Thank you, Norb.

In the general economic improvement of the past few quarters, it becomes all the more important for us to squarely face the fact that the fundamental problems which beset our society are getting worse, not better. That's no Cassandra's cry -- just a statement of fact.

The number of Americans below the poverty line is growing larger, not smaller. The opportunities for disadvantaged young people are diminishing, not expanding. Crime and the fear of crime are rising, not receding. The price of getting well and staying well has become -- for many people -- almost prohibitive. The list goes on. The issue is not whether, by who or how, we have these problems; the issue is what do we do about it. Government efforts for over a quarter century accomplished little to nothing. But it is equally clear that more recently, business has not risen to the challenge when presented the opportunity to do so.
Worse, when the economy is strong, as it has been, the urgency drains away from these issues. It's easier to tell ourselves that the general economic improvement will indeed fix all the problems -- at least in the long run. The hard fact is, that problems must be attacked at their root causes. Because we have not done so, our problems are not yielding to the approaches tried so far, and they will still be there....immutable, costly, debilitating.....when the current cycle of prosperity ends.

As I say, the question is, what can we, what will we do? As the inner-city eruptions taught us in the late 60's, certain problems will only wait so long before they become everyone's concern. Can we afford to wait? Doesn't a 50 percent unemployment rate among inner-city young people tell us something? Shouldn't a 50 percent rate of recidivism among convicted criminals frighten us?

After looking at these issues, a growing number of business leaders -- exemplified, I think by the MPCR -- sense intuitively that somehow large corporations must assume a new role of leadership in our society. This call for new leadership is not just one more cry for "new ways." It is the result of a deep seated understanding that new approaches are prerequisite to the preservation of the basic economic, political, and social system which has served us so well.
The central thread of Irving Shapiro's book "America's Third Revolution," is the need for a more thoughtful and cooperative approach on the part of business to the public policy process -- this in contrast to the traditional, fiercely adversarial posture of business toward government.

One illustration in the book of the wrong way to do things is a particularly timely example for business people. Back in the 30's, the du Ponts helped put together a group of concerned business people. The problem for this group was FDR's New Deal and its perceived threat to freedom -- much less to free enterprise. Interestingly, the group consisted mostly of old line conservative Democrats. They were concerned not only that America was being destroyed, but also that their own party already had pretty much been. Anyway, the du Ponts were joined by Alfred P. Sloan of General Motors, Edward Hutton of General Foods, J. Howard Pew of Sun Oil, and Sewell Avery of Montgomery Ward, among others -- a formidable group to say the least.

And in August of 1934, they got together and founded something called the American Liberty League. The problem wasn't that these businessmen didn't have some points. It was that they ignored the desperate plight of millions of people locked in the grip of the Depression. Worse, they got drunk on their own rhetoric and spent the next 18 months attacking the New Deal in every possible -- and mostly irresponsible -- way.
They called Roosevelt's proposals "the end of democracy," "a trend toward fascist control of agriculture," and other less complimentary characterizations.

The climax came on January 25, 1936, when more than 2,000 guests attended a Liberty League banquet at the Mayflower Hotel in Washington. They came to hear Al Smith, the former progressive governor of New York, who because of his opposition to FDR had been maneuvered into speaking on behalf of the league and against FDR. Smith's speech incorporated every slur the league had dreamed up.

Dazzled by the glamour of his new powerful friends, he presumably never quite knew what he was getting into when he agreed to give that speech and he also never quite recovered from having been positioned so neatly by them.

The result, not surprisingly, was exactly the opposite of what the Liberty League intended: The New York Times later dated the revival of Roosevelt's popularity from the date of the Liberty League dinner. By the summer of 1936, the League had lost most of its support and was being ridiculed in the media. In short, it had become a perfect clay pigeon for the Democratic party in power. The Republican Party begged the League to stay away from its 1936 presidential ticket -- to no avail I might add -- and the whole thing quietly died before 1940.
Today, the business community has a somewhat better understanding of political reality. More importantly, we share a greater awareness of the potentially damaging social consequences inherent in costly and inadequate education and healthcare systems, in decaying inner cities, in the dislocations due to rapidly changing technology, and all the rest.

