

Frequently Asked Questions – The Science of Success

How was the Market-Based Management® business philosophy developed?

The Market-Based Management (MBM®) philosophy was developed by Charles Koch through more than 40 years of reading, learning, applying, re-thinking, modifying, failing, achieving, and then evolving. The essence of it is that you only become successful by making others better off.

Why was the book written?

As we developed MBM at Koch Industries, we worked to train employees on its principles and drive adoption of it throughout the organization. Initially, the bulk of the training was done by Charles Koch but as Koch companies grew, that became impossible. So, a training capability was developed with key leaders training groups of employees.

Over the years, teaching materials were developed to aid employees. As Koch companies grew from about 10,000 employees in 2000 to 80,000 employees in 2006, the challenge of how best to share MBM within and without the companies was addressed when Charles Koch wrote an MBM introduction for employees.

That introduction evolved into a book for employees. Then, based on Koch companies' desire to share the philosophy, the employee book was published for a wider audience.

What do you hope the book accomplishes?

The world is always changing, and we need to embrace change. MBM encourages innovations that create value for both the company and society. If this book helps readers accomplish that, it will have served its purpose.

How do you describe Koch Industries?

Koch Industries, Inc. is a market-based capabilities and opportunities company that is bounded only by capabilities, rather than any single industry. The company's roots are in the petroleum industry, but today Koch Industries is engaged in refining and chemicals; process equipment and technologies; commodity and financial trading; fibers and polymers; and forest and consumer products. Koch Industries also has an extensive ranching operation and business development teams.

If MBM is your competitive advantage, why are you sharing your template for success with the world?

Society benefits when people act in a principled way. The goal of sharing MBM is to sustain a culture of entrepreneurship and free enterprise - the future of America depends on it. The continual growth of government, the misunderstanding of the principles of prosperity and the politically driven class warfare dividing our country threatens our future. Furthermore, only those dedicated to creating long-term value and who understand the beneficial aspects of a market economy will be able to capture the benefits from MBM.

We know from history, economics, and other disciplines that prosperous societies have very different rules and norms from failed societies. Prosperous societies generally allow for and reward entrepreneurial innovation that leads to wealth, health, and happiness. An organization applying the MBM approach is one that has similar principles, rules, and culture, in order to foster principled, entrepreneurial behavior among its employees.

How do you measure the success of a company?

The balance sheet is only one way. The true measure of success is the ability to consistently commit resources efficiently that results in added value for society. Thus, you have customers who are willing to pay a price for the goods and services you produce, you produce those goods and services efficiently, and you accomplish it over and over and over again.

What's next for Koch Industries and MBM?

In talking about continuous improvement, Deming said: "You never get out of this hospital." Koch companies will always work to improve our understanding and application of MBM.

What other businesses do you believe practice MBM and principled entrepreneurship?

There are many great, successful companies. Some have different ownership structures, challenges and goals. None of those that we are aware of apply Market-Based Management as a holistic approach to achieving results.

There are many other successful companies that do not seem to practice MBM. Why do you think they are successful?

MBM is not the only way to achieve business success. What this book focuses on is how MBM has contributed to the success of Koch companies.

What is Principled Entrepreneurship™?

Principled Entrepreneurship™ is the practice of maximizing long-term profitability by creating real value in society while faithfully acting lawfully and with integrity.

What is Creative Destruction?

Joseph Schumpeter on Creative Destruction: "The...process of industrial mutation... incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of creative destruction is the essential fact of capitalism."