

I N T R O D U C T I O N

A Nation and a Name

Alfred Krupp made the name Krupp into a German icon. For him, it was not a coincidence that the dramatic period of expansion of the small enterprise that his father had established in 1811 coincided with the creation of the German Empire. He proudly announced to Wilhelm I, the new emperor, that they were now living in the “steel age.” Kaiser Wilhelm I and Bismarck were both quick to see and confirm the parallels between the new politics and the new business. But the identification between the house of Krupp and the German political order did not stop with the death of Krupp in 1887 or of Wilhelm I in 1888. Krupp’s son, Friedrich Alfred, cultivated an even closer relationship with Wilhelm I’s grandson, Kaiser Wilhelm II. The new business culture reflected the kaiser’s own search for modernity and greatness. For Adolf Hitler, Krupp was also an icon. In *Mein Kampf* and again in 1935 at the Nuremberg party rally, Hitler exhorted German youth to be as “quick as a greyhound, as tough as leather, and as hard as Krupp steel.”¹ Some people quibbled that Krupp steel was notably resilient (because slightly malleable) rather than hard, but the company liked the analogy at the time. In 1945 at the International Military Tribunal in Nuremberg, where Gustav Krupp von Bohlen und Halbach was indicted as one of twenty-four major

INTRODUCTION

war criminals, prosecutor Robert Jackson also used Krupp as a symbol: “Four generations of the Krupp family have owned and operated the great armament and munitions plants which have been the chief source of Germany’s war supplies. For over 130 years this family has been the focus, the symbol, and the beneficiary of the most sinister forces engaged in menacing the peace of Europe.” After the Second World War, Krupp remade itself as a symbol of the new success—and new openness—of the Federal Republic. Welcoming the G-7 finance ministers and central bankers to a high-level meeting in Alfred Krupp’s grandiose 269-room Villa Hügel in February 2007, the German Social Democratic Party (SPD) finance minister Peer Steinbrück stated: “Since then [1870–73, when the villa was built] the name ‘Krupp’ and thus the Villa Hügel have not only come to symbolize German industrialization, but German history per se. They have become both a synonym for pioneering industrial work and social responsibility in times of seemingly infinite economic prosperity as well as an example of more than questionable conduct during the darkest hours of German history.”²

On the eve of the First World War, Krupp had been by far the largest German company, with assets of 599.5 million marks in 1912, although it was only one-fifth the size of the largest American corporation, the giant U.S. Steel, and half the size of the largest British firm, the thread and textile maker J. & P. Coats. Its owner, Bertha Krupp von Bohlen und Halbach, was listed as being, with assets of 283 million marks, the wealthiest person in Germany (the kaiser was only the fifth richest). By 1937 it was still the fourth-largest German firm in terms of market capitalization (behind the steel giant Vereinigte Stahlwerke, IG Farben, and Siemens) and the forty-eighth largest

INTRODUCTION

corporation in the world.³ In 2005 ThyssenKrupp was in 85th place on the Fortune Global 500 list (ordered by revenue) and in 2010, 123rd place.

Krupp seemed to stand for a particular German way of doing business. Later analysts called this “Rhineland capitalism.”⁴ It involved several distinctive elements that were blended together into an astonishingly durable and successful synthesis of business culture: a commitment from the beginning to export orientation (an embrace of what we would today call globalization); a close relationship with the state, as a regulator, as a purchaser of industrial products, and as a source and guarantor of credit; a long-term commitment to a skilled workforce that was tied to the enterprise by material inducements but also by a sense of loyalty to a factory community rather than just to an owner; suspicion of “capitalists,” financiers, and stock markets (even though banks played a prominent part in the financing of much of German heavy industry); and also suspicion of the principle of competition. Instead, the business model relied on obtaining absolute preeminence in a well-defined market for a number of specialized and skilled products. We would speak today of niche markets. But these niche markets were scaled up in the course of the nineteenth century and of German industrialization, so that the niches expanded to fill the world.

What drives a company? To assume that the motive force is simply a rational search for profit is endlessly naive. There are alternative visions of the ultimate purpose of business and of the motivation of owners, managers, and workers. Is the driving impulse service to the nation? Is it the link to political power? Is it a question of the psychic satisfaction of the owner or the leading managers? Is it an idea about innovation? Is it a functioning

INTRODUCTION

within a network of trust and relationships? All these answers have been given to explain the alleged peculiarity of continental European capitalism.

