

## **An Entrepreneurial Approach to Social Problem-Solving: William C. Norris and Control Data Corporation**

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I SHOULD note at the outset that while this paper deals with business history, it is *current* business history — literally, history in the making. Some of the things dealt with here were the subject of lively discussion in a major corporation board room not very long ago. I know, I was there. The subject of this paper is an American business entrepreneur — a rather special kind of entrepreneur who has built a rather special kind of company.

Control Data Corporation and its crusty chief, William C. Norris, have received a great deal of press attention in the last few years for some of that company's seemingly unorthodox business ventures and its chairman's often provocative public statements.

Officially, in its annual reports and elsewhere, Control Data states that its basic business strategy is to find means for converting social problems into business opportunities. In pursuit of that strategy, the company has launched programs in such diverse areas as transforming culturally and educationally deprived young people into employable workers, training the physically handicapped, rehabilitating convicts, strengthening the educational system, pumping new life into depressed urban areas, revitalizing small scale agriculture, and improving the climate for small business, and new job creation — to name only a few of the nontraditional forms of business activity in which the company is now engaged. Control Data is still deeply involved in the computer and financial services businesses in which it has occupied an important place for a long time, but it is these new ventures that are attracting so much current attention.

Norris himself does nothing to deflect or discourage that attention. On the contrary, he takes advantage of every opportunity to talk about what the company is doing. The more important of his speeches (almost all of them dealing with work in the social problems areas) are reprinted

in booklet form and given wide circulation. To celebrate its twenty-fifth anniversary last year, Control Data, in collaboration with the prestigious American Academy of Arts and Sciences, conducted a conference in Minneapolis on the theme, "Social Problems and Business Opportunities," to which were invited leaders from the business, academic, and political worlds, including a number of distinguished guests from overseas. The proceedings of the conference will be published, as will a book on the conference theme by the Academy of Arts and Sciences. A book by Norris himself on Control Data's business philosophy and work in social areas is now in process of publication.

The objective of all this publicity is not to blow Control Data's horn or promote its business but to persuade opinion-makers, and especially business leaders, that the modern business corporation has a broader and more important role to play in American society than it is now playing. That role is not merely to provide the economic goods and services that support our society but to contribute directly to the amelioration of many of the social ills that threaten cherished American values. Norris feels deeply that the best way to accomplish this is by doing what business does best: deal with unsatisfied needs as business opportunities.

Businessmen are not unaware of the host of evils that bedevil our society, and in most communities businessmen are among the leaders in efforts to deal with them. The vast array of social agencies that are so striking a feature of the contemporary American scene could not exist without the financial support and the active leadership of business. And, of course, corporate and other taxes borne by businessmen are a major source of revenues used in socially oriented government programs.

By and large, however, business has conceived its role in dealing with social problems as confined to moral and financial support for governmental and private agencies that have as their primary mission the amelioration of stated classes of social ills; there are very few — Control Data is the most notable exception — that have seen the addressing of social ills as legitimate arenas for straight-forward business endeavor.

Norris' efforts are widely misunderstood. Because of deeply engrained patterns of thinking, people in the business community and elsewhere view Control Data's efforts in areas such as those named as, at best, rather imaginative forms of corporate philanthropy or, at worst, the idiosyncracies of an eccentric individual who happens to be in a position to put his off-beat ideas to work. It is uncommon to find people who dismiss Norris's claims that he is pursuing potentially profitable business opportunities simply as rationalizations, and possibly as self-delusions. Perhaps the most prevalent attitude is that those in top positions in the company, and most notably Norris himself, have such a sincere and wholly laudable concern for relieving some of the most distressing ills of society that they are

content with smaller rates of return on invested capital than they could realize by devoting their resources and time to more conventional forms of business endeavor.

In plain words, the business philosophy that Norris is preaching, and which Control Data is putting into practice, differs so sharply from what most people are accustomed to hearing and seeing that many of them have trouble fitting them into familiar categories of business behavior.

But Norris and Control Data are not nearly as unorthodox as to some they may appear. They may be original. They may be innovative and unconventional. They may be moving into areas not customarily considered appropriate for profit-making endeavor. But they are acting strictly in accordance with accepted canons of business enterprise. Adam Smith would have approved.

