

DUTCH AMERICAN ENTREPRENEURS

CHAPTER 10

SUCCESSFUL ENTREPRENEURS---THE KOCH BROTHERS

When Harry Koch arrived in Quanah, Texas in 1888, 120 years ago, he may have hoped that he and his descendants would be successful in his new country, but he surely did not dream of the professional and financial success his grandchildren would achieve. Two of Harry Koch's grandchildren, Charles and David Koch, are reported to be worth about \$19 billion each, and a third grandchild, William Koch is worth about \$2 billion, as reported by the Forbes 2008 Billionaire Survey. Charles and David are the major owners of Koch Industries, Incorporated, headquartered in Wichita, Kansas. Koch Industries is the largest privately owned firm in the United States, and possibly in the world, with annual revenues of around \$100 billion. William Koch started his own enterprise, the Oxbow Group, in the oil services industry. The oldest grandchild, Frederick Koch, Jr. decided to become a philanthropist.

HARRY KOCH, THE IMMIGRANT ARRIVED IN QUANAH, TEXAS

Not many people will have heard of Quanah, Texas. It is a small town located in northern Texas, about 70 miles northwest of Wichita Falls, Texas, on highway 287, and less than 10 miles from the Oklahoma state border. The town was established in the mid 1880's by one of the then developing railroads. In other words it was frontier country. Quanah's population grew quickly and in 1890 it had close to 1500 residents. When Harry Koch arrived in 1888, the post office had been opened only two years before his arrival, and the first two churches, a Baptist and a Methodist church, were also established in that year. It was the time of the railroads, and Quanah at one time was served by three railroads, the Quanah, the Acme and Pacific, and the St. Louis and San Francisco. In the early days the town had three newspapers, the 'Eagle', the "Chief" and the "Tribune".

How did Harry Koch, a new immigrant from the Netherlands ever end up in Quanah, Texas? Little is known about that part of the family history. But railroads, at that time, advertised heavily for settlers for the new American western frontier. Also, a railroad from the Gulf of Mexico to northern Texas was financed by Dutch banking interests, and Harry might have been influenced by their advertising. Harry apparently did not have much farming background. He had been trained as a printer in the Netherlands through the apprentice process. So upon his arrival, he probably looked for work in that area. With three newspapers in Quanah's early days, there appeared to be a strong interest in reading material, and apparently he was able to get work in his own trade as a printer.

Within two years of his arrival, in 1890, Harry Koch was able to buy one of the newspapers, the "Tribune". Four years later, in 1894, the "Tribune" merged with the "Chief", and became the "Tribune-Chief", apparently owned by Harry Koch. There is no information about what happened to the "Eagle", but it apparently did not interfere with Harry Koch's publishing operations. As a publisher he did his own printing and also provided commercial printing services. Although no longer owned by the Koch family, the "Tribune-Chief", is still being published at the present time in Quanah, Texas.

Along the way Harry Koch got married, and his son Frederick Chase [Fred] Koch was born in 1900. Fred grew up in Quanah, Texas, which had grown, but remained a small town of less than 3000 residents, even though it had become the county seat of Hardeman County. When Fred had finished his high school years, he saw little promise and few opportunities in the town. He was technically oriented and his father was able to finance his college studies at the prestigious and private Rice Institute, now Rice University, in Houston, Texas. After three years at Rice Institute, Fred heard about the establishment of the first chemical engineering program at Massachusetts Institute of Technology [MIT] in Cambridge, Massachusetts. He applied to the program and was able to transfer to MIT. He completed his MIT studies in 1922, and graduated with a B. S. degree in chemical engineering.

FREDERICK KOCH, SR., THE FOUNDER OF WHAT BECAME KOCH INDUSTRIES

Following graduation, Fred worked for several oil process engineering companies, and in 1925 joined two of his MIT class mates to form their own oil process engineering company, named Keith-Winkler-Koch Engineering. In 1926, the name of the firm was changed to Winkler-Koch Engineering after one of the partners left. Shortly thereafter, Fred developed an improved and more efficient process for oil refining. But his firm could not convince the established oil companies to adopt the new process, because the oil firms were already heavily invested in the oil refining process then used by the oil refining firms.

So the two partners sold their services to install the new oil refining process to foreign producers, notably in the then industrially developing Soviet Union. So during the late 1920's and early 1930's, Fred Koch spent a large amount of time in the Soviet Union, where his engineering firm developed and helped install the new oil refining process in 12 oil refineries.

In 1940, while still a partner in his oil service engineering company, Fred Koch also became a partner in Wood River Oil and Refining Company, an oil refiner in East St. Louis, Illinois, and was elected as its president. In 1943, Fred Koch merged the Wood River Oil Refining Company and his oil service engineering company, and named the new company the Koch Oil Corporation. He served as its president until 1959. In 1946, Fred Koch also acquired the Rock Island Oil and Refining Company in Oklahoma.

FREDERICK KOCH, SR., HIS FAMILY AND THE FOUR KOCH BROTHERS

In the middle of his Soviet Union oil refining consulting activities, in 1932, Fred got married to Mary Robinson. During the next eight years the couple had four children, all sons. Frederick R. Koch was born in 1932, Charles G. Koch was born in 1935, and the twins, David H. and William I. Koch were born in 1940. The oldest son, Frederick Koch, had apparently no interest in the oil business. His interests apparently were in arts and letters. At the present time Frederick Koch is known as a collector of old manuscripts and prints, and has generously donated his collections to well known libraries, among others at Harvard and Yale Universities.

