

Technology and Corporate Governance

William C. Norris
Chairman and Chief Executive Officer
Control Data Corporation

Thirteenth in a series of
perspectives on employing
technology to solve the
pressing problems of society.

No. 13 December, 1979

The 1970's may be remembered as the decade when mounting evidence made it impossible to ignore potential disasters in the areas of energy, food, natural resources, education and other concerns of worldwide dimension.

Possibly, it could also be the decade that will be remembered as the time when appropriate tools were resolutely put to work to solve those serious problems.

Technology is one word for those tools. In this series of papers, William C. Norris, chairman of Control Data, reflects on how to find, develop and apply technology and its many applications in our society.

This address was given June 27, 1979, at the Annual Meeting of the Minnesota Society of Certified Public Accountants, in Bloomington, Minnesota.

Technology and Corporate Governance

Technology and Corporate Governance is a subject that has received a vast amount of attention, most of which has been directed toward relatively unimportant issues.

Before I go on, I must say a word about the seemingly unlikely title of my presentation, "Technology and Corporate Governance." The title was chosen because technology is the keystone of our economic system. The development of products, services and processes must start with technology. Financing and management are important, but not as fundamental as technology. The application of technology meets needs, which in turn provide jobs. In our society, most of the technological innovation, which I define as the development of products, services and processes, is performed by private enterprise. Consequently, it is essential that society provide guidance or governance, if you will, to assure that its needs are being addressed in an appropriate manner.

Corporate governance is an important subject and of growing concern, especially since society's needs are not being adequately met.

"What we need is a fundamental change in which business takes the initiative and provides the leadership for planning and managing the implementation of solutions...to major problems of society."

Likewise, governance of our public institutions is important and of growing concern. They continue to grow to monstrous proportions even though they are unable to cope adequately with major problems of society that are approaching disastrous dimensions. The list of problems is long. It includes alternate and cheaper sources of domestic energy; greater energy conservation; the rebuilding of blighted cities; more environmental protection; better conservation of natural resources; lower food and housing costs; easing the plight of small business; more available health care; more available, lower cost, higher quality education and training, especially for the disadvantaged; and to top it all off -- more jobs, especially skilled jobs.

Solutions are critical to our future, and they are interrelated because the problems 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 we need 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 almost 12 years ago. It has been pursued vigorously and has proven sound. Examples will be given later, in which profitability is proving to be as good or better than with traditional strategies. Unfortunately, most companies are not yet following a similar approach. Too many businessmen, economists, security analysts and 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.

“Too many businessmen, economists, security analysts and institutional and individual investors believe that the business of business is to maximize short-term profit. . .”

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 to be 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.

PERIPHERAL ISSUES

Currently, most persons in our society appear content to wring their hands over our mounting social needs and focus attention on peripheral issues of corporate governance.

Some of the most popular (and least important) of the peripheral issues are: composition of the board of directors, executive perquisites, detailed weekly newsletters to shareholders (hyperbole), overseas payments legislation, conducting business in South Africa or Chile or

communist countries, disclosure of information, or a proposal for federal chartering. And, under this umbrella of peripheral corporate governance, come such issues as "shareholder response to management's statement in opposition to a shareholder proposal."

None of these has had any discernible effect on focusing greater attention on pressing social needs. In fact, tinkering with the composition of corporate boards by adding more outsiders, especially consumer representatives or advocates of other special interests, will more likely slow down progress. The boards will be less informed, less able to evaluate risks and, hence, either less supportive of, or even unwilling to go in, a new direction.

Fretting about executive "perks" or pointing fingers at overseas payments makes spicy reading, but accomplishes little else. All of the church and student attention devoted to questioning the morality of doing business in South Africa is not only unproductive but hypocritical, when we remember that 35% of the disadvantaged youth in our society are denied the basic right of a decent job.

Whole organizations have sprung up around corporate governance as it is presently perceived. Congressional and regulatory hearings, piling up massive amounts of testimony, have been dedicated to it. Speeches, voluminous annual reports, and trade journal articles all have contributed to the tons of literature on the subject. And yet, there is relatively little visible accomplishment.

Furthermore, very few small stockholders have lost money because of issues of corporate governance. Most of those losses are due to lack of resources to compete successfully with the more sophisticated professional investors in the game of making money from short-term investments in corporate stocks.

"...very few small stockholders have lost money because of issues of corporate governance. Most of those losses are due to lack of resources to compete successfully with the more sophisticated professional investors..."

Additionally, according to comments provided to the SEC on rules relating to corporate governance, "The majority of the commentators expressed the view that shareholders have little interest in participating in corporate governance."

