

CHARLES G. KOCH CHARITABLE FOUNDATION

Teaching the principles of free enterprise to the nonprofit leaders of tomorrow

IN HIS STUDENT DAYS AT MIT, CHARLES G. Koch rigorously studied the laws of science and principles of engineering. Throughout his adult life, he has applied the same mental discipline to methodically investigating the preconditions for prosperity. It has led him to an intensive, lifelong study of free societies.

Koch's studies have made him a passionate believer in free societies. True to his scientific bent—he holds a bachelor's and two master's degrees from MIT—Koch has systematized his beliefs into what he refers to as the "Science of Liberty." Its central premise: that free societies are the greatest generators of prosperity, and not just of economic prosperity, but of social, political, and cultural well-being, too.

Starting from that foundation, Koch has integrated theory and practice through continuous experimentation, and produced a powerful and effective management methodology, Market-Based Management (MBM). MBM aims to take what drives superior results in free societies and apply it to other realms, be they businesses or nonprofits, large or small. In the for-profit setting, MBM enables managers to create growth by applying the rules of market economics to their businesses.

The greatest prosperity is found "where property rights are clearly and properly defined and protected, people are free to speak, exchange, and contract, and prices are free to guide beneficial action," Koch writes in his book, *The Science of Success*, published in 2007. "Allowing people the freedom to pursue their own interests, within beneficial rules of just conduct, is the best and only sustainable way to promote societal progress." MBM

intends to recreate in specific businesses and institutions the prosperity-generating qualities of the free market.

It works. Through careful experimentation, acquisitions, and expansions, Koch has built Koch Industries, the company he has led for more than 40 years, into the largest privately owned company in the United States, with annual revenues of more than \$90 billion. The firm has a presence in more than 60 countries, with interests in refining and chemicals, manufacturing,

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consumer products, financial services, and more. Koch and his brother David tied for ninth place on last year's *Forbes* list of the 400 wealthiest Americans.

In addition to his business success, Charles Koch has had dramatic impact in the philanthropic world. In 1980, Koch formed the Charles G. Koch Charitable Foundation, with a mission "to advance social progress and well-being through the development, application, and dissemination of the Science of Liberty," the study and practice of sustainably advancing liberty to create prosperity and societal progress. It is one of a group of foundations associated with the Koch family; the others are the David H. Koch Charitable Foundation, the Fred C. and Mary R. Koch Foundation, and the Claude R. Lambe Charitable Foundation. While the Koch Foundations have over \$200 million in assets, some are funded on an annual basis.



Charles G. Koch applies Market-Based Management to for-profits and nonprofits alike.

The Charles G. Koch Charitable Foundation quickly established itself as a mainstay of free-market think tanks in Washington, D.C. In 1977, Koch transformed the original Charles G. Koch Foundation to create, with Ed Crane, the Cato Institute. Along with Rich Fink, he founded what is now the Mercatus Center at George Mason University. Along with David Koch, Rich Fink, and Jay Humphries, he created Citizens for a Sound Economy and Citizens for a Sound Economy Foundation. (The CSE Foundation later changed its name to Americans for Prosperity Foundation.) In addition, Koch provided seed money to create or build the Institute for Humane Studies, the Institute for Justice, the Bill of Rights Institute, and other institutions.

The family's involvement in advancing free societies is not limited to philanthropy. Charles' brother David ran for Vice President on the 1980 Libertarian Party ticket; the ticket received 921,000 votes, the party's best showing in a presidential election.

Today, the Charles G. Koch Charitable Foundation runs the Koch Associate Program (KAP), an initiative that pairs aspiring nonprofit leaders and entrepreneurs with organizations dedicated to market solutions and free soci-

eties. KAP, now in its third year, is the successor to several earlier Koch-funded leadership development initiatives. What sets KAP apart, however, is its focus on MBM. Koch believes that the principles of Market-Based Management can be translated from the for-profit sector to the nonprofit sector.

