

“My Aim Is to Revitalize the Structure and Operations of NTT.”

At home and abroad, NTT has become a household word. The initials stand for Nippon Telegraph and Telephone Public Corporation, a 330,000-man organization that is rarely out of the news these days. Its domestic telecommunications monopoly means that it affects the daily life of virtually every Japanese, with its role likely to grow as Japan moves deeper into an era dominated by communications and information dissemination. In the future, however, it may not be able to rely on its monopoly. NTT is a prime candidate for transfer to the private sector, as proposed by the prime minister's Second Ad Hoc Committee on Administrative Reform, whose task was to recommend ways to slim down the bureaucracy and cut government spending. In its report last summer, the Committee recommended a three-stage reform plan: turning NTT into a special corporation with its stock held by the government; dividing it within five years into a “central corporation” handling key circuits and several “local companies” offering local exchange service; finally, offering stocks of both the central and local corporations to the public.

The corporation also faces a big challenge, rightly or wrongly, from overseas. It was once regarded by people in the United States and Europe as a typical example of the allegedly “closed” nature of the Japanese market for foreign manufacturers. New procurement procedures were thus introduced in January 1981 to offer non-discriminatory, equal opportunities to domestic and foreign suppliers. Nevertheless, NTT is facing mounting foreign demands to substantially increase the size of its overseas procurement.

NTT now has a president who could certainly be described as the right man in the right job at the right time. In selecting Hisashi Shinto in 1981, the government picked a fiercely-independent, free-market spirit. For almost half a century he was a leading force in the shipbuilding industry with Ishikawajima-Harima Heavy Industries (IHI) Co., Ltd., rising to become president between 1972 and 1979. During his time with IHI, he introduced many management innovations to make the company one of the world leaders in shipbuilding and heavy industry. His appointment to head NTT was widely welcomed as a step toward achieving the corporation's goals of becoming a technology-intensive telecommunications enterprise sensitive to society's rapidly changing needs. In the following interview he speaks of his desires to reshape NTT.

Q: First, a personal question about your career. You have spent almost all your working life in the shipbuilding industry. How do you feel about running a telecommunications monopoly?

Shinto: Well, I sometimes wonder why I was chosen for this job. Everything has been turned upside down. At IHI, for example, we were building the largest steel structures so far devised by man, and now at NTT I am dealing with extremely tiny components, miniaturized computer circuits, etc. There are also some differences in management. When I joined NTT, I felt that I was just like the manager of a factory and nothing has occurred to make me change my mind.

Q: Why do you feel that way?

Shinto: A president in private industry, whether he wants it or not, has full responsibility and authority. But if we look at NTT from the viewpoint of the entire government organization, my position is really like that of a factory manager. The company president is the prime minister and the board of directors would be the Diet.

Interview with Nippon Telegraph and Telephone Public Corporation (NTT) President Hisashi Shinto by Geoffrey Murray



NTT President Hisashi Shinto

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NTT headquarters building in Tokyo



Q: *Your management methods were extremely successful at IHI, enabling the company to become one of the nation's most important ship and heavy engineering equipment constructors. Have you been able to transfer those same management techniques to the public sector?*

Shinto: As far as possible my aim is to revitalize the structure and operations of NTT. But due to the special circumstances under which we have to operate, we cannot make changes as we used to do in the private sector. It takes more time and there are too many restrictions on our freedom of operation.

Q: *What, then, are you trying to achieve during your presidency?*

Shinto: In the early days of this organization, the business was to operate telephone and telegram services. With the continuous technological innovations, however, the scope of telecommunications is now rapidly expanding into many kinds of sophisticated services. The greatest need is for more flexibility to satisfy changing social demands. We cannot stick to the basic concepts that we had in the past.

Q: *There is considerable talk now of the need to totally reorganize NTT to make it more efficient and flexible. What are your views on this?*

Shinto: This issue is now being considered by the government, so we will have to see what emerges from this process. Certainly there is a rigidity and inflexibility in the organization that needs to be tackled. In the past, the system was adequate to cope with social demands and now we have achieved a telecommunications network that is comparable to that in the United States and other advanced countries. But as far as the telecommunications industry is concerned, the social environment is now undergoing radical changes. This requires extremely flexible management policies in order to cope with sophisticated and complex demands. If we cannot satisfy the demands with the proper telecommunications infrastructure, then we will fall behind other countries. I am telling everyone in NTT that we have to challenge the demands of the next generation in order to fulfill our social obligations both on a domestic level and internationally.

Q: *There is a saying in the United States, for example, that the telephone company is an organization that people love to hate.*

Shinto: Yes, I think that the same feeling applies in Japan. It stems from the fact that you are exercising a monopoly in a vital public service. The recommendations of the prime minister's Second Ad Hoc Committee on Administrative Reform for reorganization of NTT derive from that basic public feeling. We have seen how disastrous it is to maintain a government monopoly which leads to inflexibility and heavy financial losses. So the general theme now is that there should not be these huge government enterprises enjoying a monopoly, but rather that there should be healthy competition to benefit society as a whole through better service and lower prices. So, we have to reorganize ourselves in order to satisfy the social demand. That is our responsibility whether we want it or not.

Q: *This will obviously become important in regard to the reduction of telecommunications service charges?*

Shinto: Under the present call rate structure, there is a considerable difference between local and long distance calls. But when we consider the sophisticated services that will be emerging in the near future, usage time of telecommunications networks will obviously be considerably extended. But the whole point about these new data-based services is that they should be readily available to everyone in Japan. They cannot actively and effectively be used if there is a great difference in cost between areas. If the central data bank is located in Tokyo, for example, it doesn't make sense, nor is it fair, for the resident of Tokyo to be able to obtain this information more cheaply than someone in a remote part of the country. In addition, as far as the diffusion of residential use is concerned, total expense for future services has to be within the economic reach of average households.

