Without in any way intending to negate the importance of shareholders, I believe that the theme for this conference, "Does anyone really care about shareholders?" should have been, "Does anyone really care about our private enterprise system?".

Current behavior of most corporations and most investors reflects much more of "How can the system produce more for me?" instead of "How can the system more effectively serve society?" and in the process better serve our needs.

Our American system isn't perfect—but it has produced a higher standard of living with more freedom of choice than any other.

Still its performance is far short of what it can be, and major improvements will take planning and implementation in which there is a high degree of interaction among all segments of society including business, labor, academia, government and the church. Basic change in one segment won't occur without accommodation and support from the others. Investors have a vitally important role as catalysts in this process and therefore you, in investor relations, also have a significant part to play. Before describing how, let's zero in on what's wrong.

Business is living in the past. It has been preoccupied almost solely with delivering traditional goods and services. Meanwhile, in the last 20 years or so, the world has changed. The United States in particular is in the forefront of industrial society. The problems of that society—the needs of that society—are different from those of the 19th century or the first half of the 20th. This is reflected in the growing controversy in recent years between the "social" responsibility of business and the "profit" responsibility of business.

Business has simply forgotten that the fundamental reasons for its existence is to deliver the goods and services that society needs—and it needs to be reminded of that basic fact.
Meanwhile, government has been unable to cope adequately with the major problems of society so they are growing to disastrous proportions.

The list of needs is long. It includes more and cheaper energy; greater energy conservation; rebuilding of cities; environmental protection; lower food costs; more available health care; more available, lower cost, higher quality education; and to top it all off, more jobs, especially skilled jobs.

Solutions are critical to our future and they are interrelated. For example, vast numbers of new jobs will come from the development and production of new energy sources, from programs for energy conservation, environmental protection and city building and rebuilding.

What is needed is a fundamental change in which business takes the initiative and provides the leadership for planning and managing the implementation of solutions—in cooperation with government, labor unions, universities, churches and all other major segments of society. The major problems of our society are massive, and massive resources are required for their solution. The best approach is to view them with the strategy that they can be profitable business opportunities with an appropriate sharing of cost between business and government. Where the resources for solving problems are beyond those of a single company, as most are, they should be pooled through cooperative projects or joint venture companies.

Control Data adopted such a strategy 10 years ago. It has been pursued vigorously and has proven sound. This strategy should be widely adopted. As I will explain later, profitability should be as good or better than normal. Most companies are not yet following a similar approach, because too many economists, security analysts, institutional and individual investors believe that the business of business is to maximize short-term profit for stockholders and that consideration of social problems detracts from this and is therefore the government's job. This prevailing view is further bolstered by the fact that most individual and institutional shareholders purchase stock in corporations with the single objective of holding the stock for whatever period, usually short, that will produce the most profit. Unfortunately, they are encouraged to do so by existing laws on taxes and pension fund management. These investors do not consider themselves owners of a business, but passive investors or speculators. Worse yet, the number of individual stockholders is steadily declining and participation by stockholders in issues affecting business is low. For example, on controversial questions, such as doing business in South Africa and with communist countries, my "fan mail" is almost entirely from non-stockholders. I realize that there are many more individuals who hold no Control Data stock, than do. Nevertheless, response from stockholders is much too low for the best interest of our business system.

Also, the general lack of interest in major national and international societal issues is illustrated by investment managers for large institutions who seldom speak out or seek information on the programs undertaken by corporations to address major societal problems. Generally, their social responsibility involvement, if any, is confined to voting proxies on consumer, church and student group proposals regarding social issues such as involvement in South Africa, foreign arms sales, Arab boycott, employment of former government officials and foreign payoffs. While there is
certainly social value in proper resolution of these moral issues, they are peripheral to our vast hard core societal problems.

One can't help but conclude that this type of social concern is no more than lip service considering the massive problems that cry for timely solutions. Consider for a moment, just one problem—minority youth unemployment. An unemployed youth, one of those who comprise over 30% of our inner city minority young people, is not impressed by the rhetoric in our country devoted to human rights around the world when here at home he is denied the most fundamental right of meaningful employment. This is a shameful situation. We can do better. We must do better, and we will if we have total involvement.

