

5 Rebuilding and Safeguarding. The Hertie Waren- und Kaufhaus GmbH in the Post-war Period 1945 to 1974

Loss and New Beginnings

After the end of the Second World War, Georg Karg and Hertie GmbH began a rocky reconstruction process. Most of the company's department stores and warehouses had suffered major damage in the bombardment phase of war due to their prominent location in city centers. The Berlin flagship stores were largely destroyed. In November 1943, an Allied fighter plane crashed into the famous atrium of the KaDeWe and set the entire building on fire. The magnificent buildings with their monumental facades, built around 1900 on Leipziger Straße and on Alexanderplatz, lay in ruins. This meant that an important part of the legacy of the builder and founder Hermann Tietz, literally carved in stone, had disappeared from the Berlin cityscape.¹

Unfortunately, the surviving sources tell very little about these first post-war years. Georg Karg apparently began selling merchandise in the autumn of 1945 in hastily restored sales areas in Berlin. The same was true for the Union branch in Stuttgart, which was already reporting small sales for the third quarter of 1945. The rare reports from the Allied property offices, which supervised and partially managed the Hertie business in a fiduciary capacity, are only available for this branch.² Like all companies, the department store group was subject to the control laws of the Allied and Soviet occupation administrations after the end of the war in order to identify the entanglements between the German economy and the Nazi regime during the war with its plundering financial system.³ The management of the Hertie companies remained for around four years under the supervision of trustees appointed by the property control authorities. Only after the Tietz family's restitution claims had been settled by means of an agreement in October 1949 was Hertie released, at least in the western zones, from the so-called property control.⁴

However, these measures did not mean that sales stopped. When the guns fell silent, retail stores and department stores in the western zones and sectors were given permission to reopen their doors in order to ensure supplies for the suffering population. Hertie branches therefore began to sell food, clothing and shoes in particular to customers with ration coupons. Karg was able to draw on his contacts with suppliers and his own stocks to procure these goods. Every evening, goods were delivered to Berlin in the company's own trucks from the often-distant production and storage facilities. In 1945, Karg commissioned his son Hans Georg to get the Hertie department store in Munich up and running



Fig. 29: The war-torn Hertie department store on Berlin Alexanderplatz, around 1945.

again. The group's second largest branch in terms of floor space had served as soldiers' quarters during the war. Here, too, sales began before the turn of the year under provisional conditions. The department stores developed into central distribution points for essential needs goods, especially since the retail trade was recovering very slowly and there was a lack of skilled tailors, hat makers, etc.⁵ In Stuttgart alone, the branch in the city center achieved a turnover of 1.4 million RM in the second half of 1945. In 1946, goods worth around 7.2 million RM were sold over the whole year. This was a sure indication of the high demand and the slow but steady resumption of the consumption of essential goods.⁶

The biggest burden on the new beginning of business was the massive loss of company substance due to the division of Germany. A look at the organizational chart of Hertie Waren- und Kaufhaus GmbH makes it clear that the group had previously concentrated its activities in Berlin and eastern Germany. In the autumn of 1945, the group structure was divided into a total of eleven operating companies under the umbrella of the Hertie GmbH central administration in Berlin. Seven of these were regional companies of Union Vereinigte Kaufstätten GmbH, whose department stores in turn were subordinate to a Union head office as a direct subsidiary of Hertie GmbH. In addition, there were two purchasing

centers in Chemnitz and Plauen, the Saxon and Vogtland Textilgesellschaft, with particular proximity to suppliers in this central production area (Fig. 30).

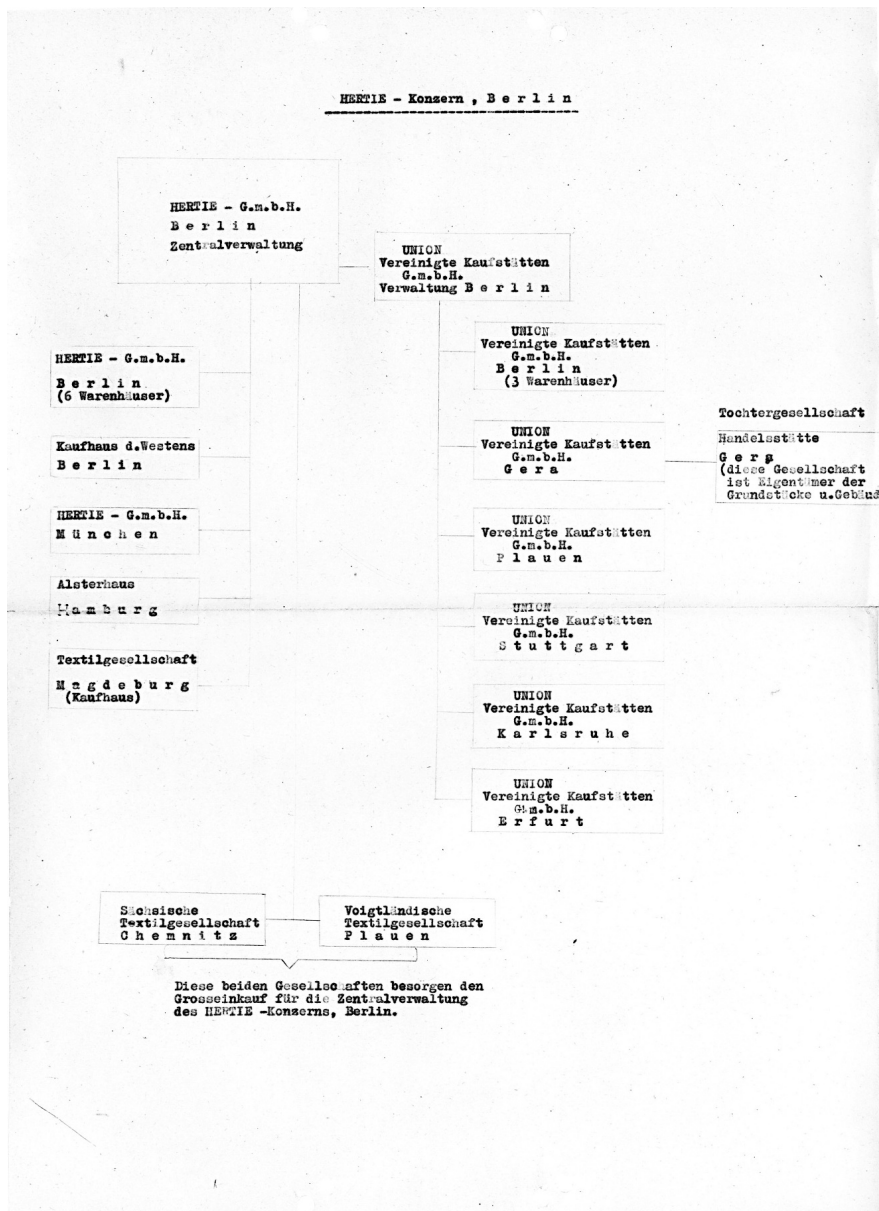


Fig. 30: Organizational structure of the Hertie Group, November 1945.