However, even though business people have begun to register a desire to do something about these problems, it's not clear to most what that "something" might be. Minnesota is fortunate to have spawned an organization like MPCR, which has at least taken the critical first steps. Yet I think we can agree it is extraordinarily difficult to understand not only the depth of the problems, but the magnitude of the resources needed to address them, and the changes in mindset that will be necessary to take effective action. The blinders worn by business in the 1930's are no longer in place, but that doesn't mean we've become exactly all knowing either.

So what actions can a socially responsible business take to ameliorate fundamental social problems?

Broadly speaking, these are four:
First, there is corporate philanthropy for the purpose of relieving particular social ills, without any direct benefit to the business itself.

Second, there is corporate philanthropy for the purpose of improving the environment in which business operates -- support for educational institutions, being the most obvious example.

Third, there are programs -- not entirely philanthropic -- which serve to strengthen the market for a company's goods. The classic case was Julius Rosenwald, Sears Roebuck founder, inventing the rural extension agent and the 4-H Club as means of improving the standard of living in rural America -- and not coincidentally, increasing its collective buying power. Closer to home we have B. Dalton Booksellers, an operating company of Dayton Hudson, embarked on a national literacy initiative. The more they are successful, the greater their potential book-buying market. In a similar vein, Control Data has advanced a computer literacy initiative -- for reasons that parallel very closely B. Dalton's.

Notice in these examples so called "social need" and "business purpose" are one and the same.
A revealing comment appears in B. Dalton's literacy initiative mission statement. "B. Dalton's efforts in literacy," it says, "will go far beyond our normal grant-giving activities. We will provide direct program and management consultation, develop new resources, initiate projects, and take a leadership role nationally to stimulate others in the private, non-profit, and public sectors to participate."

I read this to mean B. Dalton is putting substantial corporate resources into the project, more than just dollars, and that in the long run return on this expenditure of effort is justified by the creation of new customers.

This brings me to item four: A business approach in which social needs themselves are defined as for-profit markets. Under this approach, the goods and services a company brings to bear in addressing social needs are expected to yield a business profit, as are all the rest of the company's deployed assets.

This market strategy is the course Control Data has pursued. The reason is that we believe social needs can best be met if the full force and resources of business are brought to bear, and brought to bear in ways that are fundamentally profit-driven.
Philanthropy is necessarily a cost. When business is off, costs are reduced.

Now, the market-strengthening approach of B. Dalton could be considered a long-term investment. There's an expectation of benefit to the business over time, although there is never a direct offset of costs by revenues. This is perhaps a somewhat subtle distinction but the lack of a direct relationship makes sustaining the effort over a long period of time just that much more difficult.

A direct market approach, however, is a business investment. A measurable return is expected within a reasonable time. Not only do we expect it, investors obviously demand it. Because we're dealing in non-traditional areas, the return might be slower in coming than would otherwise be acceptable, but the engine driving social market investments is direct and measurable -- profit.

This imposes a powerful discipline, the sort of urgency and commitment frequently lacking in non-profit enterprise, yet essential to overcoming any deep-seated problems. Moreover, operating for profit gives one a remarkably objective outlook. If a particular program doesn't work, it won't sell. Ways must be found to make it work, and if that can't be done it has to
be abandoned in favor of something that does work. Good intentions count, but in the long run are not decisive. On the other hand, in the case of governmental and charity programs, most frequently the opposite holds: the greater the failure, the greater the pressure to put more money into it.

Control Data's social needs strategy was many years in the making, evolving from the Northside riots in Minneapolis in 1967. If you'll recall, the underlying problem -- as much as anything else -- was high unemployment in the area. As a company, Control Data looked at the issue, and recognized that our contribution must take the form of job creation. The decision was made to put a plant there, to bring jobs to the neighborhood.

In planning and siting the plant, philanthropy was ruled out. The decision was from the beginning to make the plant an integral part of the company's mainstream production. It was given new equipment and facilities, and assigned a mainstream product, so everyone would have a stake in its success.

Of course, there were problems. To cite one of the first and simpler ones that came up: Standard job application forms call for an extensive employment history, but many of the people in this instance simply didn't have one. So the forms were changed. In effect, we had to say "we are more interested in your future than your past."
Once the plant was up and running, the employees had trouble getting credit. So we arranged for loans through our Commercial Credit subsidiary. Absenteeism problems among workers with young children led to the creation of a neighborhood daycare center. The employees were susceptible to any number of brushes with the law -- landlord problems and the like -- so we started to offer legal counseling. The motto, in short, had to be "whatever it takes."