ADDRESSING SOCIAL NEEDS

The present situation boils down to a flood of activity centered around peripheral issues that are largely ineffective in getting large corpora-

tions to assume leadership in addressing major social needs. Meanwhile, steam is building up in Congress and administrative centers of government for restrictive corporate governance legislation.

Since current actions aren't adequate, how do we get the desired results? To answer that question, I will switch from preaching to practice in order to better articulate the soundness and potential of the approach of addressing major societal needs as business opportunities. The practice I will refer to is, of course, drawn from Control Data, where major needs are being addressed, either directly or through consortia, including those in education, health care, urban and rural development, technology transfer and small business. Earlier, it was noted that because major societal needs are interrelated, responsive programs should be interrelated. This important point will be very evident as I proceed.

I will review Control Data's inner-city plant, education, technology transfer, small business and urban programs, only briefly.

Inner-City Plants: Control Data has successfully located new plants in four depressed inner-city communities, and a fifth plant is under construction. When the fifth plant is completed, total employment in those plants will reach 1,500 persons.

We have succeeded in making the efficiency of the plants equal to or greater than conventional operations, and average employee tenure is higher. The result is higher profitability; 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.

Education: Control Data's largest program addresses the worldwide need for better, more available and lower cost 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, telephone, cable and satellite transmission, coordinated into a network learning system with computer-based education.

Control Data has been engaged in developing PLATO® computer-based education for 17 years, and we see computer-based education as ultimately becoming the largest segment of our business.

Education is a multifaceted program that includes the sale of complete computer-based education systems, and the offering of education and training through our Learning Centers and vocational training schools.

There are 18 vocational training schools, called Control Data Institutes, located in the United States, and 15 in foreign countries. The curriculum consists of PLATO computer-based education training courses for entry-level positions in computer operation, maintenance and programming. Last year, over 6,500 students graduated, with a job placement level of 95%. A typical Control Data Institute provides an after-tax return-on-equity of approximately 20%, with the promise of further improvement.

Fair Break: The only other part of the education program that I will mention is called Fair Break – aptly named because it prepares young, inner-city, disadvantaged persons to get and keep a job and to make jobs more available to them. Five Fair Break Centers are now operating and delivering innovative training and employment to inner-city youths. The youths receive training in basic skills, job readiness, life management, and job-seeking skills. They work part-time, providing a source of income and helping to identify any problems that should be resolved before employment is sought out in the community. The program is delivered in cooperation with city schools, with funding from government Comprehensive Employment and Training Act (CETA) program funds.

Since Fair Break is a relatively new program, still in the startup phase, it is not yet profitable. I should also mention that all the other programs I will describe are also in early stages, and that it is my belief that most programs addressing societal needs will, in the long run, provide more stable and lasting markets, which in turn will provide enhanced profitability.

Technotec: Another critical need in our society is more efficient access to technology. Although technological innovation is the single richest source for creating new jobs, much of our existing technology lies buried in libraries and laboratories of businesses, government, research institutes, academic institutions and individual inventors.

This vast resource must be tapped by more efficient transfer of technology that can be converted to products and services that meet society's long-term needs and create new jobs in the process.

Control Data's TECHNOTE[®] service is helping to make that happen. Vast computerized data bases of all types of technologies are being assembled, with priority placed on agriculture, solar energy, and urban technology.

For a search fee, a TECHNOTE user gains access to technologies that have been proven elsewhere and can be applied in another setting.

Small Business: Our program to help improve the plight of small business has many elements, a number of which are drawn from programs meeting other major societal needs.

Critical to improved viability of small business is more relevant, higher quality, more accessible and lower cost training. Control Data is responding to this need with PLATO computer-based education as described earlier. Training is currently given in Learning Centers in major cities, by mobile vans, or by terminals installed on the user's premises. Many courses are available that are especially appropriate to small business.

“Critical to improved viability of small business is more relevant, higher quality, more accessible and lower cost training.”

Persons in small business can take as little or as much of a course as they wish, at times convenient to them. The quality is higher and the cost is substantially lower than comparable courses in large companies, because PLATO supplies the economy of scale that is normally lacking for the small business person.

Another critical need of small business is improved access to technology, because most small businesses can't afford to develop technology, but must obtain it from others. TECHNOTECH assists in meeting this need.

Another important service for small business is provided by our Business and Technology Centers, which is a business engaged in providing various combinations of consulting, shared facilities and services for facilitating the successful startup and growth of small businesses. A cluster of buildings contains flexible office and manufacturing space. Also contained within the buildings are such centrally shared facilities and services as a model shop, laboratory facilities, accounting, purchasing and legal services, as well as a complete range of computer services, including technology-locating and transfer services and computer-based education.

