

LEADERSHIP PERSPECTIVES

TOM FANNING





TOM FANNING

Thomas A. (Tom) Fanning is chairman, president and chief executive officer of Southern Company, one of America's largest producers of electricity. Elected by the board of directors in July 2010, Fanning became president of Southern Company in August 2010 and assumed the additional responsibilities of CEO and chairman in December 2010.

Fanning has worked for Southern Company for more than 30 years and has held 15 different positions in 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,

© *Tom Fanning*
Reprinted May 2015

engineering and construction services, research and environmental affairs, system planning and competitive generation business units. Fanning also was responsible for leading Southern Company's efforts on business strategy and served as a director of Southern Nuclear, Southern Company's nuclear plant operating company.

Fanning previously was the company's chief financial officer, where he was responsible for the accounting, finance, tax, investor relations, treasury and risk management functions. 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.

Fanning serves as chair of the Federal Reserve Bank of Atlanta, and is on the Georgia Tech College of Management advisory board, the board of trustees for the Georgia Tech Foundation, the Institute of Nuclear Power Operations board of directors and the World Association of Nuclear Operators - Atlanta Centre governing board. He serves on the board of

directors for Vulcan Materials Company, and also is vice chairman of the Edison Electric Institute and a member of the Business Roundtable.

Fanning is a chair of the Electricity Subsector Coordinating Council, which serves as the principal liaison between the federal government and the electric power sector to protect the electric grid from threats that could impact national security. Fanning also is a member of the international advisory board of the Atlantic Council, which promotes constructive leadership and engagement in international affairs.

Fanning earned bachelor's and master's degrees in industrial management and also was awarded an honorary doctor of philosophy degree from Georgia Tech. 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.

TABLE OF CONTENTS

I. WHY

INTRODUCTION	9
BE HERE NOW	10
BARBARIANS AT THE GATE	12
CUSTOMER-FOCUSED BUSINESS MODEL.....	17
THE “WHATS” AND THE “HOWS”	23
OFFENSE AND DEFENSE	24

II. THE “HOWS”

SOUTHERN <i>STYLE</i>	28
TARGET ZERO	30
WE ACCOMPLISH LITTLE ON OUR OWN	31
MANAGEMENT VS. LEADERSHIP	34
BALANCE.....	46
COMMUNICATE RELENTLESSLY	52

III. THE “WHATS” – BUILDING A COMPETITIVE MINDSET

HOW TO WIN A FISTFIGHT	55
BIRDS OF PREY, MOVING PREY AND ROADKILL	57
BUREAUCRACY AND HIERARCHY	61

FIX THE ROOF WHILE THE SUN IS OUT	66
CHALLENGE CONVENTIONAL WISDOM	72
DON'T CHASE FADS.....	75
WE ARE ALL SAFER IF WE CROSS THE STREET TOGETHER	76

IV. THE “WHATS” – CREATING VALUE

EVERY OPTION HAS VALUE	78
CONSERVATIVE DNA	80
INFORMATION, NOT DATA.....	83
DO YOUR OWN HOMEWORK.....	84
HOW GOOD CAN YOU BE?.....	85
THE COMPETITIVE INCOME STATEMENT	86
DIVERSITY	87
ETHICS	95

V. OUR CALL TO ACTION

WHAT IS YOUR LEGACY?	97
THE BREAD TRUCK.....	99
MAKE A DIFFERENCE	100
THE THREE MOST IMPORTANT OCCUPATIONS.....	102

I | WHY

INTRODUCTION

I actually started writing this material in 1995. I was chief information officer then, and like now, worked in a large, geographically dispersed organization. For all of the newsletter articles, town hall meetings, internal broadcasts and webcasts, I've always felt challenged to communicate relentlessly to the broadest group of employees possible. This work represents another avenue to engage Southern Company's workforce.

I chose the title *Leadership Perspectives* intentionally. The following represents *my* experience and *my* point of view about how – in general terms – we should run our business.

It's not meant to be read as "the answer." There are at least three reasons why I offer this material.

First, to at least put in one place many of the learnings that I've taken to heart over my time at Southern Company. Second, to be transparent in presenting my beliefs and expectations to assure the maximum alignment possible. Third, and perhaps most importantly, I present them to you for your consideration – or better, for your critique. Think over these concepts. Evaluate your level of agreement and commitment. What perspectives of leadership have you adopted, what works well and where do you feel challenged? Where do your own experience and judgment suggest an alternative approach?

