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## My Path – My Perspective

By Stephan Schmidheiny

The many questions I am asked about my motivations and actions suggest that my ways of being and doing are not ordinary. Yet like most people, I am a product of my life experiences, which in turn have been both a cause and an effect of my *Weltanschauung*, my view of the world. I would like to summarize these here for the benefit of my friends and associates.

I believe that much of what I am was already part and parcel of my personality in the early years of my life, during my childhood and adolescence.

Entrepreneurship is a time-honored tradition among the Schmidheiny clan, and my father Max and other family members often discussed business affairs in my presence. My great-grandfather laid the foundations of the family business when he opened his first brick factory in Heerbrugg, in eastern Switzerland. My grandfather, in turn, invested in the emerging cement industry and later in asbestos. In the next generation, these and other investments, such as those in WILD-LEITZ and BBC Brown Boveri, reflected the entrepreneurial spirit of my father Max and his brother Ernst.

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My forebears also instilled in me the deep conviction that wealth demands certain responsibilities. This conviction has led me to seek and implement new ways of doing philanthropic work.

My mother, Adda, counterbalanced this business outlook with her love of music and her virtuosity at the keyboard. I grew up in a family of art lovers. My parents had a collection of great French and Flemish masters, as well as a significant Hodler collection. They were also personally acquainted with many contemporary Swiss artists. At my mother's insistence, I learned to play classical pieces on the piano, an activity that to this day affords me great solace and pleasure.

I grew up surrounded by vineyards, and my family often went hiking in the mountains. Since my father was a keen sailor, we often spent our vacations in the Mediterranean islands, where I learned to dive. Those experiences awoke in me a growing concern for the environment.

I recall that as a very young child –five or six years old– my dream when I grew up was not to be a cowboy or to drive a steam engine; I wanted to be a missionary. I do not know whether that early ambition was a forerunner of my interest in spiritual concerns or of the desire to travel to faraway places

that I have had all my life. Or was it simply a reaction to the fact that, despite my tender age, I already knew that Schmidheiny males were expected to become engineers?

However, over my father's objections, I studied law rather than engineering. My goal was not to become a lawyer, but to inquire into and understand the workings of society. When I graduated from law school, my father –who was already old enough to retire– expected me to follow in his steps. But I had other ideas. Ever since I had my first experience as a foreman in one of the factories in Brazil, I had begun to develop an interest in the economic and social development of nations and societies; indeed, I felt a much greater affinity for this area than for the world of business and industry.

Therefore, I applied for a job in the development field in Uganda. However, the disturbances that began to afflict Uganda at the time prevented me from traveling to Africa to take up my post. My father took advantage of this to persuade me to accept temporary employment in his business as secretary to one of his top executives, accompanying him in his trips around the world to monitor group operations. The idea of being paid to travel while deciding what to do with my life proved irresistible.

I was expected to take notes at meetings between my boss and local managers. Although I respected many of them because of their business experience, I often disagreed with their way of thinking. Soon I began making additional notes about their personality and behavior, describing how they interacted among themselves and with their subordinates. When I showed some of these informal notes to my boss, I was pleasantly surprised to discover that he seemed to be far more interested in these personal observations than in the official minutes of the meetings. This taught me that important people do not always say important things, and that oftentimes better results can be obtained by going beyond established rules.

Since I was still interested in development, I accepted a position in Sales, Planning, and Information Systems with one of the Group companies in South Africa. At that time, South Africa was still under the white-imposed *apartheid* system. In a letter I wrote my father at the time, I told him that a system as unfair and inhumane as *apartheid*

could not survive for long and was doomed to collapse within the next five years. My analysis proved correct in general terms, although my time estimate was off by a few years.

When I applied for another temporary position, this time in Saudi Arabia, my father, instead of agreeing to my request, asked me to help him solve some urgent problems the Group was facing in Switzerland. I was not especially happy at the prospect of returning home while there was still a wide world waiting for me, but a father's request for assistance cannot be ignored.

The position of sales manager for Eternit AG in Niederurnen in 1974 was probably the true beginning of my business career. The next year I was designated CEO; and in 1976, I assumed my father's position as president of the holding company for the Swiss Eternit Group. In 1984, when my father decided to divide his estate among his children, I became the owner of the Eternit Group's holding company while my brother Thomas took over the Holderbank Group (later Holcim).

At age 29 I found myself responsible for overseeing a business conglomerate with plants in more than 20 countries and tens of thousands of employees, a group with a decentralized management, successfully operating in many markets.

The controversy over the potentially harmful effects of asbestos dust was a shock to me in many respects. I myself had been exposed to asbestos fibers during my training period in Brazil. I frequently helped load asbestos bags and pour the fibers into the mixer, breathing in deeply all the while due to the exertion the work entailed. At the end of a hard day's work, I would often be covered in white dust.

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I could not determine by myself the actual risk level involved in the manufacture of asbestos-cement products. Our advisors believed that the scientific studies purporting to establish the harmful effects of asbestos were rife with contradictions. I personally felt that the lack of a clear scientific and technical consensus on asbestos and the inherent unpredictability of its effects rendered impossible any reliable planning and risk evaluation. And aside from being worried about risks to the health of employees of Group companies, I reached the conclusion that this was not a very promising business in which to be.

Group companies installed new equipment and filters in their factories to minimize fiber concentration in the air and implemented personnel training programs to minimize the risks associated with asbestos. The Group also set in motion exhaustive research aimed at developing asbestos-free products.

