like having servants – you get lazier.

AR.: And do you have servants?

KB: Do I look like someone who does?

AR: Not really.

KB. Of course not. What would I do at home then? Work is a wonderful thing but I have never been a slave of my workplace and won't become one in the future. I like being at home, I cook and do my own laundry.

AR: You do your own laundry!

KB. Yes, and I even iron afterwards.

AR: Iron? Your weatherproof jacket ?

KB. Why not? You can actually wear such a jacket nowadays. When it is raining or cold. Style is when you feel comfortable. Of course, in official places you have to wear a tie, a suit.

AR: None of your colleagues could recall whether you have a hobby or not.

KB. No, no hobbies. I don't do pottery, I don't collect dragonflies. I am not planning to go into public policy.

AR. NIPEK office interior resembles that of a research institute rather than that of a large investment company. As far as I know, NIPEK has a lot of property. But you've been here in Cheremushki for two years already.

KB. Well, it's convenient for me, not far from home... But to be honest, it was because of greed. We bought a large, beautiful, spacious building in a good location in Moscow, But then we had a buyer for the building, and we sold it.

We own tens of thousands of square meters of property in Moscow but we are still here. And it's not very comfortable.

I think like this: living in luxury is pleasant but harmful. Living a Spartan lifestyle is unpleasant but good for you. And what is especially harmful is to go to the extreme with either.

I am not interested in private jets, yachts or cars. You know, I think I grew out of this childish fascination with human creations.

I won't be an ascetic and I won't be an Oriental sheikh either. I will be myself, and I wish everyone the same.