Let me be clear that I am not singling out investment managers for criticism. They simply reflect the attitudes and complacency of most sectors of society.

**WIDESPREAD ADOPTION**
How can investors help to foster widespread adoption of major societal problems as business opportunities?

One way is to buy stock with the objective of having an ownership interest in corporations that are applying their resources to help solve major societal problems. As owners they should keep up to date on the important policies and programs of those companies, and offer comments and suggestions whenever appropriate—affirmation of the programs they support, disapproval of those they do not, and suggestions for constructive change. And you in investor relations should encourage this communication because the information you will obtain will be a valuable asset to your organizations over time.

The size of the shareholding is not nearly as important as continuing interest and participation as an owner in the affairs of the companies in which investments are made. Let me emphasize continuing interest because most policy changes and new developments that are significant require a number of years to implement and evaluate.

To articulate the importance of an investor/owner in corporate America, I will have to be specific and speak about the real world—not theory—and I can best do that by reference to Control Data's programs that are addressing major societal problems.

I should also make it clear that I am not trying to raise additional capital by selling shares in Control Data. We have no need for more equity capital now or for a number of years. What I want to do is illustrate the type of criteria that I believe investors should use and will increasingly use in selecting companies in which to invest.

**SOCIETAL PROBLEMS AS BUSINESS OPPORTUNITIES**
With that background, I will describe programs at Control Data that have resulted from the strategy of applying our technology to turn societal problems into business opportunities.
Poverty Plants: We have successfully located new plants in four depressed communities and a fifth plant is under construction. When the fifth plant is completed, total employment in those plants will reach 1,500 persons.

Control Data has succeeded in making poverty area plants profitable at a level competitive with conventional operations, and at the same time we are serving the interests of each community and providing a path for disadvantaged persons to enter the mainstream of industry.

Rosebud: On South Dakota's Rosebud Indian Reservation, Control Data has worked with tribal leaders to apply computer technology and managerial resources to dramatically improve health care delivery. Previously, one small hospital was responsible for the care of 8,500 native Americans. Those who required care had to travel up to 130 miles to get it, and the number of professional staff was woefully inadequate to the task. Significant improvements have been evident since Control Data's medical van began traveling the reservation providing care to 900 residents per month. In addition, four clinics have been established and Indian paramedics have been trained. All this was accomplished with corporate social responsibility funds from Control Data. The program has provided Control Data with know how for providing better health care for less cost in impoverished rural areas, inner cities and in underdeveloped countries throughout the world.

Education: Control Data's largest program addresses the worldwide need for better, more available and lower cost education.

The only practical way to make major progress in solving this massive and urgent problem is through the use of technology, such as television, audio/video tapes and satellite transmission coordinated in a network learning system with computer-based education.

Control Data has been engaged in developing PLATO computer-based education for 15 years, and we see computer-based education as ultimately becoming the largest segment of our business.

Fair Break: PLATO computer-based education is central to Fair Break, another Control Data societal program. The major objective of Fair Break is to prepare young, inner city, disadvantaged unemployed persons to get and keep a job and to make jobs more available to them. It applies a continuing array of individually prescribed support services to identify and remove each individual's barriers to employment. Many of these continue after job placement, along with continuing education to foster job retention.

Profitability: What about the profitability of the approach of turning major societal problems into business opportunities? Our expectation based on our experience to date is that it will be as good as, or better than, conventional methods providing there is equitable cost sharing in the research and development phases between the government and industry. The concept of such cost sharing by the government is not new—it has been applied many times to develop or nurture needed technologies—computers, nuclear power generators and satellite communications, to give three examples. When the viability of the technologies was sufficiently established, private industry pursued them independently and further developed them as profitable business opportunities. As
a more recent example, not yet at the state of maturity of the three just cited, the development of PLATO computer-based education began as a cooperative effort among the National Science Foundation, the University of Illinois and Control Data. The largest part of the research funding was provided by the National Science Foundation until there was a working model. Since then, Control Data has financed further development and the cost of taking PLATO to the marketplace.

