

Stephan Schmidheiny
Beautiful Legacy

Stephan Schmidheiny has donated his Latin American companies to the Viva Trust. What the industrialist wants to achieve with his billion-dollar gift.
By Werner Catrina

It is Thursday 9 October 2003. In the Instituto Centroamericano de Administración de Empresas (INCAE) in San José, Costa Rica, the mood is festive and friendly. No wonder: on this day Swiss billionaire Stephan Schmidheiny, who made his fortune in the industrialised world, is donating \$ 1 billion in corporate and financial securities to the Third World countries of South America. "Visiones y Valores" (Visions and Values) is the name of the trust (Viva for short) that Schmidheiny created for this generous gesture. "After working as an entrepreneur for three decades, this is an obvious step for me", he explains – beaming and relaxed.

The donation comprises the shares of his Grupo Nueva, a company with activities in South America, to the value of USD 800 million, as well as a further USD 200 million in financial assets. This generous donation has earned the industrialist praise from all quarters." An historical event for the Latin American continent", comments INCAE rector Roberto Artavia, while a report by World Bank President James Wolfensohn points to the fact that the enormous economic and social problems of the future will no longer be solved by governments alone, but through the combined forces of many people who, through joining with one another in organisations, would not exclude the poor of the Third World.

((Caption))

The day of the donation (from left to right): Brizio Biondi Morra (Alvina President), James Wolfensohn, Stephan Schmidheiny, Peter Fuchs.

Wolfensohn is convinced that it is "civil society" – a global factor with an influence that has grown since the end of the cold war – that is set to become the pacemaker of this movement, and not governments, State-run institutions or the private sector. This civil society is made up of committed citizens, non-governmental organisations (NGOs), as well as committed citizens of every colour and creed. Globalisation and the Internet provide impetus to these heterogeneous forces, create a network of interested and committed parties, and thus make projects in Indian villages every bit as feasible as large scale demonstrations in Davos or Cancún. The civil society is able to break down barriers and, peacefully topple governments, as was the case in Georgia recently.

The growing, collective conviction that neither politicians nor business leaders can alone offer workable solutions for a globalized world with enormous problems, serves to strengthen the civil society while encouraging the view that it is no longer appropriate that international companies prosper while State budgets collapse under social strains.

This is where Stephan Schmidheiny comes in – for some paradoxically - with his Viva Trust. Swiss-born Schmidheiny, who declares Costa Rica as his second home, has an estimated wealth of around CHF 5 billion, of which he has irrevocably donated CHF 1.5 billion to the trust. This remarkable gesture has the support of his family. Neither of the two children are involved in Schmidheiny's businesses and, agree with the founding of the trust – as does his wife.

The Latin American press comments on this unusual act with a mixture of bewilderment, enthusiasm and unanimous appreciation. "Swiss Philanthropist sets up Billion Dollar Foundation" is the front-page headline in *La Nación*, Costa Rica's main newspaper – although in Switzerland, the creation of the trust has not resulted in large waves of publicity.

What is it that drives this man to simply give away almost one third of his estimated wealth as if it was petty cash? At the San José ceremony, he gave this answer: "I invested my capital with all the risks this involved, and success came in the form of personal wealth", said Schmidheiny in his speech. "The acquisition of wealth can be a mixed blessing, because it gives rise to nagging questions like: 'What is wealth for?' I am trying to use my wealth for the common good, within my lifetime." The reason for this unusual act of generosity, as his words imply, lies deeply rooted in the personal biography of Stephan Schmidheiny, the descendant of

Switzerland's No. 1 industrial dynasty. Stephan Schmidheiny, born on 29 October 1947, grew up with his two brothers and one sister in the family home in Heerbrugg, in the Canton of St. Gallen. He appears not to have had a particularly settled youth, as he revealed in 1985 to the author of the *Eternit Report* (a documentary work), saying: "I carried a lot of problems around with me; I was preoccupied with questions about the meaning of life, the threats to the environment, and also about the wealth of the family. I was certainly less of a child than other boys of a similar age."

