A change like no other
by Charles Koch, Chairman and CEO – Koch Industries, Inc.

Five years ago, I wrote in *Discovery* that our “Vision should continually change as the business environment and our capabilities change, and as we learn what we need to do to more effectively make progress.” So it should come as no surprise that we have revised Koch Industries’ Vision and Guiding Principles once again.

But these changes are unlike any that we have made in the past. They are more necessary, more urgent and more fundamental. They are so important that I want to make sure that you not only understand what we’re changing, but why.

**CREATIVE TRANSFORMATION**

As our new Vision states, creative destruction has always been with us, but today’s rate of change is unprecedented. The speed and degree of these changes are improving people’s lives and creating exceptional opportunities, but are also threatening the very existence of long-standing jobs, firms and industries.

Some have reacted to these changes by trying to slow things down or stop them altogether. Taxi drivers want to ban Uber. Politicians want to ban imports. Universities want to ban ideas that challenge their orthodoxies. Manufacturing workers want to ban robots. Many businesses seek the government’s help — asking it to pick the winners and losers.

The alternative to this harmful approach is to not only embrace change, but drive it. It’s not enough to just do things more efficiently. We need to be thinking in terms of new business models, new ways of doing things, ways that are transformative.

**Our goal is to create virtuous cycles of mutual benefit.**
– Charles Koch

**THE PAST AS FUTURE**

To meet our new challenges at the business and capability level, we more deeply examined what had made us so successful over the years. We found that it was creating virtuous cycles of mutual benefit.

The cycle begins when we develop capabilities that enable us to create value for others. In business, this allows us to capture opportunities where we are rewarded for creating superior value for our customers. As we improve and add to...
our capabilities, new opportunities open, which point to the need for additional capabilities, and so on, in never-ending cycles of improvement and growth.

It’s a system based on mutually beneficial relationships — on a philosophy of enlightened self-interest — the realization that you will benefit when you make the other party better off. I have yet to find any business or aspect of life where this approach does not work.

We believe that to succeed in the future, every business must greatly improve its ability to create these cycles, utilizing whatever technologies are useful.

**A PRINCIPLED APPROACH**

To help us all understand how we can contribute to this new vision as employees, we have also updated our MBM® Guiding Principles. This is essential because virtuous cycles can only be created by employees who understand and are committed to what is required.

All of us must internalize and live by the Guiding Principles. Doing so can enable anyone to become more fully self-actualized. This is necessary for creating virtuous cycles, because self-actualized people are motivated to cooperate, create and contribute, and are eager to take on new challenges.

MBM has been developed from a wide range of principles originating from multiple sources. But there are two sources, in particular, that are fundamental to understanding our Vision and Principles. These are the U.S. Declaration of Independence and an insight from Friedrich Hayek.

**SELF-EVIDENT TRUTHS**

The Declaration of Independence promised a society of equal rights and human dignity. To bring this about, the founding fathers envisioned a government that would secure these rights rather than violate them, as had been the case throughout history.

Frederick Douglass, a former slave and leading abolitionist, saw their importance: “The principles contained in that instrument are saving principles. Stand by those principles, be true to them on all occasions, in all places, against all foes, and at whatever cost.”

Douglass also saw that America had fallen far short of that ideal. African-Americans and Native Americans had no rights, and women, certain immigrants and several religious minorities had only partial rights. Many others had their rights violated through protectionism and cronyism, as they do today.

Our Vision for Koch Industries is based on our belief that we must honor these inalienable rights and create value for society as a whole, as well as for our customers, employees and other constituencies.

**THE GREATEST DISCOVERY**

A pivotal insight from Hayek provided the first quote in my book, “Good Profit.”

“The possibility of men living together in peace and to their mutual advantage, without having to agree on common concrete aims, and bound only by abstract rules of conduct, was perhaps the greatest discovery mankind ever made.”

As I commented at the time, the principles of that discovery “mirror the goal of my business management framework: that everyone knows the right thing to do and is motivated by it — without explicit or overly detailed rules.”

Like Hayek, I believe we succeed when we are free to interact, share ideas, make spontaneous connections and help others do the same.

That’s why at Koch we provide a framework rather than long lists of rules. We want you to have the freedom and opportunity to become self-actualized — to achieve fulfillment in your life and career by realizing your potential.

Self-actualized people are motivated to make ever-greater contributions to those around them, because doing so enables them to have an increasingly rewarding and fulfilling life. This is the same concept of mutual benefit at a personal level.

**CONCLUSION**

It is time-honored, proven principles that form the foundation of our business. Those same principles have transformed my life and enabled me to do far more than I ever imagined.

By applying them to your life’s work, I am confident they will do the same for you.
The role of business in society is to help people improve their lives by providing products and services they value more highly than their alternatives, and do so responsibly while consuming fewer resources. To the extent a business accomplishes this, its profitability is a valid measure of the value it creates in society. Creative destruction has always been with us, but today's rate of change is unprecedented. The speed and degree of these changes are improving people's lives and creating exceptional opportunities, but are also threatening the very existence of long-standing jobs, firms and industries. To succeed in this new world, we must have a heightened sense of urgency and the commitment to continually transform our performance. We cannot create superior value for our customers, company, employees and society unless we develop new visions, strategies, methods and products. Disruptive technologies can be a powerful tool for all of these.