BE HERE NOW

Our time at Southern Company passes so fleetingly. In seemingly the blink of an eye, we find that market conditions ebb and flow, and our ability to influence Southern Company's performance may be affected by circumstances

beyond our control. Be here now. Engage aggressively in the moment. Take advantage of all your resources and maximize your effort. Act with a sense of urgency. Understand your competition and commit to do more, do it better and do it faster. Be here now.

It is very easy for us to check out from time to time. I am always mindful when I am speaking in front of groups of people that the human attention span lasts only so long. It is easy for us to wander away from the objective at hand, to lose focus and clarity. We always have to remind ourselves, especially in interpersonal relationships, to be here now. Let's invest in the moment; let's maximize our interaction and move forward in the best manner possible. We will check out from time to time, but let's recognize that and let's get back in the game as quickly and as completely as we can.

As you read the rest of this material, consider it critically. Do you agree or disagree? How do you measure up? Engage. Evaluate it against your own perspective on leadership.

Passive behavior is not allowed. Do something about it.

BARBARIANS AT THE GATE

In 1986, I left the corporate finance department at Southern Company Services to become treasurer at Southern Electric International (SEI). While I was there, I picked up responsibility for all of the administrative functions, as well as responsibility for project development. In 1988, I returned to SCS. I kept all of my SEI responsibilities but now also assumed the role of director of corporate finance.

The late 1980s were intoxicating days in our industry. With the passage of PURPA – the Public Utility Regulatory Policies Act – the independent power industry was just getting started. And throughout corporate America, the world of mergers and acquisitions became the rage.

One of America's most famous corporate transactions occurred during this time – the takeover of RJR Nabisco. In the years prior to

the transaction, RJR had a stable, almost bucolic existence. For years the company produced some of the best-known products in America – like Nabisco Vanilla Wafers and Winston and Salem cigarettes.

Unfortunately, as a business, RJR was not very well run. In particular, its CEO, Ross Johnson, loved the “good life.” He had corporate-owned condominiums spread across the U.S. He had a luxurious fleet of corporate aircraft. He had an eye for comfort and a lifestyle worthy of the rich and famous. He loved the trappings of his office. Likewise, the company and its employees enjoyed a comfortable existence.

One problem, though – the stock price hadn't moved in a decade, just drifting in the \$50-per-share range.

One day an investment banker visited Johnson. He told Johnson that if he would agree to take the company private and make some changes, he could get rich beyond his wildest dreams. Johnson thought that was a great idea.

Johnson called a meeting of his board of directors. He offered to buy the company for himself (and some of his new friends) for about \$75 per share, an astounding premium – about 50 percent above the prevailing market price.

The board's reaction was fascinating. But before we address that, how would you react? What kind of premium would it take for you to sell Southern Company to one of our competitors?

Back to RJR. Some critical questions should occur to us. If the CEO is willing to buy the company himself for \$75 per share, what's it really worth? Furthermore, why isn't he doing the things necessary today to bring that value to the current shareholders?

The board of directors of RJR Nabisco did consider those questions and startled Johnson with their answer. They set him and his team aside and essentially threw the company into a competitive bid process, inviting anyone to make an offer. Johnson and his team could compete to buy the company. The other Wall Street buyout

firms – the barbarians at the gate – swooped in like vultures.

To make a long story (and a wonderful book, *Barbarians at the Gate: The Fall of RJR Nabisco* by Bryan Burrough and John Helyar) short, CEO Johnson and his team lost to a Wall Street firm. KKR (Kohlberg Kravis and Roberts), led by legendary corporate raider Henry Kravis, bought RJR Nabisco for about \$110 per share. They moved the company to New York, broke it into pieces and sold most of it. What remained was subjected to “slash and burn” management. Even though they paid a big price, KKR's investors made money.

So who won? Shareholders did great. Customers? The products still exist, and their quality is still good. How about employees? If you held stock, you made out pretty well, but more than likely, you lost your job. So what's the moral of the story? There are many lessons we can learn, but I have a favorite.