((Caption)):

Planting seedlings, pruning trees: forestry management in Grupo Nueva's enterprises provides work for many.

"I am trying to use my wealth for the common good, within in my lifetime." It was Stephan's great-grandfather Jakob Schmidheiny who, with the brickworks in Heerbrugg, laid the foundation stone to the family empire. His sons extended the activities to cement and Eternit (asbestos cement), the most modern raw material of its time, and also became involved in the optics and electrical industries. By the time Stephan's father, Max Schmidheiny, from the third generation, had taken control, it had grown to become an extensive international industrial conglomerate. At that time, with three active industrialists, the Schmidheiny's were the most influential family of entrepreneurs in Switzerland. They expanded their empire systematically, and always saw themselves as patrons to the common good in their undertakings. During the World War II, Switzerland's Executive Federal Council appointed Max Schmidheiny to the committee in charge of supply – a service to the public that his father had also performed during the Great War. The international contacts of this industrialist family were to bear fruit for the country as a whole. Max Schmidheiny was the respected, and occasionally feared, globally active entrepreneur who, as he himself stated, hated the Nazis and nevertheless cooperated with them in certain categories of business. Max Schmidheiny was involved in his native village in the Rheintal, St. Gallen as President of its school's Board of Governors, sat on social committees, and represented the canton of St. Gallen in the National Council as a member of the Liberal Party. Global business, national politics, local commitments – all had their place in this life concept. And all the while, Stephan's music loving mother Adda ensured the warmth and hospitality of the Schmidheiny home, and busied herself behind the scenes. The Schmidheiny's combined extensive business interests and a modest family life and, just like the other boys in the village, Stephan had to earn his pocket money through his own efforts.

Wealth means responsibility – this maxim was passed down to him by his forefathers, says Stephan Schmidheiny. "I believe that much of what I am was already a part of my personality in the early years of my life, my childhood and youth", says Stephan Schmidheiny in his recently published book *My Path – my Perspective*. If he hadn't been born to an industrialist family, he could have imagined himself becoming a priest, even a missionary or novelist, he remembers. His dominating father had wanted his son to study engineering at the Federal Institute of Technology, but he rebelled and studied law instead.

Nevertheless, Stephan Schmidheiny remained a child of his family: as a 22 year old, he completed a training programme in his father's Eternit factory in São Paulo as an overseer, heaved asbestos sacks, and was exposed to the treacherous fibres. In the 1960s, no one in the company wanted to admit there was any danger. In 1975, Stephan Schmidheiny took over the management of Eternit Switzerland, later Eternit Holding, from his father.

He remained a Schmidheiny, but nevertheless went his own way during those years. An escalating father-son conflict created increasing tensions: Stephan had decided, against the will of his father and a phalanx of conservative Eternit managers, to banish asbestos fibres from Eternit's production. In the *Asbestos Cement Review* of January 1975, Stephan Schmidheiny revealed his personal value system to a surprised industry in an essay entitled "Marketing and Ethics". He wrote about Thomas Aquinas who, following on from Plato, listed the cardinal virtues as justice, courage, intelligence and moderation: "It is a basic ethical principle that individual human beings do not limit their quest for happiness to themselves, but also to include their social environment." Stephan Schmidheiny was a seeker who, during his youth, had not yet managed to find his place between entrepreneurial family tradition and his own personal

value system. Some decades later, perhaps this is the motivation behind Stephan Schmidheiny's decision to invest USD 1 billion in social change. Until this point in time, the heir struggled under the shadow of his forefathers with the courage of despair.

In 1976, he inaugurated the New Technology (NT) programme in order to leave no stone unturned to find replacement fibres for asbestos. Schmidheiny remembers: "If I had walked away from the problem, my life would have been a failure."