Economies of scale make it possible to provide occupants of the center, and those located nearby, with needed facilities and service of much higher quality for considerably lower cost than each one would be capable of providing alone.

City Venture: The last program I will mention, in which Control Data is involved, is aimed at building and rebuilding urban communities. Because of the diverse and extensive resources required, a consortium of organizations has been formed, called City Venture, to meet this need.

City Venture plans and manages the implementation of innovative and comprehensive programs for both the revitalization of existing urban areas and for creating new cities. It is also assembling a broad range of new and advanced technologies, from both the physical and social sciences, to implement these innovative programs.

“City Venture plans and manages the implementation of innovative and comprehensive programs for both the revitalization of existing urban areas and for creating new cities.”

City Venture is based on a concept that has emerged from the urban failures of the past. The approach mandates that any plan for building or restoring a community must be based on meeting residents' needs for high quality, accessible and affordable education and training, and, even more important, decent jobs.

Under this approach, small enterprises are a major source of jobs, as well as an important means for building, rebuilding, and maintaining housing and commercial centers. Small businesses also participate in providing health care, education and other social services, together with a myriad other needed products and services, including food production, processing and distribution, and waste recycling.

At present, the large corporate participants in City Venture include Control Data, Reynolds Metals, Dayton-Hudson, Honeywell, St. Paul Companies, Northwest Bancorporation, First Bank System, Minneapolis Star and Tribune Company, and Medtronic. Last, but not least, are the American Lutheran Church and the United Church of Christ.

It is important to note that the great majority of the management, professional, technological and financial resources required for building and restoring communities exists within large corporations, while those self-same management, professional and technological resources are under-utilized. For example, many of the technologies of one company could be used without threat by other non-competitive companies, especially small companies. Also, managers in large companies are relatively unchallenged for a good part of the time, and professional people cannot work productively on one type of problem continuously.

Although City Venture has only been in business for eight months, contracts have been signed with two cities. Finally, and not to belabor the point on City Venture, yet not lose sight of it either, current popular corporate governance procedures were not part of the motivation for its formation.

Other Companies: In addition to citing Control Data and the other companies in City Venture, there are some examples to be mentioned of other companies addressing major social needs. The Boeing Company has been assisting small companies in getting established as component suppliers. General Mills and Honeywell have financed housing restoration projects. IBM operates a plant in a revitalized area of Brooklyn. Companies are working individually and in cooperative ventures to develop new sources of energy.

The widespread practice in Japan should also be noted, in which large companies help to establish small ones as component suppliers by providing financing and technology. In contrast, here in the United States, there is usually an adversarial relationship between large companies and small ones.

“... in the United States, there is usually an adversarial relationship between large companies and small ones.”

COMMUNICATING

Two more Control Data interrelated practices that are relevant to this discussion are external communications and helping to assure fair treatment of those directly affected by mergers.

Adequate communication with a diverse set of constituents that include stockholders, employees, suppliers, government officials, and residents of communities where operations are located is challenging, to say the least. The task looms even more formidable when one considers surveys that show most stockholders – constituents who should be most interested – don't read annual reports. Furnishing the much more voluminous 10-K's certainly isn't the answer.

Please understand that I am not about to unfold a total answer. However, in our program, with the use of PLATO computer-based education, and by paying more attention to communicating and working with community leaders where operations are located, considerable progress is apparent, with the promise of more.

C.B.E.: By utilizing PLATO computer-based education, shareholders or other corporate constituents can learn about issues of importance to them, ask questions and tell us what they think. In addition to financial and product data, information is stored in the computer regarding Control Data's position on current issues, such as trading with communist countries, doing business in South Africa, and hostile takeovers. Incidentally, our position on corporate governance is being prepared for entry into PLATO.

The main points about the PLATO approach are that a constituent can access information that he or she is interested in, ask questions and comment. In other words, they have an opportunity for some ready dialogue with corporate management, as opposed to having to read most of an annual report in an effort to find desired information that is not likely to be there or, if included, will be too sketchy or unclear.

“By utilizing PLATO computer-based education, shareholders or other corporate constituents can learn about issues of importance to them, ask questions and tell us what they think.”

The PLATO program for communicating with constituents is in an early stage. Access is limited to persons in major cities and the data content is far from complete. However, we believe that PLATO terminals will begin to be installed in homes within the next five years; and, by that time, all elements will be refined, and we will see widespread usage.

