INTRODUCTION

In August, for the first time in 17 months, the computer business was profitable. I like that. I know you like that. The enormity of the trial and dislocation through which Control Data has suffered in those months is almost impossible for anyone who was not involved to comprehend. Just the task of setting aright the derailed peripherals business has been Herculean. And by no means has that been the only task. To some I know the whole thing has seemed overwhelming.

However, Control Data's underlying corporate strengths are very, very great. We have technology, products and people that have assured, and will continue to assure, we can overcome any difficulties that beset us, and they should be a source of pride, a source of determination for each of us as we build a corporation of excellence. But there are no "automatics."

That should certainly be clear enough from any serious reflection of the state of things this time last year versus where we had been only a short time before. Size, past success, technology -- none of those is any guarantee of survival much less success; continued survival and success is a matter of management -- quality management.
It is management that empowers and enables people to achieve their full potential — that makes it possible for them to feel the glow of pride in individual and collective achievement. Its the MP — management process — that assures the TQ — total quality — of TQMP. It is management and management process that assure we know and feel our markets, the competition, product and the specifications which yield customer satisfaction.

And that's why I'm here talking to you tonight. Recently an analyst from a large institutional holder of Control Data stock asked me if the problems in our 5 1/4" disk drive business arose because we were not in touch with changing market needs or if we really just didn't spend the technical dollars to keep up. What I told him, of course, was the truth. It was a failure of execution. [WREN I announced May '82 at the NCC, volume production started in '83 -- produced 13K in '83 and 90K in '84]

Any one of us can think of similar stories. Why do such things happen? Complacency? Arrogance? Ignorance and ineptness? Well, those are certainly common enough human frailties. They exist and we must fact that. Furthermore, if they are not to undermine our business there is only one answer: continuous and rigorously demanded accountability -- accountability for
quality (and the processes which assure it), for marketing (and responsiveness to market requirements), and for the degree to which each manager adheres to Control Data's basic principles of managing people.

What accountability in these three things comes down to is integrity: to make a solid connection between what we say...and what we actually do. As a group Control Data management hasn't made that connection very well over the past few years and as a result our credibility has suffered in the marketplace...among customers, competitors, among ourselves. The corporate financial results have been the telling measure of that failure and sadly lacking credibility.

The events of the past year, however, are a clear indication that management can respond and change. It is being summoned to the task. We are proving that we can move from a half-billion dollar loss to profitability and we will prove that we can go on to profits as big as those losses. But no matter where we are on that scale of improving profitability, management's task and its accountability remain constant -- for quality, marketing and people.
I believe that every one of us deeply and sincerely wants Control Data to be a respected and successful company. Moreover, recent surveys have shown that 99 percent of Control Data's employees feel a personal responsibility to help the company succeed.

So, how do we, as managers, release the enormous potential of that support?

There are several aspects to the answer to that question, but clearly one of the most important is the work environment, the "culture," as it most frequently is called these days, that we as managers build and maintain. A work environment in which people feel accountable, in which creativity and initiative are supported, in which there is pride because the products and services we provide are market proven and known for quality. It is summed up for me in the phrase I have used for many years: the work environment we seek is one in which each person truly feels "what I think and do really matters." And if people feel that, they also feel responsible and accountable for what they do.

So its a two-way street. The company and each manager are responsible for process and environment to foster initiative, pride and responsibility; and in turn each subordinate knows he/she will be held accountable and is expected to aggressively pursue individual self-development.
Some years ago we distilled the myriad policies, actions, and processes involved in building such a work environment into a statement of five principles. Recognizing the mutual responsibility between manager and subordinate, we labeled those principles a "Fair Exchange."

Fair Exchange. "Whatever happened to Fair Exchange?" I'm asked. Those principles, which I will repeat to you in a moment, are the foundation of my management beliefs and the culture I expect in our company. But "what happened" is that we forgot the responsibility and accountability part of the equation.

These are the five principles:

- Place a high value on reward for performance...
- Create an environment for continued self-growth and achievement...
- Foster management practices that ensure fair and just treatment of all employees...
- Provide corporate benefits and services which recognize that personal quality of life affects performance on the job...
And provide an increasing level of job security for the greatest number of employees.

Now those principles can only work if the responsibility/accountability dimension implicit in them is aggressively enforced. Thus we should indeed expect and give reward for performance AND ALSO consequences for non-performance. We have the right to expect that our boss and the company create an environment for self-growth and achievement, AND we have the responsibility to stretch ourselves to the limit of our full potential. We should expect fair and just treatment, AND we have the responsibility to act with personal integrity. Everyone clearly wants benefits and services that improve individual quality of life, but we have the equal responsibility to work as individuals for the benefit of our co-workers, our families and our communities. It is reassuring to know that the company has job security as a goal, but we must also work each day knowing there are no guarantees in life -- only opportunity. Economic success of the company, in the final analysis, is the means by which economic security of the individual is attained.