When Max Schmidheiny's empire was divided up amongst the sons Thomas, Stephan and Alex in the mid-1980s, (sister Marietta received a separate settlement), Stephan was allocated the Eternit Group, in which he was nearing the end of the NT programme, as the core element in a series of other financial industrial entities and shares. The departure from asbestos, which had made him enemies in the world's Eternit industry and which was nevertheless too slow for many critics, had brought Stephan Schmidheiny to the edge of financial ruin. The changeover had proven to be expensive, and Eternit sales had collapsed: the completely altered building material had unsettled the market.

In 1989, Stephan sold an asbestos-free Eternit AG to his brother Thomas, but the ominous material haunts the former Eternit heir to this day because workers are becoming ill years after their exposure to asbestos. The departure from asbestos, the associated struggles, the hostility – even eventual success – have, according to his own admission, affected Stephan Schmidheiny deeply and hold the key both to his commitment and to his personal interpretation of industrial responsibility.

However, Stephan Schmidheiny did not make his billions with Eternit. As the main shareholder in BBC, he insisted on the merger with the Swedish Asea to form ABB and sold his shares at the end of the 1990s with a profit of several hundred million francs. Then, with Hayek and a small group of other private investors, he turned the crisis-ridden watch industry around by forming the Swatch Group.

Later, Schmidheiny also withdrew from the now flourishing watch industry, and sold his shares at a sizeable profit.

Now a multi-billionaire, as his biography describes, Schmidheiny laid himself open to criticism by becoming Chairman of the Entrepreneurial Council at the 1992 Earth Summit, and brought the term "eco-efficiency" to international awareness. However, in his far-reaching business interests, contradictions remained, along with blots on his copybook as revealed and thoroughly examined by the media. The sensitive and increasingly media-shy entrepreneur and lateral thinker withdrew, and relocated more and more of his business activities to South America. There, he founded the Grupo Nueva, a holding company that today employs 15,000 people and comprises 40 companies and 30 factories in 17 Latin American countries, produces drinking water and drainage pipes, domestic plumbing equipment and building materials, and also plants forests and manufactures timber products.

The declared goal of the entrepreneur is sustained development in Latin America.

Grupo Nueva, which has been donated to Viva, is a flourishing concern with 15,000 employees.

Forestry has always fascinated him, says Stephan Schmidheiny, and stresses that the term "sustainability" has its origin in the forestry industry. Some twenty years ago, he acquired an interest in the Concepción region in the form of a family business with 4000 hectares of forest plus meadowlands and a small saw mill. The company now plants trees where forest once stood – cut down by farmers to create arable land. Over the decades, the ground had yielded less and less to agriculture. The newly planted forests of Nueva subsidiary Terranova have in the meantime grown to cover 260,000 hectares, an area as big as the cantons of Zurich and Thurgau combined. The Pinus Radiata is the tree planted by Terranova. It grows quickly and can be felled in 25 years. Its trunks are suitable for construction timber and the manufacture of chipboard and paper, and are mostly processed by Nueva companies. Schmidheiny also acquired 90,000 hectares of natural forest and placed it under protection; this is the equivalent of five times the surface area of the Swiss National Park.

If the ecological-economical-social triangle is in balance, eco-efficiency will follow, preaches Stephan Schmidheiny, and his managers attempt to turn this vision into reality. Part of the planted and natural forests that are now fully owned by the Viva Trust are situated in the tribal lands of the Mapuche Indio – a fact which Schmidheiny is often criticised for. "Most investors

are only committed to short-term profits", said Schmidheiny a few years ago. "As long as that is so, forestry will be undervalued on the financial markets. The true value of the Terranova forests does not grow via the profit and loss account; it grows in the overall balance."