At the same time, I made a radical decision: Even though I did not have the faintest idea of how this change was to

be implemented, in 1981 I publicly announced that the group would cease to manufacture products containing asbestos (much earlier than the ban eventually imposed by the European Union). I clearly remember the words of one of the plant's technical managers following my announcement: "Young Schmidheiny is mad! He expects to manufacture Eternit products without asbestos. It's like trying to come up with dry water."

I took the decision to get out of asbestos based on the potential human and environmental problems associated with the mineral. But it also seemed to me that in an age of increasing transparency –and increasing concerns about health risks– it would be impossible to develop and maintain a successful business based on asbestos. This insight caused me to begin to ponder deeply the relationships between business and society. It was a painful period, but it was invaluable preparation for my later being thrown into a position of leadership on business/society issues.

We went through some extremely difficult periods. But, as time went on, I grew more and more convinced that I had made the right decision.

The Schmidheiny family had always led a private life, removed from public scrutiny. Suddenly, I found myself on the front page of the newspapers, linked to the harmful effects of asbestos, the very effects from which I was trying to protect society, Group companies, and their employees. This was very hard, not only for me, but also for my family and friends.

In retrospect, and taking into account our present knowledge of the many tragic victims of asbestos, I am proud of the measures taken by Group companies to protect workers against asbestos risks and glad that I remained steadfast in my decision to put an end to asbestos use, despite the uncertainty and resistance from the industry and within our own Group. As we know now, the illnesses caused by asbestos only manifest themselves many years –even decades– after exposure to the fibers. This is a profoundly deplorable situation, particularly since neither governments nor other industry members recognized the problem's implications and for a long time failed to take the necessary protective measures.



My Group and I succeeded in staying in business thanks to a lengthy and costly diversification process. Once that process was completed, I became the owner of a holding company with interests in a widely consolidated conglomerate.

Nevertheless, my business activities in the 1980s reflected uncertainty and concern. Art proved to be an excellent antidote to stress. This was the time when my younger brother Alexander and his partner introduced me to the world of modern and contemporary art. With my financial assistance, the two of them started a high-quality contemporary art collection; at the same time, my interest in the works they acquired began to go beyond that of a mere investor.

In the mid-1980s I took my first step towards organized philanthropy. In a joint undertaking with the archbishop of Panama, we set up FUNDES, an organization that seeks to promote small and medium-sized enterprises (SME) with the goals of creating jobs, generating income for the underprivileged, and optimizing the operational parameters for those businesses.

After a trial period in Panama, we replicated the program in other Latin American countries. FUNDES would help small and medium-sized businesses gain access to credit and would provide them with basic administrative training. The more I worked with FUNDES, the more I grew convinced that helping small businesses and small businessmen to get to know the economies of the developing world was one of the most effective ways of helping people create sustainable ways of life for themselves. A few years would have to pass before leading national development agencies and banks began to share this vision.

FUNDES developed gradually. Nowadays it is a decentralized organization offering consulting services and business administration courses. I am especially pleased by the fact that FUNDES has continuously improved its performance and, consequently, its own sustainability. It presently covers more than half of its expenses with income generated by the services it offers. Small business promotion has become a priority for governments and international organizations such as the World Bank and the Inter-American

Development Bank. FUNDES recently signed an agreement with the International Finance Corporation (IFC), the World Bank's credit agency, which will allow the IFC to use FUNDES' methods in its own work and help disseminate them to other continents.

Diversification is often seen as an extremely risky business strategy. When I found myself needing to apply it, I was fully aware of the risks my decision involved. Financial investments, the restructuring of activities, innovation, and mergers all kept me in suspense. In the course of this process, the group acquired interests in businesses in widely different areas such as gypsum products, packaging materials, plantations, real estate, forestry, water pipes, newspaper stand chains, private banks, steel production and marketing, cameras, microscopes, scientific instruments, electric and electronic devices, and watches, among many others.

Along the road we ran into some tight curves that taught us very valuable lessons. With few exceptions, I invested almost exclusively in distressed companies in need of basic restructuring. I consider myself fortunate to have found the right people to help me in that task. These people took over the daily management of the companies, allowing me to devote myself to long-term strategies and to my ongoing search for new business opportunities, planning new acquisitions, and evaluating new success strategies.

Many of these investments required vision and the ability to take risks. Since money markets are much more interested in short-term deals and are reluctant to take risks, I was able to take advantage of some unexpected and highly profitable opportunities.

One such arose as the result of the crisis in the Swiss watch-making industry. As its position in the market was being threatened by successful Japanese companies, a powerful group of banks took over ASUAG-SSIH, the largest Swiss watchmaker, and thus became the owner of several world-famous brands. But since watch-making was not their business, the banks were desperately looking for private investors.

I was contacted by a business consultant engaged by the banks to help them find investors. When he asked me whether I would be interested in investing in the watch industry, I answered yes, with the provision that both he and I invested the same amount. I figured that he knew the industry much better than I did, and I thought that if he were willing to invest significant capital, he must be sure of himself, making me more confident of my own investment. I also knew that his investment was going to be riskier than mine, as I had much more capital behind me.

We were disappointed when we went looking for additional investors; none of the country's major businesses was interested in investing in the watch business, in spite of its emblematic significance for

Switzerland and our firm belief that it was a sound investment. Finally, a small group of private investors acquired one-third of the stock, while we took a third each. This entailed a much larger investment than we had originally anticipated, but gave us greater control over the company.

The outcome of this business adventure was the successful Swatch Group. As a member of the board's executive committee, I was actively involved in the initial development phase and the ensuing restructuring. And when that phase was satisfactorily concluded, I was happy to be able to sell my shares for a price much higher than I had anticipated.

