

Leadership Perspectives



Thomas A. Fanning

An Interview with **Thomas A. Fanning,**
Chairman, President and Chief Executive Officer, Southern Company

U.S. producer of electricity, Southern Company owns electric utilities in four states and a growing competitive generation company, as well as fiber optics and wireless communications. Southern Company is continually included among the top utilities in Fortune's annual World's Most Admired Electric and Gas Utility rankings.

What is there about Southern Company that has made it so successful?

We are celebrating our centennial year in 2012. From our earliest origins, we've talked about concepts that center on customers coming first and we've held our value proposition to our communities steadfast in our mind, so our communities have to be better off because we're there. Our intention as a company is to be a citizen wherever we serve; this means we have to be bigger than our bottom line.

Our offering to people is predicated on whats and hows – the whats are comprised of making, moving, and selling electricity. But the hows of our business – this value proposition to customers and the communities we serve – is so much more powerful and long lasting, and differentiates us from other companies in America.

When a company gets to a certain size and scale, how tough is it to drive those values throughout the organization and keep a focused culture?

It's not all that difficult. People who do well at Southern Company have the genetic code that is centered on service to our communities.

We try to put a face on the company in every community we serve in the Southeast. For example, we operate 260 local offices across our service territory, making it possible for virtually any customer to walk into one of our offices and receive in-person service from a local Southern Company representative.

We make it an expectation of employees to be engaged in things like school boards, sports teams, churches, and community service in the broadest sense.

People who do well here know that the hows of our business are expectations that are critical to our success in serving our communities and customers.

Do the corporate responsibility areas you support align with the business?

They align because our business model is predicated on serving customers in the best manner possible, meaning that the people who depend on us are at the center of every decision

we make. We define our effect on customers by providing the best reliability at the lowest prices with the best customer service possible. Our goal is to provide clean, safe, reliable, and affordable energy.

Those are the whats we try to deliver – the hows within those whats are “Southern Style,” which is the brand we associate with our behaviors, with each other, and our customers, and with our external public and investors.

Another concept important to Southern Company is Target Zero, which involves developing a safety culture where we value the human element in a tangible way and help people adopt a work-safe culture as a value in their work and at home.

Combining this notion of whats and hows means more than achieving a common business purpose.

When we came up with this business model, I was the CFO. Businesses have typically measured their success in terms of earnings-per-share growth or other similar statistics. However, in a business that is centered on providing customers and communities a value equation, defining your success by something bigger than your bottom line is critical to your ability to remain sustainable for decades.

How do you keep short-term pressures satisfied when you're looking long term for the business?

There are three kinds of companies out there: birds of prey, moving prey, and road kill.

It has nothing to do with mergers and acquisitions. The notion is tied up in the idea that you must have duality of purpose – that is, you have to deliver, as a primary objective, a sustainable long-term business proposition.

We can never lessen our ability to deliver long-term value to our customers and communities.

Along the way, we work hard to deliver short-term operational, service, and financial results.

We believe there is an “and” proposition with how we run our business, short-term and long-term. The companies that can deliver that consistently, year over year, are birds of prey.

I find many companies are more focused on delivering short-term results. I call them moving prey. If all you do is focus on the next quarter or the next two years, and you lose sight of your long-term sustainability or

EDITORS' NOTE Elected by the board of directors in July 2010, Tom Fanning became President of Southern Company in August 2010 and assumed the additional responsibilities of CEO and Chairman in December 2010. During his 31-year career with Southern Company, Fanning has held a total of 15 positions across eight different business units, including numerous officer positions with a variety of Southern Company subsidiaries in the areas of finance, strategy, international business development, and technology. Most recently, Fanning served as Chief Operating Officer where he was responsible for Southern Company's generation and transmission, engineering and construction services, research and environmental affairs, system planning, and the company's competitive generation business units. Fanning was also responsible for leading Southern Company's efforts on business strategy and served as a Director of Southern Nuclear. Fanning was previously the company's Chief Financial Officer. In this role, he served as the Chief Risk Officer and had responsibility for corporate strategy. Prior to assuming the role of Chief Financial Officer, Fanning was president and CEO of Gulf Power. While at Gulf Power, he worked closely with Governor Jeb Bush to develop state government policy, served on the Governor's Transition Policy Team, and in 2003 was appointed by Governor Bush to Co-Chair the Base Realignment and Closure (BRAC) Advisory Committee. Fanning earned bachelor's and master's degrees in industrial management from Georgia Institute of Technology. His executive education includes programs at the International Institute for Management Development in Lausanne, Switzerland, the Harvard University School of Business, and the University of Virginia's Darden School of Business.

COMPANY BRIEF With 4.4 million customers and more than 43,000 megawatts of generating capacity, Atlanta-based Southern Company (www.southerncompany.com) is the premier energy company serving the Southeast. A leading

value proposition to the communities and customers you serve, ultimately you're going to imperil your ability to provide exceptional long-term service.

Road kill are companies that can't do either.

These concepts are tied into the dual purpose of serving your long-term and short-term interests at the same time.

We're one of a handful of companies that, by value line, has an earnings predictability score of 100 percent. When you look at our operational statistics, we are on 10- and 15-year trend lines of outstanding performance in the generation sector – making electricity and moving electricity via transmission and distribution. In addition, our four utilities have been ranked among the best in the Southeast in terms of service quality.

We continue to deliver these results year over year. It's hard work, but the employees at Southern Company get it. And success breeds success.

Coming out of the recession, do you feel the economy is improving?

In general, the Southeast tends to fare somewhat better than the rest of the United States from an economic standpoint. We typically enter downturns later than most, they are generally not as severe, and we tend to recover more quickly.

