

## Where we come from

### The story of the Hertie Foundation

The Hertie Foundation bears a well-known name that has its origins in a story spanning the entire period from the end of the 19th century until today. A story of the modest beginnings of a "thread, button, trimmings, underwear and woollens shop" in Gera, about the golden age of grand department stores, the Great Depression, the period of reconstruction after the Second World War and Germany's post-war "economic miracle", right through to the beginning of the 1970s when department stores experienced a dramatic decline. It is also a story of the strong personalities of the entrepreneurs who had the courage, skill and foresight to create and build an empire. And it is the story of political developments over a period of more than 100 years, which included two world wars and – with National Socialism and the GDR – two dictators on German soil.

The various threads of the story are inseparable and indeed they laid the foundations for an estate that generates the revenues for the Hertie Foundation to be able to fulfil its tasks in accordance with the wishes of its founder Georg Karg. Since being set up, the foundation has paid out more than EUR 450 million, either to finance projects of its own or in the form of grants, with focal areas being multiple sclerosis, neuroscience, education, integration, democracy and the reconciliation of career and family.

The commitment and great conviction that are demonstrated by the current descendants of Georg Karg are focused far ahead on the future, yet without forgetting the foundations of the past. The Board of Directors and the Board of Trustees of the Hertie Foundation are very much aware of the foundation's background. In view of its historical context, it is understandable that questions come up now and then regarding the origin of the name Hertie and the transfer of the company – which was founded by the Jewish family Tietz – to Georg Karg in 1933.

However, there is very little information available on this subject, in particular regarding the years from 1933 to 1945. This has been confirmed by two preliminary studies carried out on behalf of the Hertie Foundation in 2000 and 2008. Many documents and files were destroyed or disappeared in the confusion and turmoil of the Second World War. There are no longer any contemporary witnesses alive from the period. One of the preliminary studies comes to the conclusion that the information available is inadequate, the second expects "at the most a mosaic with many missing pieces".

To follow, we recount the story of the Hertie department stores – as well as is possible set against this background – up until the point when the Hertie Foundation was set up.

### The founding years

The actual founder of the company was Oscar Tietz, whose first job at the young age of 13 was as an apprentice in his uncle's shop in Prenzlau, selling haberdashery products, underwear and other assorted goods. In 1882, when he is just 23 years old, his uncle, Hermann Tietz, gives him the capital to set up his own shop in Gera. This "thread, button, trimmings, underwear and woollens shop" becomes the starting point for the later department store group and, in honour of the shop's financial backer, he trades under the name Hermann Tietz (from which the brand name HERTIE was later derived – from HERmann TIETz).

The revolutionary thing about Oscar Tietz's shop is its business model, which would later become the foundation for all modern department stores: prices are fixed and non-negotiable, the goods form a collection and cannot be ordered according to the customer's wishes, customers have to pay immediately in cash and cannot take goods on credit, and finally Tietz purchases his stock directly from the manufacturers, bypassing the wholesalers. As a result, the rapidly expanding "Hermann Tietz department store" is unrivalled in terms of its low prices. By the turn of the century, there are already 15 branches – in Weimar, Karlsruhe, Munich, Strasbourg, Stuttgart, Plauen, Hamburg and Berlin.

Spurred on by their success and positive experience, Hermann and Oscar Tietz visit some of the larger department stores in Europe and the USA and develop their own concept of a "department store for the masses", where even customers on a low income will be able to buy everything for their daily needs, from furniture and toys to food and clothing.

In the year 1900, the magnificent store in Leipziger Strasse, Berlin opens its doors for the first time, eclipsing all other stores that have been established in this sector. It is at this point at the latest that the company "Hermann Tietz" becomes a force to be reckoned with, as a trading company with several thousand employees.

## The years leading up to the Great Depression

Only a year later, in 1901, the business experiences its first financial crisis. The economy goes into decline. Many smaller retailers are now starting to feel seriously threatened by the department stores and the Prussian parliament therefore decides to enforce special conditions and levy taxes on their businesses. Competition between department stores – including Wertheim and Jandorf – also starts to heat up. The Tietz family responds to the situation with growth. By 1917, in the middle of the First World War, the company are close to reaching a turnover of 100 million Reichsmarks.

