

## **His long journey to himself**

**Stephan Schmidheiny, a member of Switzerland's most prominent industrial family, has freed himself from his billion dollar legacy. He's doing great.**

(Original by René Lüchinger)

If your name is Schmidheiny, then your path is set out in advance. Your life's task is decided in the cradle. Your way ahead is mapped out. In due succession, each generation of Switzerland's most prominent industrial dynasty has taken its place for the good of company and family. First, company founder Jacob Schmidheiny, who set up a brickworks in the Swiss town of Heerbrugg in the late 19<sup>th</sup> century, followed by the second generation, which invested in cement and Eternit. The third went on to conquer new export markets in North and South America, South Africa and Asia with these building materials. The fourth generation then faced the question of what could possibly come after global business for a Schmidheiny.

Stephan Schmidheiny, a member of the fourth generation, had his own personal answer to this existential question in this dynastic family. Five years ago, he gave a large proportion of his fortune to a trust. In so doing, he broke new ground, showing how industrial wealth can continue to exert an influence right through to the 21st century, without forcing the founder's offspring to become slaves to their fortune. Somewhere between the Swiss town of Hurden and his second home of Costa Rica, Stephan Schmidheiny now says: "I am a modern-day nomad". What could really mean: "I feel free".

It has taken six decades of life for this Schmidheiny to reach this probably highest state of personal happiness. For the first three decades, Stephan Schmidheiny valiantly trod the industrial path mapped out for him by virtue of his birth. In his fourth decade, he initiated a true industrial revolution in the traditional family business, which very nearly ended in financial ruin. In the fifth decade, he refilled the family coffers, before going on, in the sixth, to use these funds to prove that there can in fact be life after global business for a born and bred Schmidheiny industrialist. A life based on completely different coordinates and value systems to that of his father and previous generations. It is only on closer inspection that it becomes clear that Stephan Schmidheiny may never have embarked on this journey to himself without this family influence. To a certain extent a journey back to the future, to "the final questions", as he puts it.

First question: "Who am I?" Around the family table in Switzerland's St Galler Rheintal region, big business was always a topic of discussion. There was a lot to talk about: cement and Eternit factories around the world, board of management positions, including Max Schmeidheiny's established seat on the Brown Boveri board. As Stephan listened to these conversations, an ideal world surrounded him: grapevines, the imposing panorama of the Alpstein mountains and the tinkle of the piano whenever his mother Adda Schmidheiny had a little free time. The young Stephan never forgot what was expected of a male Schmidheiny, of him and his brothers Thomas and Alexander: to train as engineers and then take up their place in the family business. Something in him rebelled against both of these ideas.

"I was five or six", recalls Stephan Schmidheiny, "and I didn't want to be a cowboy or a train driver. I wanted to be a missionary". This thorn of opposition to his father's expectations outlasted his teenage years. The situation could scarcely have overjoyed his father Max Schmidheiny - "Sir Max, at times Napoleon, then back to a philosopher", as Weltwoche once described him. This exceptional Swiss industrialist was driven by "creative passion, as well as

social and political responsibility”, wrote ABB CEO Fritz Leutwiler in 1991 in the Swiss newspaper Neue Zürcher Zeitung at the death of Max Schmidheiny. It could also have been added that this man with the rather aristocratic bearing tolerated neither compromise nor detour.

However, in Stephan, he now had a second-born son who thought in such a similar way, but operated so differently. “I don’t look back on my boyhood as being a happy, beautiful and carefree time”, said Stephan Schmidheiny years later in a memorable discussion on the TV programme “Sternstunde”, “because I was already burdened by the awareness of responsibility. I understood that above all wealth means assuming responsibility for the community“. He interpreted this in his own way. He did not become an engineer, as tradition dictated in this industrial family, instead he became a doctor of law in order, as he puts it, “to understand what deep forces hold societies together in foreign countries”. However, in the end the ties of blood outweighed the compulsion for freedom, or perhaps this was the lowest common denominator between the conflicting pulls of ancestry and wanderlust experienced by the young Schmidheiny. He spent his early twenties hauling around sacks of asbestos, as shift foreman at Eternit in Brazil and Everite in South Africa. He still had “so much of the world to see”, as he wrote in his personal memoirs, when his father called on him to return home and take up his place in the family business. And so it came to pass: in 1974, the second son became sales manager of Eternit in Niederurnen, in 1975 Deputy of Eternit AG, and then in 1976 he took over from his father at the helm of the Eternit group. At the age of just 29, Stephan Schmidheiny controlled more than twenty asbestos factories all over the world. The family business had absorbed him completely.