Nueva increased Schmidheiny's riches. It was obvious for him to invest some of the profits in social change. Parallel to the expansion of his South American business empire, Schmidheiny also set up foundations. Bishop Marcos McGrath from Panama described the precarious state of small businesses in his country to the (protestant) Swiss entrepreneur in the mid-1980s, complaining that the banks were only prepared to lend money to the big companies.

The industrialist wanted to make a point, and set up the Fundes foundation with a start capital of USD 3 million; local business people contributed the same amount. The basic concept was thus in place: a Fundes company could only be created through financial support from the country concerned that would guarantee bank credits for small entrepreneurs and commit to their training.

"If smaller enterprises are not supported, then the healthy social structure, which also enables the larger companies to flourish will be missing", says Schmidheiny. Schmidheiny formed Avina, the foundation with the utopian sounding goal of sustained development and the expansion of an open and transparent "civil society" in Latin America, in 1994. Avina works together with leaders – figures of integrity who also possess a pioneering spirit. In recent years, Avina has supported social change in Latin America to the tune of USD 50 million per annum. Avina functions as a stimulus – a catalyst and motor of change on a continent with 450 million inhabitants, a part of the world that is only now coming to terms with European colonisation, and where one country after another is freeing itself from the shackles of dictatorship and advancing, with many a setback, towards democracy.

The Avina Foundation is financed by Viva and has an annual budget of USD 50 million.

((Caption:))

Terranova has planted vast areas of new forest and manages them according to the principles of sustainability

"Companies must serve society, not the other way around", says Schmidheiny. "Business will play a key role in the future health of this planet" – from his book *A Change of Course* on the Rio Summit. And further: "New forms of cooperation between government, business and society are required if this objective is to be attained." President of Viva Trust is Swiss-born Peter Fuchs (See: "The Best Elements of Capitalism and Marxism" below). He was Director General of the International Committee of the Red Cross during years of armed conflict and is emphatic about his commitment to conflict prevention.

Real economic development is only possible when a country's society also benefits. Of this Schmidheiny and Fuchs are convinced. They have developed the concept of the Viva Trust – a new kind of bridge between business and society that backs social change – in dialogue with other thinkers and leaders.

For the first time ever, the ownership of a company will be transferred in its entirety to a trust-company, which will then bring benefits to civil society in line with the directives of its donor. The profits from Viva Trust go to maintain the Avina Foundation, in which the most varied projects receive backing within a growing social network, with leaders acting as guarantors.

Stephan Schmidheiny, who according to his own admission now lives the life of a modern-day nomad, said in San José: "I have been carefully preparing my succession for years, and placed it in the best possible hands. With the Viva Trust, I have tried to reach a long-term solution for GrupoNueva and the Avina Foundation. The donation of my private holdings to the trust is to be seen as a personal gift – and a further step along a path that I have trodden for many years." Father Max, who died in 1991, may well have had his reservations. But his son could do nothing else: with this decision, he has found a way of reconciling himself with his inheritance and his family.

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Mega foundations

The largest foundation in the world is the Bill and Melinda Gates Foundation created in 1999, which has assets of USD 22 billion and, in just under four years, has donated USD 6.6 billion to health programmes like the treatment and prevention of AIDS in the Third World, and also better nutrition for children and computer training.

Large donations by industrialists are a tradition in the USA: back in the 19th Century, the industrialist Andrew Carnegie donated USD 350 million – by today's values, that would be USD 5 billion. The UN headquarters in New York acquired its premises thanks to America's first billionaire John D. Rockefeller. By 1921, Rockefeller had donated some USD 500 million. The Rockefeller Foundation is active to this day.

Six years ago, American media mogul Ted Turner bequeathed USD 1 billion to the UN. The billion-dollar Soros Foundation, created by George Soros, industrialist and patron, American citizen and Hungarian emigrant, is involved in the educational sector, for example, with sponsored computer and Internet centres in Russian universities. Soros wants to set an example for other wealthy individuals – he is convinced that our open society is under threat through unbridled and unscrupulous capitalism. (Interview p. 75).