Community: The interface between big companies and local communities is where the rubber hits the road, as they say. Unfortunately, there are too many track marks for the abrasions of unexplained layoffs, job reductions, plant closings, pollution, etc. Most of the marks that scar the image of big companies could have been avoided by working with community leaders, reviewing problems, getting their ideas and their understanding. Their viewpoint isn't really much different from that of corporate management, because they are realists, too. They can understand and more easily accept the circumstances of an economic situation that forces a plant closing in their neighborhood, if they are given the facts and are dealt with openly.

Learning of the need to work more closely with communities' leaders, learning how to work with them most effectively, and experiencing the rewards in so doing are some of the valuable lessons we have gained from our inner-city plant program.

MERGERS AND CONSTITUENTS

This brings me to the second practice mentioned of helping to assure fair treatment of constituents directly affected by mergers. Before Control Data will seriously consider any contemplated merger, a social impact study is made. This takes the form of a statement, submitted to the board of directors, detailing the effects on employees, jobs, career paths, local communities, suppliers and the organization's capacity for innovation. Undue adverse consequences that cannot be reasonably

corrected, such as closing a plant because of duplicative facilities, is cause for rejection.

More will be said about the social impact statement when I talk about legislation.

WIDESPREAD ADOPTION

Next to consider is that the efforts of Control Data, together with those of the City Venture consortium of 12 corporations and a few other large U.S. companies, in addressing major social problems, represent a good start and are important. But they are small relative to the enormous magnitude of the needs. How then is the next step to be accomplished – that of greatly increasing the number of large corporations following a similar approach?

In our private enterprise society, this must occur primarily by voluntary action. Yet, to an extent, it must be guided by appropriate legislation, which provides productive – repeat, productive – corporate governance.

The main motivations for managements of large companies to take action are fear, profits, and satisfaction in doing the right thing.

“The main motivations for management of large companies to take action are fear, profits, and satisfaction in doing the right thing.”

Fear: For some, the fear of increased government intervention is probably the most important motivator.

Public concern over the power of large corporations is real and is being expressed more frequently and more stridently. Witness the results of recent polls, in which 70% of the public believes that large oil companies are holding back supplies in order to obtain higher prices. There is the widespread concern over the environmental problems of nuclear power. “Big is bad” is the essential thrust of recently introduced anti-merger legislation. I could go on with a litany of other indictments of large business.

The message is clear that the general public wants more governmental control over big companies, because of concerns over perceived abuse of their power. Big business must respond to these concerns and take the initiative away from the politicians by undertaking specific constructive actions. If they do not, then more restrictive merger and other types of legislation is inevitable.

Profits: Big business is quick to respond to short-term profit opportunities when they are perceived. Major social problems are now usually viewed as being of too high risk, with payout too far in the future. Inexorable investor pressure for earnings increases cause corporate management goals and rewards that are responsive to that pressure, with the result that corporate managers are usually reluctant to undertake long-range, high-risk projects. Yet, the initiative must come from the management, and it is my experience that stockholders will support it, providing:

- (1) Contemplated actions are clearly and forcefully articulated.
- (2) Large, long-term, high-risk projects are either undertaken with the government sharing the cost, or through a consortium of companies where research and startup costs can be shared without undue burden on any one company.

Although the initiative must come from top management, everyone, including each of you, has the responsibility to encourage that initiative.

Satisfaction: The satisfaction gained from participation in a successful project addressing a major social need is indeed great and a powerful stimulant – and not just for top management, but for all employees who will want to expand such activities. Inspired employees can be the most effective source for positively resolving corporate governance issues – and the pride of shareholders in their company's participation in successfully addressing major needs is a further stimulant.

“Inspired employees can be the most effective source for positively resolving corporate governance issues...”

LEGISLATION

Having reviewed the motivations for addressing social needs, let us consider some of the needed legislation to support and govern these actions and assure additional needed action, which may not be voluntarily taken. Both general and program-specific legislation is needed.

Mergers: First to be considered is legislation in the area of corporate mergers. With merger activity increasing, the practices used in entering into them become governance issues of significance. Mergers affect competition, employees' jobs and careers, productivity, innovation, shareholders, suppliers and communities.

In view of the importance of those factors, I have been advocating an innovative approach to merger legislation, based on the best criterion for judging the merits of any merger, which is simply, “Does it serve the best interests of society?”

These effects can be assessed by requiring a pre-merger social impact analysis similar to the one used by Control Data. Actually, this need be no more than an extension of the present Federal Trade Commission's pre-merger notification procedure. The main difference is that the present scope of the FTC procedure is one-dimensional, dealing only with competition, whereas what is proposed embraces other effects that need to be considered.

Who is to judge the merits of a proposed merger? It could be the FTC, Department of Justice, or the stockholders of the merging firms.

