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Q&A: Russia's Investment Climate Improving, Says Bosch CEO

By Alexey Eremenko

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Russia and Germany have had close ties since tsarist times, says Gerhard Pfeifer, president and CEO of Bosch Group's operations in Russia, Georgia and CIS countries.

Gerhard Pfeifer

Career

2011 — present: president and CEO of Robert Bosch, Moscow, Russia; president and CEO of Robert Bosch, Tbilisi, Georgia
2003 — 2011: executive vice president, Bosch Rexroth Pneumatics, Tokyo, Japan
2001 — 2003: head of mergers

and acquisitions, Bosch Rexroth AG, Germany
1998 — 2001: sales director, Bosch Automation, Germany
1993 — 1998: sales director, Bosch units in France
1990 — 1993: assistant to Bosch management board member Reiner Hahn

Education

1989 — 1990: management intern program in Hydraulics and Pneumatics, Schwieberdingen, Germany
1981 — 1988: Masters degree in Mechatronics and Economics, Technische Universität Darmstadt, Germany

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He can say that again: Bosch first arrived in Russia in 1904. Though it did not stick around in Soviet times, the engineering and electronics giant came back to Russia in 1993, opening its first factory in the Saratov region on the Volga River in 1996.

Bosch has maintained a steady presence on the country's power tools, automotive components and household appliances markets ever since, and not for nothing: Bosch's growth rate in Russia in 2010 and 2011 reached up to 30 percent.

Growth has since slowed to hover around 10 to 20 percent, but still far outstrips the national average — the Russian economy in 2014 is struggling to avoid a recession.

"I call it back to normal," the 53-year-old Pfeifer says modestly of his company's expansion during an exclusive interview with The Moscow Times, held at the company's new boiler plant in the Volga city of Engels in the Saratov region last week.

The exorbitant growth in 2011 was due in large part to a 156 million euros ($212 million) paycheck for Bosch's work on the main stage of Moscow's renovated Bolshoi Theater, a 12-story-tall piece of theatrical machinery.

But theatrics aside, Bosch's products remain in demand in Russia, and neither an economic slowdown nor the ruckus over Ukraine and the threat of Western sanctions are slowing down its activity in Russia, Pfeifer said.

Bosch has invested 250 million euros ($340 million) in Russia so far, including in three plants in Saratov and a joint venture with Siemens in St. Petersburg making household appliances. An automotive components plant in Samara is slated to open in 2015, and all that on top of a 120-million-euro ($163 million) headquarters in Khimki, just outside Moscow.

The German conglomerate's presence in Russia resembles the Bundesteam's steady, unstoppable advance in the football World Cup in Brazil — duly noted by Pfeifer, who quipped last week, as if anticipating Germany's 7-1 demolition of Brazil in the semi-finals, that though Bosch is already planning to get involved with the preparations for the 2018 world championship in Russia — it provided equipment for the recent Sochi Olympics — "we are not done with this one."

Pfeifer — an impeccably polite man with a calm gaze and occasional flashes of wry humor — had no personal ties to Russia before coming here as Bosch supremo for the region in 2011. He speaks with Russians through an interpreter, and his wristwatch shows German time.

But the company is doing something right in Russia, and Pfeifer sat down with The Moscow Times to talk about why the country's business climate is not as bad as it may seem.

This interview has been edited for length and clarity.

Q: What has been the impact on Bosch of Western sanctions against Russia?

A: We are observing the situation closely. But we have to distinguish between effects: The economy has been slowing down since 2011, with or without political influence. Also, we see a strong influence of the ruble exchange rate, which is affecting us quite severely [the ruble fell to all-time lows against the dollar and euro earlier this year. It has since rebounded, but is currently 12 percent weaker against the dollar and 16 percent weaker against the euro than 18 months ago]. For a company the size of ours with a high degree of imports, this is a heavy burden and a big challenge, despite an ongoing localization strategy.

The political situation, which started to deteriorate from last November, is certainly an additional burden, but it is not the impulse that created the challenge to industry in Russia.

Despite the political situation, Bosch is looking at double-digit growth this year. Since 2010, we have grown by about 100 percent, and so I am confident that growth potential, despite a weak economy for our company, will persist.

Q: How do you rate the current investment climate in Russia?