In comparison to the pre-war organization of the Hertie Group, a crucial innovation can be discovered in this organizational chart: The Union Vereinigte Kaufstätten GmbH in Berlin had previously functioned simply as a so-called name company in order to allow the branches to operate under the established brand label. On January 1, 1945, however, Georg Karg had arranged for the Union department stores to become independent. The regional companies were then considered independent companies with their own management and accounting under the Hertie umbrella. This was a targeted defensive measure to protect the stores from complete access in view of the foreseeable end of the war, in the worst case, by the Soviet troops in Berlin.⁷

On this organizational basis, Hertie GmbH operated four department stores in the Allied western zones: the Alsterhaus in Hamburg, the Hertie department store in Munich and two Union stores in Karlsruhe and Stuttgart. In the Soviet occupation zone (SBZ), department stores existed in Gera, Magdeburg, Weimar and Plauen, among others. The clear regional focus of the group, however, was the total of eleven department stores in Berlin. The vast majority of these were now also in the eastern sector, including the large commercial buildings on Alexanderplatz and Leipziger Straße. The same applied to the main administration in Krausenstraße.⁸

In October 1945, the Hertie subsidiaries in the East were sequestered by Order 124 of the Soviet Military Administration (SMAD). The occupation authorities justified this step by stating that the Hertie Group was owned 25 percent by “the war criminal von Papen” and had financed the NSDAP’s election campaign in 1932 with seven million RM. It was also argued that there was a financial connection to the warmongering Astrad Group in the Rhineland. These accusations turned out to be completely fabricated, especially since no company with the name Astrad could be identified in West Germany.⁹ In the spring of 1946, the official confiscation of Hertie’s assets in East Berlin was initially lifted, out of consideration for the supply shortage. However, the Economic Office made it clear that the flawed justification for expropriation could be “canceled due to Aryanization” at any time.¹⁰

This transitional phase ended in 1948/49 with expropriation without compensation. All of Hertie’s assets were transferred to state-owned resources, with the seizure not only of the shares but also of the real estate. The management of the property in the Soviet occupation zone and East Berlin was, as is traditional in the department store business, separated from the department store operating companies. They were in the hands of a total of four subsidiaries: Brandenburgische Grundwert AG, Handelsstätte Gera AG, Magdeburgische Grundwert AG and Deutsche Boden und Kaufhaus Verwaltungsgesellschaft mbH, all based in Berlin. According to a later statement by the group in the context of the Equalization of

Burdens Act (*Lastenausgleichsgesetz*), the loss from expropriation alone amounted to an estimated value of the land totaling 22.3 million RM. In addition, there were also lost inventory values of around 10.1 million RM.¹¹ The loss hit the company hard. The hope of being able to regain possession of the Eastern companies at some point played a strong role in Georg Karg's future considerations, especially at the end of the 1940s and the beginning of the 1950s. At times, he even planned to rebuild the Alexanderplatz building in order to have a head start when the situation returned to normal. Meanwhile, in the immediate post-war years, he even worked with the Soviet occupying forces, sometimes profitably. Plans for the construction of two Russian department stores in Karlshorst were apparently in the drawer.¹² With the division of Germany and the deepening of the political divide during the Cold War, however, this confidence increasingly faded, without completely disappearing from his future plans.

In practice, however, the Hertie boss had to face the reality that he had to start the reconstruction of the group with a clear competitive disadvantage. The major competitors Karstadt, Kaufhof and Horten had already occupied the prime locations in central city centers in most West German cities. Hertie was only centrally represented in Hamburg and with its three branches in southern Germany, although the latter were still subject to the retention of title for the pending restitution claims of the Hermann Tietz family. Karg addressed this dilemma by – as will be shown – quickly pushing for a solution to the restitution issue and at the same time, putting the company on a course of strong expansion.

As early as 1948, Georg Karg moved to Hamburg and relocated the head office of Hertie GmbH to the Alsterhaus in order to coordinate the urgently needed expansion of the sales areas in West Germany. Barely a year later, Hertie began to take over smaller competitors. It acquired the “Kaufstätten für Alle” (KfA)¹³ in Stuttgart, which had only opened in 1945, from the young founders. With the “Volkswarenhaus”¹⁴ in Wiesbaden and the “Warenhaus Joh. Biebler”¹⁵ in Hamburg-Bergedorf, two established department stores were added, which were located in the suburbs or outskirts. The most important factor here was the land on which modern Hertie representative offices were to be built in the following years. In addition to so-called 1b locations, the new openings of Hertie or Union stores were concentrated in medium-sized towns and medium-sized cities in order to avoid direct competition with the big players in the industry.¹⁶ The first new Hertie building after the war opened in 1951 in Neumünster, a city with an original population of around 40,000, to which almost twice as many displaced persons had now been added. Karg specifically recognized consumer potential in this situation.¹⁷ In 1951 and 1952 alone, further takeovers and new openings took place in Braunschweig, Wuppertal-Elberfeld, Bamberg and Landshut, as well as

the “Ringkaufhaus” in Bamberg and Göppingen. Locations in Hameln, Detmold and Salzgitter followed shortly afterwards.¹⁸

Integration of Hansa AG and AWAG-Wertheim Holding: A Digression

Hertie’s two most important expansion steps finally took place in 1952 with the takeover of Frankfurt’s Hansa AG and the Berlin-based Wertheim Group. Both were formerly Jewish companies in whose “Aryanization” Georg Karg and Hertie were not involved. In the course of restructuring, not least in the context of the restitution proceedings, the opportunity arose at the beginning of the 1950s to bring both traditional department store companies under the umbrella of the Hertie Group.