In 1923 Oscar Tietz dies. His sons Georg and Martin and their brother-in-law Hugo Zwillenberg take over the running of the company. In 1926 they acquire the business of their competitor A. Jandorf, who has six stores in Berlin, including KaDeWe. Among Jandorf's employees is a 38-year old man who will later take on a leading role in this story: Georg Karg.

The takeover now means that almost 18,000 people are working for Hermann Tietz, on a sales area of almost 90,000 square metres. However, the company's impressive growth is to a large extent financed through loans. This arrangement bites back with the arrival of the Great Depression in 1929: between 1930 and 1933, sales revenues of the company – now called "German Department Store Group" – fall by 46.6 percent, caused by the decline in the economy, mass unemployment and the beginnings of reprisals against Jewish business people. The balance sheets record losses for three years in a row.

## The era of National Socialism

By the beginning of 1933, Tietz is in debt to the tune of 85 million Reichsmarks. This precarious situation works to the benefit of the National Socialists in the period directly after they have seized power – they want to wind up all the department stores as they are apparently a threat to smaller retailers. However, the Reich's Minister for Economic Affairs, Schmitt, argues that the department stores are themselves large customers of manufacturers of goods and are also major employers. The department stores are therefore to be retained after all and, in Tietz's case, refurbished and at the same time "Aryanised".

In June 1933, the company's creditors (the banks), who are also under pressure from the government, make a demand of the Tietz family: liquidation or refurbishment. A consortium of banks forms "Hertie Kaufhaus Beteiligungs GmbH" ("Hertie Department Store Holdings GmbH") – the first time that we see the name Hertie being used. They approve a refurbishment loan of 11 million Reichsmarks and receive a 60 percent share in Tietz, which now effectively belongs to the banks.

The banks appoint Georg Karg – who has been Head of the Jandorf branch in Berlin-Charlottenburg since 1914 and later Head Buyer for Clothing and Textiles – to be the new Managing Director. Not an accidental choice – Karg has built up a name for himself as an exceptionally gifted businessman and has already been offered the position of Chairman of the Board of Directors of Karstadt AG, who were at that time also struggling, but turned this down, despite the considerable annual salary of 500,000 Reichsmarks. Later Georg Karg apparently supplied an answer to the question as to why he had been selected: "I was far and away the only one who was safe from racially motivated attacks."

From 1933 to 1936, Georg Karg is an employee of "Hermann Tietz & Co", as the group is now called, and runs the business on behalf of the majority shareholders, the banks. In 1933/1934 he conducts negotiations with the Tietz family in the name of the banks. The family are under political pressure to leave the company and to give up their remaining shares. They agree on a settlement of 12 million Reichsmarks. The Tietz family then emigrate to the USA.

The refurbishment of Hertie is laborious work. Georg Karg dismisses almost a third of the staff, including all Jewish employees. Yet economic recovery is very slow. By 1936 the company's debts have grown to 126 million Reichsmarks, according to Georg Karg's own account. As a result, the banks lose interest in their shareholding in the Hertie department store group, particularly as they now need to be diverting their attention towards the armaments industry. This is the situation in which Georg Karg offers to take over Hertie from the banks. It is a gradual process – they first of all sell him 50 percent of Hertie for four million Reichsmarks, and four years later the rest. Karg apparently finds around half of the funding for the acquisition from his own reserves, the other half comes from loans.

Not much is known about what happened in the Hertie department stores during the war years. Countless stores were destroyed by heavy bombing raids by the Allied Forces.

## The post-war period and the economic miracle

At the end of the war, Hertie – like Germany – is lying in tatters. 83 percent of the department stores are now in the Soviet-occupied zone and are therefore lost. All that is left are six stores, each of which has suffered damage to a different extent. They include KaDeWe in Berlin, which was completely gutted when a US fighter aircraft crashed into the atrium of the building in 1943. Outside of Berlin, the Hamburg "Alsterhaus" is still standing, as are the stores in Munich, Stuttgart and Karlsruhe.

In 1949 Georg Karg gives the last three of these back to the Tietz family who make a claim for reparations at the end of the war, but he continues to use them, leasing the buildings from the family in return for a share of turnover. Working in makeshift offices and on the ground floors of the stores, which are still intact, Karg starts to sell goods again – at least those that he can get hold of.

It is now that Karg's wealth of experience – by the end of the war he is 57 years old – and talent for motivating his staff start to pay off. In some cases, employees drive hundreds of kilometres by truck to get to the factories.