By being a preferred partner and driving continuous improvement and perpetual transformation, we can generate virtuous cycles of mutual benefit. Such cycles – created through MBM®, and enhanced by remaining private and reinvesting 90% of earnings – result in superior returns and growth.

**Koch Industries, Inc.**

**Vision**

MARKET-BASED MANAGEMENT
MBM® is the overarching capability that guides all others through the application of its framework, dimensions, principles and concepts.

COMMERCIAL EXCELLENCE
Be Principled Entrepreneurs. Give preference to counterparties with aligned vision and values, and complementary capabilities. Use good economic thinking to generate continuing cycles of new capabilities and opportunities.

OPERATIONAL EXCELLENCE
Be the preferred operator. Exemplify Stewardship and Compliance. Seek, acquire, develop and apply the strategies, methods and technologies that lead to competitively advantaged performance.

INNOVATION
Identify trends early, continually experiment, leverage Knowledge and drive Transformation in order to maximize results.

TALENT
Select, develop, reward and retain employees based on their commitment to our Guiding Principles. Enable employees to maximize their potential and contributions by becoming more fully Self-Actualized. Ensure roles are based on comparative advantage and reward employees for the value they create.

PUBLIC SECTOR
Help make Koch the preferred partner of its key constituencies. Create the best possible environment for Principled Entrepreneurship™. Help remove barriers that prevent people from realizing their potential. Motivate others to do the same.
GUIDING PRINCIPLES

These principles define who we are as an organization. We all have a responsibility to live by them daily. They are essential to the creation of virtuous cycles of mutual benefit.

1. **INTEGRITY**
   Have the courage to always act with integrity.

2. **STEWARDSHIP & COMPLIANCE**
   Act with proper regard for the rights of others. Put safety first. Drive environmental excellence and comply with all laws and regulations. Stop, think and ask.

3. **PRINCIPLED ENTREPRENEURSHIP™**
   Practice a philosophy of mutual benefit. Create superior value for the company by doing so for our customers and society. Help make Koch the preferred partner of customers, employees, suppliers, communities and other important constituencies.

4. **TRANSFORMATION**
   Transform yourself and the company. Seek, develop and utilize the visions, strategies, methods and products that will enable us to create the greatest value.

5. **KNOWLEDGE**
   Acquire the best knowledge from any and all sources that will enable you to improve your performance. Share your knowledge proactively. Provide and solicit challenge consistently and respectfully.

6. **HUMILITY**
   Be humble, intellectually honest and deal with reality constructively. Develop an accurate sense of self-worth based on your strengths, limitations and contributions. Hold yourself and others accountable to these standards.

7. **RESPECT**
   Treat everyone with honesty, dignity, respect and sensitivity. Embrace different perspectives, experiences, aptitudes, knowledge and skills in order to leverage the power of diversity.

8. **SELF-ACTUALIZATION**
   Be a lifelong learner and realize your potential, which is essential for fulfillment. As you become increasingly self-actualized you will better deal with reality, face the unknown, creatively solve problems and help others succeed.
Virtuous cycles of mutual benefit are made possible by two interrelated philosophies: becoming a preferred partner and continual transformation. They begin when we develop capabilities that enable us to create value for others. We apply these capabilities to serve the customers for whom we can create the most value, and who will reward us accordingly. We call these cycles virtuous because they benefit all the parties involved.

As we improve and add to our capabilities, new opportunities open, which point to the need for additional capabilities. This leads to never-ending cycles of improvement and opportunity. To ensure that these cycles are both never-ending and virtuous, we strive to become the preferred partner of all our constituencies: customers, employees, suppliers, communities, co-investors, regulators and society as a whole. These cycles also require that we continually transform ourselves.

At its root, MBM® is designed to help our organization succeed by creating value for others. More specifically, it is a guide to becoming the preferred partner of our core constituencies. To achieve this, we:

- Provide customers with products and services they value more than their alternatives. Anticipate what customers’ alternatives will be so we can continue to create value for them in the future. Our preferred customers are those who compensate us for the value we create.
- Help employees realize their potential. This is why we select, develop, reward and retain employees based on their commitment to our Guiding Principles. We work to ensure that employees develop their innate abilities into valued skills, have roles for which they have a comparative advantage and are rewarded for the value they create.
- Select suppliers who share our vision and values, and can and will create the most value for us. Then we compensate them for that value.
- Locate in communities that have the laws, culture, capabilities and geographic location that enable us to create the most value. We dedicate ourselves to making those communities a better place to live by applying our Guiding Principles.
- Give preference to co-investors with aligned vision and values, complementary capabilities and a willingness to create a relationship of mutual benefit.
- Work to understand what regulators are trying to achieve and then cooperate with them in a philosophy of mutual benefit. We encourage them to apply regulations in a way that enables rather than hinders people’s ability to create value for others.
- Benefit society by practicing good stewardship and improving our ability to consume fewer resources, which frees those resources to satisfy other needs. We also strive to remove barriers that prevent people from realizing their potential, and encourage others to do the same.
The success of any organization begins with its vision. An effective vision not only declares what we are trying to achieve, it provides a credible path toward that end. As such, it must be realistic and based on the organization’s capabilities. At Koch, our Vision is our North Star — a constant guide and ever-present reminder of the path we believe best fits us.