Why? The Southeast is a wonderful place to live; it's a business friendly environment from a political and regulatory standpoint, it has good workers and a productive atmosphere.

We have continually attracted business here, even during the toughest of times. Airbus is coming to Mobile, Alabama – a move that will represent 1,000 new jobs onsite and employ 5,000 people indirectly. But we think beyond that. The first-, second-, and third-tier supplier impacts may be much broader than what you normally see in a new economic development activity.

For example, Baxter will create 1,400 jobs and Caterpillar will employ another 1,500 people. I can point to eight other companies that will each offer 1,000 new jobs in the Southeast over the next three to five years.

What we have been able to see in the Southeast just from a data standpoint is that the industrial recovery has been reasonably robust.

If you go back to 2010 versus 2009 industrial sales, we were up 7.7 percent. In the next year, we were up 3.2 percent. And this year, we're up still. Our industrial rebound from an electricity sales standpoint has been pretty good.

But until this year, we hadn't seen job creation. It has been a classic "jobless" recovery. Now we're starting to see jobs. In the first six months of this year, we received more new residential customers associated with new jobs than we projected for the whole year.

And what follows residential growth is commercial growth; sure enough, we saw growth in the commercial sector that we hadn't seen in a long time. These are the first new, materially significant customers since 2007.

Even though the worldwide economy is fragile, the Southeast continues to attract the kinds of domestic and foreign investments that will create thousands of jobs. Today, I can say we're in a recovery and that the data supports it.

How critical have the investments in Smart Energy been and how have you led that focus?

We don't know where the worldwide energy complex is going to move with respect to what fuel is in vogue in any particular year. This emphasizes our long-term perspective of delivering capacity and energy to customers as well as we can, so we will remain a portfolio company.

I talk about the need for national energy policy to include the first big element that we call "all the arrows in the quiver." By that, we mean new nuclear, 21st century coal, natural gas, renewables, and energy efficiency.

Southern Company is the only company committed to all of those sectors. We have committed more than \$20 billion to making that come to fruition. That investment is estimated to create around a quarter of a million jobs.

The second element goes to the broader sense of energy innovation. Southern Company is all about providing solutions – not rhetoric – to the problems facing the United States energy economy.

We remain the only company in our industry in America today that has robust, proprietary research and development, and by a wide margin over anybody else.

We focus on a variety of things: We know that coal is challenged from an environmental standpoint as a fuel for the future, but the U.S. owns 28 percent of the world's coal reserves. These reserves have served this economy so well for so long, giving low, stable prices and high reliability. We have to find a way forward for coal in America's energy portfolio and we think we've done that.

We are conducting cutting-edge research and development: We run the nation's only carbon capture research center; we run a variety of other carbon capture and sequestration projects all over the Southeast and we have the nation's only water research facility associated with power generation as well as the nation's only mercury research center associated with power generation.

We are now also working on research and development associated with electro-technologies. Energy efficiency is going to be very important to serving the interests of our customer base in the future. It's easy to say that the kilowatt hour that is not consumed is the cleanest kilowatt hour, but a lot of people in our industry translate that in a defensive way: "You want me to use less?"

My view is, there should also be an offensive element. If I can produce energy and have it consumed by our customers in a more efficient way that is more economically sensible, I can make the argument that electro-technologies can displace other forms of energy-consuming activities. A great example of that is electric vehicles.

If I can make electricity more attractive through energy efficiency, I can sell more of it, and that's what I challenge our folks to do here.

Another example is smart meters. We're one of the U.S. leaders in the deployment of smart meters. By the end of 2012, we will have deployed about 4.4 million meters, which is good for our bottom line and for the environment because there will be fewer trucks on the road.

One thing we have not done, though, is open the gateway to the smart home. I was formerly the CIO at Southern Company, so one thing I'm sensitive to is the cyber-threat arena. We're a conservative company. I will not expose our electric networks or our customer data until I'm satisfied that the door we will open by fully integrating smart meters will be secure. But we have that capability and, as time goes on, we'll see how to unveil it in a broad sense.

In the meantime, we get enormous operational advantages through these smart meters.

Do you take time as a company and individually to appreciate your achievements?

Some of our most valuable time is spent in reflection. I work 24/7, so this job is never far from my consciousness. But it's not a burden – I love it.

We are a happy culture. We celebrate success and pick each other up when we fail. We are committed to the long-term attributes of community service and customer benefits. We all make mistakes and have our tough days, but this is a team-oriented culture with three levels of responsibility.

First, you have to make today better than yesterday by taking responsibility for yourself.

The second level touches on teamwork, which is critical to our success. But it's not just about working together; it's holding each other accountable for fulfilling this great culture we have, not only for the whats but also the hows.

The third level is taking responsibility for the enterprise, and people who demonstrate this level are those who rise within management. It's something bigger than your own bottom line. This allows you the potential to multiply your own personal power.

So if we can harness this idea of responsibility for self, for teamwork, and for the enterprise, we can multiply the power of the human element in the organization, which drives us to be better than we ever were.

When you started, could you have imagined being with this company for your entire career?

I came here out of graduate school and immediately went into corporate finance.

I was also interested in international business and there were international opportunities at Southern Company that I became engaged in.

I considered leaving when offered other opportunities, but I realized along the way that I believe in the purpose of this company, the long-term service obligation we have to our customers and communities.

I also believe that what we do is important to the human element, the community, and the economy; having a sense of worth about your work product is important to me.

In addition, this company has provided tremendous opportunities; it's why we're a premier employer in the industry.

With all the different things we do and the broad reach of the geography we serve, we can offer people different experiences and contexts. As we develop tomorrow's leaders, we are collectively committed to providing our customers exceptional service quality today while strategically preparing for America's energy future. ●