Of those five principles this last one is the one most twisted in its interpretation. The general feeling became that Fair Exchange was synonymous with the single principle of enhanced
job security, which was in turn became synonymous with "a guaranteed job." With the large layoffs of 1985 and 1986 --i.e. with no guaranteed job -- the feeling was that Fair Exchange died. It did not. Let me read you the full policy statement with regard to job security policy. It was written in 1981.

"Control Data is committed to pursue means that will reduce the necessity of layoffs or terminations caused by economic conditions.

If economic conditions become so extreme that layoffs or terminations can no longer be avoided, the company is equally committed to reduce the impact on individual employees.

A corporate-wide strategy will be maintained as part of the company's business planning process."

That policy was never more vigorously enforced than in the last two years. We have gone to extraordinary lengths to reduce the impact of the extreme conditions we have encountered.

Moreover, in these terrible times of the past year, our adherence to this policy of enhanced job security and concern with regard to mitigating the impact of adverse conditions, has
served us well. It has meant exercising the "rings of defense," more retraining and redeployment, and far fewer layoffs and termination than would otherwise have been the case -- some 36% internal placements from Jan.-June '86.

It is not just "economic" conditions with which we must cope, however, but even more important the impact on employment of technological change. So the policy really needs to be restated to include a specific reference to technological change. Clearly this has been the dominant factor in Data Storage Products.

It is our plan to grow Control Data in revenue and profit. But I want to make it absolutely clear that that does not mean growth in employee population. Indeed it almost certainly means further reductions. For one thing we have not finished the job of fitting the organization to the new size and scope of the business. For another as we pursue the concept of decentralization there will be redeployment of people. That will mean some reduction. That is neither callous nor hypocritical treatment of the job security principle; it is simply fact.
We intend to continue to do everything we can to provide an enhanced measure of job security for the most number of people possible. That will require flexibility and willingness to invest in training and retraining people on the part of the company. It will likewise require flexibility and a commitment to self development on the part of the employee.

James Joyner, one of the nation's leading quality experts and an associate of Phil Crosby, put it this way in a recent article: "A quality-minded organization is one where everyone understands exactly what they are to do, has the resources and knowledge necessary to do it and then has management's help [in doing] it right."

What that says in different words is that our five people management principles are the definition of a quality minded organization. Quality then is not just a product characteristic. It isn't a task force, or a program. It is a total way of doing business...a way of daily existence for each individual. It is the mindset that holds true quality as "standard operating procedure." A way of management. Obviously, we've got a long way to go.

The mechanics of the quality process we call TQMP. Total Quality Management Process.
I know there is a certain percentage of people in Control Data who don't understand TQMP, or who -- deep down -- don't buy into the approach. The cynics have all seen quality programs come and go. For them TQMP is just one more "zero defects" program. It's not!

What we're really talking about is developing new and better ways to manage Control Data's business. Ultimately, as I say, it comes down to each person feeling deeply that what they think and what they do really matters; and because they feel that way they also feel both responsible and accountable for what they do.

Let me give you just one example of TQMP at work.

Those of you here today who work in software development know that although the process is highly creative, it is still a process nonetheless. The architecture may change and the customer specifications may be different, but the development process itself is relatively constant.

It is a process that can be managed. There are a number of points along the development cycle, well before the Integration and Evaluation phase, where problems can be anticipated or eliminated. It begins with a clear understanding of the specifications and then doing everything possible to get it done right...the first time.
That's what they've been doing in the Energy Management Systems group... as they develop the specialized software needed by electrical utilities for the turnkey systems we sell. The development process begins... and ends... with exacting conformance to customer specifications. Maybe that's one reason why EMSD is doing well today.

We define quality as conformance to requirements. In that regard, let me turn again to one of Phil Crosby's observations. "Yes," he says, "quality is defined as conformance to requirements, but customer's requirements are defined by marketing. Therefore, quality begins in the marketing department."

...begins in the marketing department...

With that simple expression of logic, Crosby demonstrates that quality and marketing are inextricably linked -- that one gives strength and meaning to the other. Total quality and effective marketing are twin forces that combine to propel us toward the recognized competitive advantage we must develop if we are to succeed in the marketplace.
There are four essential requirements to achieve this kind of recognized competitive advantage — and they echo the basic principles that underly TQMP:

- To know the markets and know them very well
- To define and develop the right products
- To sell and service them competently
- and to communicate the corporate messages effectively

I have no illusions about the challenge this goal of being a genuine marketing company represents. We have a long, long way to go in that regard too.

Superior marketing does not reduce the attention given to developing new technologies. Quite the contrary — it focuses that development. The final effectivity of our precious technical dollars is determined both by the efficiency of the development process and on what programs they are spent. In this highly competitive industry, then, marketing strength is absolutely essential to effective development of quality products.
Quality starts with marketing. Quality results from people knowing what to do, having the skills to do it, and following clearly defined processes. Above all, quality must be managed.

We are blessed with men and women who are committed to making this company successful. But it is management that creates the environment that empowers the people.

Thank you.