Hansa AG was founded by Hermann Wronker (1867–1942), a nephew of the brothers Oscar and Leonard Tietz. In 1887 he opened textile department stores under the name S. Wronker & Co. initially in Mannheim, and a little later also in Pforzheim, Nuremberg and Hanau. However, the department store that opened in 1891 on the Zeil in Frankfurt am Main became the largest branch and soon also the headquarters. While the Frankfurt properties were owned by the non-Jewish Winterhelt family of entrepreneurs from the Odenwald, the Wronker operating company was converted into a stock corporation in 1921 and experienced rapid growth for several years.¹⁹ By 1929, the company was already in an existential crisis and, as a result, sold off the smaller branches. A makeshift restructuring was only possible with massive support from the Dresdner Bank, the company’s long-standing main bank. After the Nazis came to power, Hermann and his son Max (1892–1966) were easily forced out of the company due to the high debt burden; they left in November 1933. With a company capital of 978,000 RM, almost 800,000 RM were owned by the Dresdner Bank or were mortgaged to it. The remaining shares were widely held or deposited as loan collateral. The bank took over all the shares and renamed the department store Hansa AG.²⁰ The department store was now run solely by the non-Jewish director Walter Sack. He had been a member of the company’s board of directors since 1931, alongside Max Wronker. Trabart Reichsfreiherr von und zu der Tann-Rathsamhausen served as deputy supervisory board member of Hansa AG in the following years. This connection meant that there was at least a loose contact with Hertie. In 1943, the department store in Frankfurt’s Zeil had to be closed due to persistent indebtedness. The business was concentrated entirely in the Hanau and Mannheim branches, with moderate success.²¹

In 1949, the Wronker family tried in vain to have the company's shares restituted. Due to the high level of debt, the company was already considered to be no longer in their possession before 1933. Instead, the Rhein-Main-Bank, one of the successor institutions to the Dresdner Bank, began looking for a buyer for its majority stake in the department store chain in 1952. According to an internal memo, Hertie's competitors were also interested in Hansa AG. Karg then privately sought a conversation with bank director Hugo Zinsser, put an appropriate wad of money on the table and quickly reached an agreement. In the same year, Hertie thus acquired 91 percent of the shares in Hansa AG with its valuable branches on Frankfurt's Zeil, in Hanau and Mannheim.²²

The historical background of the Wertheim Group was a particularly spectacular and complex "Aryanization" in which Georg Karg was initially only an interested spectator in the 1930s. The Wertheim case has already been dealt with in detail in the existing research literature. Since hardly any sources and findings on the processes of "Aryanization" and *Wiedergutmachung* have been added in the course of our research, this case will only be outlined briefly in this excursus. Even before 1932, Wertheim AG for trading interests had the structure of a holding company, in which the real estate of the eight department stores, most of which were based in Berlin, and the company shares were incorporated. The share capital of twelve million RM was divided 95 percent between the three brothers Georg, Wilhelm and Franz Wertheim, who had also played a key role in the rise of their parents' company, which had been founded in 1852. Like all other department stores, the Wertheims were confronted with the boycott measures of the Nazi regime after 1933, but in contrast to Hermann Tietz or S. Wronker, they were considered to be largely economically stable. The Wertheim brothers turned in confidence to Deutsche Bank und Disconto-Gesellschaft as their main bank, as they knew about the banks' good party contacts, particularly of the board member Emil Georg von Stauss. The aim was to develop a strategy to protect themselves from the Nazi smear campaigns by downplaying the presence of the Jewish owners. From 1934 onwards, the path was taken to transfer more and more company shares into the hands of non-Jewish family members. More and more shares went to Georg Wertheim's wife Ursula in particular. They were managed by a trust commission chaired by the Deutsche Bank director, who soon also personally took over a ten percent share package. The entire restructuring process was already being overseen at this point by Arthur Lindgens, head of Wertheim's legal department. At the beginning of 1937, the family was completely pushed out of the company, which was now renamed "Allgemeine Warenhausgesellschaft AG für Handelsbeteiligungen" with the abbreviation AWAG, based on the old name of A. Wertheim AG. In 1939 under perfidious promises, Georg Wertheim was finally forced to divorce his wife, who by then held the majority of shares. This

severed the last ties between the company and the founding family. Arthur Lindgens became chairman of the AWAG trustee board and ultimately successfully sought the hand of the ex-wife of his former senior boss. The marriage took place in 1941. Ownership of the holding company had thus shifted completely into the hands of the former “advisors.”²³

Lindgens played an equally dubious role in the restitution proceedings from 1950 onwards. Günther, Franz and Klaus Wertheim, some of the heirs of the next generation, submitted restitution claims on time. Now a Swedish citizen, Lindgens began to negotiate with the individual branches of the family, Jewish and non-Jewish shareholders in the USA and Great Britain, and also with the heirs of Stauss about the fate of their shares in AWAG. He managed to buy these shares and claims from them – underlining the difficult situation in Germany and the confiscation of further parts of the Wertheim assets by the SMAD in 1949. In November 1951, during the ongoing restitution proceedings, he finally reached a settlement in which the applicants were satisfied with a payment of 40,000 DM or 9,000 US dollars. At this point, Lindgens had already conducted negotiations with Georg Karg in the background about taking over the former Wertheim holding and had established the conditions in a preliminary agreement. In the end, the majority shares of Ursula and Arthur Lindgens, the shares transferred to them by Ursula Froeb (she was one of Georg Wertheim’s children, along with Albrecht Wertheim), the estate of Emil Georg von Stauss and the shares of other smaller owners became the property of Karg and Hertie GmbH. The only information available about the agreed upon purchase price is that of Olaf Ossmann, Klaus Wertheim’s legal advisor in the 1990s. As the takeover contract, which was apparently handwritten, is not available as a historical source, the agreements cannot be verified at this point. We can only assume that Georg Karg paid 100,000 DM for the shares deposited over 20 years. In addition, there were annual dividend obligations of 24,000 to 60,000 DM and later pension payments to Ursula Lindgens and her children of 48,000 and 18,900 DM respectively. At the same time, Karg promised to employ the descendants of the Lindgens and Froeb families in suitable positions at Hertie. Joachim Lindgens, Arthur’s son from his first marriage, ultimately headed up, among other activities, the Hertie department stores in Berlin until 1984.²⁴