### **What next after asbestos?**

“Eternit – a word that conceals illness and death”. When Weltwoche published these words in 1985 this was common knowledge. This wasn’t the case precisely twenty years earlier. One Sunday evening, his father Max Schmidheiny was sitting in his favourite chair, when suddenly an expletive burst from his lips. Unusual for this man who set such store on good manners. So unusual that the adolescent Stephan Schmidheiny still remembered this scene years later.

What had so infuriated his father was the book he held in his hands, written by an American doctor called Irving Selikoff. In this book, he had the impertinence to claim that asbestos fibres and dust were highly carcinogenic. Decades later, the New York Times was to describe Selikoff as “the most prominent researcher of asbestos diseases”. For his father, the idea that the substance that had revolutionised the construction industry and made the Schmidheiny’s rich could cause cancer was outrageous. So outrageous that he preferred to reject this possibility and label Selikoff as a quack, out to make a name for himself. However, ten years later the seeds sprouted: under pressure from publicity generated by the unions, the Swedish government was the first country to ban all asbestos products, and Max Schmidheiny said to his son Stephan: “I don’t want to do this any more, you carry on”. This representative of the fourth generation now had the burden of Eternit and the shock of his life. He believed that he himself had inhaled asbestos dust during his time in Brazil, when he was “covered with white dust” from head to foot after his day’s work in the factory. However, who in this proud company, successful in four continents and with booming sales all over the world, with the exception of Sweden, wanted to believe in this looming problem? The son may now have been the boss, but the old top dogs from the father’s era were turning deaf ears to the new era that was fast approaching initially softly. Even Stephan Schmidheiny was only too pleased to hope that the GAU, a global ban on asbestos, would not be enforced. In particular, as no replacement was in sight.

## **A show of strength with consequences**

At an internal meeting of Eternit senior managers in 1976, the manager of the Niederurnen development laboratory announced a depressing finding: after months of intensive research involving hundreds of fibres, he was forced to conclude that he had not found a suitable replacement for asbestos, simply because there didn't appear to be one. Instead of discussing a substitute, the assembled Eternit managers talked about changing the name asbestos-cement to the far less incriminating "fibre cement". The Eternit managers listened spellbound to Stephan Schmidheiny's closing speech. After intensive discussions with the experts, he had come to the conclusion that Eternit could not be produced without asbestos. This therefore meant improving safety when handling the fibre. However, it also meant diversifying the company's business activities in order to minimise the risks.

There was a sigh of relief in Niederurnen, and years later Schmidheiny told the journalist Werner Catrina, who was carrying out research for his book "The Eternit Report": "At that time, I had no intention of replacing asbestos in my sphere of influence". Shortly before this, Schmidheiny had read an interview in an American newspaper with the asbestos critic Irving Selikoff which had shown him a clear way out of his dilemma. "Asbestos ban not needed", the doctor announced in the interview, advocating safer handling of the dangerous fibre rather than a global ban. However, after sleeping on the issue yet again, Stephan Schmidheiny went back on his decision. On 17 December 1976, he remembers, he enlisted a few trusted allies from Eternit to formulate an innovation programme the likes of which had never before been seen in the family history. He called it NT, new technologies, indicating a commitment to pull out of asbestos, the material that had earned millions for the Schmidheiny's over the decades.

Several millions then flowed out of Eternit: in modern filters in Eternit factories to reduce asbestos dust in the air, in employee training programmes and above all in the development of asbestos-free construction materials. At the end of 1978, Stephan Schmidheiny launched the first asbestos-free slab on the market. By 1984, when he inherited the Eternit group from his father, half of the production at the main factory in Niederurnen was already asbestos-free. A show of strength with consequences: the young heir's fortune was dwindling rapidly, as foreign competition happily continued to sell cheaper asbestos products against which Stephan Schmidheiny's new materials could not compete.

"We misjudged the situation", he once stated slightly wearily to the business magazine Bilanz. This insight was followed by a further exit from asbestos. From Argentina to Zaire, Stephan Schmidheiny sold his Eternit factories and interests at a rapid rate. In 1989, he sold the main factory to his brother Thomas. In 1990, Switzerland and Austria banned the use of asbestos, followed by Germany in 1993 and the EU in 2005.