As another example, the start-up costs for our first poverty area plant were in part financed with government funding for training unskilled persons, providing day care for the children of working mothers, etc. The city of Minneapolis cooperated in reducing land costs for the building. These two examples typify a pattern of cost-sharing between government and industry that is appropriate. With such cost sharing during its initial phases, the long-term profitability to be realized from solving social problems should at least equal the traditional approach to the marketplace. The reason is that serving a major need of society will generally result in products and services that enjoy more stable and lasting demand than those that merely satisfy the wants and passing whims of society.

**ROLE OF THE INVESTOR**

While most of the Control Data programs I have described are in early stages, still there is enough progress to verify the validity of the approach and to warrant wide-scale adoption. This is where investors can help. Not only will society and the company in which they have invested benefit, but they will be rewarded by the return from their investment as a part owner.

**Ownership:** Being a part owner is crucial because inherent with ownership is the recognition of the need for some involvement for a long period of time. As I said before, long-term participation is important because it takes many years to realize profit from solving societal problems. Investor interest and involvement is also important because of the support that can be provided by expressions of views on the validity of programs, and by helping to gain community and government support for new programs addressing societal needs. The success of such programs depends heavily on accommodation to change. Benefit can be derived from investor involvement in helping to gain acceptance of change, because most people resist change, particularly those who are gainfully employed and enjoying a reasonable standard of living. Initial reaction to a potential change on the horizon is to see it as a threat. It is discomforting and hence it is resisted. Once understood as being beneficial for society as a whole, individual concerns are sublimated by most and change gains support.

The PLATO computer-based education system exemplifies this. Clearly, computer technology provides the only practicable means of bringing to education the quality, equality and productivity improvement that is so sorely needed. Inadequate education underlies the high rate of disadvantaged youth unemployment in our inner cities. Rural schools are struggling for existence, and so on. In spite of the crying need, there is resistance to computer-based education by teachers and school boards and it has many root causes. Fear of loss of jobs and lack of understanding of the quality improvement that can be achieved are two. The point is that investors can help achieve widespread understanding and acceptance.
The same factors are present in the Fair Break program, plus an additional one. Control Data can do a good job in training disadvantaged persons in basic and vocational skills to get them job-ready. But Control Data can't provide all the jobs. We hire as many as we can, but hundreds of additional employers are needed in each large community. Some have agreed to provide jobs. Unfortunately, there are many companies that have little interest or at best passive interest in providing that first job. Thus, all of you as individuals or as representatives of your companies could provide great help in stimulating more businesses to provide that first job for a disadvantaged person. And I can assure you that the vast majority of them will become valued employees.

**Government:** Investors can be particularly helpful in gaining local, state and federal government funding for programs aimed at helping solve major societal problems. The voices of a substantial number of investors supporting a cooperative government/industry program would be influential.

**Influence on Other Companies:** Perhaps the greatest benefit that would result from a growing number of investors buying stock in companies who address major societal problems as business opportunities would be that the number of companies pursuing that type of strategy would grow rapidly.

**Influence on Image of Business:** A corollary is that of enhancing the image of business. As we all know too well, all segments of our society—business, government, labor unions, academia, the church, the news media, and so on—suffer from lack of adequate public confidence. Again, because of our highly interactive society, a poor image for one segment detracts from the others. Increased ownership of business by individual investors would demonstrate faith in our society, in the belief that it will prevail and that we will control change in ways to better meet our needs. It would stimulate wider interest in understanding how our society really functions, that our business system is the keystone because it provides the jobs by which most people live. This is sorely needed, e.g., the average person doesn't understand how difficult it is to create jobs, or even the real source of jobs. If more people were involved, either as part owners of companies or in community efforts attacking societal problems, there would be much better understanding and more jobs created.

Individual members of society must have the major voice in how our business system is going to operate, recognizing that our shrinking world—our society—is but one among many societies. Also recognizing that we are subject to decisions by other countries—witness the contribution to inflation that has resulted from OPEC oil price increases.

**ACCEPTANCE BY CONTROL DATA STOCKHOLDERS**

At this point I should review the response of Control Data stockholders to our strategy of addressing societal problems as business opportunities. The most recent evidence available is that of highly positive support. It came from our last annual stockholders meeting in May. Before describing it, I need to provide further background.