Diversification plans were much more difficult to implement in Latin America. Dispensing with asbestos meant that we were forced to sell or close all plants producing construction materials, except for those in Central America, as we could not compete with companies that continued to use it. We remained in the plastic pipe business, initially a sideline for the Group. But as this business became our only presence in several Latin American countries, I decided to expand it by acquiring new companies and enhancing already existing operations.

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I saw great potential in the pipe business and the development of water transportation systems. The demand for drinking water is constantly increasing, particularly in large urban areas; water must also be transported over ever-greater distances. Therefore, the companies in the Group acquired and developed new technologies, invested in new and efficient machinery, modernized their management, and introduced eco-efficiency programs that made them the model for the entire sector in most Latin American countries.

One of my most gratifying investments in another area began in 1982 with a vacation in southern Chile. This was one of the few Latin American countries that I still did not know, and I decided to spend a few weeks there. But as far as I am concerned, being on vacation does not mean passing up on business opportunities.

The emerging forestry industry in the south of Chile, based on *Pinus radiata* plantations, caught my attention. Ten years prior to the Rio Summit, which emphasized sustainable development, I was already interested in the long-term business opportunities based on the “sustainable planting” of pine forests. This allows the business' productive base to grow significantly; and if they are properly managed, the quality and value of the forests can be increased.



During the three weeks I spent traveling from Santiago to Puerto Montt, I observed forestry activities in the Andean foothills from the viewpoint of a potential investor. At the time Chile was going through a severe economic crisis, the result of the fixed exchange policy implemented and staunchly defended by a group of economists known as the Chicago Boys. Companies were going bankrupt or were up for sale- or both. Those who had dollar reserves had taken their capital out of the country. I believed that the time was right to make a strategic investment in a new business area. But considering the nature of the forestry industry, I knew that this would be a long-term investment. The period of time between the planting and the cutting of a tree for commercial purposes is approximately 25 years, depending on the species.

On our way back to Santiago, my guide suggested that we stop and rest at a local family sawmill. We were welcomed by the manager, who took us on a tour of the facility and the nearby forest. I was impressed: One could feel the soundness, the efficiency, and the entrepreneurial spirit in each and every one of the different areas. I told the guide that I was interested in investing in the forestry industry. He replied with a smile that the owners were very proud of their family-owned business and that most likely it was not for sale. I explained that I was not interested in buying it outright but rather in investing as a partner, to strengthen and develop it together with the family.





I was then personally received by the owner. My Spanish was almost as poor as his English, but that did not keep us from agreeing on a shared vision of a prosperous future for the company. Before sunset, at a nearby service station, we had drawn up the five basic points of our agreement.

The sawmill owner visited me in Switzerland two months later. In one hour of negotiations, we agreed to be equal partners in the business.

This happened 20 years ago. Since that time, the forest area planted and managed by the company has grown from 4,000 to 300,000 hectares, and the number of employees has gone from 150 to 3,200. At the present time, raw material is processed and earmarked for the manufacture of solid wood pieces (planks, moldings, door frames, etc.) and different types of pressed wood products, all marketed internationally. The company, Terranova, has also invested in forests and factories in Brazil and Venezuela. Most of these plantations have been developed on low-quality or degraded agricultural lands.

In April 2005, Terranova's shareholders approved the merger with Masisa.

Masisa produces and markets wood products internationally, operating in a framework of ethical, social, and environmental responsibility. It is one of the world's largest producers of wood boards. It is also the leader in Latin America, with an installed capacity of 2,270,000 m<sup>3</sup>, and is among the 100 most competitive companies in the region.



Masisa is one of the main players in the region's forestry and wood industry, with holdings in Chile, Argentina, Brazil and Venezuela - including 370,000 hectares of land and 250,000 hectares of forestry plantations. The merger between Terranova and Masisa sought to consolidate our business culture while respecting our history.

As the owner of a vast and diversified conglomerate, barely identifiable with the enterprise I had inherited, I continued to develop my businesses.

In my capacity as majority stockholder of several leading Swiss companies, I actively worked with them to define new strategies and modernize their structures. Although I never directly interfered with their management, I did endeavor to be more than “just” a stockholder. At that time there were few committed investors thinking long-term in Europe, and therefore it was difficult for me to explain my vision of the “new stockholder.” I would compare my work then to that of an architect, who is responsible for designing a building and seeks to fit it as best as possible into its environment, while leaving the actual construction to the building contractor.

I actively followed each of my different investments, closely monitoring their ability to generate value, as part of the overall assessment of their performance. And when I concluded that a company had reached its maximum potential –i.e., that my work as an architect was completed– I would sell it.

In general terms, that is what was happening with the companies that had been managed by my Group for a period of five to eight years and became successful. That was how long it usually took us to carry out the restructuring necessary to make the companies more innovative and competitive. However, when we noticed the growth index begin

to slip, or when we could no longer exceed our earlier successes, I never rushed things. Rather, I attempted to find a buyer who would see the acquisition as an opportunity and would try to do better than we had done.

Through buying and selling businesses I learned the importance of timing; I also realized that good timing can translate into profits. Because of this, I had to finance my companies by investing my own capital at times when all others were selling. I preferred to sell when markets were again on the upswing and a buying fever had broken out. The “buy low, sell high” strategy often seems as easy to understand as it is hard to apply. Consequently, few seriously attempt to implement it. The herd instinct frequently is more powerful than common sense: Most investors buy high when markets soar, and then panic during a crisis and sell low.