Some of the major themes of the subsequent development of the Krupp company (and which are at the heart of the analysis of this book) emerged in the nineteenth century and were then hardwired into a corporate culture that became a sustaining vision: first, the absence of an exclusive focus on profitability. The idea that business was not just about the accounting result was eventually institutionalized in the concept of a foundation (Alfried Krupp von Bohlen und Halbach-Stiftung) as owner of the company, rather than anonymous shareholders or even a large and dispersed family. Thus, at the same time as the student revolution of the late 1960s swept Germany, the Krupp enterprise ceased to be a family business. But the notion of a mission that went beyond profitability had its origins in an extraordinary nineteenth-century story in which for its first twenty-five years the company lost money. Such sustained unprofitability is unfamiliar in the age of modern capital markets, though some technologically dynamic companies do survive in stock market valuations for some time without showing profits, and only on the basis of potential. The early nineteenth century had a deeper answer that still holds true in many major emerging market economies, namely, that a network of family and friends, usually tied in with kinship links, can sustain an idea that they believe in for a very long time. But in reading the early story of Krupp, one must bear in mind that almost any modern company following that trajectory would not survive for the time Krupp needed to become a profitable enterprise: it would simply fizzle and die.

INTRODUCTION

There may be analogies in the nineteenth century to the very modern world of high-tech entrepreneurship, start-up ventures, and venture capital. In recent years in California's Silicon Valley, it was often said to have been a rite of passage or even a badge of honor for entrepreneurs to have one or even more bankruptcies behind them. It could be interpreted as a sign that they knew the world. But the nineteenth-century German example is different in that it was not just the individual entrepreneur who went from one business failure to a completely new field that promised more success, but that a whole business with a complicated web of human involvements and connections underwent that transition.

The second theme is that a technically advanced enterprise exists in an international and even global system. From the beginning of the Krupp story there was a focus on competition with the most advanced economy of the time, that of Great Britain, and simultaneously an acknowledgment of the importance of countries that were catching up from what used to be called "economic backwardness": nineteenth-century Russia, Brazil, Egypt, or China. Even Friedrich Krupp, the founding entrepreneur, in the beginning of the nineteenth century dreamt of a factory in Russia. In the 1950s and 1960s, Krupp and especially the highly influential plenipotentiary Berthold Beitz recognized much earlier than most other firms the potential represented by what we now call "emerging markets": especially the very big emerging markets of Brazil, India, Russia, and (a little later) also China.

Third and finally, the enterprise lived in a perpetual tension between the story (occasionally very dramatic) of family ownership and the establishment of a complex business organization. Germans like to portray German

INTRODUCTION

business life and even intellectual life as a series of family affairs: the story of the Krupps, Thyssens, Siemens, Haniels, and more recently Burdas, Quandts, and Porsches, or of the Wagner and Mann clans. Especially in the second half of the twentieth century, the Federal Republic's media both glamorized and demonized (but fundamentally trivialized) business leaders, and the major business families became running stories for publications such as *Stern*, *Bunte*, and (especially in the case of Krupp) *Der Spiegel*.

In the nineteenth century there was also a parallel story of heroic entrepreneurship, in which an exceptional individual broke through the conventions, tastes, and limitations of his (rarely her) own time and created a new reality and a new world. For these figures, the imagination triumphed. The nineteenth century was the age of Great Men: of Goethe, Chopin, Liszt, Bismarck, Gladstone, Garibaldi. The heroic entrepreneur—an Alfred Krupp, for instance—easily fitted alongside such figures.

In 1967, in a dramatic and wrenching gesture, the Krupp enterprise was taken out of the world of family business and put into a new setting, as a company owned by a foundation. The Alfred Krupp von Bohlen und Halbach-Stiftung had not one purpose but a double mission: on the one hand, it was explicitly designed to preserve a very particular enterprise and a historical business culture; and, on the other, it was dedicated to projects that were to be in the general good.

The obsession with a heroic businessman, who might be an angel or a demon, is not uniquely German. It is also found, for instance, in the work of the Irish-British writer George Bernard Shaw, whose fictional Andrew Undershaft in his play *Major Barbara* is drawn heavily from the charismatic figure of the arms dealer Basil Zaharoff

INTRODUCTION

(1850–1936) as the “wicked rich one.” But the Faustian character of the business leader, and the expectations that surround succeeding generations, appear with particular harshness in the case of Germany, and especially in the story of the Krupp family.

Alfred Krupp in the nineteenth century knew about the potential for criticism and hostility. But what was peculiar about Krupp’s business was how insistent Alfred Krupp was that the company should bear the name of his father, Friedrich Krupp. In other words, the company was named after someone whose entrepreneurial activity was characterized by more or less constant and continual failure, bitter failure. The name Friedrich Krupp seemed to stand as a perpetual *memento mori*, the equivalent of the pictorial depictions of *vanitas* that in earlier centuries merchants kept in their rooms to remind themselves not just of the transformative power of the imagination but also of the fallibility of all human effort.