It is important to recognize that what Control Data is doing in the area of social problems is an integral part of the company's basic business strategy. It will be useful to examine that strategy.

The story of Control Data Corporation has been one of constantly expanding business horizons. Each successive state in its growth has been based on identifying and serving a previously unmet or poorly met need.

When the company was founded a little over 25 years ago, it went into the design and manufacture of more powerful computers than anyone had ever built before to serve the needs of the scientific and engineering communities for handling vast volumes of data and problems of calculation that had hitherto been beyond human capabilities.

To this narrow but profitable base was soon added the design and manufacture of peripherals — tape drives, memories, printers, and so on — to serve the needs of the burgeoning computer industry for increasingly high-capacity equipment to support increasingly powerful mainframes. Again, CDC saw an unmet need and a means of serving it.

Advances in high speed computer technology created the potential for providing superior computer services to users who could not afford giant computers of their own but needed that level of computer power for short periods of time.

Acquisition of Commercial Credit Company provided the opportunity to greatly broaden the array of services offered and the development of PLATO, a sophisticated system of computer-based education, opened up broad new fields of opportunity in school systems, industrial training, and social services. Experience gained in starting new plants in distressed inner-city locations broadened the company's arsenal of expertise still further and suggested many more areas of potential business opportunity.

Each new business entered was a response to a previously unsatisfied demand; each grew out of, and was built solidly on, what had gone before. The company's entry in recent years into areas customarily considered of

only charitable or civic interest to business grew logically and naturally from the solid foundations already laid in the manufacturing and service fields.

From Control Data's perspective, social problems are merely different kinds of unmet needs. Admittedly, many of these are more complex than technical problems, and effective solutions to them are often more difficult to find and implement. This is due in part to the large numbers of people and organizations likely to be involved and to the frequent conflict of their interests. Unmet social needs must be approached differently from unmet technical needs; they take longer to satisfy, and the criteria for judging the efficacy of their solutions are more ambiguous.

But it is important to recognize that "technical" and "social" are not necessarily antithetical. Many social problems have been created by technology, but developments in technology have simultaneously made it feasible for the first time to solve many social problems. Information technology offers especially promising possibilities, and it is here that many of Control Data's greatest strengths lie.

Control Data has identified an interesting array of unmet social needs that it believes can be converted into profitable business opportunities. The point to be emphasized is that the strategy used in approaching these new areas of opportunity is not basically different from that employed to bring Control Data into more technical markets. In systematically addressing unmet social needs as business opportunities, management is simply moving into a new phase of broadening and strengthening Control Data's business base.

The greatest entrepreneurial opportunities always lie in areas where existing goods and services fall most critically short of meeting needs. By this measure, some of the unmet needs in the social problems areas are without a doubt among the greatest of today's untapped opportunities.

Among the largest and most critical needs of today's society are those in areas such as education, urban rehabilitation, rural revitalization, new business and new job creation, more effective technology exchange, remedying illiteracy, massive retraining of the structurally unemployed, and improvement of the system of criminal justice — to name only some of the more obvious. In laying the groundwork for Control Data's future from the mid-1980s on, Norris and the management team he has built are in the process of establishing strong positions in areas such as these where Control Data's experience and capabilities give it significant advantages.

It is moving into these areas not only because there are important human needs to be served but because in serving them it can lay solid foundations for its business future. Work in some of these areas will take

longer than usual to bring to satisfactory levels of profit, but management considers this the equivalent of an R&D investment in the future.

In other words, Norris and Control Data are concerned with long-term viability. They are not “sacrificing” profitability but laying the foundations for continued profitable performance in the years ahead. They see great changes coming in the computer and financial services industries and are determined to capitalize on them rather than be caught short by them.

Norris and his associates are confident that the new markets they are developing will, in time, exceed both in size and profitability any of the other markets the company has thus far entered. It may take as much as ten years or even longer before some of them come to full fruition, but these things take time. In terms of strategic directions, Control Data is in a good position for the next quarter century.