A well-articulated vision motivates employees to be productive and innovative — but only if each employee knows the vision and is committed to it. That is why we are making such an extensive effort to communicate our new Vision. An effective vision also enables employees to be self-directed and to fully utilize their innate abilities.

THE ROLE OF BUSINESS

Helping people improve their lives is the proper role of business. To be successful, businesses must continually improve their products and services, and do so responsibly and efficiently. Only then will customers choose their offerings over the many available alternatives.

Successful businesses maximize the difference between the value they create for their customers and the value of those resources if consumed elsewhere. They also do their utmost to respect the rights of others.

This commitment is reflected in more than just products and services. It requires creating a work environment in which the safety of employees and others is the highest priority, the environment is protected, laws and regulations are observed, and the temptation to distort the rules in hopes of gaining an unfair advantage is always resisted.

In our Vision, we stress the need to continually transform ourselves due to the reality of creative destruction. Although creative destruction threatens and always has threatened the very existence of long-standing jobs, firms and industries, it also creates exceptional opportunities. To give us a better chance of capturing those opportunities, we need to fully understand it.

THE 2ND LAW OF THERMODYNAMICS

We bring about continual transformation by employing all suitable knowledge sources to enable us to create better opportunities, strategies and methods. This kind of openness can seem counterproductive when things are going well, but today, creative destruction will soon revolutionize your business, if it is not doing so already.

Science, in the form of the 2nd law of thermodynamics, shows why this is so. That law states that in closed systems, entropy (disorder or uselessness) inevitably increases. This applies to every human activity, individual and business. Thus, those who close themselves off in any way, including to new ideas or outside knowledge, decline. This is particularly tragic when a company (such as Kodak) holds back a new invention (digital photography) so it won’t erode the market for its current products. That is a prescription for failure.
Continuous improvement has always been necessary, but it has never been sufficient. Long-term business success has always required transforming in order to provide much greater value at much lower costs.

If the need to deal with creative destruction was important when Schumpeter wrote about it (1942), it is exponentially more important today. This is why we have such a heightened sense of urgency to transform our ability to create value, and to use disruptive technologies when they will help us do so. We are stressing the need for each of our businesses and capabilities to become more aggressive in creating virtuous cycles of mutual benefit.

To continue to succeed at creating virtuous cycles in this new world, we are even more focused on eliminating waste — anything that doesn’t create superior value. The greatest waste is in continuing to operate businesses when we are no longer able to create new cycles. This is not only a waste of our capital, but of the creative energy of our people. We would rather exit these businesses as soon as we reasonably can.

As we transform our businesses, they will become more labor efficient. This means fewer employees will be required for any given role and each role will be more demanding and fulfilling, involving less drudgery. Naturally, this gives rise to the concern there will be fewer jobs in general, resulting in much higher unemployment.

But history indicates this doesn’t need to be the result. In 1800, 73 percent of the U.S. labor force worked in agriculture. Today that number is less than 3 percent, as innovations have made the industry 100 times more labor efficient. Even so, unemployment didn’t increase. Workers found even better employment providing new products and services that have improved our lives.

The question is, what should those whose jobs are threatened by new technology do in this situation? They need to discover their innate abilities and develop them into valued skills. In short, they need to become self-actualized lifelong learners.

Given our new Vision and a rapidly changing world, the importance of self-actualization cannot be overestimated. It is now the culmination of our Guiding Principles.

UNDERSTANDING OUR CAPABILITIES

To continue to build virtuous cycles of mutual benefit, we must continually enhance and add capabilities that will enable us to create the greatest value.

In previous versions of our Vision, Trading Mentality was listed as a capability. In our attempts to streamline our Vision and capabilities, we realized the items listed under Trading Mentality are already incorporated in other capabilities. For example, economic thinking is in commercial excellence, waste elimination is in our Vision’s first paragraph and applying our risk philosophy is articulated in our MBM framework and concepts. To avoid unnecessary duplication, Trading Mentality was deleted.

Prior descriptions of capabilities often included lists of models or attributes. This has changed, too. Rather than focus on building blocks and attributes, we have focused on the outcomes a capability should generate.

Market-Based Management® is our overarching capability. All employees must seek to improve their understanding of its dimensions, principles and concepts, and improve their application of MBM.