*If You Don't Run Your Business as Well
as You Can, Someone Else Will*

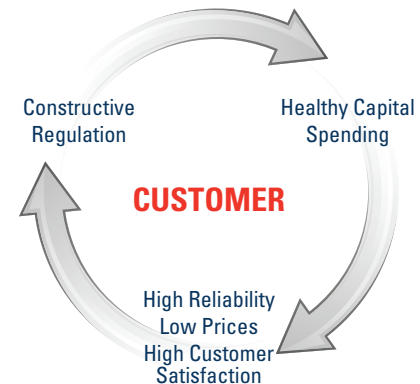
In the extreme sense, it means losing your company. But it can also mean compromising our relationship with our customers by failing to provide the best reliability, the lowest prices and world-class customer service. As a consequence, we diminish credibility with external publics and, therefore, our ability to deliver attractive returns to investors.

One more thought – it's easy to think about laying blame for RJR's demise at the feet of Ross Johnson, its CEO. Certainly, he showed a fatal lack of leadership by not bringing value to "today's" shareholders. But in reality, every employee in that company shared that responsibility to bring as much value to the shareholders as possible. I worry sometimes that our industry structure somehow insulates our recognition that every day barbarians are threatening our gate. At times, the threats are immediate and obvious. When our objective is clear and handled correctly, I'm confident we'll prevail. I'm more concerned with

that which is longer-term in nature and is harder to see and feel.

CUSTOMER-FOCUSED BUSINESS MODEL

Every day we are buffeted by the challenges of a competitive environment. How do we deliver reliability and low cost? How can we keep customers satisfied in a rising-price environment? How do we maintain a constructive regulatory environment? How can we continue to build a culture defined by *SouthernStyle* and Target



Zero behaviors? How do we deliver value to shareholders? The foundation of our effort is the customer-focused business model.

Customers are at the center of everything we do. They are the first filter for developing our strategy and tactics and in measuring our business results. We define our effect on customers through reliability, price and customer satisfaction.

We must provide high reliability, and we do. Our statistics for transmission, distribution and generation are among the best in the industry. We've been able to maintain that level of service even when we've been hit with catastrophic system failures around us – the blackouts a few years ago in the Midwest and the Northeast – as well as natural disasters within our own territory like Hurricane Katrina. Probably more so than customers in any other area of the United States, Southern Company's customers can count on the lights remaining on.

We also deliver prices that are below the national average. Even with pressures coming

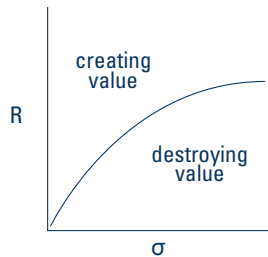
from volatile fuel and commodity costs, we've been able to maintain a price advantage.

We are consistently listed among the top U.S. electric service providers in customer satisfaction. We remain committed to a local presence in the communities we serve, and we provide attractive pricing plans, service offerings and personal attention – all directed at the customer's long-term benefit.

So being among the leaders in reliability, price and customer satisfaction are the foundations of our business. Delivering on those fundamentals gives us the ability to earn a constructive relationship with our regulators. They have provided us with an environment in which we can earn reasonable returns with an attractive, low-risk profile.

A brief comment on value creation in the electric utility industry: Value is a function of the risk-and-return relationship in any undertaking in business. My guess is most people intuitively understand the seemingly simple relationship between value and returns.

If we can hold risk constant and increase returns, value also increases. The inverse is true with risk – that is, as risk increases, value decreases. So the real art is assessing the combined effect of variable risks and returns over time. Many companies have lost their way by choosing high returns without regard for the incremental risks they're assuming. (In chart, R means returns and σ means risk).

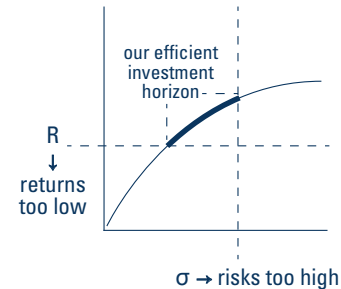


$$V = f(\sigma, R)$$

as $\sigma \uparrow$, $V \downarrow$, if R is constant
as $R \uparrow$, $V \uparrow$, if σ is constant

When Southern Company embarked on the robust growth strategy associated with international investments and proprietary power trading, some might argue that we

diminished shareholder value since the costs of the risk overwhelmed the benefits of the growth in returns. (In chart, R means returns and σ means risk).