There remains just one shadow from the past. Investigations against Stephan Schmidheiny are still ongoing in Italy. His father Max had an interest in an Eternit factory there, and for a few years the family was the majority shareholder. For five years, the examining magistrate has been threatening to lodge a claim on behalf of asbestos victims. This has not yet been submitted.

## **Signs of change**

"From a business point of view, the eighties was a period of uncertainty and worries", summed up Stephan Schmidheiny in his personal memoirs. As the decade drew to a close, he was just over forty years old and, on the strength of his roots, held a place on the board of UBS, Nestlé and ABB, and "already had the career history of a very successful sixty year old", according to the publication Magazin. Perhaps this is why his billions were not just a privilege, but much more

“a burden and an obligation”, as ABB CEO Fritz Leutwiler once described. However, it was during this decade that Stephan Schmidheiny also laid the foundations for his personal liberation from the fetters of his inheritance. At breathtaking speed, almost as if he felt his life would be too short to fit in all the truly important things, he dismantled and reconstructed his company empire. He sold the kiosk chain Schmidt-Agence, as well as interests in the St Galler Tagblatt and Handelszeitung newspapers, choosing instead to invest together with Nicolas Hayek in the declining Swiss watch industry and to take on a lot of debt at a time when no private investor was interested in the sector. He acquired an interest in the trading company Cosa Liebermann, bought the optics group Leica, the technology group Landis & Gyr, expanded the traditional family investment in the BBC group, merging it in 1987 with the Swedish Asea to form the ABB.

He described this company “monopoly game” as “industry architecture”, or “investments in generally crisis-stricken companies”, gradually withdrawing again after their successful recovery. Many people called him a “visionary”: he had become involved with Swatch in 1985, later to become a booming business, and then in 1989 he had moved most of his interests out of the property sector before Switzerland’s great property crisis and had cut back all activities in Asia prior to the Asian economic crisis of 1986. He takes a more pragmatic view. “I have always kept an eye on social developments, in order to recognise the first signs of change”. This approach paid off. When he left, the value of the companies was “five to seven times higher” than before his involvement.

Perhaps Stephan Schmidheiny recognised similar signs of change, in himself this time, when he boarded a ship bound for Norway in 1990, the start of the next decade. Representatives of European governments and the USA had come together at Bergen to prepare for an international UN conference on the environment and development, due to take place two years later in Rio de Janeiro. During this trip, he met Maurice Strong, the Secretary-General of the Rio conference. The two men immediately found themselves in an animated discussion about social development and environmental issues. Strong asked Schmidheiny whether he would consider chairing the “Economic Council for Sustainable Development” at the Earth Summit in Rio. Schmidheiny was very interested in this proposal and discussed the idea around the table back home. On obtaining the approval of even his daughter Gina, he accepted.

“The timing was perfect”, he says, looking back. He had planned to take a one-year sabbatical anyway, and now he had unexpectedly found an issue he wanted to get involved in. Month after month, he jetted around the world, meeting with CEOs and presidents of global companies, encouraging them to get involved in the World Business Council for Sustainable Development (WBCSD). The man who had once wanted to be a missionary was successful. A total of fifty business leaders from all over the world agreed, including the heads of ABB, Ciba Geigy, Dow, DuPont, Mitsubishi, Shell and Volkswagen. The first meeting of the high-calibre WBCSD members took place in the spring of 1991 at The Hague, with no shortage of clashes of opinion. One member thought that against a background of political and economic uncertainty, the committee should publish a pamphlet about the positive effects of companies on the environment and development. Another member countered this, referring to environmental costs that none of those present had ever budgeted for, saying that was an omission on the part of individuals whose role was to set an example as managers and industrialists.

Consensus gradually emerged from confrontation and terms were coined in The Hague which are now part of our everyday vocabulary, such as sustainability and even eco-efficiency. What’s more: these global standard bearers of the free market had committed to making this reconfiguration of the economy the responsibility of free enterprise rather than the state. This marked a revolutionary change of course in the mindset of profits-driven industrial tycoons and they decided, before the World Summit in Rio, to publish a book on the topic entitled “Changing

Course". They also decided to make Stephan Schmidheiny the chief editor. He accepted this task, and over the next 18 months he spent around half his time and some ten million Swiss francs on the project, circling the globe several times and conducting more than 200 interviews. By the time the book was published, more than 1000 people had cooperated in the work. The WBCSD had organised more than fifty meetings in twenty countries, bringing together experts, non-governmental organisations, government representatives and entrepreneurs, spreading the message to the people. The book was a bestseller and was translated into fifteen languages.