Many colleagues consider me a visionary for having invested in the Chilean forestry industry in 1982, for having bought Swatch in 1985, for having massively reduced my real estate investments in Switzerland in 1989, and for having sold an Asian trading company shortly before the major Asian crisis of 1996. I myself would not say that I am a visionary; I would admit, rather, that there was vision in my work. I have always observed and studied social movements, seeking to detect the first signs of change in what seemed to be a static context. This is one of the reasons why I recommend to my fellow business leaders that they become interested in the society around them. It is the best early warning system to detect both risks and opportunities. Another reason for my success is that I never allowed myself to be exceedingly greedy. This is another principle that I try to explain to my fellow entrepreneurs, especially the younger generations.

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The yields from most of my investments more than exceeded my expectations; on the average, I have sold my companies for five to seven times what I paid for them; for each failure I have had seven successes. In the mid-1970s, following the problems resulting from the asbestos issue, my inheritance appeared to be melting like snow in the sun. However, diversification and careful management in the 1980s allowed me to increase many-fold that initial capital.

Towards the end of the 1980s, the success of my business group's diversification efforts started to attract attention. I began to be recognized as an entrepreneur who had made a difficult but correct business decision in social and environmental terms and who, moreover, had managed to make money instead of losing it, a rather unusual outcome when one does “the right thing.” Soon I was receiving invitations to talk about my business experiences.

In 1990, a Swiss university asked me to speak on the topic of business and the environment. That same year, I was invited to give a similar talk at a meeting held in Bergen, Norway, where European and North American government representatives had gathered to define their positions preparatory to the 1992 UN Conference on Environment and Development (UNCED), better known as the Rio de Janeiro Earth



Summit. On the ship where I made my presentation, I was introduced to the UNCED Secretary General, and we soon were engaged in a lively discussion. He was convinced of the need to persuade the largest possible number of business leaders that socially and environmentally responsible behavior should not be synonymous with high costs and financial losses. And perhaps because I had already shown that this need not be so, he asked me to become his “Chief Advisor for Business and Industry.”

The timing was perfect. I had already decided to take one year's sabbatical, as my Group was sailing smoothly and operating satisfactorily. I wanted to have time to reflect on the interface between business and society. I felt that this proposal had come at the right time, and that the invitation would give me the right framework for my reflections. I accepted the office.

I wanted this job to be a learning opportunity for me; I also wanted to put together a wide team of advisors. I decided, therefore, to organize a group of leading entrepreneurs from different industries and regions. I spent 1990 and 1991 traveling the world seeking to convince the heads of leading companies to join this Business Council for Sustainable Development (BCSD). Since my intention was to include individual leaders rather than corporate



entities, and as there was little time to negotiate sharing of council expenses, I undertook to pay them myself. And mindful also of the fact that time is a top leader's most precious resource, I promised to dissolve the council after the summit.

Although only CEOs, presidents, or managers in equivalent positions were accepted as members, much to my surprise and in a relatively brief period of time, I was able to recruit about 50 of the right people; these included the leaders of world-renowned companies such as ABB, ALCOA, Chevron, Ciba Geigy, Dow, DuPont, Mitsubishi, Nippon Steel, Nissan, Shell, and Volkswagen.

Before contacting a prospective member, I did not look at his company's social or environmental behavior. Rather, I tried to ascertain his personal commitment to these issues and to determine whether he would be prepared to give them priority in his work agenda. The BCSD's mission at the Earth Summit was not to explain how well our companies behaved in the social and environmental areas, but rather to show how business leaders could bring about positive change in corporate behavior.

The first BCSD meeting was held in The Hague, Netherlands, in the spring of 1991. There the Council almost disbanded before it had even begun to work. Try to picture 40 business leaders gathered in a room. One of them stands up and suggests that, due to political, financial, and scientific uncertainty, the best the BCSD could do would be to publish a brochure

explaining how business was good for the environment and development, and advocate the need for more research.

The president of a coal-fired power company from Alberta, Canada, reacted vehemently to this proposal. He reminded the meeting that all of us, in one way or another, had benefited from the market; that the free market system, although it functioned well, was not perfect; and that it reflected economic realities far better than environmental ones, as the prices of goods and services seldom included the costs of the environmental damage they generated. He urged all BCSD members to focus on “real costs,” i.e., those that take into account environmental costs, if they truly wished to act as responsible business leaders.

This impassioned plea broke the ice and opened the way for a lively debate. Was it realistic to talk about including environmental costs? How would we calculate, for instance, the costs of damage to the ozone layer? BCSD members became less skeptical and more committed. They broke into small working groups to discuss such issues as what to do about energy and the financial markets, and the true meaning of corporate social responsibility.

Our growing enthusiasm led us to write a book rather than a brochure, and to publish it commercially prior to the Rio Summit. I estimate that close to 1,000 people were involved in the drama involved in producing the book *Changing Course: a Global Business Perspective on*

*Development and the Environment*, if one takes into account the huge number of experts and nongovernmental organizations (NGOs) that were consulted. In less than a year, the BCSD organized 50 meetings in 20 countries to spread the message of sustainable development. The book, published by MIT (Massachusetts Institute of Technology) Press, became a best-seller and was translated into 15 languages.

It describes the steps to be taken by the business sector, governments, and civil society leaders to ensure that present needs are met without endangering the ability of future generations to meet their own needs. It marked the first time that a group of leaders from the top companies in the world analyzed the problems of development and the environment from a global perspective and came to relevant agreements. We offered examples from the real world to underscore the practical importance of our statements, having compiled case studies in order to show that our proposals were not merely theoretical exercises but had actually been successfully implemented by many companies. The book also explains how the search for sustainability can make businesses more competitive.

