

Koch, Charles G. – The Science of Success

John Wiley & Sons, 2007, [Business] Grade ★★★★★

If you are interested in applied management theory, this is probably the book for you. At first, however, I was not impressed. I thought I had read more updated and sophisticated theory, but after a while the book became more and more fascinating. Suddenly I realized that Koch Industries (KII) actually practice what they preach. You can almost feel it. I have done countless company visits but I've never seen anything close to Koch Industries in terms of a coherent corporate culture. It is remarkable.

And it has paid off handsomely. The author, CEO Charles Koch, and a few partners are nowadays the owners of the largest private company in the world. Since he “took office”, some 50 years ago, the book value of the company has increased over 2000-fold. It is quite obvious that Koch Industries has got a huge competitive advantage in how they run their operations. It would be very interesting to see how the stock market would price KII's “chain-linked systems”-advantage. And it would be equally interesting to know if Koch & Co would be as successful managing a listed company. I believe they would.

Charles Koch is a devoted reader. Like Charlie Munger, he has created a latticework of mental models from different disciplines, collected from giants like e.g. Ludwig von Mises, Friedrich von Hayek, Thomas Sowell and Karl Polanyi. His holistic approach to these models is summed up in his “Market-based Management”, MBM. *“We define MBM as a philosophy that enables organizations to succeed long term by applying the principles that allow free societies to prosper.”* Koch has structured his theory in five dimensions: vision, virtue and talent, knowledge processes, decisions rights and incentives. But the secret seems to be to make these dimensions reinforce each other.

My main takeaways are two. Firstly, it is extremely instructive to read about Koch's intellectual journey in implementing their concepts, especially when the

company grew larger. Koch describes the ups and downs during the years in a passionate and humble way, and maybe the journey needed to take several decades to find the necessary balances between different forces. It extends across many areas but the main focus is on operational efficiency and capital allocation. In this regard an attentive “copy-cat” may save oceans of time and money by reading Koch's book.

My second main take-away is Koch's huge collection of mental models. Being an avid collector myself, I realize that I'm in Minor League. Koch lists closely to 100 models in the appendix. They are all part of his management theory. Several were new to me. Maybe most fascinating is how he has tried to simplify these as much as possible in order to facilitate the implementation.

The book is written for current and future employees of Koch Industries but also for business readers in general. This dual target audience works fine. Koch's book is anything but a rush job. Every argument is carefully prepared and easy to grasp, which gives these 150 pages an exemplary less-is-more feeling. Charles Koch is probably more well known for his economic donations to political causes, mainly libertarian, than as a business leader, but the reader will not find anything politically offensive in the book. The book's title may sound pompous but the author's stance is actually very modest and he seems to be a believer in people and diversity. It is quite elevating.

Koch's book has many similarities with another favorite, Jack Welch's *Winning*. Koch and Welch are both very action-oriented and it's understandable why. Strategy guru Richard Rumelt said in this book: *“The coordination of action provides the most basic source of leverage or advantage available in strategy.”* I don't hesitate to recommend *The Science of Success*.

Michael Persson, September 22, 2014