When you think about the nature of our business, it has one of the longest-term investment horizons in corporate America. Many of our assets have economic lives of 60 years or more. Add to that our obligation to serve, and that mission cannot be undertaken in a risky manner.

Therefore, when I think about the balancing act of pursuing attractive returns with the lowest-risk profile possible, I view the risk level as perhaps

the more important factor. That's probably why, as we remind ourselves occasionally, most people in our company are "genetically conservative." The weight of our obligations to our customers, and more broadly to the economy of the Southeast, requires that posture.

That's a model that encourages capital formation. It's critical that we recognize that the electric utility business is one of the most capital-intensive industries in the United States. Using rough math, I estimate it takes about \$4 of capital investment to generate \$1 of service. Further, ours is a business that requires consistent and regular participation in global financial markets by selling equity and debt to finance that capital. It's an ongoing requirement. When you consider the task of building generation assets and transmission lines, the construction term is often four years or longer. So we can't just stop once we've begun, either due to our own challenges or because the world's financial markets may be in turmoil. Being successful here then enables us to provide outstanding reliability, low prices and satisfied customers.

THE "WHATS" AND THE "HOWS"

We can describe our day-to-day actions at Southern Company in two ways – the "whats" and the "hows." Most of the elements of the customer-focused business model are "whats." The "whats" are things we do every day to make, move and sell electricity in a reliable, low-price manner with among the best customer service in the United States. The "whats" are the ticket that gets you in the tent. You've got to be able to excel at the fundamentals or you won't play for long.

As important, and potentially more powerful, are the "hows" – behaviors we exhibit with each other and our customers. Making a difference on a personal level, touching people's hearts in a positive way, is truly what propels the enterprise forward. Developing a competitive culture that balances the need for results with the needs of human beings brings real long-term value. Two "hows" that are integral to Southern Company's corporate culture are *SouthernStyle* and Target Zero.

The “whats” are required. The “hows” relate to institutionalizing a culture that sustains success. The following material explores both the “hows” and the “whats” from a leadership perspective.

OFFENSE AND DEFENSE

I think sometimes Southern Company has the reputation of a company that just plays defense. Opponents claim that we’re part of the “just say no” crowd, that we think we can “hold the waves off the beach.” I think that is an unfair characterization. We do a lot and we have a lot to be proud of, but in many cases it’s not our nature to “pound our chest.” Our conservative mindset guides us to let our actions speak for us.

We understand that there are challenges we face on behalf of our customers. We analyze them carefully and work hard to manage their potential negative effects. That is good defense. How can we take these challenges and turn them into opportunities? How can we maintain an

appropriate defensive posture and improve the competitiveness of our culture by adopting an “offensive” mindset?

Every sports fan knows that “good defense” wins championships. In the corporate sense, that means mastering the fundamentals of your business – in Southern Company’s case, the customer-focused business model. But just playing defense is not enough. Offensive elements of corporate strategy involve anticipating change, being able to see around corners and positioning your forces for the “what will be,” not the “what has been.” It is a mindset that is aspirational by its nature – asking not “How good am I relative to my peers?” but focusing on “How good can I be?”

Compliance with rules and procedures is playing defense. We must do it to win. But understanding why we’re doing what we’re doing, putting the rules and procedures in context and having a commitment to fulfill an obligation for excellence beyond what is expected – that’s offense.

Playing offense also means incorporating a level of understanding beyond our own personal

experience. It means having to account for our internal deficiencies. For example, in the instances of mergers and acquisitions, it is tantalizingly easy for Southern Company to evaluate its performance against others and create a great sense of hubris about how great we are and how “dumb” they are. “If we only had the chance to run their business, this is what we would do.” How can we propose to run someone else’s business if we don’t run our own as well as we can? Think critically – are we in fact as good as we can be? Defend your assessment compared with external benchmarks and also our potential capabilities. What will you do about the gaps? That’s playing offense.