It cost $2.5 million to bring the plant up to level of our other operations. Of that, the government paid $1 million. The rest could best be viewed as "R&D" -- not in a product if you will -- but in a process and structure -- a method of operation. For that investment, Control Data now has an efficient, competitive, profitable plant with an average employee tenure of more than six years.

Since that first one, Control Data has opened six other inner city plants around the U.S. They all perform to the same standards as the rest of our plants.

Building on that experience, we have approached new areas -- but in a more comprehensive way than just meeting a need via a plant -- i.e. the manufacturing function. Specifically, building a total business to meet that need. As has been well
documented, the existence of a healthy small business sector is a major factor in economic growth and job creation. Control Data has built a number of new ventures to address the needs of small business and to improve their chance of success.

One is the Business and Technology Centers. These are places where small business -- particularly start-ups -- can have affordable access to all the critical services and facilities they need. Economies of scale allow us to provide these services more effectively than they could get them otherwise, while still providing a profit for us.

There are now 15 BTC's, including the ones in Minneapolis and St. Paul, comprising one and one-half million square feet of office, factory, and lab space. These represent a capital investment of $58 million, and they have attracted 775 small businesses with 3,120 new jobs created.

Already there are encouraging results. In five years revenues have grown to $29 million. Just as importantly, indications are that the failure rate for firms located in BTC's is going to be substantially reduced from the current rate of 80 percent of all new businesses.
Other social needs businesses Control Data has invested in include training people with disabilities to work at home, job preparation services for disadvantaged young people, a variety of businesses aimed at improvement in and reduction in the cost of staying well, and a host of ventures in meeting the need for improved education and industrial training.

Along the way, we've learned many things and, by the way, one of them is to live with an impression by many that you are a little kooky. Headlines like this one from the Wall Street Journal are not unusual: "Far out firm," it said, "seeking to aid society, Control Data takes on many novel ventures."

"Novel" is about the kindest adjective I recall. (That's why I chose that quote!) And as all of you are aware, "novel" things don't come by financial support or investment community endorsement very easily. On the other hand, never doing anything novel or engaging in mere cosmetic innovation is an even more certain pathway to purgatory. By sticking to the conventional wisdom of "stick to whatever was successful yesterday" -- we never would have developed our peripherals or data services businesses, and probably long since gone the way of all the many start-up mainframe businesses of 25-30 years ago.
I also want to emphasize that Control Data's market approach to social needs is on all fours with our overall mission, which is to apply microelectronics and computer technology to innovative products and services. These applications are frequently long term and high risk and, as a consequence, long lived and high payoff.

There is nothing about addressing social needs that conflicts with this. You do, frequently, have to work harder and longer at it. Moreover, in dealing with complex problems, frequently the expertise and resources of a single corporation -- even a large one -- are not sufficient. So cooperation among several companies may be required. Gaining consensus as to mutual interests is not easy -- one may have an interest but no resources, another resources but no interest, and so on.

Also, as you dig into the kinds of problems which are stressing and distressing society, you find a particularly tough problem. In marketing terms it can be stated: The client is not the customer (at least not initially). Put another way, it's a question of who pays, or yet simpler, money. This basic economic problem is crucial because it almost invariably introduces the need for some form of public-private cooperation. In addition, clearly there is a need for public policy which provides structure and support for such undertakings. This policy formulation must have the active involvement of business, and to be credible, business people must have shown leadership and initiative.
In managing a social needs business, there are other considerations as well. For one thing, a higher order of political skill is required. These markets tend to be socially sensitive, which means they represent a special community relations challenge. In devising revenue-generating ways to serve a social market, a great deal of ingenuity and entrepreneurial skill is demanded. Since these opportunities are novel ones, there are no precedents, no fail-safe strategies already available. So, although the overall business potential can be reasonably assured, the rate of revenue and profit build-up is more difficult to forecast precisely.

Yet, in the end, there are compelling reasons for business to involve itself. There are grave, costly problems in our society, and it is within the power of business -- particularly large business -- to deal with them more effectively than anyone or anything else can. It is not merely our responsibility to demonstrate that. If we fail to do so, in the long run we will lose society's franchise to serve it at all.

Finally, such an approach has the distinct advantage of resting not on altruism -- a quality for which business people are not noted -- but rather on pragmatism -- a quality for which they are.

We will have a short break now. After that, we're going to look at a few case studies.