From virtually day one of Control Data's inner city plant program and thereafter, I have been meticulous in reporting plans and progress to stockholders. During the course of these programs, Control Data has been confronted with severe problems which had an adverse impact on
profitability even to the extent of causing a loss in 1970 and 1974. Control Data had paid no dividends since the company was founded.

And it wasn't until 1977 that the first cash dividend—a small one of 15¢ per share—was paid. It was increased to 25¢ in 1978.

Offhand, one might conclude that under those circumstances stockholders would take a dim view of a strategy addressing social problems as business opportunities, where the pay-off is often longer term and sometimes well into the future.

But that was not the reaction of the majority of individual stockholders. Sure, there was the occasional letter from a stockholder demanding that the company pay dividends with the money being used for the programs to help solve societal problems, or that the best thing that could happen to Control Data would be a takeover by another company which would then throw me out.

At the same time, however, I received many more stockholder letters expressing approval of the programs and also wishing the company better times and hoping for a cash dividend down the road.

Even though there were more letters from stockholders who were supportive, I couldn't be sure of the position of the vast majority who were silent, at least not until last May when I believe the answer became clear.

In order to better protect the employees, stockholders and other stakeholders of Control Data from the injustices accompanying hostile takeovers, a proposal was submitted for the approval of stockholders to amend the company by-laws to make it mandatory that the directors consider all social factors, not just price, in an attempted takeover. The proxy stated that the result of such an amendment might strengthen the position of current management.

Over 95% of the individual stockholders' votes were in favor. That to me is a clear endorsement of our strategy—otherwise they would not have been willing to give management more power of any kind.

This experience is consistent with those of a recent Gallup poll showing that 89% of the people in inner cites wanted to help solve inner city problems, both through contribution of personal time as well as money. I want to add that those are people I would particularly welcome as Control Data stockholders.

**OTHER COMPANIES**

Although I have been talking about Control Data's programs for addressing societal problems, some other companies are carrying on similar ones. The Lockheed Corporation has located a plant in the depressed Watts area of Los Angeles. It employs 300 people. IBM operates a plant in a ghetto area, central Brooklyn, that employs 400 persons. General Mills and Honeywell have financed housing restoration projects in Minneapolis. Companies are working individually and in cooperative ventures to develop new sources of energy. There are other examples of individual
company initiatives and there are many instances where companies have participated in public and private cooperation to plan and implement city rebuilding projects. The point is that while these efforts are meritorious, they are minuscule in comparison with the needs and the resources that are available.

Where a particular company lacks either the technology or capital to undertake very large projects, its resources should be pooled with those of other companies in cooperative ventures. For example, no single entity is capable of planning, financing and implementing a holistic program for revitalizing inner cities. Recognizing that Control Data has more technology applicable to urban revitalization than virtually any other company, yet lacking important expertise in transportation, retailing, waste management, construction and energy development, we took the initiative to set up a consortium of companies to plan and manage the implementation of programs to build new cities and revitalize inner cities.

ALTERNATIVES
At this point, I would like to return to earlier comments to emphasize that one way or another more timely solutions to our major problems must be found. One alternative was mentioned in a recent address by the chairman of the Securities and Exchange Commission, Harold M. Williams. Here is a quote:

"The committee for economic development several years ago defined the role of the corporate manager as a ‘trustee balancing the interests of many diverse participants and constituents in the enterprise’. The committee went on to enumerate these to include employers, customers, suppliers, stockholders, government—practically everyone. The fact of the breadth of the corporation's constituency is also universally recognized today, but the consequences are seldom perceived. What I believe this expanded constituency necessarily means is that the large corporation has ceased to be private property—even though theoretically still owned by its shareholders—and has become, in essence, a quasi-public institution. As a society, we depend on private enterprise to serve as the instrument through which to accomplish a wide variety of goals—full employment, equal economic opportunity, environmental protection, energy independence and others. When viewed in light of these social implications, corporations must be seen as, to a degree, more than purely private institutions, and corporate profits as not entirely an end in themselves, but also as one of the resources which corporations require in order to discharge their responsibilities, the argument is strengthened, not only for federal corporate governance legislation, but for federal taxation to transfer profits to the common weal."