The board of the holding company, which was now operating again under the name “Wertheim AG für Handelsbeteiligungen” introduced in 1922, was made up of the Hertie representative Hans Heilemann and Elisabeth Zirpel from the Wertheim subsidiary Globus Bank AG. In addition to Arthur Lindgens, the supervisory board included Douglas Froeb from New York and Albrecht Wertheim, as well as Hans-Georg Karg and his brother-in-law Count Norman. Hertie managing director Guido Schell was deputy head of the board.²⁵

It should be noted that the former Wertheim Group, as a result of a similarly east-oriented expansion of its business activities as Hertie GmbH, lost the majority of its department stores in the course of expropriation by the SMAD. The so-called eastern assets were therefore unusable for an indefinite period. Nevertheless, in negotiations with members of the Lindgens and Wertheim-Froeb families, Hertie was assured that their potential claims would be transferred to the new owner. This at least gave them the option of later restitution. But there were also other important reasons for Georg Karg's interest in the property of the former competitor. AWAG still owned some very valuable properties in West Berlin, which – like the rights to the still resounding name Wertheim – were useful for Hertie's new start. In the "economic miracle years," new Wertheim department stores owned by Hertie opened in Berlin-Steglitz, Bochum, Essen and Kaiserslautern, among other sites.²⁶

Growth and First Signs of Crisis

In the course of the takeovers, the Hertie Group consolidated itself and continuously expanded its competitive position. The rapid expansion of the sales areas was motivated by Georg Karg's plan, pursued with great personal ambition, to bring Hertie back into the ranks of the big three German department store groups, Karstadt, Kaufhof and Horten, as quickly as possible. In the new department store boom of the 1950s, the company was to be positioned at the forefront of the department store movement again, where it had already had its standing in the "Golden Twenties" as Hermann Tietz.²⁷ The impetus for the expansion offensive, in which Hertie opened almost twice as many branches as its competitors every year until the mid-1950s, did not come solely from external acquisitions. Hertie also grew from within. After the basic needs of the population had been met, the department store group focused on continuously expanding its product range. In the central area of clothing and home textiles, high-quality and luxury goods were now offered alongside highly practical off-the-shelf products made with better materials. Small and large household appliances, electronics and lamps, sporting goods, jewelry and accessories rounded out the selection with a high level of depth and breadth. In this way, department stores followed the trend of mass consumption, becoming more differentiated and moving into higher quality and price segments.²⁸

In order to round off the product portfolio in the lower price segments alongside the large full-range stores, Hertie founded its own low-price chain in 1952 under the name "bilka" – an acronym of the terms "billig" [cheap] and "Kaufhaus" [large store]. The compact branches usually had only one sales floor and

were specifically designed for suburbs, and small and medium-sized towns in order to win over customers directly on site and at the grassroots level. With this concept, the Hertie subsidiary Kaufhaus bilka GmbH, managed by Hans-Georg Karg, soon found itself competing for the best locations with similar low-cost department store chains such as Kaufhalle (Kaufhof), Kepa (Karstadt), DeFaKa – Deutsches Familienkaufhaus (Horten) and Woolworth. Hertie also relied on quick action in this market area. Since the opening of the first branch in Berlin in 1952, the group built a further eight bilka branches within three years.²⁹



Fig. 31: Festival atmosphere at the opening of a Hertie branch in Dortmund, June 22, 1955.

Having started in the west with four department stores, by the end of the 1950s the company had 34 Hertie department stores and 14 bilka branches. According to a contemporary estimate, the workforce was over 20,000 employees. Annual sales increases of over ten percent were the norm well into the next decade.³⁰ The group's growth was thus significantly above the average for the entire retail sector, which received a significant boost after the market was freed from all state management measures and under moderate competition and price control regulations, growing by an average of around eight percent annually.³¹ In general, the four leading department store companies, now again the most prominent ones nation-wide, profited particularly intensively from the waves of consumption in the 1950s and early 1960s. Their production and sales concept was simply best adapted to the universal flood of demand in the first years of prosperity and the flow of consumers into the newly rebuilt inner cities. Between 1950 and 1959, the market share of the large corporations in the entire retail market rose from 3.3 to 7.7 percent.³² In this second boom period for department stores, the share was even higher than the values of the interwar period, when the cor-

porations traditionally had four to five percent of the market share. In some product groups – such as women’s fashion, fabrics and home textiles – up to a third of all goods sold came from department stores.³³

Hertie senior boss Georg Karg and his son Hans-Georg, together with managing director Dr. Guido Schell, steadfastly stuck to their expansion course. In 1956, Hertie’s head office moved from the Alsterhaus in Hamburg back to Berlin, and there were always considerations of making further changes. With the construction of the Berlin Wall in 1961, at the latest, the old concerns about being too close and spatially restricted in Berlin to the heart of the political conflicts that had now escalated into the Cold War seem to have resurfaced. Hertie moved its headquarters again. This time to Frankfurt am Main in the Zeil street, later to a new building in the Niederrad district, in order to take advantage of better transport links.³⁴ With the founding of Hertie Italiana S. r. l. in Milan and the acquisition of the majority shares in the two Viennese department store companies, A. Gerngross AG and A. Hermansky AG, the first steps into neighboring countries were taken in 1957. Above all, the branches scattered throughout Germany, which Georg Karg regularly visited by car or private plane, were now easier to reach from southern Hesse.³⁵ And here too, the expansion of the branch network continued. Shortly before Karg’s death in 1972, the hundredth department store of the group of Hertie and bilka opened. The entire company, with a sales area of 760,000 square meters and up to 60,000 employees, recorded an estimated annual turnover of around five billion DM.³⁶

Against this background, the investment sums that the group has raised since its new beginning in 1944 just for the construction and expansion of its department stores must have been enormous. When it came to financing this mammoth task, Hertie, as a family business, had a structural advantage. Unlike its competitors, who were run as corporations, the group was not under pressure to pay out annual dividends. As far as can be seen, the family reinvested the annual profits almost exclusively in the interests of their company, so that the expenses could be financed largely from their own resources.³⁷

More precise data that would allow a closer look at the balance sheets and financing patterns of the Hertie Group between 1949 and 1974 are lacking. Even the major banks seem to have lost track of the complex company structures by the 1950s at the latest. In 1958, the economic department of the Dresdner Bank made an exemplary effort to create a company profile in order to unravel the internal connections within the group. After extensive efforts to gather more detailed information, their verdict was: “German law makes it possible to conceal financial results and financial transactions in the best possible way. The Karg family makes extensive use of this.” It continued: “The management of HERTIE is extremely hostile to publicity. It admits that quite openly.” The statement referred