I favor the stockholders. Given the information and a structured procedure for its dissemination, my experience convinces me that stockholders would act in a responsible manner.

"It is difficult to accept that bigness *per se* is bad, because of extensive differences among industries."

An important provision would be that any interested government agency, organization, or group, including employees, could file advocacy material so that stockholders would be fully informed.

I believe that the proposed approach would address the matter of avoiding unwarranted bigness in the most practical way. It is difficult to accept that bigness *per se* is bad, because of extensive differences among industries. On the other hand, I've not met anyone who wants to wake up some day and face the fact of concentration of virtually all business in a relatively small number of giant corporations.

Hence, this type of legislation would be far preferable to Senator Kennedy's pending Small Business Protection Act, the major thrust of which is to control bigness by prohibiting mergers involving firms with assets or sales in excess of \$2 billion. My approach has the further merit that requiring stockholders to vote on mergers would be a practical and productive form of corporate governance. The approach would also eliminate forced takeovers, which are clearly not in the best interest of society.

Also, during the past decade, there has been a growing advocacy for employees to have more voice in decisions affecting their jobs. The proposed legislation would provide it in a reasonable way, impairing neither the flexibility nor the responsibility of management.

Plant Closings: Another bill pending in the U.S. Senate would lessen the employee and community impact of plant closings or relocations. The major elements of this proposed legislation include the requirement for generous severance pay, continuation of medical and hospital

coverage, and immediate annuities to employees from pension funds, which would provide them with the same entitled benefits as if they were retiring.

Fortunately, the odds are high that the plant closings proposal will not be enacted into law either during this session of Congress, or next year. The point is, though, that there is deep concern and, if not properly addressed, legislation will be inevitable.

I believe that legislation can be avoided in this area if companies planning a plant relocation or closing meet with community leaders and lay before them the complete picture. At the same time, appropriate help must be offered to the community to plan and implement means of developing replacement enterprise.

Incentives: Other legislation needed is in providing financial incentives for large companies to locate plants in inner-cities and increase employment of disabled and disadvantaged persons. Financial incentives are also needed to stimulate large business to help small firms by providing assistance in technology, management and finance. A national policy also should be established to encourage companies to make their technologies available to others.

CONCLUSION

In concluding, let me emphasize that what I am advocating is not theoretical abstraction. I have been speaking from experience on every major point. If you aren't convinced, then I haven't adequately presented the case, because there are no other answers. All of the obvious and easy approaches have been tried and found wanting.

"For those of you who are still skeptical, if you haven't visited such places as the South Bronx or the Woodlawn community in Chicago, you should . . ."

For those of you who are still skeptical, if you haven't visited such places as the South Bronx or the Woodlawn community in Chicago, you should, because the message will come through loud and clear if you want to understand and be part of constructive initiative. Woodlawn, for example, is little more than a stone's throw from the University of Chicago. It is an area where unemployment is high, every third housing unit is fire-gutted, abandoned or gone, and residents live in fear for their safety.

There are a thousand Woodlawns or poverty-stricken areas of Appalachia and the rural South to visit. Without first-hand contact, one can't comprehend the extent of the frustration, bitterness, and human

deprivation that is producing cleavages among Americans. It is not only grossly unjust, it is downright dangerous to the stability of our society – which governs the future well-being of all of us.

I'm out there every day, either helping to manage Control Data programs, or working with other organizations or members of Congress to stimulate business to take the leadership to provide more adequate and timely solutions to society's major problems. Sooner or later this has to happen. With your help, it can happen sooner, and we can then avoid the restrictive legislation that is being heralded in many ways.

I have already mentioned the pending restrictive legislation. Let me cite another threat by quoting from a talk by Harold Williams, chairman of the SEC:

“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 commonweal.”

There are other manifestations of the desire to place greater controls on corporations that could be referenced, but their existence and message is clear.

Reduced to the simplest terms, there is a growing public consensus that business has the two major responsibilities of making a reasonable profit and providing jobs. Experience shows that these responsibilities can be compatible when corporations address the major needs of our society as business opportunities, in cooperation with other sectors of society.

“Experience shows that the responsibilities of making a reasonable profit and providing jobs can be compatible when corporations address the major needs of our society as business opportunities, in cooperation with other sectors of society.”

If big corporations will provide the initiative and provide the leadership, the great power that they are alleged to have will be perceived as a constructive resource instead of a source of public "ripoffs."

This will make it possible to avoid restrictive legislation that would impede progress, remove the alleged misdirected power of big business as an excuse for inaction by our politicians, and most important, better meet the needs of our society. When we've achieved that, we can look again at the present issues of corporate governance that are so popular and so peripheral. We may even make better use of some of them.