These requirements towards the reduction of telecommunication service charges force us to radically reduce the total expense of NTT, which is very difficult to achieve under the present enterprise structure. That is one of the reasons for seeking a major reorganization.

Q: *How does this policy apply to telecommunications equipment procurement, which is now a major issue in trade discussions between Japan and the United States, for example?*

Shinto: My attitude is that there are two basic criteria for procurement: price and quality, regardless of national boundaries. In monetary terms, procurement from overseas so far has not been as much as was hoped for from a political viewpoint. We have devoted our efforts to trying to satisfy the demands of other countries, but, unfortunately, we have not been able to meet these demands to the fullest extent. But I think it should be understood that such procurement depends largely on technology and the network interface. So there is a need for careful technical discussions before any procurement can take place. This naturally takes a long

time. I think that any company which fully understands the telecommunications market appreciates this factor. Most companies we are dealing with now are approaching the Japanese market from a long-range viewpoint. They understand that if they want to sell equipment here in bulk, there must be elaborate discussions first. I have high hopes we can realize good results in time. I doubt this will satisfy the political desires, but we have to be practical. I have a duty to select the best equipment at the best price, regardless of any nationalistic feelings. Perhaps at the start, many people thought that concluding a contract for telecommunications equipment was just like buying goods in a grocery shop. Now I think there is better understanding of the complexities. There is a more realistic attitude.

Q: *There seem to be good opportunities for foreign companies in the interconnect market—that is, where the customer installs the purchased equipment.*

Shinto: Yes, the scope of the interconnect market is really much larger than the direct procurement by NTT, and I highly recommend companies to look at this area very carefully. Several manufacturers are already doing very well. They have won type approval for such items as telephone sets, digital PBX, high speed modems and lightweight headsets. They are now in a solid position to achieve future growth in the Japanese market. As far as the interconnect market is concerned, NTT has a duty to issue type approval certificates on the interface qualities. We have told foreign manufacturers that if they submit the required documents and information, we will give approval as fast as possible. We have simplified the procedures and have cut the pace of applications to one-tenth the time traditionally required. I think in most countries it would take six months or a year, but we have cut this time to no more than two months.

Q: *Can you give some other examples of successful penetration of the Japanese market by foreign companies?*

Shinto: Well, Motorola Inc., for example, qualified in 1981 as a supplier of pocket-bell pagers, having successfully passed the testing, pricing and delivery requirements. They have a contract now worth about \$9 million annually. American Telephone and Telegraph International (ATTI) has been successful in selling its "Domestic Satellite Echo Cancellor Terminal." NTT's foreign procurement in fiscal 1982 has reached ¥11 billion. This accounts for 2% of our total annual procurement, so there is obviously more that could be done. Personally, I'm not satisfied with the achievement. I hope we can buy a lot more overseas. To achieve this, I hope that foreign companies will improve their competitive power. If the quality and performance of the foreign equipment is much better than the domestic product, then we can buy, even if the price is higher. I think specialized products have the best chance. Good examples are sophisticated PBX or equipment for satellite communications. Companies overseas have a good performance record in these areas. I don't think the situation is so good in the area of mass production items because Japanese manufacturers currently have a strong competitive edge.

Q: *What specific measures have you taken to encourage foreign manufacturers to have a crack at the Japanese market?*

Shinto: The most recent example was modification of our procurement procedures, which was announced in March this year. This is one of our efforts to further improve foreign companies' access to the NTT market, based on the principle of providing both domestic and foreign manufacturers with equal, fair and non-discriminatory opportunities. Previously, applications had to be in Japanese, but we are willing to accept them in English from now on. We have extended the deadlines to give foreign companies more time to submit their applications. Procurement applications used to be only accepted in Japan, but now they can be submitted to our New York office as well. We are also introducing more flexibility into formulation of our product requirements. In order to gain better understanding of our procurement procedures, we have been holding orientation sessions and sending equipment survey missions overseas, as well as publishing English-language newsletters to keep people in touch with NTT.

Q: *What is the significance of your cross-licensing agreements with AT&T and IBM?*

Shinto: We first concluded an agreement with AT&T in 1966 for the exchange of technical information on telecommunications. Last year we concluded a third five-year extension to 1987. The international trend towards a convergence of telecommunications and data processing has produced a situation where NTT, which is trying to lay the foundations of an information society in Japan, and IBM, a world leader in computer technology, have become natural partners. As with AT&T, we will be exchanging patents and information on advanced technology. I would like to see more such agreements with other companies, not just in North America but also in Europe.

Q: *You have stepped up your commitment to R&D quite considerably in recent years.*

Shinto: It now amounts to about 2% of our revenue. At present that means roughly ¥90 billion going to various laboratories where we are making extensive efforts to take the lead in such areas as semiconductors, advanced computers, optical and visual communications. Our biggest commitment now is to converting telecommunications networks to digitized systems. For this purpose we have been investing since 1981 and already in some areas we have begun operations. ●

Character And Pattern Telephone Access Information Network (CAPTAIN) System



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"I think specialized products have the best chance."

Geoffrey Murray is British, an experienced foreign correspondent with previous assignments in Australia, South Vietnam, India, and Iran before coming to Japan in 1969. He is now a freelance writer and broadcaster, contributing to newspapers and broadcasting stations in several countries. His reports to the Christian Science Monitor are syndicated throughout the world.