Each one of the other three sons, however, followed their father in becoming technical experts in the oil industry. Also each one of them attended his father's alma mater, MIT, and studied chemical engineering. Charles Koch majored in general engineering for which he earned a B. S. degree from MIT. He then decided to stay on for graduate work and earned a M. S. degree in mechanical and nuclear engineering, followed by a M. S. degree in chemical engineering. David Koch earned both his B. S. degree and M. S. degree in chemical engineering from MIT, and David's twin, William Koch earned his B. S. degree, his M. S. degree, and his doctorate in chemical engineering from MIT. So needless to say, the Koch's are intricately entwined with MIT. In recognition of MIT's contributions to the education of the three Koch brothers and the father, David Koch, in 2006, bequeathed a sum of \$100 million to MIT's engineering schools and other programs.

Charles Koch had graduated from MIT in 1959, and following graduation went to work for the prestigious consulting firm, Arthur D. Little. He gained valuable experience at the consulting firm, and apparently thoroughly enjoyed the work there. But in 1961, his father summoned him home to help the father run the Koch engineering and oil service operations. The father had been experiencing health problems, and he threatened that he would sell the firm, if Charles did not come home to help him manage the firm. Charles got the message, and returned home to help his father manage the Koch Oil Operations.

Charles was assigned to manage the engineering arm of the Koch collection of oil service firms, and served as its president from 1961 to 1971. During that time period, in 1966, the health of the father, Fred Koch, deteriorated and Charles was appointed president of the entire Koch organization, in addition to his responsibilities for the management of the engineering arm of the corporation. Fred Koch succumbed in 1967, and Charles was appointed to the position of chairman and chief executive officer [CEO] of the firm. At that time the name of the firm became Koch Industries, a name it retains until today. Although the firm was involved in a variety of different oil service operations, it was still relatively small in comparison with the large integrated oil firms. Its market value was estimated at close to \$200 million at the time of Fred Koch's death.

During the early 1960's, Charles' brothers, David and William also joined the firm in various management and technical capacities. David Koch became the executive vice

president of Koch Industries, while Charles remained in the senior position of chairman and CEO of the firm. In 1980, the four brothers decided to break up the ownership of Koch Industries. It is not clear what brought this about, perhaps a disagreement of direction of the firm, or just a way to simplify decision making. Charles and David offered to buy out the shares of the two other brothers, William and Frederick. A sum of about \$1 billion was agreed upon, and the four settled on that sum at that time. Later, William and Frederick went to court and asked for an additional \$300 million, because they claimed that the original agreed upon sum of \$1 billion was insufficient. The case dragged on for years in court and even went to the Supreme Court, where it was thrown out. Later, the four brothers apparently reconciled.

GROWTH OF KOCH INDUSTRIES

The oil service business continued to grow, especially with the growth of the oil discoveries in Texas and surrounding states. And as a result Koch Industries grew rapidly. Also, Koch Industries became quite acquisitive and was able to acquire many companies in areas where Koch Industries had expertise. From an oil equipment engineering and oil service business, Koch expanded into fertilizers, chemicals, fibers, asphalt, and commodity trading. Commodity trading was especially a growth industry, as Koch Industries became involved in trading such commodities as oil, coal, pulp, paper, magnetite, cement, and other related products. The firm also became one of the largest traders on the New York Mercantile Exchange.

Koch Industries biggest acquisition occurred in 2005, when it acquired Georgia Pacific, the giant pulp and paper products producer, for over \$ 20 billion. With the Georgia Pacific and earlier acquisitions, Koch Industries became the owner of such nationally known products as “Stainmaster”[r], “Lycra”[r], “Quilted Northern”[r], and “Dixie Cups”[r].

At the present time, Koch Industries has annual revenues of, and is valued at, around \$100 billion. All four brothers are involved in philanthropy, with David probably being the most visible. He is especially supportive of medical research, especially of cancer research, and of medical and higher education institutions. He serves on the boards of over 20 medical institutions, higher education institutions and fund raising organizations. David is a resident of New York City, and is reputedly its most wealthy citizen.

Charles Koch, David’s older brother lives in Wichita, Kansas, where the headquarters of Koch industries are located. He also is involved with a variety of foundations, especially those involved in conservative and educational causes. In 1977, Charles was a co-founder of the libertarian think tank, the CATO Institute, of which his brother David is still a director. Apparently, the CATO Institute is still funded by Koch foundations.

The Koch brothers also received wide publicity for activities unrelated to the firm. In 1980, David Koch ran for Vice President of the United States on the Libertarian Party ticket with a gentleman by the name of Ed Clark. The duo received close to a million

popular votes, a record for the Libertarian Party. William Koch was the financial sponsor of the America's Cup sailing race in 1992, and his team won the America's Cup with the sloop, "America", beating the Italians soundly. Harry Koch, the grandfather of the four brothers, undoubtedly would be pleased of what his son and his grandchildren have been able to accomplish in his adopted country.

For more information on members of the Koch family click on to the biographical profiles of Frederick Koch, Sr., the father, and his four sons, the brothers Frederick Koch, Jr., Charles Koch, David Koch and William Koch. The last two are twin brothers.

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Frederick C. Koch [1900-1967], Father of the four Koch brothers



Charles Koch [1935], Chairman of Koch Industries



of the Oxbow Corporation

William I. Koch [1940], Founder and President