For MBM to work, results must be the focus. As stated in our Vision, we succeed by creating value for others and becoming the preferred partner as a result. When we do, we enjoy superior profitability. Our first hurdle is getting beyond an understanding of the concepts; we also need to be able to effectively apply them.

This requires learning by doing. Training is important because it helps you get started, but it cannot take the place of continual learning by trial, error and feedback. We don’t progress if we are afraid of making mistakes. Real-world experience is what creates deep, tacit knowledge of how to get results.

Commercial Excellence requires each of us to be Principled Entrepreneurs. This Principle describes our focus on creating superior value through practicing a philosophy of mutual benefit. This philosophy enables us to become the preferred partner of our important constituencies. Their capabilities, when combined with ours, can create much greater value than either party could achieve alone.

Good economic thinking is and always has been critical to our success. Whether we are evaluating insurance, considering a hedge on our raw material purchasing, or tracking our inventory levels, good economic thinking, judgment and risk optimization should inform our decisions. Understanding and addressing shortcomings in the return on capital across the many parts of our businesses is essential to creating virtuous cycles.

As Principled Entrepreneurs, we must continually strive to generate new opportunities that, in turn, require new capabilities in a never-ending cycle.

Operational Excellence is not just focused on manufacturing operations, but on all aspects of our business. It includes the accountant working in financial reporting and the developer in IT just as much as it does the operator in the plant.

Whatever role we are in requires understanding our responsibility to manage our actions and the resources entrusted to us in a manner that respects the rights of others. This includes safety, environmental protection, compliance with all laws and regulations, respecting the property of others and keeping our commitments.
We constantly strive to improve how work is accomplished. For example: strategies — including using data to more deeply learn what our customers value; methods — such as making paper products using less pulp; and technologies — including using sensors to increase safety and eliminating highly repetitive tasks by using bots. All this reflects our commitment to continuous improvement and perpetual transformation.

**Innovation** starts with encouraging the passionate pursuit of hunches, no matter where they originate. We proactively seek knowledge from the best sources — inside and outside the company — rather than being satisfied with familiar sources.

We stress clearly articulating our hypotheses in a concrete and specific way, so they can be challenged, tested and improved. Innovation usually involves numerous changes in direction that lead to the discovery of new paths. We look beyond today’s successes in order to recognize the trends and market forces that could disrupt existing products, services and ways of doing business.

It is critical that we all embrace challenge, both by soliciting different perspectives and expertise, and by having the courage to speak up when we disagree.

Experimenting appropriately helps us know what and how to drive transformation — in our products, methods and the use of technology. We never pursue innovation or transformation just for the sake of change itself; we do it in pursuit of value creation.

**Talent** is essential for our success; however, even more vital to MBM and virtuous cycles is the right culture. This is why we hire people first on values, second on talent and not at all on credentials.

No matter how difficult a role is to fill, we cannot overlook values. A decision to hire someone with bad values is much costlier (in so many ways) than a delay in finding the right candidate. Once hired, employees should be retained and rewarded based on their commitment to our Guiding Principles and their contribution to value creation.

The supervisor plays a critical role in enhancing our culture and in helping all employees transform their ability to contribute. It is no easy task for employees to replace old mental models with new ones based on MBM and our Guiding Principles. But as they do, they increasingly realize their potential and become self-actualized.

This takes a real desire to change on the employee’s part, as well as mentoring by the supervisor. It is also critical that employees have roles, responsibilities and expectations that reflect their comparative advantage(s), which need to be adjusted as the group changes.

**Public Sector** is seeking to create an environment in which everyone can practice Principled Entrepreneurship™ — one in which mutually beneficial relationships and actions enhance individuals, organizations, communities and society as a whole. We are committed to always acting in accordance with our Principles, never violating them in pursuit of profit.

We oppose cronyism and protectionism in all forms. We believe government should secure equal rights for every person and never engage in picking winners and losers.

Seeking to make Koch the preferred partner of its important constituencies is the responsibility of every employee and especially every leader — whether in a business or capability. Any employee who makes it more difficult for any of our key constituencies to deal with us undermines the overall success of Koch Industries.

We seek to remove the societal barriers to opportunity that are holding so many people back. Everyone benefits when individuals throughout society have the opportunity to learn, contribute and succeed.
THESE PRINCIPLES DEFINE WHO WE ARE AS AN ORGANIZATION. WE ALL HAVE A RESPONSIBILITY TO LIVE BY THEM DAILY. THEY ARE ESSENTIAL TO THE CREATION OF VIRTUOUS CYCLES OF MUTUAL BENEFIT.

The ultimate goal of these Principles is for every employee to become more fully self-actualized, because self-actualized employees are vital to our Vision. Employees must internalize our Guiding Principles through reflection and routine practice until they can apply them instinctively.

The extent to which our organization has an innovative and constructive culture vs. a dysfunctional one is determined by the degree to which our employees are self-actualized. Leaders have an especially important role in making our culture constructive. Good leaders not only live by our Guiding Principles, they regularly review them with employees and provide frequent and honest feedback that stimulates dialogue and change.