The title *Changing Course* was carefully selected. Although our basic goal was to promote a long-term vision, we were also aiming at immediate action to achieve profound changes. As lead author, I was able to write about beliefs formed during my struggle to get the Group out of asbestos: Companies are meant to serve society, not the other way around; and companies that do not –and are not seen to– serve society will fail.

While writing this book, we held a competition to find the most appropriate term to define a company's potential contribution to sustainable development.





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We received hundreds of proposals, from which I selected eco-efficiency. The eco prefix elegantly combines two fundamental concepts: economy and ecology. Simply put, *eco-efficiency* means adding greater value to goods and services while using fewer resources and generating less waste and pollution. Today, the term *eco-efficiency* is accepted worldwide and used in business schools and corporate manuals.

We wrote a two-page prologue to the book –the “Declaration of the Business Council for Sustainable Development” –which all members signed. Its first three paragraphs clearly reflect our vision:

1

“Business will play a vital role in the future health of this planet. As business leaders, we are committed to sustainable development, to meeting the needs of the present without compromising the welfare of future generations.”

2

“This concept recognizes that economic growth and environmental protection are inextricably linked, and that the quality of present and future life rests on meeting basic human needs without destroying the environment on which all life depends.”

3

“New forms of cooperation between government, business, and society are required to achieve this goal.”

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This last statement shows that we were looking for new ways to bring together all sectors of society in support of sustainable development. The BCSD did succeed in bringing together business and government. In terms of this new modality of cooperation, companies should move beyond their traditional lobbying activities, and governments should think beyond the usual legislative measures on regulations and control.

As promised, I tried to dissolve the BCSD following the Earth Summit, but the members balked. They argued that companies now had the duty to work with governments and NGOs towards sustainable development, with a view towards establishing completely new relationships with governments and civil society organizations. They felt that the BCSD was the ideal launching pad for this new way of working. I agreed with the proposal, but asked that we appoint a new president so that the council would not be so dependent on me.

In 1995, the BCSD merged with the World Industry Council on the Environment (part of the International Chamber of Commerce) to become the World Business Council for Sustainable Development (WBCSD).

In the following years, different WBCSD working groups dealt with problems such as the measurability and profitability of eco-efficiency, climate and energy, sustainable forestry, corporate social responsibility, water management and transportation, and mobility, among others. WBCSD cooperated with the Organization for Cooperation and Economic Development (OECD) in the area of eco-efficiency, and played an active role in UN climate conferences.

So, my “simple” assignment as a consultant to the Earth Summit turned out to be far more encompassing and long-term than I had imagined when I accepted it. In discharging the mission entrusted to me by the Secretary General, I invested much of my time and several millions of my own assets. I was, however, richly rewarded for this: I enjoyed my work and gained a wide range of new insights. I was forced to think of the global challenges that are a sign of our times, and later this helped me make strategically correct decisions for my companies. I met and got to know fascinating people from all corners of the world, and gained experience in working with the media.

Having devoted two years of my life to what was in effect an intensive seminar that taught me a great deal about social development and the environment, I now had a new outlook on life. It was a new perspective that I took with me when I returned to my business activities.



While working for the Earth Summit, I had sustained two grievous personal losses: my father and my brother Alexander had died within a few months of each other. Alexander left me his art collection. Attempting to follow in his steps and continue collecting paintings and sculptures from renowned artists such as Giacometti, Johns, Mondrian, Pollock, Rothko, Twombly, and Warhol was both a great pleasure and a daunting challenge for me.

I gradually came to the conclusion that the collection required professional management and that clear concepts should be developed to enable me to set the right strategy for new acquisitions, always, of course, within the quality standards that Alexander and his partner had established. And so in 1995 we founded Daros, an organization based in Zurich and specializing in art.

Today, part of the Daros Collection is shown to the public in different exhibitions held at the Löwenbräu complex in Zurich, a remodeled old

brewery. Because of my close ties to Latin America, my wife and I created the Daros-Latinamerica Collection to support artists in the region and afford them the opportunity to achieve recognition in international markets for themselves and for art in their countries. Our third collection, Daros Contemporary, focuses on collecting and promoting young art in Europe. Our collections are complemented by the Daros Art Education Program, specifically directed to the young public, whose goal is to bring art to people.

After the Rio Summit, my business outlook was influenced not only by a new view of sustainable development but also by the comeback in Latin America following its "lost decade" of the 1980s. It was a time of great hope for that vast region, so rich in human and natural resources. For some countries, globalization was the great opportunity to expand their markets and achieve economic success. For others, it initially implied even tougher competition and an even more intense exploitation of their natural resources. In any event, the step towards globalization had been taken, and the world had begun to shrink.

In many Latin American countries, inflation was being brought under control, the balance of payments was on a more even keel, and companies were growing more efficiently. Yet, the inefficiency that for long had been the rule in public administration, sheltered by political elites defending partisan interests, was being unmasked but not eradicated; and unemployment continued rampant in many sectors. Both problems continued into the 1990s, the main sufferers being, as always, the poor.

At the close of the summit I was 45 years old. I owned three international corporations: one with investments in high-tech companies in Europe; an

Asian-European trading group; and GrupoNueva, focused on pipe systems and forestry in Latin America. In the course of my business career I had experienced just about everything imaginable: I had reached the very top, been on the brink of bankruptcy, and worked very hard to get back to the top. I had won, lost, innovated, restructured, sold, and diversified. I had experienced great success and complete failure.

I thought of my future and knew that “more of the same” would not be enough of a challenge for me. I felt much too young to spend the next 20 years –assuming that I would retire at age 65– buying, selling and diversifying companies. I therefore decided to sell my businesses in Switzerland. I was pleased to realize that my business acumen still served me well: my companies had reached their maximum potential and were ready to be passed on to the right buyers. The sale of these companies gave me the means to finance my new plans.