The men and women who head Control Data Corporation have a genuine concern for the human problems arising from illiteracy, poverty, unemployment, urban deterioration, and other ills that beset modern society. As caring people themselves, they want to do what they can to help alleviate those ills. But they are fully aware that in their business capacities they must act in ways appropriate to business. They have not gone tilting at every windmill on the landscape; on the contrary, they have been very selective in choosing the problems to which to commit the company’s resources.

Control Data has been careful to identify social problems that fall within its areas of competence and that fit into its basic business strategy. Areas in which over time the company has developed special skills, knowledge, and experience include:

- Information technologies
- Financial technologies
- Human resource technologies
- Management technologies in general.

The information technologies, of course, grow out of the company’s traditional business: the management of information. To this base, the acquisition of Commercial Credit added a rich and varied expertise in financial affairs. The human resource technologies, which are especially useful in dealing with many kinds of social problems, are a product of the company’s unusually creative experience in the management of its own human resources. As to management technologies in general, Control Data is an exceptionally well-organized and well-run company with in-depth experience in a wide variety of undertakings; few other companies can match the range and complexity of the work in which the company is already engaged and in which it has a demonstrated record of success. All of the social problem areas Control Data has chosen to address are areas

in which its command of these technologies, singly or in synergistic combination, give it special competence.

But Control Data is not the only company that has special competence for addressing these and other social problems. This is not a strategy that only Control Data can employ. On the contrary, it is one that can be adapted to the special circumstances of many different companies in many different industries.

Essentially, what is involved is simply the elementary process of long-range planning — conducted, however, with an openness to a wider range of possible alternatives than most corporate managements ordinarily consider.

In standard long-range planning, various possible strategic objectives are reviewed, an assessment made of the resources available for their achievement, and judgments reached as to the course or courses likely to yield the most satisfactory results. All managements follow some version of this three-step procedure, with varying degrees of complexity, formality, and sophistication.

For present purposes, the difficulty arises from the fact that in the great majority of cases those directing the process have blinders on and bring within their purview only a limited array of possible alternative business objectives — typically, those with which management is already familiar — and seldom extending beyond the traditional range of business activities. Only rarely is consideration given to the possibility of developing markets in the social areas.

The majority of business leaders (the exceptions are rare) share the predispositions of critics of business that social problems should remain the special preserve of governments, social agencies, churches, and the like, and have confined their entrepreneurial interests to areas comfortably within the established “business” orbit.

If more business leaders recognized the magnitude of the potential opportunities in the “social needs” markets and devoted effort and imagination to devising new and more effective means for utilizing *their own* technologies and special skills and resources to deal with them, they could materially broaden the bases of their businesses and at the same time contribute significantly to the amelioration of many stubborn social ills. In a real sense, what is most urgently needed is an imaginative broadening of the entrepreneurial function in the American business system.

Such a broadening and strengthening of the entrepreneurial function would serve business and the country well.

In dealing with grave social problems, there is an indispensable place for both private charities and governmental action, but these alone are not enough. The record on this is clear.

We have tried to deal with poverty through welfare programs, with

unemployment through make-work projects, with educational inequality through busing. After years of earnest effort and the expenditure of untold billions of dollars, our society is still plagued by poverty, by unemployment, by illiteracy. There is little indication we are any better off on any of these fronts than we were years ago, and the future holds little encouragement. If anything approaching viable solutions to many of our more serious problems is to be hoped for, something must be added. The most hopeful promise lies in the direction pioneered by Control Data Corporation: converting the problems into businesses. This is a task for the entrepreneur.

An inherent weakness of both the charitable and the governmental approaches, by themselves, is that they are always and necessarily a cost; hence they are always and necessarily limited, both in scale of effort expended and in significance of results obtained.

The business opportunity approach is far more promising. For one thing, it is likely to be more substantial and more stable than the alternative. Tax laws effectively limit charitable contributions to 5 percent of net profit, and very few corporations feel they can give anywhere near that amount. In terms of magnitude of the problems to be dealt with, this is not very much. But even this limited scale of resources is subject to economic vagaries: in times of stress, the easiest item of corporate expense to cut is the charitable budget, and this is likely to be precisely the time when charitable needs increase.