Stephan Schmidheiny gave his name as author to the work entitled "Changing course", earning himself the label of do-gooder in the media: "The green missionary", said the German *Wirtschaftswoche*, "The dropout", according to *Facts*, the "Green capitalist", said *Die Zeit*. All were victims of stereotypes and from the current perspective, slightly or completely out of step with the reality. Stephan Schmidheiny took the almost unprecedented step of implementing the change of course he had described in his book in his own personal situation – bringing together what many managers now refer to as the "triple bottom line" - economy, social, ecology – to create a formula for sustainable entrepreneurship to ensure financial prosperity. In the age of climate change and scarce resources, this attitude is more topical than ever. In this sense, Schmidheiny was ahead of his time.

In the mid 1990s, Stephan Schmidheiny met a man he had come across briefly during his student years: Peter Fuchs, former Director General of the International Committee of the Red Cross (ICRC). This was a meeting between "someone who focused on ecological sustainability and someone who placed great store on "social community structure as a means of avoiding conflict", said Fuchs. Together they realised that they were two sides of the same coin. "There is", says Stephan Schmidheiny, "no successful entrepreneurship in collapsed societies". The same applies in reverse. Almost as if he wanted to prove this, in 1982, Stephan Schmidheiny invested in Chile – at a time when many dictators were still wreaking havoc on the South American continent.

Rather than investing in production sites offering cheap labour, he decided to focus on forestry – ten years before Rio, he funded wide-scale reforestation, while anticipating resource scarcity and the need for renewable production. In 1994, he established a foundation named Avina, with Peter Fuchs as its operational manager, to create a new reality: support for an open civil society in Latin America. Since its creation, Avina has invested more than 400 million Swiss francs in project grants, seventy percent of which in Latin America. Barely had the foundation been launched, when Stephan Schmidheiny divested all his industrial majority interests – with the exception of his companies in Latin America.

### **Final act in a change of course**

On 9 October 2003, Stephan Schmidheiny sat in the Instituto Centroamericano de Administración de Empresas (INCAE) in San José, Costa Rica, with Peter Fuchs to his left and former World Bank President, James Wolfensohn, to his right. This was the final act in his own personal change of course. He gave away his companies in Latin America, worth 800 million dollars, as well as additional financial assets worth more than 200 million dollars, 1 billion dollars in total, irrevocably transferring them to an English law Trust which he called "Visiones y Valores", visions and values, or Viva Trust for short. He had developed this entity with Peter Fuchs, who still oversees it today.

Schmidheiny himself no longer has access to this substantial proportion of his family fortune. The founder simply stated in his "letter of wishes" that the Viva Trust should invest a considerable proportion of its profits from industrial activities in Latin America – up to thirty

million dollars a year – in the Avina foundation, which funds projects aimed at promoting civil society on the continent.

Since then, the Viva Trust has supported all of Avina's activities in Latin America. This completes the final act. The companies in the forest management and wood processing industries work according to financial, social and ecological sustainability criteria. The proceeds are held by the owner, the Viva Trust, which then uses this money to fund Avina, enabling it to support cultural, social, educational and environmental projects of the civil society. What may sound complicated, is basically a continuously developing perpetual motion machine: "The Viva Trust has taken on my previous role", says Schmidheiny, "of continuously challenging both the company and the foundation to ensure that they remain creative and efficient".

Stephan Schmidheiny has brought his own personal change of course to a close. "We need", he wrote more than 15 years ago in his book entitled "Changing Course", "new forms of cooperation between governments, the economy and society", and he has personally created a model showing how this can be done. He has also established his succession and freed his children from the family tradition he himself was forced to accept: working within the Schmidheiny empire at any cost.

However, future generations of Schmidheiny's do not need to starve. The Schmidheiny family's personal fortune is managed by the Anova group in their home town of Hurden. The group operates as a true family office, making investments to secure its wealth, for instance Anova recently acquired a stake in the trading company Diethelm Keller Siber Hegner (DKSH). Of course, Stephan Schmidheiny has no personal involvement in all this any more. He holds one final office: Chairman of the Avina Stiftung in Switzerland. This foundation funds projects which have difficulty obtaining financial support, even in affluent Switzerland: emergency telephones, women's shelters, work programmes.

"I never thought it was my calling to lead the dynasty into the fifth generation", says Stephan Schmidheiny. "I believe that a life path should always be a path of revolution that inevitably takes you away from the things you took for granted in your parents' home and during your youth". After a long journey, Stephan Schmidheiny has arrived at himself..