As I significantly increased my investments in Latin America, it made less and less sense to maintain my base of operations in Switzerland. So, I moved it to Costa Rica, the so-called “Central American Switzerland,” a country I knew very well as I had regularly visited it for the past 25 years and where I had made some of my best friends. Its geographic location allowed me to be closer to my customers and associates in my business and philanthropic activities, and to share my thoughts on the region in their own language.

GrupoNueva is an industrial holding that generates value for its shareholders and society with leadership positions in the Americas in the areas of forest industry and construction materials. Its business divisions are: Amanco, leader in Latin America in the production and marketing of products for the transport of fluids (tube systems) and light construction systems (Plycem Construsistemas); and Masisa, an integrated forestry company that produces and sells wood products internationally. In 2004, GrupoNueva's sales reached US\$1,241 million and generated employment for 16,000 persons. Its head office is in Santiago, Chile.

All GrupoNueva companies have a single common denominator: their corporate philosophy, based on three complementary areas of responsibility: profitability, social responsibility, and environmental management.

GrupoNueva's goal is to be a leader in all markets where it operates and in customer satisfaction, focusing on long-term growth of invested capital in order to attain profitability.

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Corporate social responsibility is one of the key elements of sustainable development. The group's vision, as defined in its sustainability reports, states: "To be recognized as a leading industrial group in Latin America, operating in a framework of ethics, eco-efficiency, and social responsibility that generates economic value and improves our neighbors' and our region's quality of life."

GrupoNueva has succeeded in improving its profitability and competitiveness over the last few years, while many other Latin American companies in similar businesses went under. I attribute this success to strong leadership, to a teamwork inspired by a shared set of values, and to the hard work done to quantify and disseminate the true meaning of those values in terms of social impact, environmental impact, and profitability. In 2002, GrupoNueva published its first independently audited sustainability reports.

As the result of my freedom to manage and dispose of my assets, I can invest in businesses with great long-term growth potential. I am pleased to know that part of these investments is earmarked for tree planting, thus helping to prevent erosion and remove carbon dioxide from the atmosphere. In addition, these investments create new jobs in rural areas and provide employees with health services, training programs, and reasonable salaries.

In a way, the mission of my business group had an ethical and social focus. In addition, FUNDES, the foundation I had created in the mid-1980s, was run as a business, centered around entrepreneurship and efficiency. The Earth Summit and the BCSD had taught me a great deal about sustainable development. The success I had had with my business investments meant that I had capital that was no longer tied to these investments. All

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these events and experiences made me think about taking a bigger step toward the world of philanthropy, combining the best of the business and the foundation worlds.

There was, I felt, a great need for philanthropy in Latin America. Most countries in the region were going through economic liberalization and privatization processes that, according to official statistics, were increasing per capita incomes. And yet, in my travels through the region I observed that macroeconomic reforms by themselves were far from sufficient in inner cities and ghettos.

My first impulse was simply to help the poor in Latin America with money: Street children, orphans, single mothers, and people leaving the countryside in search of better opportunities in the cities. I asked a colleague to travel to Mexico City and Rio de Janeiro to conduct a survey. She returned with a sobering conclusion: "Problems of this magnitude can never be solved with money ... not even with all your money. You might help some people lead an easier and more dignified life, but most people will remain poor. And the number of poor people will continue to increase."

It was obvious that traditional philanthropy was not the option I was looking for. I needed to find a catalyst that would trigger the type of sustainable human development that all governments of the world had agreed upon at the Earth Summit.

My next idea was an entrepreneurial solution. For me, a good entrepreneur is someone who consistently develops his business with a clear vision and an equally clear mission, works very hard, and has a special ability to efficiently administer the capital, the resources, and the technology available. An entrepreneur is someone capable of persuading others to adopt their own vision, of motivating them to achieve their goals. However, the entrepreneur I now imagined would not have to build large companies but rather bring



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about positive social change that would afford as many people as possible the opportunity to lead decent, dignified, and productive lives and to change the regional economic situation.

During a transatlantic flight, I read a magazine article about an organization called Ashoka. This organization raised funds and financed “social entrepreneurs.” So, I had not invented anything new, after all. My idea already existed. Through “talent scouting” and interviews, Ashoka discovers individuals with entrepreneurial spirit and innovative ideas for improving society. Those who are selected receive financial assistance during a period of approximately three years to build up their own organizations and be free to implement and disseminate their vision.

Ashoka believes that the business entrepreneur and the social entrepreneur are cut from the same cloth, as they share the same skills and work in similar fashions. It is only their goals that are different. I liked this concept because it was based on the entrepreneurial spirit that I also believe in. We thus started a long-term joint venture. This meant that I became Ashoka's partner, supporting the organization with my capital and my contacts to help it expand in Latin America, where so far it had been present only in Mexico and Brazil. Ashoka was already functioning well at the time, and since then it has continued to develop and has helped hundreds of social entrepreneurs implement their projects and their careers.

The success of Ashoka's social entrepreneurs proved to me that heads of governments and captains of industry –those who actually should be the first responsible for improving their societies– seldom bring about significant changes. The secret lies in searching for individuals with leadership abilities, not only among the so-called elites, but in all sectors of society in order to jointly develop a network.

I was certain that without leaders there would never be decisive changes. Leaders have long-term vision, concrete ideas for realizing that vision, and strong moral values to support it. They also have a plan of action and the ability to successfully see their projects through. In addition, they can motivate others to join them in new ventures, thus creating the necessary critical mass to implement the process of change.