This is a sobering concept, because to rely on federal corporate governance and federal determination of the extent to which corporate resources are allocated to societal problem solutions is not an attractive alternative, considering the failure of government to establish a timely and responsive national energy policy and to adequately address many other problems. In other words, it has been proven that government alone can't solve them, so let's not risk further delay, or worse, some permanent change that is detrimental to the free enterprise system. Instead, let's gain the benefits that we know can come from the enormous capability of the American business system to solve problems and stimulate it to provide the initiative and leadership in cooperation with government and other segments of society.
Thus, new initiatives are needed by investors. The present perception of many representatives of financial institutions is that the only objective of the individual they represent is to increase the return on the entrusted funds; hence, their investment criteria are essentially short-range. Consequently, Control Data's programs have been only of academic interest to institutional investors—although as some of the programs get nearer to fruition, there is an increase in interest. But, there is virtually no encouragement that our strategy should be widely adopted. However, as demonstrated by Control Data's experience, initiatives by institutional managers to broaden investment criteria to reflect more social concerns would be positively received by constituents.

SOCIAL CRITERIA AND THE INVESTMENT MANAGEMENT PROCESS
And that prompts me to provide a few thoughts on approaches to implanting social responsibility into the investment management process—in other words, how to.

It seems to me that the first requirement is adoption of an appropriate statement of philosophy which articulates the rationale for considering social responsibility factors in the investment process. Unless participants understand the underlying principle, they will not be able to resolve a perceived conflict between fiduciary responsibility and the requisites for long-term viability of the economic system itself.

The most positive and constructive application of social responsibility criteria is in the initial selection of securities in which to invest. That will not fully address the problem because there will in most cases be existing holdings in the securities of companies which do not meet the criteria. In those cases, it would seem the only practical approach would be to actively seek desired changes and, failing in that, to look for a good opportunity to sell.

To apply social responsibility in the first instance should not be a particularly difficult problem mechanically for most institutions, such as bank trust departments and university/church funds. Most operate from an "approved" list of securities and in most cases a prerequisite to adding a new security to the list is an analysis and presentation/recommendation to some "approval" committee. To add social responsibility criteria as a requirement in the analysis and evaluation should therefore be fairly straightforward. The only additional burden would derive from the fact that, in contrast to financial/economic data, there is presently little in the way of readily available reference data on individual companies' social responsibility. But that will change as the demand for such information grows—someone will develop the business of providing social responsibility information, much in the same manner that a Moody's or Standard and Poor's provides financial reference data. In the interim, since most institutions, at any one time, only have dozens or maybe scores of companies on their approved list, contacting individual companies directly wouldn't be too burdensome.

By presenting explicit suggestions for applying social criteria in investment decisions, I am not implying that managers are totally without social conscience and are not implicitly applying such criteria. In fact, I know that many do to varying degrees. By being explicit in an organized approach, the impact of such actions would be enormously more beneficial in stimulating much greater responses to our massive social needs. To my knowledge, very few institutional investors presently explicitly consider social responsibility factors. But, that number will grow if for no
other reason than that their own constituencies will require it. That will provide added incentive for companies not only to be more responsive to societal needs but also to affirmatively report thereon.

CONCLUSION
Rather than attempting to summarize my presentation tonight, I will conclude by reading an excerpt from a letter I received. Its succinct message reflects clearly the essence of what I have been saying.

"As a member of a small investment club, I will be presenting a stock which the club will vote on in our April meeting. I intend to introduce a concept; that is, in acquiring stocks individuals need to concern themselves with social policies of companies and to support those companies which are working on solving social problems. I am very enthusiastic about the work which Control Data is doing toward revitalization of cities, through inner city plants such as Northside and the Selby plants, your work with PLATO in high schools, and TECHNOTEC as a means of solving problems by sharing information around the world. I will present Control Data as a company our club should invest in so that we lend our support to a business which is acting in a socially responsible manner. It is exciting to see that money can be made in technology which is helping people."