Fig. 32: bilka department store in Berlin, around 1956.

to several requests for basic corporate data, to which the company responded in a friendly but firm manner, pointing out that it was a family business “in which there is hardly any public interest.”³⁸

This attitude of Hertie’s management was and is by no means unusual. Rather, it is generally applicable to the type of family business that relies on the greatest possible entrepreneurial independence in ownership and management, as well as on privacy in business and on the personal ties of the management. Georg Karg fit the traditional image of a patriarch, which was a widespread corporate model, especially in post-war Germany.³⁹ In the many descriptions of his person and his management style, he was depicted as an entrepreneurial personality of the “old school,” either as a person of respect or as a tireless patriarch who subordinated his entire private life completely to the business. He was the sole decision-maker and shied away from public appearances. Every morning, he received the sales figures from the branches and responded promptly by calling the responsible branch manager if the data did not meet his expectations.⁴⁰

These often idealized and extremely subjective assessments certainly only give a rough picture of Georg Karg as a person, who left behind hardly any personal documents that allow historians to take a closer look behind the curtain.

Nevertheless, there is evidence that at least supports the style of his management. The corporate headquarters was entirely tailored to the company director in a hierarchical top-down model. There were only a few functional departments, for example for finance, legal and real estate matters. There were no central departments for marketing, market research or public relations, which meant that hardly any information was collected on consumer trends and buyer behavior until the 1970s.⁴¹ The main focus was on the purchasing department, which was directed by Hans-Georg Karg from the 1950s onwards on the basis of specialized subsidiaries. When the head office moved to Frankfurt am Main, he also became managing director of the Hertie Group.⁴² Recommendations for sales and advertising in the individual branches were also made from this office. The company was thus managed largely from the perspective of goods procurement, which was clearly tailored to the senior boss's professional socialization experiences. The information from the branches converged in Georg Karg's office itself. This is where the strategic and operational decisions were made, with the patriarch constantly ignoring the poorly defined areas of responsibility of the departments and dealing with many detailed questions himself. For example, until Georg Karg's death, the group manager himself insisted on designing the layout of the sales areas and the way the goods were presented in the newly opened department stores.⁴³ This meant that his personal style was immediately recognizable when visiting a Hertie department store. This created a certain recognition value and unconsciously shaped the company's image. At the same time, however, the interior design style, which was strongly based on the company owner's individual ideas, also entailed the long-term risk of not being flexible enough to adapt to the changing preferences of consumers. By the mid-1960s if not sooner, the department stores, which were equipped with high-quality fine wood parquet and large, dark service counters, were considered conservative. Their appearance was reminiscent of the classic consumer temples of the 1930s, and they rarely used modern sales instruments such as displays or shop-in-shop areas, and then only very late in the game. Instead, for a long time they still had expansive fabric departments for sewing at home on the best ground floor areas, just like in the early years of the former textile buyer.⁴⁴ In the early 1970s, the business journalist Hans Otto Eglau judged that Georg Karg ran the billion-dollar company "like a medium-sized family business" with his own "specific style that the old department store king had stamped on his trading empire."⁴⁵

This fixation on the person of the patriarch, who had been so successful during the reconstruction years, was to reveal itself to be part of the problems that affected the company in the 1970s. Under the changed overall economic conditions of the stagflation crisis in 1972, the group's sustained growth broke off for the first time. With the population's reluctance to spend in the context of the oil

price shock in 1974/75, sales fell for the first time. Around a third of the branches were now in the red. For the first time in its post-war history, Hertie reported a negative operating result, but this was offset, at least for a certain period, by the profits brought forward from the profitable previous years.⁴⁶

The reasons for this first shadow on the success story of the department store group in the Federal Republic were manifold. One of the main sources was governance problems, which became clearly apparent after the death of Georg Karg. The complexity of the group's structure required a long overdue restructuring of the organization, which would delegate responsibility for individual areas of business more equably to specialized departments. Hans-Georg Karg also recognized the strengthening of a consumer-oriented corporate culture through the integration of targeted marketing management as an important task. It replaced his father's one-sided focus on offerings and sales, which – very similar to the fate of competitors Neckermann and Karstadt – had led to a neglect of cost control.⁴⁷

The need for internal modernization intensified due to a profound structural change in the retail sector, which fundamentally challenged department stores.⁴⁸ The large corporations and “top dogs” in the inner cities faced new competition on several levels. On the one hand, from around the mid-1960s onwards, large chain stores emerged, revolutionizing the specialist trade, which had traditionally been run by individual companies. First of all, new competitors appeared on the scene with textile department stores from companies such as Peek & Cloppenburg and C&A, which now positioned themselves in the city centers.⁴⁹ From the 1970s onwards, specialist retailers copied this model in other product areas. Distinct specialist stores such as Saturn-Hansa, Photo Porst, Juwelier Wempe, Christ and Douglas emerged, for electronics, perfume and jewelry, among others. In addition to the specialist stores, which often expanded according to the US franchise model, retailers also increasingly joined together to form purchasing groups and sales rings such as Intersport, Vedes or Expert. The department stores lost their comparative cost advantages compared to these specialist stores and chain stores, which now also had strong capital backing and operated in a coordinated manner. On the other hand, there were the supermarkets and in particular the new self-service department stores (Real, Allkauf, Massa or Globus) on suburban sites, which offered a full range of products, including food and non-food items, over large sales areas. The department stores lost market share, initially slowly, then noticeably, to these new forms of operation, which were easier for motorized consumers to reach, especially in the outskirts of cities.⁵⁰ The challenges for the Hertie Group were exacerbated because the company had never been able to fully compensate for its locational disadvantages despite massive expansion efforts. This poor starting position now had a major impact again in the challenges posed by the new competitors. As with all department store groups, Hertie also reacted

with cost savings and a significant streamlining of the product range, while entering into a tough price war with the competition, using more and more special offers.⁵¹ Under these changed circumstances, Georg Karg's successors had to lead the group through rough waters in which it had to assert itself not only against the classic competition with the other department store groups, but also against new competitors in an increasingly saturated and increasingly differentiated market. The company consistently retained its family-oriented character as the "silent giant"⁵² of the industry. When the Karg family finally withdrew from the group in 1993 with the sale to Karstadt, the Hertie name was retained outside of the department store trade. Georg Karg, a figure who shaped the company's fortunes for over four decades, had already ensured this in 1953 by establishing a foundation that initially served as a platform for the family to manage the company and protect it against outside interference. Under this cover, significant restructuring of the assets and shareholdings of the subsidiaries were carried out, giving the foundation the character of a family-based holding company.