With these thoughts in mind, I began to think seriously about how I could undertake a new initiative with a substantial part of my assets and my personal commitment. I wanted to support Latin American leaders in their efforts to implement sustainable development projects.

I then thought of creating an organization, AVINA. Its goal would be to establish partnerships in Latin America with individuals in society and business imbued with the pioneering spirit, and support them in their initiatives in favor of sustainable development. I was especially interested in initiatives committed to equal opportunities, democratic processes, education, training programs, nature preservation, and eco-efficiency.

Several reasons led me to concentrate AVINA's commitment in Latin America. My business group had been operating in the region for several decades. I felt that Latin America had an enormous potential. And I have personal ties to the countries of the region. There exists, moreover, an historic bond between Latin America and Europe, reflected today in the cultural traditions and many facets of the daily life of their peoples. However, the simplest reasons are that I like the region very much and get along well with the people.

Latin America is a huge continent, home to 450 million people. Until recently, many countries in the region were ruled by dictators or unstable regimes that, as a rule, generated economic and social chaos. Today, democracy is gradually gaining the upper hand, and people are beginning to organize themselves and move into those areas where governments have failed. This entails an enormous opportunity.

I then tried to work simultaneously in two activities that are usually done by different kinds of people. On the one hand, I wished to remain active in business and increase my companies' yields. On the other hand, I wanted to support social change. Both activities had to be based on the same vision and the same values. I also wanted to apply the same tools and professional standards to optimize creativity, effectiveness, and efficiency.



By 1994, we stood ready to make AVINA a reality. Latin America was experiencing a true development boom at the time. I asked myself whether my efforts to promote development would make sense in this context. I came to the conclusion that indeed it would be more meaningful than ever. As an investor, a citizen, and a human being, I had witnessed mistakes being made over and over again. As a result of these mistakes, we had not been able to take advantage of much of this development, which, in addition, had not been sustainable.

The two most frequent mistakes were that only a small part of the population was enabled to benefit from the progress achieved, and that a substantial portion of economic growth had been attained by selling or destroying natural resources. In view of the situation then existing in most Latin American countries, my contribution to development would be to foster changes that only society itself could generate. This, in turn, implied the need to find the right leaders, whose numbers were growing steadily. What they do is quite impressive: With very little outside help, they often have to go against powerful, entrenched groups bent on defending their privileges and resisting change.



My challenge was then to find those leaders through AVINA, and by becoming a reliable partner, help them be more effective and efficient. Finding other entrepreneurs, generous sponsors, and wealthy Latin Americans to cooperate with us was –and continues to be– the next challenge.

My core idea is that a modern foundation must be inspired by the entrepreneurial spirit. It has to learn to use the tools that have proved successful in business in order to become as efficient as possible and optimize its investments.

AVINA invests in leaders. Probably the term *invest* best reflects our changed paradigm. Traditional foundations make donations: They grant money to finance a given project and expect reports on how that money has been spent. As a rule, little is done to evaluate the results achieved. Has anything changed? Has anything improved? If so, what and how? To invest implies that we expect some type of return, essentially high dividends for society and the environment. It also implies that we expect to be able to help determine the nature of that return.

Our partners are active in many areas: They promote democratic processes, the rational use of natural resources, training and education programs, access to the job market, eco-efficiency, corporate social responsibility, small and medium-sized businesses, and the consolidation of civil society organizations. As a joint venture, we share with our partners our experience in establishing attainable goals and clearly defining projects. We offer them our business know-how in the areas of organizational management and efficiency, and we provide them with access to individuals and organizations working on similar projects worldwide.

Before the advent of the Internet, it made sense for foundations to have central administrations that would convey the institutions' goals and mission to their employees. Today, however, the Internet allows us full decentralization, and headquarters are no longer absolutely necessary. Most of our employees now work close to where projects are implemented and are much more involved in field activities than they would be if they were sitting in distant offices. Corporate structure specialists call this organizational system a dynamic network organization.

AVINA representatives are located in various cities in Latin America. These representatives hail from and live in the region, and manage their own local organizations. Their main task is to identify and support the most suitable leaders to become our partners.

Once our representatives have identified potential leaders, they try to ascertain that they share our same values and long-term vision. In the course of this process, each leader determines whether the services and resources that AVINA could provide would be useful to him. We, in turn, check to see if that leader's activities fit into our "portfolio." If so, we ask him or her to formally submit an initiative and to state what support is expected from us. Usually, the proposal is jointly prepared with our team through an intensive dialogue. The initiative must include a business plan and very concrete objectives and criteria that will allow us to evaluate its feasibility and chances for success.

Throughout the project, AVINA works with and supports our partners in administrative and organizational matters, backs their efforts to raise additional funds and develop new ways of making their operations more sustainable, and helps them contact one another to build up informal cooperation networks. AVINA ensures that all leaders working in the same region or in related thematic areas have the opportunity to meet, as we are convinced that exchange and mutual learning processes afford great advantages and synergies to all involved.

Since its inception, AVINA has learned a great deal and has grown consistently, both qualitatively and quantitatively. We have gradually expanded our representative network, as well as the number and size of our investments. We also support an increasing number of leaders who do not require our financial support but are interested in joining the network and receiving technical support.

Latin American institutions and governments are often unable to meet society's needs because of a lack of funds, the pressure to protect powerful minority interests, and a top-heavy bureaucracy. To offset this trend, it is essential to build a closer relationship –even a new partnership– between business and civil society leaders. This is what we mean when we talk of building bridges.



Business and civil society can learn a lot from each other by working together in matters of common interest, just as we work with our partners setting up contacts and promoting alliances. Companies can learn to respond more effectively to human, individual, and collective needs –not always reflected in market demands– thus learning to operate in a multidimensional world.