DEFENSE	OFFENSE
Recordable incidents and lost-time accident statistics	Target Zero – safety
Benchmarking	How good can we be
Managing by budgets	Managing by value – optimizing the balance between cost and performance
Personal responsibility	Responsibility for the team and the enterprise
Letting others define you, fitting in	Defining yourself
Practicing what works	Maintaining the foundation but adding a sense of renewal and continuous improvement
Performing your job well	Achieving life balance
Competence	Self-actualization
Playing with no risk	Playing to optimize risk-adjusted returns
Burning-platform management	Leadership driven by opportunity and positive consequence

II | THE “HOWS”

SOUTHERN *STYLE*

Creating a common culture at Southern Company is key to our success. We call our statement of behaviors *SouthernStyle*. That’s our institutional guidepost, a common set of principles, a common set of expected behaviors that define how we should interact with our customers, our external publics and each other. Keeping in mind the large system that we have and the diverse interests that we sometimes serve, it is imperative that we all face this competitive environment with a consistent mindset. We all understand the notion that “If I know you, I can trust you.” Having faith in a common culture enables us to help bridge the gaps when we really don’t “know” each other.

The three tenets of *SouthernStyle* are unquestionable trust, total commitment and superior performance. Those are great objectives, but a challenge we all face is holding each other to an appropriately high standard of behavior. Certainly, from time to time, because we are human beings, we will fail. We must take responsibility to admit to our failures and to correct them. I think one of the challenges leaders face is holding ourselves and each other accountable for our “hows” as well as our “whats.” “Whats” are clearly coachable, and, to a great extent, so are “hows.” But let’s be clear – “whats” alone are not sufficient.

We have a culture that abhors failure. Remember the phrase, “Celebrate good tries?” I’m not sure we ever really embraced that idea, although it’s not a bad one. Our culture loves results obtained the right way.

A great characteristic of Southern Company culture is the comfortable feel of our workplace. We generally know and trust each other, and we have a great deal of historical context that helps

drive our actions. We have the shared sense of a “higher calling.” Those are strengths. On the other hand, we find ourselves challenged at times to set truly “stretch goals” and to hold each other accountable for achieving them. I think it’s easier for us to hold ourselves accountable than it is to hold others accountable.

TARGET ZERO

Adopting a safety culture as a core value is another fundamental “how.” The Target Zero goal has been one of the most powerful initiatives we have adopted throughout the company in recent years. It is, in fact, an aspiration that we should follow at work and at home. A company as big as ours actually achieving zero recordable injuries in a year is certainly a goal to which we all subscribe. We’ve shown we can achieve that result in certain plants and work locations, sometimes for a number of years. Can we do it everywhere all the time? That should be our objective. No job is worth so much that we

should risk not returning home in the same condition in which we arrived at work.

WE ACCOMPLISH LITTLE ON OUR OWN

When you think about it, almost everything we accomplish in life is the product of working with other people. From our parents’ guidance during our childhood to the efforts of our teachers, coaches and spiritual leaders as we grow older, it’s easy to see how almost everything we become is built on the shoulders of someone else.

Likewise, a hallmark of every great leader at Southern Company is how well they work through others. We are a large system with a lot of complex functions. And when we think about different business issues, it is so important that we bring to bear the best minds with the best perspectives. Learning how to marshal the forces of Southern Company, without getting consumed with overly parochial interests, is critical to our success.

In evaluating potential leadership talent, I always want to know what people have done to develop and sponsor others and “export” their talent further into the system. “Paying it forward” is a way true leaders compound their positive influence.

Remember too that the issues we deal with are not just the “whats.” Having an employee population that is focused on a responsibility of “keeping the lights on,” we sometimes are challenged in maintaining at the same time a “human” perspective – taking into account the perspectives of our employees and our customers. This important element is another example of the power of the “hows.”

We Work “With,” Not “For”

We don’t work “for” our bosses and our subordinates don’t work “for” us. We work “with” our bosses and our subordinates. To be successful, we must work “together.” The people for whom we ultimately work are our families, our churches and our communities. The concept

of working “with” people gives recognition to the fact that all our jobs are important and that we all play different roles based on our positions within our organization. Demonstrate that you value and respect all of the people who contribute to the success of Southern Company.

A First-Name Company

We want a workplace in which people feel comfortable. Bill Dahlberg, a former Southern Company CEO, mentioned his desire to make Southern Company a “first-name” company. Don’t let people get lost in the bureaucracy or in the hierarchy of our organizations. Certainly, we must respect the chain of command, but don’t let the chain of command create a barrier. Remember, we work “with” each other. That means we must have respect for people – our bosses, our co-workers, our subordinates. It does not mean that we create an environment in which we treat people differently based on where they sit in the organization.