Reorganization as a Foundation-owned Company, 1953 to 1974

After the restitution settlement with the Tietz family was concluded in the autumn of 1949 and important company acquisitions were made, Georg Karg turned his attention to the legal and financial reorganization of his company. On August 26, 1953, he established the Karg Family Foundation with headquarters in Hamburg.⁵³ The statutes stipulated that its purpose was to provide financial support to the founder, his wife and his descendants in securing their livelihood if they should find themselves in financial difficulties through no fault of their own. The foundation thus fulfilled the legal requirement to serve a social goal, even if this task was expressly defined as private and limited to the family circle. However, the preamble already contained a passage that indicated a combined asset arrangement for the family and the company. Georg Karg initially endowed the family foundation with capital of 20,000 DM to enable it to acquire shares in the seven purchasing companies of Hertie GmbH. The foundation's assets were to be supplied and increased from the business profits.⁵⁴ In this connection, the family and the company entered into a new institutional liaison, which today is considered a hybrid governance model of a company-affiliated foundation.⁵⁵

Georg Karg was one of the first German family entrepreneurs to convert his company into a foundation in this specific form. There were indeed well-known historical role models, such as the much older Carl Zeiss Foundation. However, the Hertie Foundation was characterized by the fact that the foundation itself became the legal form of the company, merging the social and economic institu-

tions. After long legal debates about whether such company structures were at all compatible with the basic idea of a foundation's charitable work, an amendment to German foundation law in 1950 declared that the company's purpose in itself was no longer permissible if it was the sole reason for the foundation.⁵⁶ Nevertheless, the legislature deliberately did not close all loopholes for entrepreneurs to combine their companies with a foundation via auxiliary structures and continue to assign operational functions to it. The company-affiliated family foundation was one such model, which Georg Karg immediately resorted to. Contemporary observers put forward a wide range of possible reasons that motivated entrepreneurs to take such a step. They either referred to idealistic goals of social welfare and preserving the entrepreneur's life's work, or to mundane material interests such as saving taxes or preserving business control.⁵⁷ What is certain is that the transfer of private company assets to a foundation is a radical change for both the family and the company. In the continental European legal tradition, foundations were subject to the so-called concept of perpetuity. This meant that their establishment created an independent, permanent legal personality. It ensured that the purpose of the foundation was pursued indefinitely, even after the death of the founder. The assets contributed were formally withdrawn from the family and the company and depersonalized, but at the same time placed in the "protected hands" of the foundation. In this sense, the creation of a foundation has and had a strong protective character. The company assets were protected from external access, for example, in the course of takeover attempts by competitors. In addition, internal family risks of fragmentation or withdrawal of operating capital in the course of inheritance disputes or succession problems could also be avoided. The founder himself regulated the company's financial resources and provided for the next generations of the family in a bequest that had long-term impact.⁵⁸

This was also true from a tax perspective. Here, the foundation had the advantage of making the company's assets immune to inheritance law in the long term. A one-off and unavoidable gift or inheritance tax was indeed payable at the moment of the transfer of assets. However, once the assets were in the hands of the enduring legal figure, all further inheritances were cancelled. In this way, a family foundation avoided the problem of many partnerships in which recurrent inheritance disputes repeatedly posed the risk of liquidity being drained away. Immunity from inheritance law was by no means the same as general tax exemption. The company's income was still subject to corporate tax, and pension payments to the family were also taxed individually according to the half-income method. Nevertheless, a foundation solution significantly reduced the tax burden, which was further reinforced by the fact that a business asset allowance of at least 35 percent could be claimed when transferring large holdings.⁵⁹

In addition to protecting and consolidating the property, the founder of a foundation owned company also had the opportunity to allocate control and management rights over the long term. The most important instrument was the statute, which not only specified who would occupy the foundation's administration and take on management functions, but also which basic principles, values and goals the management should be guided by. The founder was thus able to make not only material and primarily business provisions, but also to establish an ideal model for the preservation of his life's work. Here, too, the creation of a foundation had both conservation and design components. The challenge was that once a foundation's statute had been formulated, it was very difficult to change it under the strict eyes of the public foundation supervision of the state authorities. The specific design of the foundation therefore had to take into account its long-term anchoring – and this without knowing what specific challenges would await the company and the family in the next 20 or 50 years.⁶⁰

We can only speculate about what motivated Georg Karg to establish the family foundation. Personal documents that provide information on this do not seem to have survived. Nevertheless, an attempt will be made to get closer to his intentions using clues from the catalog shown below. The most important clues are provided by the wording of the Karg Family Foundation's statutes. In contrast to many earlier or later "refounders" of a foundation held company, there are no passages that attempt to formulate a mission statement for the Hertie Group. Emotional elements that allude to the preservation of his life's work and his entrepreneurial ideals are missing. This is certainly not enough to completely rule out such motives, but they seem to have been of secondary importance, which seems to correspond to Georg Karg's pragmatic and business-focused behavior in other contexts. The references to the family's social security and thus the foundation's orientation towards the benefit of others or, in this case, the family, were clearly formulated in accordance with the legal requirements. It is striking, however, that the foundation was only intended to act as an emergency fund if Karg's descendants were unable to support themselves due to unforeseen circumstances. The promised support was not excessive, with a maximum sum of 1,000 DM.⁶¹ The Hertie Foundation later also decided that there was little incentive to rely on the foundation alone. It was clear between the lines of the statutes that Karg firmly believed that his family members would finance their own lives and contribute their work to the company.⁶² It is fitting in this context that Georg Karg had already integrated his brothers Willy and Walter into the administration of Hertie GmbH in the 1930s in the classic manner of a family business. After the Second World War, at the latest, he put his son Hans-Georg in the position of his designated successor. He gave him responsible tasks in the reconstruction of the Munich department store, in the management of central purchasing, and later as

one of two managing directors of the entire group. The founder was apparently not faced with an immediate problem of finding new talent in the next generation.



