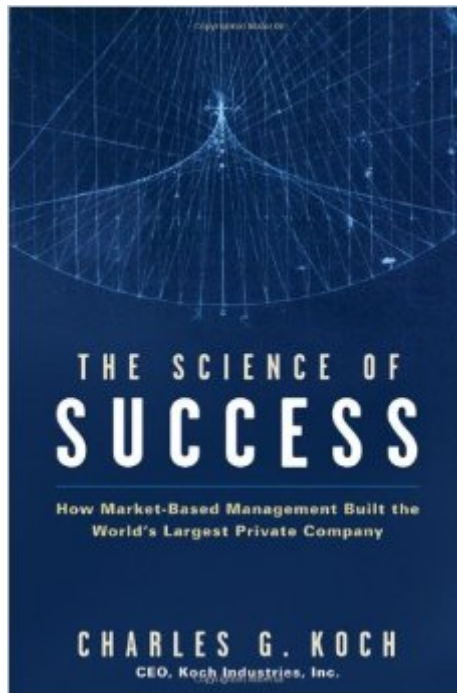


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# The Science Of Success: How Market-Based Management Built The World's Largest Private Company



## Synopsis

Praise for THE SCIENCE OF SUCCESS "Evaluating the success of an individual or company is a lot like judging a trapper by his pelts. Charles Koch has a lot of pelts. He has built Koch Industries into the world's largest privately held company, and this book is an insider's guide to how he did it. Koch has studied how markets work for decades, and his commitment to pass that knowledge on will inspire entrepreneurs for generations to come." â T. Boone Pickens "A must-read for entrepreneurs and corporate executives that is also applicable to the wider world. MBM is an invaluable tool for engendering excellence for all groups, from families to nonprofit entities. Government leaders could avoid policy failures by heeding the science of human behavior." â Richard L. Sharp, Chairman, CarMax "My father, Sam Walton, stressed the importance of fundamental principlesâsuch as humility, integrity, respect, and creating valueâthat are the foundation for success. No one makes a better case for these principles than Charles Koch." â Rob Walton, Chairman, Wal-Mart "What accounts for Koch Industries' spectacular success? Charles Koch calls it Market-Based Management: a vision that nurtures personal qualities of humility and integrity that build trust and the confidence to enhance future success through learning from failure, and a culture of thinking in terms of opportunity cost and comparative advantage for all employees." â Vernon Smith, 2002 Nobel laureate in economics "In a very thoughtful, creative, and understandable way, Charles Koch explains how he has used the science of human behavior to create a culture that has produced one of the world's largest and most successful private companies. A must-read for anyone interested in creating value." â William B. Harrison Jr., Former Chairman and CEO, JPMorgan Chase & Co. "The same exacting thought, rooted in the realities of human nature, that the framers of the U.S. Constitution put into building a nation of entrepreneurs, Charles Koch has framed to build an enduring company of entrepreneursâa company larger than Microsoft, Dell, HP, and other giants. Every entrepreneur should study this book." â Verne Harnish, founder, Young Entrepreneurs' Organization, author of Mastering the Rockefeller Habits, CEO, Gazelles Inc.

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## Customer Reviews

The Science of Success is the most important book about governance, leadership and management since Drucker's magnum opus in 1974. This statement is not a casual claim but is the result of my close study of Charles Koch's Market Based Management during the past six years. MBM <sup>TM</sup> <sup>®</sup> was an integral part of my course, Managing in a Market Economy at the Columbia Business School and has been the focus of my academic research as well as my service as a consultant and director of several public corporations. The book is short and seems deceptively simple but that is also true of the United States Constitution. Every sentence in the Constitution and every concept in The Science of Success evokes profound thought: it is based on principles rather than prescriptions - not "how to do" but rather "how to decide". The age-old arguments about decentralization, delegation, incentives, acquisitions, divestitures, sunk costs, opportunity costs, vision - indeed almost every quandary a manager faces - are cast in a bright new light. Make no mistake, however. Even though Charles Koch might seem short on prescriptions he is strong on principle. He has synthesized his study of history, political science, psychology, philosophy and economics (augmented by his 40 years leading Koch Industries, the world's largest and one of its most successful private companies) into a clearly articulated applied science. He draws heavily on the work of the "Austrian School" economists - Menger, von Mises, Hayek, as well as Schumpeter and Drucker. These were the men who most clearly articulated the immutable laws of markets based on their observation of humans in action rather than esoteric mathematical models.

The Science of Success is a rare opportunity to learn how Charles Koch built one of the most successful companies in history. Think about it. This company: 1. Didn't have a sexy product or build a national image 2. Didn't get jump-started with a technological breakthrough, or create a new industry 3. Didn't rely on political connections or Wall Street gurus to help sell its products 4. Didn't, as a privately held company, have access to expansion capital from stock sales, and 5. DID face stiff

competition from some of the largest and most competitive companies in the world. Yet under the guidance of Charles Koch, Koch Industries grew from a relatively small company to the largest privately held firm in the country, along the way building a record of profitability that leaves most companies you thought were successful in the dust. If you haven't heard of Koch Industries, you're not alone. This story really hasn't been available to the public until now. How did Koch do it? With Market-Based Management, the business philosophy he lays out in this book. The book includes a thorough discussion of what MBM is and how it was used to create phenomenal value for the owners, employees and customers of Koch Industries. I'm usually highly skeptical of books "written" by successful businessmen. How many truly successful people are really willing to share their secrets? How many really take the time to write a book? But I have some experience with Koch Industries (I'm a former employee and still do some consulting for the company), and I can verify that these are the same concepts Charles Koch has been teaching his employees, from top management on down, for at least 20 years.

Finally, Austrian economics has triumphed---in the business world! Imagine, a billionaire thanking Ludwig von Mises and Friedrich Hayek for creating the world's largest private company, Koch Industries. Koch's book shows how his "Market-based Management" (MBM) strategy could revolutionize business, government, and non-profits. Two years ago, Koch established the "Market Based Management Institute" at Wichita State University. Will it not be long before MBA students at Harvard and Stanford are assigned Mises's Human Action or Hayek's Individualism and the Economic Order? There's nothing like a big success story to transform the B school's pedagogy. And there's nothing bigger on the scene today than Koch Industries, which has transformed itself into a giant commodity and financial conglomerate. The company has grown as fast as Warren Buffett's Berkshire Hathaway. Is the next paradigm shifting from Omaha to Wichita? Economics of late has transformed itself from the dismal science to the imperial science, invading politics, finance, history, law, religion, and now business management. In Koch's MBM guidebook, the Austrian concept of opportunity cost of capital is now "Economic Value Added (EVA)," property rights has become "decision rights," and Hayek's rules of just conduct translates into "principled entrepreneurship." Koch's book is an essential translation of Austrian theory into business practice. Charles Koch is a shy man. Unlike Buffett's company, Koch Industries is a private company, a situation Koch prizes. He doesn't have to worry about Sarbanes-Oxley, nor how quarterly earnings and executive stock option compensation distort the stock price. "Perverse incentives make managing a public company long term extremely difficult," he writes.

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