Participants in the program, known as Koch Associates, are college graduates who have less than ten years of work experience. They come from a variety of backgrounds—including nonprofit, law, business, politics, and the military—bringing to the program dedication, talent, and an entrepreneurial zeal for nonprofit work.

Associates are matched with nonprofits based on interest and expertise, as well as the needs of the various partner organizations. Some Associates have taken jobs as research or communications associates; others have been placed in positions requiring advanced degrees in law, economics, or policy. One Koch Associate works as national field director of a grassroots issue campaign; another is the director of a tax and fiscal policy task force for a national organization of state legislators. In evaluating partner organizations, Koch has no set formula as to size or years in existence—start-ups and well-established groups are equally welcome.

“Besides agreeing with our mission, we’re looking for innovation,” says Rich Fink, president of the Koch Foundation and a 30-year colleague of Charles Koch. “Our bias,” he insists, “is to work with nonprofits in those areas where they have a good chance at effecting real change.”

Associates spend four days a week at the partner organization and one day in classes that focus on MBM and the Science of Liberty. In the classes, Associates read and discuss some of the seminal writers on free-market economics, such as Friedrich von Hayek and Ludwig von Mises. They also hear from industry and nonprofit leaders

who have applied the principles of MBM to their work. The hope is that Associates will take the ideas and apply them to the institutions they are working in. “We start with a deep dive to understand markets,” says Fink. “We then try to translate our findings into superior management systems, to capture the productive power of markets within nonprofit organizations.”

The foundation is working to improve the translation of MBM application from the for-profit sector

Koch wants nothing less than to effect social change

to the nonprofit sector. Claire Kittle, who administers KAP, notes that, in recent years, the classroom component of the program has become more practical. Classwork increasingly focuses on case studies, mentorship, investigations, and workshops, in order to help Associates bridge theory and practice. The changes, she says, make MBM “more relevant in the day-to-day.”

The Koch Foundation has set ambitious goals. It wants nothing less than to effect social change: to strengthen free-market values, to limit the growth of government, and to protect property rights. Achieving those goals requires training a new generation of leaders. “What we’re hoping for are new programs, new institutions. But there’s a real talent shortage. We need new blood and new ideas,” says Fink. “We’re trying to attract bright, ambitious, new people—people who aren’t wedded to old approaches—into the nonprofit sector.”

But even market-oriented philanthropies like the Charles G. Koch Foundation face the problem of measuring success in a field that lacks the ultimate yardstick: the bottom line. At

present, says Kittle, the foundation is focusing on outputs, such as the quality and quantity of talent being placed in the nonprofit sector and the advancement of KAP graduates through the ranks of nonprofit leadership. At the same time, the foundation is working to develop appropriate measures for long-term social impact. That effort has itself sparked creative thinking about the future course of the foundation. “You can learn a great deal by developing ways to measure progress, even if the ultimate measure remains elusive,” says Fink.

And what is the foundation’s future? In a sector where donor intent can be difficult for some foundations to discern, the staff at Koch considers itself lucky to have the donor available to provide guidance and set larger goals. Charles Koch suggests themes to guide the foundation’s activities, and staff members narrow those themes into specific, cost-effective programs. And, to prepare for the day when the donor is no longer available to guide his philanthropy, the foundation has created an extensive statement of Koch’s goals and philosophies, which are written into the institution’s founding documents. It has also developed a careful training program for staff and board members. “There’s always a human element to these things,” says Fink, “but we’ve deliberately built in a lot of mission training, along with institutional memory.”

The resources of the Koch Foundation are growing, thanks to numerous recent bequests from the donor. KAP is growing, too, anticipating about 100 Associates for 2008 and aiming to eventually reach 150 or 200 participants per year. The foundation expects eventually to expand the program into other sectors, including government and academia.

“Keep an eye on us,” says Kittle. “Our people are going places.” **P**

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