Effective leaders make a point of holding themselves and their organization accountable for applying these Principles in a way that enhances self-actualization, leading to virtuous cycles of mutual benefit.

INTEGRITY

HAVE THE COURAGE TO ALWAYS ACT WITH INTEGRITY.

Integrity is our first Guiding Principle because it is the foundation for trust and mutually beneficial relationships. To act with integrity is to adhere to a firm moral code. For us, that moral code includes all our MBM Guiding Principles. Imagine how productive businesses would be if everyone acted with complete integrity, with their word as their bond, never doing anything they wouldn’t want exposed to the whole world. There would be much less need for all the time and money spent on controls, litigation and security. The enormous drag of transaction costs would be greatly reduced, too.

Acting with integrity requires courage because doing the right thing can sometimes be difficult and uncomfortable. We expect employees to act with integrity, even if it makes them fearful or subject to criticism or attack. What good are principles if we abandon them under pressure?

Nothing is more important than human life and the safety of employees, contractors, community members and all those affected by our business. That is why safety comes before all other important aspects of business. All employees must help create the conditions for a safe workplace by asking questions and challenging practices when they have concerns.

Driving environmental excellence requires understanding and addressing the highest-consequence risks first. We must use good judgment, economic thinking and initiative to achieve ongoing improvement in our performance.

We also implement responsible environmental practices — even if not required by law. We respect the rights and values of others, which aids us in becoming a preferred partner in our communities.

All employees are expected to know and understand the compliance requirements for their roles, identify factors and risks that might lead to non-compliance, and discuss with their supervisor how best to comply. Compliance does not preclude the fact that there is always a better way to do things.

The only way to truly create value in society is to be a good steward. When unsure about how to respect the rights of others, work safely, achieve environmental excellence or comply with legal and regulatory requirements, you must stop, think and ask before proceeding.

STEWARDSHIP & COMPLIANCE

ACT WITH PROPER REGARD FOR THE RIGHTS OF OTHERS. PUT SAFETY FIRST. DRIVE ENVIRONMENTAL EXCELLENCE AND COMPLY WITH ALL LAWS AND REGULATIONS. STOP, THINK AND ASK.

Stewardship is defined as an individual’s responsibility to manage his or her life and property with proper regard for the rights of others. When understood this way, the word “rights” refers to everyone’s right to their own life and property, and equal treatment under the law.

As an employee, stewardship means responsibly managing your actions and the resources entrusted to your care in a manner that respects the rights of others. Such resources can range from company property and natural resources to business relationships and time (both yours and others’).
PRINCIPLED ENTREPRENEURSHIP™

PRACTICE A PHILOSOPHY OF MUTUAL BENEFIT. CREATE SUPERIOR VALUE FOR THE COMPANY BY DOING SO FOR OUR CUSTOMERS AND SOCIETY. HELP MAKE KOCH THE PREFERRED PARTNER OF CUSTOMERS, EMPLOYEES, SUPPLIERS, COMMUNITIES AND OTHER IMPORTANT CONSTITUENCIES.

Practicing a philosophy of mutual benefit means we pursue opportunities, relationships and transactions in which we can succeed by benefitting others. This is our foundational philosophy. Our starting point in developing business opportunities is understanding what capabilities we have that will create value for others. This requires each of us to be entrepreneurial — applying initiative, judgment and economic thinking consistent with the company’s risk philosophy — in order to identify and pursue the opportunities that will create the most value.

We strive to become the preferred partner with all our important constituencies: customers, employees, suppliers, communities, co-investors, regulators and society as a whole. We become a preferred partner when others choose to work with us. In a spirit of mutual benefit, we do our best to understand and provide what each customer values, and give preference to those for whom we can create the most value, and who will compensate us accordingly.

TRANSFORMATION

TRANSFORM YOURSELF AND THE COMPANY. SEEK, DEVELOP AND UTILIZE THE VISIONS, STRATEGIES, METHODS AND PRODUCTS THAT WILL ENABLE US TO CREATE THE GREATEST VALUE.

Employees must have an attitude that no matter how well they are performing today, they can always do better — and much better as superior methods and technologies become available. Doing so requires becoming a lifelong learner rather than resting on your laurels.

The same is true for businesses. No matter how well a business is doing, if it doesn’t drive continuous improvement and perpetual transformation, it will become obsolete. Any attempt at closing itself off from competition or innovation will prove fatal. It’s not a matter of if that business will die, but when it will die.

An individual or business cannot be successful in the modern world without improving at a greater rate than current and future competitors. There can be no long-term success without continual transformation. Each of us must develop new knowledge and skills to keep up with the rapid pace of change happening all around us.

KNOWLEDGE

ACQUIRE THE BEST KNOWLEDGE FROM ANY AND ALL SOURCES THAT WILL ENABLE YOU TO IMPROVE YOUR PERFORMANCE. SHARE YOUR KNOWLEDGE PROACTIVELY. PROVIDE AND SOLICIT CHALLENGE CONSISTENTLY AND RESPECTFULLY.

