

## The Importance of Market-Based Management® in Achieving Environmental, Health and Safety Excellence

***These comments are from May 2007 speeches given by Charles Koch at the annual Koch companies' EH&S conference.***

Market-Based Management and Principled Entrepreneurship™ teach us that society will only allow a business to succeed long term if it meets certain criteria, including a commitment to always acting lawfully.

Acting lawfully includes environmental, health and safety excellence. It also relates to our principle of creating real, long-term value by the economic means.

Having principles such as integrity, compliance and real value creation is not enough. Society also expects us to establish systems such that every employee lives by these principles.

### **Scorecard**

How well did we live up to those principles during the past year? In general, we made some good EH&S progress. For example:

*Pine Bend refinery has operated for more than seven years without exceeding wastewater treatment standards.*

*Many Koch company facilities operated the entire year without a single lost-time incident. Several have gone far longer than that, such as John Zink Co., more than four years, and Koch Pipeline Co., more than five years.*

***"I cannot overstress the importance of EH&S excellence or the role of MBM® in achieving that excellence."***

Unfortunately, despite these successes, we are far from our goal of 10,000 percent compliance, where 100 percent of our employees fully comply 100 percent of the time.

Tragically, we have had fatalities. We also had a large environmental release last year. And there were other incidents and issues.

### **The challenge**

To be successful at compliance, we need a challenge culture where all leaders and employees challenge any deviations from our MBM® Guiding Principles. We cannot abide flirting with questionable activities or behaviors.

Leaders must treat all employees with dignity and respect so we can create an open environment, which is essential for a challenge culture. Each of us must have the humility to invite and accept challenges.

Every employee must develop the courage to challenge anyone in a position of authority if they see something that is not right. If that challenge fails, they must not give up.

## What to do

The challenge of meeting our compliance goals is complicated by several factors, including our continued growth and an unpredictable future that will only become more difficult.

How do we improve our EH&S performance in such circumstances? MBM can help us in at least seven ways:

**First**, we must recognize that just one person who is not compliant can put the entire company at risk; therefore, we have to select and retain the right people with the right values, train them and then reward them to reinforce these values.

**Second**, we must build a culture of EH&S excellence. This is not just a matter of systems, but of reaching the hearts and minds and changing the habits of every employee.

**Third**, everyone must understand his or her EH&S roles and accept ownership for them.

**Fourth**, our EH&S systems must be practical and get results. We must eliminate parts that are not productive, including bureaucratic procedures and paperwork.

**Fifth**, where government mandates are unclear or confusing, we must follow the spirit of the law. We must not operate in gray areas or selectively interpret regulations in the most favorable way.

**Sixth**, since we tend to focus on whatever is measured, we must create the right measures. When we measure the wrong things we get the wrong focus. EH&S excellence is not just about measuring emissions, incident rates or recordable injuries. We need to also identify our exposure to major hazards. Our greatest focus needs to be on eliminating the risk of disasters.

**Seventh**, and finally, we need to use the best knowledge. This involves seeking and sharing EH&S knowledge among all Koch companies in an appropriate way.

## Never forget

Accomplishing all of this is not easy. It requires the right vision, culture, people, training, systems, incentives and knowledge.

The essential first step is to remember that Principles 1 and 2 - integrity and compliance - must always come first. Without them, we cannot create real value or survive as a company.

I thank all employees who have contributed to our EH&S progress, and urge everyone to do even better in the weeks and months ahead. ■



### Charles G. Koch

*is chairman and CEO of Koch Industries, Inc., a position he has held since 1967. Under his leadership, Koch Industries has been transformed into a dynamic and diverse group of companies.*

*Much of Koch Industries' success can be traced to Mr. Koch's interest in and commitment to scientific and social progress, which led to the development and implementation of the Market-Based Management® business philosophy.*

*The concepts and practice of MBM® are described in Mr. Koch's book, "The Science of Success: How Market-Based Management Built the World's Largest Private Company," published in February 2007.*