A: The climate for the foreign direct investment has been going in the right direction in recent years, though further steps are both necessary and possible. But still, the improvement has given us the confidence to invest in this market, which we believe will further develop in the right direction in the mid- and long-term despite the current volatility. We are absolutely sure that the Russian market is a strategic growth market for Bosch.

Moreover, we are seeing a stronger business orientation in among officials. We see very good support in the regions. Whether in Engels, or in Samara, St. Petersburg or the Moscow region, we see strong involvement of the governor, of the regional ministers, and we see a higher degree of professionalism in attracting and supporting businesses.

But there is room for further improvement with bureaucracy. We are not a paper factory. We still produce too many documents, too many things for reporting, which is not productive. We would prefer to produce power drills or washing machines than papers. "But that is certainly not the headline, please," Pfeifer adds with a laugh.

Q: So the business climate has improved in the regions?

A: I cannot judge from my own experience because I have been in Russia for only three years, but I am told by our associates and by people who have been here for a long time that it has improved significantly in the last decade. There was the early phase of the young Russia, when the country had to find itself, and now there is definitely the desire to attract foreign companies.

The federal initiative to improve business climate and climb all the way up to the world's top 20 have certainly helped [the World Bank's Doing Business 2014 ranking placed Russia 92nd, up 19 positions from 2013]. Russia has made a big jump forward, and though it is still way behind many of its rivals, they have the strong ambition to go on, and we feel it. That is also a reason why Bosch is continuing to pursue its investment strategy, which is always oriented for the long-term.

Q: How would you rate Russia's human capital?

A: There are a lot of strong points if we take young university graduates. Russia is traditionally very strong in natural sciences. We find capable engineers, we find young people with diplomas in IT, electronics, mathematics.

But what I would recommend — and I am talking to deans of universities — we need a more international flavor in the education of the students.

Russia is very big, but the world is bigger. In a globally active company we need interchangeability — we are going from India to Brazil to Russia to China and back again, so we want an international workforce that is internationally orientated, mobile and able to communicate. Language skills also need to be improved.

Bosch runs its own junior management program in Russia, about 40 young people are currently doing a two-year internship on very precise production projects.

Q: What's your own impression of Russia?

A: As I had no personal experience of Russia, I had a 100-percent surprise factor on arriving. Ninety five percent were positive. The negative surprise — the last 5 percent — was traffic in Moscow, which is really a problem. This is why we built our new headquarters in Khimki, outside that stress and close to the Sheremetyevo Airport.

Among the positive surprises I'd name first of all the reliability of business partners. Words count. We really have the trust of our business partners and confidence in them. We trust them, and it is a sustainable business relationship.

Q: Has corruption been an issue for Bosch in Russia?

A: That can be the difficult side of business in Russia, but not really in the area of business to business, where we work. In the business environment the situation is not that different from some Western European countries, and in our field of activity we can clearly comply with our values in the Bosch Group. So thankfully, our business model is not exposed to problems in other areas of the Russian economy. Our partners, customers and distributors deal with us on the basis of our values.

Our experience with dealing with local authorities here in Engels and in the Moscow region was positive. There were no hurdles created by the administration. We are working on the basis of verifiable rules and laws. If we fulfill the requirements, we get all the approvals.

[Pfeifer declined to speculate about the causes of the improvement in the business climate. Russian regions are increasingly short of income, which, many regional analysts say, is fueling a scramble for investment from the previously apathetic local governments.]

Q: Why did you chose Engels? [The Volga region had a large German diaspora from the late 18th century until World War II]

A: I don't want to say "rather by chance," but it is because in 1996, we bought 51 percent of a Russian spark plug company here. That was the starting point of our Russian localization strategy. The fact that there is a good understanding of Germany, for Germans is certainly a plus point for the region.

Q: What do you think of Russian economy's prospects beyond oil and gas?

A: I think it is a very good initiative by the government to initiate the Skolkovo innovation hub [a center on the outskirts of Moscow announced by then President Dmitry Medvedev in 2009 to boost Russia's science and technology sector]. It is a step in the right direction, because for our company, innovation counts. You need to be better, quicker than the competitors or the countries with which you are in competition. [Bosch spent $7.6 billion worldwide on R&D last year]

There are patentable ideas that were generated in Russia and combined with other ideas in Germany. Due to the strong scientific background in Russia, there are a lot of good ideas here. Russia is not lacking ideas; it is lacking a little bit in the execution.

Overall, that richness in natural resources is still holding back pressure to develop other industries faster.

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