Knowledge is more than data, facts or information; it’s about understanding and know-how that is used profitably to improve results.

Each of us must seek knowledge from sources both inside and outside our company, industry and field of expertise. Building knowledge networks is critical, because no individual or company can match the world’s rapid innovation and improvement with internal resources alone.

Knowledge networks are made possible by applying a philosophy of mutual benefit — where we collaborate and engage in
knowledge seeking and sharing in a way that enhances the rate of learning for everyone involved. Benchmarking and experimentation are also important methods for gaining the beneficial knowledge needed to improve our performance and transform our business.

Seeking, sharing, discussing and challenging ideas and plans plays a crucial role in our success. We define challenge as continual questioning and brainstorming to find a better way. Challenge should always occur in the spirit of making better decisions and achieving better results. To consistently provide and solicit challenge means to make it a habit. It has to be a central part of our culture. Our approach to challenge is based on the noted philosopher of science, Karl Popper’s view of the scientific method: After developing a theory, strive to falsify, disprove or find the flaws in it, rather than trying to defend or justify it.

A challenge process is essential for important decisions. This may occur at a formal meeting where people with different aptitudes and expertise — those with knowledge about the key drivers of success — discuss, brainstorm and improve outcomes. But knowledge sharing and challenge can and should also happen in informal settings, such as one-on-one discussions, casual conversations or small group meetings.

Either way, efforts to disprove or identify the shortcomings of an idea are a natural (and essential) part of our culture. It’s much less expensive to disprove a bad idea or find and correct faults if we do so before taking action.

To continually improve and transform, nothing and no one can be immune to challenge. To respectfully provide and solicit challenge means that we need to challenge ideas, not people, and do so in the spirit of improvement. We must listen and be open to others and their ideas, regardless of their position or title.

**HUMILITY**

**BE HUMBLE, INTELLECTUALLY HONEST AND DEAL WITH REALITY CONSTRUCTIVELY. DEVELOP AN ACCURATE SENSE OF SELF-WORTH BASED ON YOUR STRENGTHS, LIMITATIONS AND CONTRIBUTIONS. HOLD YOURSELF AND OTHERS ACCOUNTABLE TO THESE STANDARDS.**

To be humble is to understand and accept yourself as you really are, and to accept others as they really are. It is the absence of arrogance and conceit, not the absence of strength or intelligence. Intellectual honesty is even broader. It is dedication to truth, even when the truth is painful.

Rather than just looking for evidence to support our ideas and views, or pretending to be something we are not, we must sincerely seek constructive criticism and strive to see things as they are rather than how we wish them to be, and act accordingly. Constructively dealing with reality could mean we stop doing something that isn’t working, improve what we are doing or try something completely new.

Every individual has inherent worth as a person. This has nothing to do with money. An accurate sense of self-worth comes from first believing you are worthy of life and respect, then discovering your talents and limitations, and developing and applying them in ways that contribute to society.

We should have high expectations of ourselves, give credit where credit is due and willingly admit and make corrections when we fall short of these standards. Holding others accountable (bearing the consequences, good or bad) for results and behavior consistent with our MBM Principles is critical to our success. This often requires courage, especially when it is necessary to deal with someone’s poor performance or behavior.

**RESPECT**

**TREAT EVERYONE WITH HONESTY, DIGNITY, RESPECT AND SENSITIVITY. EMBRACE DIFFERENT PERSPECTIVES, EXPERIENCES, APPTITUDES, KNOWLEDGE AND SKILLS IN ORDER TO LEVERAGE THE POWER OF DIVERSITY.**

To advance our Vision of creating superior value for others and becoming the preferred partner of our constituencies through a philosophy of mutual benefit, we must treat everyone with dignity and respect. Individuals are more motivated, productive and innovative when they are treated respectfully.

It is disrespectful to judge an individual — positively or negatively — based on group identity. It is natural and appropriate for people to be proud of their heritage and other personal characteristics, but there is no excuse for an “I’m better than you” attitude towards those who are different. We must recognize that each person is a unique collection of aptitudes, abilities and interests, and create an environment where all of us are able to maximize our contribution and realize our potential.

In many companies, diversity is an initiative with demographic quotas or goals that focus on factors such as gender and ethnicity. Market-Based Management views and approaches these things differently. For us, leveraging the power of diversity means to seek and embrace different perspectives, experiences, aptitudes, knowledge and skills to drive innovation and enable us to create value for the variety of our customers. When done well, this stimulates teamwork, and the division of labor by comparative advantage, maximizing value creation.
SELF-ACTUALIZATION

BE A LIFELONG LEARNER AND REALIZE YOUR POTENTIAL, WHICH IS ESSENTIAL FOR FULFILLMENT. AS YOU BECOME INCREASINGLY SELF-ACTUALIZED YOU WILL BETTER DEAL WITH REALITY, FACE THE UNKNOWN, CREATIVELY SOLVE PROBLEMS AND HELP OTHERS SUCCEED.