Fig. 33: Georg Karg and his son around 1965.

First and foremost, Georg Karg nevertheless anchored his role as senior boss and patriarch by making himself the only director of the foundation for the rest of his life. It was his sole responsibility to choose his successor in the board function and to expand the board to up to three people as he saw fit. Behind this clause lay the option of integrating non-family experts into the management of the foundation and thus into the steering of the company.⁶³

In addition to the executive board, a legally obligatory board of trustees was established as the foundation's second body. It is striking that the board of trustees was to be formed immediately, but its "activities only begin after the founder leaves the board of trustees." Karg thus created the future organizational structure, but exempted himself from any third-party control during his own term of office. None of the comprehensive regulations on the governance of the founda-

tion and the company show more clearly how carefully Karg cemented his position as sole decision-maker for life. Any kind of supervision or input was eliminated and only deemed necessary for the next generation. Regardless of this, however, Karg kept a close eye on the family ties within the foundation held company. After his departure, the foundation's executive board joined the board of trustees, which also had a maximum of three members. The other members of the board of trustees were to be elected from the circle of those involved in the foundation, i.e. the family, and to be appointed by the respective president of the Hanseatic Higher Regional Court. Assuming that Hans-Georg Karg would take over the board of the foundation from his father, he would also join the board of trustees. Together with a relative, the family thus always had a 2:1 majority in decisions made by the associated committee.⁶⁴ The foundation's control structures enabled the family to keep the company closely under their control in the future. At the same time, the statutes also offered a kind of exit option for the family. Hans-Georg Karg was free to offer the chairmanship of the board and the seat on the board of trustees to a trusted external candidate. Overall, the founder created a clearly family-oriented governance that nevertheless offered a wise degree of flexibility in order to adapt to changing conditions.

If one considers the fact that Georg Karg had already tried in the 1930s to free himself from the corset of a corporation imposed on him in 1934, it must be stated that this step was finally successful with the establishment of the foundation owned company in 1953. As the sole owner for many years, he freed himself from the influence of banks, trustees or other interest groups that he had had to deal with in the GmbH. The Karg family was also able to get rid of the constant reporting obligations and advance the reconstruction of their company under the cloak of the significantly reduced publicity and transparency obligations of a foundation. The foundation not only shielded the company from the outside world in this respect, but also protected the material integrity of the company's assets against possible attempts to gain access. Hertie itself was the best example of an offensive expansion strategy that was shared by many rivals in the competitive department store industry. The extent to which the preservation and expansion of the company's capital was at the center of Georg Karg's interest is shown by the fact that the founder and his family members waived ongoing income from their property from the time the foundation was established.⁶⁵ In this way, they made it possible for the company's profits to flow directly back to the foundation to the greatest possible extent, and to be used for investments.⁶⁶ In return for handing over their property to the foundation, the family was given the right to have a say and to help shape the company's fortunes. The Karg Family Foundation was thus entirely in the tradition of the classic corporate foundation. The social private benefit only formed the legal bridge to an almost inseparable connec-

tion between the foundation and the company, as a confidant of Hans-Georg Karg later openly explained.⁶⁷

Against this background, it is clear that it was primarily business-pragmatic reasons that prompted Georg Karg to place his company in the care of a foundation. This impression is reinforced on the basis of the Hertie report of the Dresdner Bank from 1958, which, as a newly discovered historical source, outlines the process by which the company and the foundation merged. In contrast to the dominant portrayal in previous literature that Georg Karg had transferred almost all of Hertie GmbH's ownership shares to the foundation immediately after the foundation was established, the bank experts presented the transition as a cautious and gradual process. The report stated that the main aim was to use the foundation as an instrument for the internal reorganization of the fragmented parts of the group. The focus in the years 1953 to 1957 was initially on the centralization of purchasing and thus the functional area of a department store company in which the largest profit margins and rationalization potential lay. With the transfer of the shares of Betex Bergische Textil-GmbH, Ohigs Offenbacher Handels- und Industrie-GmbH and Bekleidungs- und Handels-GmbH, which was anchored in the original statutes, the purchasing companies were brought together under the umbrella of Hertie-Zentraleinkauf Ges. mbH and at the same time placed under the administration of the foundation. In October 1957, Hertie-Zentraleinkauf Ges. mbH was finally liquidated. With this step, "the foundation [. . .] is a fully commercial enterprise," judged the Dresdner Bank report, adding that since then it had openly but unofficially appeared with the addition "Karg Family Foundation – Hertie Head Office."⁶⁸

Parallel to the concentration of the purchasing companies, the Hertie owner began to gradually merge the operating and property companies from the beginning of the 1950s. The containers for this consolidation were Hertie Warenhaus- und Kaufhaus-GmbH on the one hand, and Hertie Vereinigte Kaufstätten GmbH on the other. The latter was founded in 1948 as a new property company for the group in Hamburg under the name Nordhag Waren- und Kaufhaus-Verwaltungs-Gesellschaft mbH. On January 7, 1950, the name change was entered in the commercial register as Hertie Vereinigte Kaufstätten GmbH. Its share capital of four million DM was divided 50 percent between the already established Union Vereinigte Kaufstätten GmbH, and 24.5 percent of the company shares were each held by Georg Karg's two children, Hans-Georg and Brigitte Gräfin von Norman. The Hertie boss himself retained a stake of just one percent. In the following years up to 1957, the real estate assets of all group companies that did not directly own their business premises were gradually transferred to Hertie Vereinigte Kaufstätten. The transaction was concluded with the renaming of the company, now based in a prestigious new building on Berlin's Wittenbergplatz, to Westber-

liner Grundstücksgesellschaft mbH. The second holding company, the actual Hertie Warenhaus- und Kaufhaus GmbH, brought the operating companies together. In order to create the basis for this, the share capital was increased in two steps in March 1955 and July 1956 from 2.5 to a total of 12 million DM. "One branch after the other," according to the major bank's observation, "was transferred to Hertie Waren- und Kaufhaus GmbH."⁶⁹ By the summer of 1958, this included, among others, the property company of the new department store in Dortmund, the Kaufhaus des Westens Vermögensverwaltungsgesellschaft, the Centrum Berlinische Boden GmbH, the Paul Held Nachf. Vermögensverwertungs-GmbH and finally also the Union Vereinigte Kaufstätten GmbH. This merger of companies in the hands of Hertie Waren- und Kaufhaus GmbH and Kaufstätten GmbH or the Westberliner Grundstücksgesellschaft reshaped and consolidated the group structures.⁷⁰ As the diagram showing the breakdown of the Karg family's assets shows (Fig. 34), the company structure was by no means completely slackened. The bilka and Wertheim complexes continued to form their own organizational strands, which were interwoven through the foundation and the family. In addition, there were new foreign companies and commitments or the founding of department stores, which were set up in their own companies, but at the same time had close capital and control ties to Hertie Warenhaus- und Kaufhaus GmbH.