With the income earned, Karg finances the reconstruction and expansion of his business. He takes over a number of further stores from competitors, sets up the retail chain "bilka" and, by the end of the 1950s, is able to buy back the three stores that now belong to the Tietz family, for the market price at that time. Between 1946 and 1972, the year of his death, Georg Karg had opened a further 42 new department stores.

## Crisis for the department stores

By the early 1970s, business is no longer going well. Four large department store groups – Karstadt, Kaufhof, Horten and Hertie – are competing for the attention of customers who are now being offered some attractive alternatives, first of all by mail-order catalogues and later by large shopping centres built on green-field sites.

Right up until the 1980s, Hans-Georg Karg, Georg Karg's son, fights for the future of Hertie together with his team of managers, but ultimately it seems that a merger with Karstadt is the best way forward. In 1993 the Hertie Foundation – who now own the department store shares – sell Hertie to Karstadt. The larger stores are converted to branches of Karstadt, the smaller ones are combined to become "Karstadt kompakt" and, in the summer of 2005, are sold to a British financial investor. These 73 stores once again bear the name Hertie but the venture is not successful. In July 2008, the company is declared bankrupt and in May 2009 the creditors decide to close the stores and the head office in Essen.

## The Hertie Foundation

The name Hertie still lives on, however, in the Hertie Foundation and its many initiatives. Georg Karg had set up the Hertie Foundation as early as 1953, investing almost all the shares of his limited company. In 1974 the Board of Directors of the foundation, who included Hans-Georg Karg and his sister Brigitte, Countess of Norman, set up the "Hertie Foundation for the Promotion of Science, Parenting, Adult Education and Vocational Education", investing 97.5 percent of the business shares of Hertie Waren- und Kaufhaus GmbH.

In what is now more than 40 years of its existence, the Hertie Foundation has initiated more than 40 projects and has provided financial support to many more, in some cases with quite significant sums of money. Some of the biggest and most well-known of these projects are the Hertie School of Governance in Berlin, which has more than 500 students, the Hertie Institute for Clinical Brain Research in Tübingen, the START Foundation for young people with a migration background, the school competition "Jugend debattiert" ("Young people debate"), the auditing and certification programme "berufundfamilie" ("career and family") and, most recently, the German Integration Prize. There is also a strong focus on social engagement, for example through the foundation's support for people suffering from multiple sclerosis and their commitment towards Frankfurt as their "hometown".

## About Georg Karg

Georg Karg was born on 2 August 1888 in Friedberg in der Neumark as the seventh of ten children. His parents have a business manufacturing fabrics. When Georg is just 15, his father's company starts to get into difficulties and he has to leave school with his "Mittlere Reife" school-leaving qualification. He starts work as an apprentice in the department store F.R. Knothe in the neighbouring county town of Meseritz.

From the very beginning, it is clear that Karg has a talent for business and commerce and he is incredibly hard-working. At the age of 20, he decides to move to Berlin to further his career. Wertheim and Tietz both turn down his job applications, however, so he takes on a position as a clothing and textiles salesman in one of the six department stores owned by Jandorf. Just one year later, he is promoted to the position of Clothing and Textiles Buyer, a role that is normally not attained until the age of around 35 or 40 years of age. After a further four years, Karg becomes Managing Director of the Charlottenburg store and is now in charge of 600 employees.

When Jandorf sell their department stores to the Tietz family in 1926, Georg Karg becomes Head Buyer for all clothing and textiles at Tietz. This makes him the group's most important central buyer and at the same time one of the most highly paid department store managers in Germany. This may have been a contributory factor in his decision in 1931 to turn down an offer to become Chairman of the Board of Directors of Karstadt.

Georg Karg has always been a reserved and rather quiet man. He lives 100 percent for his department stores, with a great sense of responsibility towards his employees and towards society as a whole. His good memory is legendary – even after many years, he is able to remember individual employees he has only met once – and people are in awe of his phenomenal skills in dealing with figures.

By today's standards, Georg Kahn was a patriarch but, for the times when he lived, he was a caring, socially responsible company director who was always open to new ideas. He never joined any political party or federation; those who knew him describe him as non-political and extremely pragmatic. He only once granted an interview to a journalist in the course of his life, bringing the company of Hertie the nickname "the silent giant".

He once described his passion for department stores with the following words: "I wasn't actually born in a department store, but I spent pretty much the rest of my life in one."

Sources:

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