We have made self-actualization the final Principle because a person who internalizes and lives by these Principles becomes self-actualized. Such people are motivated to contribute, face reality, creatively solve problems and help others succeed. Self-actualized people are essential to the success of any business, particularly one whose vision is to create virtuous cycles of mutual benefit.

Self-actualization was defined by psychologist Abraham Maslow as realizing one’s potential — what he described as “everything one is capable of becoming.”

Reaching this level requires discovering, developing and utilizing your innate abilities to live a life of meaning and contribution. It requires becoming motivated to contribute, rather than motivated by deficiencies. When self-actualized people contribute, it gives them such a good feeling that they strive to find other ways to contribute, which leads to a life of virtuous cycles on a personal level.

Achieving this personal transformation goes beyond satisfying your basic physiological and communal needs. You must also develop your innate abilities. As Maslow warned: “If you deliberately plan to be less than you are capable of becoming, you’ll be deeply unhappy for the rest of your life. You will be evading your own capacities, your own potential.”

So, to paraphrase Maslow, what you can be, you must be.

The characteristics of a self-actualized person include:

- liking responsibility, especially for one’s self
- being active rather than passive
- preferring meaningful work
- having a realistic understanding of one’s own strengths and limitations
- a willingness to face the unknown
- constructively dealing with reality
- thinking for one’s self
- creatively solving problems
- being motivated by accomplishments, rather than succeeding at the expense of others
- and being free of defensiveness, posturing and hypocrisy.

How does someone begin the journey toward self-actualization? It starts with the belief in your self-worth. As America’s founding fathers wrote in the Declaration of Independence, “all men are created equal, and endowed by their Creator with certain inalienable rights.”

Not only do you have the right to exist and pursue your own path, you have innate abilities and aptitudes. You have the ability to learn, contribute and succeed. As you believe this, you begin to act on it. As you develop, you better yourself by contributing.

Every day, each of us makes decisions that will decide if we will continue to grow and improve, be responsible rather than dependent, be motivated by courage instead of fear, creatively solve problems and face the unknown rather than protect the status quo and cling to the familiar. When we are willing to learn from anyone who has something to teach us, we greatly increase the chance we will succeed — not just today but for a lifetime. Lifelong learning is essential to realizing our potential and becoming increasingly self-actualized.
I wish to express my gratitude and appreciation for the Fred & Mary Koch Foundation Scholarship given to my daughter, Alicia, over the last four years.

Alicia graduated summa cum laude from DePauw University on May 20 with a degree in biochemistry.

During her time at DePauw, she volunteered at the local prison, tutoring inmates who were pursuing their GED.

Alicia plans to attend law school and work to reform our criminal justice system and help those less fortunate than she is.

Thank you,

Constantine Cotsoradis
Compliance Manager – Measurement
Flint Hills Resources
Omaha, Nebraska

On June 5, Charles Koch announced that David Koch would be retiring from the Koch Industries board and other organizations due to persistent health problems.

Following are some of the comments received after that announcement.

Really sad to hear about David’s health issues. I will be forever grateful for the blessings provided to me and my family by the Koch family. From my first job in America to a great foundation to grow my career.

Jesus Sanchez-Salvaterra
Engineering Manager
Cimarron Energy, Inc.

Several years ago we had the opportunity to provide consulting services for David and the Koch ChemTech Group. What a great experience. I really enjoyed observing his leadership style.

Gary Mason
iSi Environmental

Thoughts and prayers are with you and your family. My 22 years of Koch experience — including four years of IT help for David — were some of the great blessings of my life. Peace.

Randal Robison
Inductee, 2017 CIO Hall of Fame

Koch’s full-sized Guiding Principles poster will be available in late August. To order, visit KOCHe.link/MBMinPrint.

Lynn and David shared their stories of personal tragedy, redemption, and perseverance and how they hope to inspire young adults to lead lives of meaning and purpose: https://bit.ly/2qFzSPd #SecondChancesMonth

These sound like amazing, simply fantastic organizations, led by two incredible leaders. God bless you both, Lynn and David. I am very happy to see that Koch Industries is supporting this work. I worked for Koch for a short time in Wichita, and it was during this time that my employer (INVISTA) made it possible for me to get involved in Big Brothers Big Sisters. It is very hard when working full-time, and raising a family, to take additional time to give back to the community. This speaks volumes of the value system and culture of Koch Industries.

- Carie Gaytan
Bengaluru, India — Two years ago, the chief information officers of several Koch companies met with other senior leaders to discuss a five-year information technology strategy. One of the biggest gaps they identified involved the lack of an international IT footprint.

At least 90 percent of all Koch’s IT professionals were in the U.S., yet close to half of all employees are in other countries. This puts the company at a significant disadvantage in the global market.

To help fill that gap and support growing opportunities, the KII board approved a new Koch Technology Center, to be built in Bengaluru, India. That site, approved last August, is now up and running, and has about 50 employees.

Erzincan Province, Turkey — Koch Knight recently received a Contractor of the Month award for its work at Anagold’s Çöpler gold mine site in east-central Turkey.