Civil society organizations can improve their tools to evaluate their clients' needs and demands and be in a position to act appropriately and seek innovative solutions whenever circumstances change. This enables them to offer more professional and effective assistance.

The initial results of our bridge-building activities have been encouraging. They clearly show that, thanks to its business origins, AVINA can play an important role in reducing the levels of mistrust that both business and civil society organizations bring to the table when they begin working together. We are convinced that this is an important key to that change of course that our society so urgently needs.

To date, AVINA has invested in excess of \$ 300 million in leaders working to guide their societies towards sustainable development. More important than money, however, are our ongoing partnerships with each leader and the fact that we are becoming a source of financing and multiple services that generate value for those leaders.

As a socially committed businessman, I am used to generating wealth and value, both economically and socially. Traditionally, wealth and value have been measured in economic terms. This is, however, a limited viewpoint, as all of us also promote and respect non-material values and wealth. We appreciate the beauty of a mountain landscape, rejoice in the sheer perfection of a Bach fugue, experience the satisfaction of completing a task, or enjoy being healthy and fit. None of these values can be measured in financial units.

Traditionally, the business world has been reluctant to discuss or deal with non-material values. This trend, however, is changing, at least among the leading corporations and in the more than 160 companies in the WBCSD. They are now addressing issues related to their corporate social responsibility. Lately, they have become active in the search for new ways to help people create more sustainable livelihoods for themselves.

Personally, I have long wrestled with the issue of integrating my different facets: I am a businessman, a citizen, a father, a hiker, an art collector, and a philanthropist. In the meantime, I struggle daily to ensure that all my roles are based on the same vision, the same values and convictions. In the business world, my goal is to achieve financial wealth, not only for myself but for employees and society in

general. At the same time, I endeavor to protect and, if possible, to improve, the environment.

Of course, conflicts of interest abound -as they do in all companies when they try to satisfy the often contradictory interests of their customers, employees, suppliers, stockholders, and other interested parties. My goal is to strike a balance.

At first glance it would seem that there are major conflicts of interest between a business and a foundation. While the former seeks to make money, the latter intends to invest it, though with no financial return. However, I began wondering if there actually exists such a deep gulf when it is the same individual's vision that gives rise to both, when both seek to add value to society, when both are based on efficiency and entrepreneurship, and when both seek to establish new modalities of partnership.

Until now there have been no formal institutional ties between AVINA and GrupoNueva. Yet, it is my hope that their future relationship will be a closer one and that we will find ways for them to work more closely together, motivating and supporting each other.

For me this is another step toward attaining my vision. That is why I have created a Trust called VIVA -which stands for *Vision* and *Values*- to which I donated the total equity capital of GrupoNueva.

GrupoNueva and AVINA follow two different logics, business and social, respectively. Their features and temporal projections are also different. Business



logic tends to be vertical and linear; it responds to a rapid temporal sequence. Social logic, on the other hand, is rather horizontal and interrelated, and is defined on the basis of long-term propositions.

While these two logics would initially appear incompatible, the fact is that they share many points of convergence. Chief among them is the purpose, common to both organizations, of helping forge a more sustainable society. VIVA Trust will foster understanding and mutual respect between both logics, finding synergies and strengthening mutual learning processes.

There will be no successful companies in failed societies. Therefore, it is incumbent upon both organizations, each in its field, to contribute to the sustainable development of society. For Grupo Nueva, this means working profitably, even in an economically difficult environment, while fully assuming its social and environmental responsibility. AVINA, in turn, has to contribute to social development in a coherent and efficient fashion.

I see VIVA Trust as yet another step in my thinking about, writing about, and experimenting with relationships between business and society – a process I began while taking my business group out of asbestos, continued in establishing the WBCSD, and am pushing several steps further with VIVA.

VIVA Trust inspires both organizations in their strategic orientation, monitoring their performance and efficiency and assuming the “owner's responsibility.” This means that the beneficiary of



GrupoNueva's dividends will no longer be I but VIVA Trust. The dividends generated by GrupoNueva will be transferred to AVINA and other organizations through VIVA Trust for the purpose of investing them in the creation of a more sustainable society.

For GrupoNueva employees, this means that the profits realized will no longer reward one stockholder but rather will be reinvested in their own social environment, thus benefiting society directly and the company indirectly. I trust that this will be an additional motivation for all employees. For AVINA, this means that its activities will be financed with funds generated by the societies in which the foundation and its partners work, thus contributing to sustainable development. My goal is to create a virtuous circle where all will be winners.

We are just setting out on what could be a long journey. But I have already had some concrete results. A GrupoNueva executive in Ecuador partnered with AVINA to establish a foundation to help workers laid-off by many companies set up their own businesses. A GrupoNueva farm in Costa Rica is working with AVINA partners, helping them restore a river basin.

*“There will be no successful companies in failed societies.”*

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There is also business/foundation cooperation in the work being done with the Mapuche indigenous people in Chile and Argentina.

I will support the VIVA idea with my full personal commitment because I am convinced that our modern world needs innovative social development models. I trust these efforts will be successful and have a multiplier effect. VIVA might thus be able to motivate other business leaders to cooperate with the leaders and initiatives we support, or contribute in some other way toward forging a link between business and civil society that will offer promising new solutions.

My reflections on the various organizations that I have helped set up during my life give me great personal pleasure. However, I am not entirely satisfied. I feel that we will not attain sustainable human development until many more individuals and organizations are motivated by a vision of this sort of progress and come to value this goal. This conviction shall inspire and guide me for the rest of my life.



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