The reorganization of the group ultimately paved the way for the decisive step of transforming the Hertie Group into a foundation. Over the course of the 1950s, little by little, and partly in parallel with the reorganization, Georg Karg and his children contributed 97.5 percent of the shares in Hertie Waren- und Kaufhaus GmbH into the Karg Family Foundation. It thus became the decisive authority in which capital, control and management came together in accordance with the statutes. This development was aptly outlined in the portrait of the Hertie Group in the publication series *Lebensbilder deutscher Stiftungen* from 1986: "The foundation and company assets were thus identical [. . .] and the foundation always exercised a direct and significant influence on the economic activities of the Hertie Group, which was expressed by the renaming of the 'Karg Family Foundation' to 'Hertie Foundation' in 1971."⁷¹ The Hertie Foundation, like its predecessor, remained privately owned. A change occurred only after the death of Georg Karg, who was succeeded, as planned, as long-term chairman of the foundation by his son. It was not until December 10, 1974 that the foundation broke free from the constraints of the 1950s and, as the "Gemeinnützige Hertie-Stiftung" ("Charitable Hertie Foundation"), began to promote science, education, and general and vocational training.⁷² Hundreds of millions of DM from the family foundation were rededicated to charitable work. The founder's business pragmatism was replaced in the next generation by a much stronger commitment to social responsibility.⁷³ Nevertheless, it was the changed legal framework that drove this

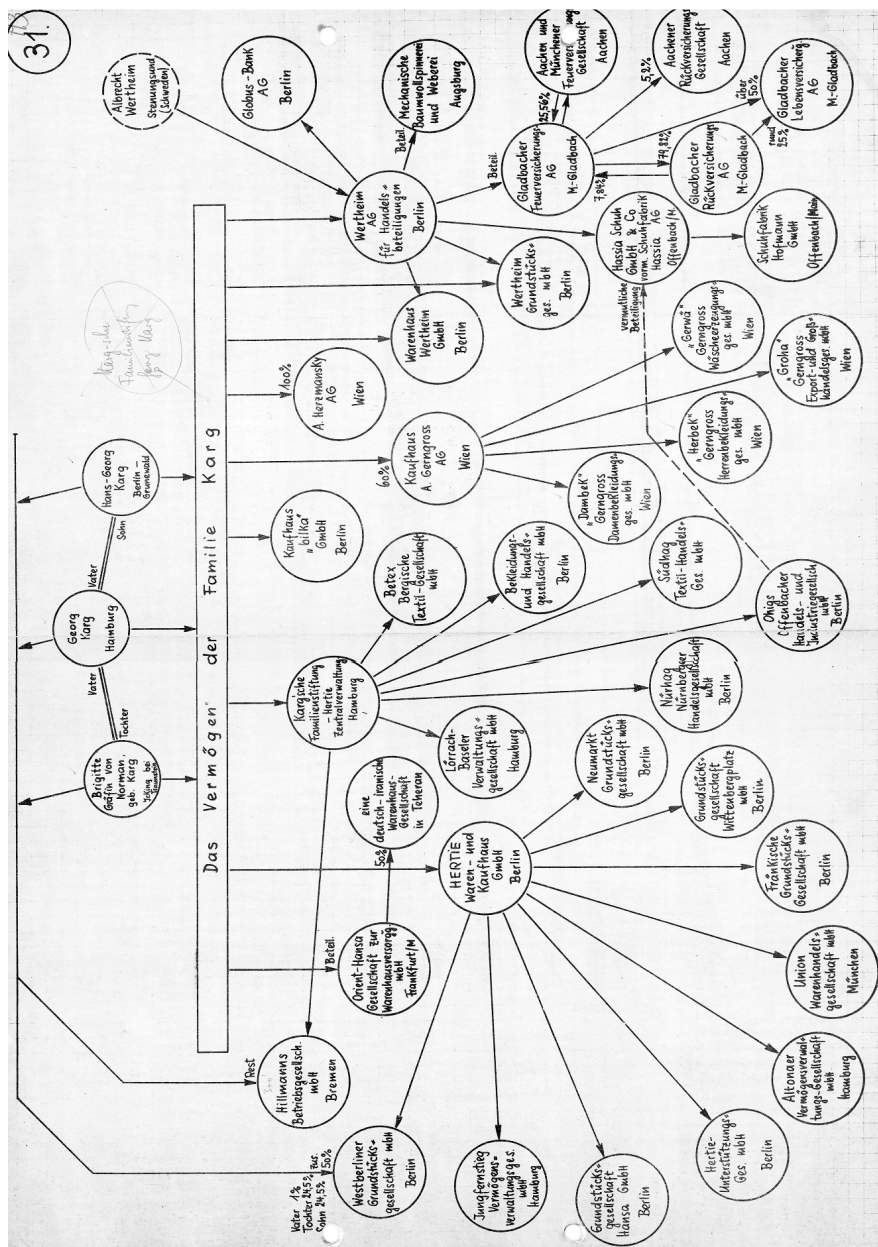


Fig. 34: Organizational chart “The Karg family’s assets” 1958.

step. With the reform of the inheritance tax and gift tax law in April 1974, the legislature re-regulated the long-discussed so-called “dead hand problem” of the permanent inheritance immunity of company-affiliated foundations. The tax advantages were largely withdrawn from all forms of non-charitable structures.⁷⁴ The step into non-profit status was thus a viable way to continue to shield the business assets and to continue the family-oriented corporate control over the foundation.⁷⁵

Overall, the Karg Family Foundation in its original form remained essentially a clever instrument of the foundation’s founder to reposition the Hertie Group as a family business and to protect it against internal and external challenges. From the very beginning, his motives were primarily of a business-strategic nature – an attitude that corresponded to Georg Karg’s constant search for the greatest commercial benefit.