Tax-supported programs are not as vulnerable to such vagaries, but sources of tax revenues — many of them corporate — are not without limit. Efforts to deal with social problems through any combination of government action and corporate philanthropy are inherently unequal to the task they undertake and inherently inadequate to maintain the social and political environment in which business can operate successfully. The opportunity approach offers far greater promise on both counts.

A great strength of the opportunity approach is that it is subject to the market test: if it does not work it will not sell. Charitable and governmental programs are subject to no such discipline. If a particular program falls short of its aim, it is more likely to be enlarged than dropped.

Market-oriented programs, moreover, are likely to *create* markets, that is, attract competition with all its attendant benefits. Government programs, and to some extent private charities as well, inhibit and often effectively rule out the possibility of competition, and are therefore subject to all the inherent abuses of monopoly.

Stated broadly, the business opportunity approach is a more efficient means of allocating and deploying resources because it operates through market rather than bureaucratic processes. There is no satisfactory way of measuring the cost effectiveness of governmental and charitable programs, whereas private for-profit efforts must meet exacting cost effec-

tiveness requirements if they are to survive. For optimum utilization of scarce resources, a cost-effective regimen is more efficient than administrative fiat.

This is not to make any claim that *all* needs can be served through market mechanisms. Given prevailing scales of moral values, there are important areas of human needs that are quite beyond the reach of the market and with respect to which the logic of cost effectiveness is quite irrelevant. Nevertheless, there are areas of human needs which have been allowed to drift into bureaucratic hands by default — by failure of entrepreneurs to recognize the business opportunities they represent.

A grave weakness of governmental and philanthropic approaches is that there are not enough resources available for commitment through such agencies. We appear to be at or beyond the workable upper limits of taxation for social purposes, and there is little prospect for substantial increases in the levels of corporate or individual philanthropy. We cannot depend on efforts of this kind because, even if they were more effective than they have ever been or are ever likely to be, our society simply cannot afford them.

The chief reason we cannot afford them is that they consume wealth rather than create wealth. They are costs, not investments. They are not self-renewing but require constant replenishment. They are deductions from, rather than additions to, the fruits of productive labor. Even if we consider only the most pressing social needs, their sum total is far too great to be met by drawing down capital.

The business opportunity approach is not burdened by these shortcomings. If social problems can be converted into markets they become sources of revenue rather than drains on resources. They create wealth, rather than consume it. They become a means for building up the stock of capital, not a capital levy. Not only are they more effective than governmental and charitable programs, but they are not subject to the affordability limitations of their eleemosynary counterparts.

Which leads to one more major reason business leaders should exert themselves through their own enterprises to shift the balance of measures dealing with social problems from wealth-consuming to wealth-creating activities: the insufficiency of the country's total fund of capital.

At the Control Data/Academy of Arts and Sciences conference in September of last year, Peter Drucker in his closing speech called attention to the serious shortfall in this country's rate of capital formation and to the fact that, because of the decline in the national savings rate, business profits have now become the chief source of new capital to meet the needs of the economic system. He went on to say:



If there is a task that can be done for profit and isn't, it robs the community because it feeds on the stock of inadequate capital .... Insofar as institutions are capable of forming capital, they should be encouraged to do so .... The rule is that if you can make a profit, you better make one. We need it. Otherwise, where is the capital going to come from?

Business has a vital stake in building and maintaining a stable, healthy society. As William Norris exclaimed at the time of the Minneapolis riots following the assassination of Martin Luther King, "My God, you can't do business in a society that's burning." Survival of individual business enterprise as a viable economic entity requires more than skillful management; it also requires the preservation of an environment in which the enterprise can function.

Business has both long- and short-range interests to consider. Not only are unmet social needs an impressive relatively near-term business opportunity — as Control Data has demonstrated so dramatically — but the successful serving of these needs will go a long way toward preserving the social and economic environment business needs for its long-term survival. If the preservation of a healthy climate for business is left to governments and charities, the outlook is bleak.

Helping remedy some of the most cancerous ills that beset society, and thereby protecting and improving the environment in which business operates, is simply part of corporate management's *business* responsibility for keeping its house in order.

The business community will be well advised to study with care the entrepreneurial philosophy of William C. Norris and the business experience of Control Data Corporation.