The massive site, which has been producing gold since 2010, includes a preschool, elementary school, high school and hospital, so safe and environmentally sensitive operations are a top priority.

The Koch Knight team is installing more than 1,000 tons of surface protection inside six new autoclaves. The process involves lining stainless steel tanks with KNIGHTWARE® PV33P bricks and PYROFLEX® acid-resistant sheet lining membrane. Both are proprietary products.

The contractor team (shown celebrating in a local restaurant) was evaluated for safety incidents, corrective actions, manhours worked and schedule progress before being awarded the honor.

Koch Knight, based in Canton, Ohio, specializes in making materials that can withstand the corrosive chemicals that are essential for many manufacturing processes. It also provides a variety of engineering and installation services.

Viren Bhatia, the KTC general manager, sees it as an important step forward. “Our vision is to support all Koch companies, not just KBS or those that may have a manufacturing presence nearby, such as Molex or KCTG,” Bhatia said.

“Like all Koch companies, we are working very hard to make sure we have employees who are not only talented, but who understand and are committed to our unique culture and strategies.”

Future hiring and possible expansion will depend on results and demand across all Koch companies.

Vancouver, Canada — In April, Koch Chemical Technology Group (KCTG) announced a significant investment in Genesis Robotics, a Canadian company transforming the way robots are built and move.

Genesis Robotics is the developer of the LiveDrive™ actuator, a mechanism that combines electric motors and actuation technology in new ways. (Actuators turn energy into motion.)

LiveDrive gives robotic devices more torque with less weight while enabling greater speed and precision.

“This is an important investment,” said KCTG president Bob DiFulgentiz. “LiveDrive is not only disruptive — with huge potential across many industries — but a big step forward in our efforts to make KCTG a leader in new forms of industrial technology.”

James Klassen, the inventor of LiveDrive and cofounder of Genesis Robotics’ parent company, is excited about what KCTG’s investment will help his team accomplish. “Koch has global reach in marketing and commercialization,” Klassen said, “and a history of successfully growing businesses.

“We have a lot to look forward to.”
Looking Back

Noteworthy

Law, Liberty and Legislation by F.A. Hayek

Long after the end of World War II, Nobel Prize–winning economist F.A. Hayek believed the world was still at war — but a war of a different kind.

Hayek saw an ongoing conflict between two irreconcilable philosophies. The first belongs to a tribal mindset, which insists on blind loyalty and authoritarian rules. The second champions an open society, emphasizing justice and more abstract guidelines.

Hayek filled almost 660 pages spread across three volumes with his thoughts on this relationship between law and liberty. If that sounds like too much, consider reading just the 19 pages of Chapter 11 in volume two.

That is where Hayek talks about “the greatest discovery mankind ever made” — the possibility of a peaceful society focused on mutual advantage, with enormous individual freedom.

As Charles Koch mentions on page 2 of this issue of Discovery, this concept, together with the Declaration of Independence, provides much of the foundation for KII's new corporate Vision.

This month marks the rollout of a new Vision and capabilities for Koch Industries, plus revised Guiding Principles.

It has been five years since the last change to Koch’s Guiding Principles, and KII’s Vision was changed the year before that.

It’s important to note that there were many, many changes before those — and future changes are just as certain.

In 1983, there were only five Guiding Principles at Koch, intended to serve as a “basis for continuous improvement.” They were: Competitive Advantage, Entrepreneurial Spirit, Innovation, Teamwork and Customer Orientation.

In 1990, the list grew to 10. There was no shorthand for each principle (such as Integrity, Humility, etc.), but much of the language then still sounds familiar today.

In 1990, the list grew to 10. There was no shorthand for each principle (such as Integrity, Humility, etc.), but much of the language then still sounds familiar today.

Principle 10, for example, said “Maintain an atmosphere in which business affairs are conducted lawfully and with integrity.”

Principle 7, on the other hand, has changed considerably. “Develop in everyone an attitude of constructive discontent.” Integrity, instead of being first, was Principle 10.

Four years later, Integrity topped the list, with the final Principle encouraging employees to “Have a compelling desire to create and produce such that work becomes a major focus of life.”

That same year, Koch Industries published its “10 Principles of Management,” which began with “Understand the Business.” Other Principles included “Teamwork,” “Personal Change” and “Open and Receptive.”


“We thought this revision was timely,” Koch wrote, “given all our recent and upcoming acquisitions, which are more than doubling the number of Koch employees.” (Koch had acquired Farmland Co-op in 2003, INVISTA and Georgia-Pacific’s pulp business in 2004, and would acquire all of GP in 2005.)

In his 2013 Founder’s Day message, Charles Koch said, “We didn’t arrive at these changes arbitrarily or overnight. They were made thoughtfully” and “involved a very robust challenge process” that included senior leaders, the MBM team and other employees.

The same has been true for the latest revisions to our Vision and our Guiding Principles — and the process will undoubtedly be repeated again.

“<br>

— F.A. Hayek