If You're Not Early, You're Late

In my view, this is a great expression of respect in the workplace. We all have different jobs but are all trying to accomplish consistent objectives. Accomplishment is a team goal, not a collection of individual goals. It is a mindset that expresses the idea that we respect each other's time and contribution. I think it is also an expression of offense, not defense. The expression isn't "to be on time;" the expression is "to be early" – to have that fire in your belly to be better than what is expected, to raise the bar, to exact a higher standard of performance in whatever we do.

MANAGEMENT VS. LEADERSHIP

Managers are people who have the organizational obligation to plan, organize and control business activities. They have subordinates in the workplace who operate under their direction and carry out business functions. Managers have coercive power. In the extreme case, if subordinates do not carry out their job functions, management can fire them.

Leaders operate without relying on coercive power. People follow them because of the rightness of their actions and their words.

Think about the implications of personal power. Managers operate with a "de jure" sense of power. Every time they exercise their coercive power, they actually lose power. In a sense, it means that other methods of getting the job done haven't worked. Please understand that managers have coercive power for good reason, and, from time to time, it must be used. But if it becomes the standard practice, in my opinion, that's clear evidence of a problem.

Leaders, on the other hand, multiply their power through others. Leaders build their power over time by acting in a consistent, predictable, reliable manner. That's how we build trust in an organization. Building trust builds more power.

Trust is built through knowledge and experience. If I know you and if my experience with you demonstrates an alignment between words and actions, then I'm likely to trust you. In a company as large as Southern Company,

how can we bridge over the need to “know” each other? By relying on *SouthernStyle* – our common behavioral DNA.

We can't use organizational power to coerce behavior. Culture – not rules and procedures – drives behavior.

Leadership is not just management's responsibility. We all share leadership responsibilities. We all exert influence on the people around us whether they are at work, at home or in the community. Everything we say or do communicates something to someone. Don't ever underestimate your effect on people – a word of encouragement, saying thank you, even just listening, are powerful motivators.

Thinking back to the *Barbarians at the Gate* story, think about Ross Johnson and the actions he took – or perhaps better, the actions he didn't take. Ultimately, RJR essentially disappeared. The company was split up and disaggregated. Who was responsible for that? Who made the company vulnerable? Certainly, Johnson was at fault, but was the passive nature of employees also a factor? I always like to think about the obligations of the

employees in that case to take control of their own destinies, to act as leaders for the enterprise, to put forth strategies to challenge conventional thinking.

One of the principles of Stephen Covey's *Seven Habits of Highly Effective People* is the principle of proactivity – essentially “I act; I am not acted upon.” Showing leadership is playing offense.

Personal Responsibility

Perhaps talking about management and leadership is “putting the cart before the horse.” Let's explore personal responsibility in a leadership context.

From a personal standpoint, let's accept the fact that we are human beings and we all have faults. But we still must accept responsibility for making our own reality. We all have days in which, upon waking up, we would rather not face the issues of the day. We can't always be on top of our game. Whether it's a personal problem, challenges with our kids, a family issue or just a normal sinking spell that we might encounter from time to time, we must admit to ourselves that this is a temporary valley. We'll deal with the

issues as well as we can and recommit to the best we can offer. Today will be better than yesterday; tomorrow will be better than today. That's only the first level of personal responsibility.

The second level of personal responsibility involves taking responsibility for our teammates. We pretty well hold each other responsible for our work product. I think we're generally pretty good at this. In a system as large and complex as ours, we must work together. We also must hold each other accountable for *SouthernStyle*. It is our obligation, not our option, to demand from ourselves and our teammates the best "whats" and "hows" in the business. Southern Company's people in the field live this reality every day – our Target Zero commitment requires us to look after our teammates. Expanding this responsibility beyond the concept of safety will make us all better.

One final thought on taking responsibility for our teammates: How many times have we avoided dealing with performance issues? Do we just compensate for people who don't or can't carry their share of the load? Obviously, Southern

Company has been so successful for so long that we must be doing a pretty good job, but we can always do more. Don't settle for continually accommodating problems – address them.

Bigger Than Our Bottom Line

The third level of personal responsibility is to take responsibility for the enterprise. This means having an obligation to look beyond our own self-interest, beyond our team's, to serve the interests of our company and our industry. It means we're required to look even beyond the interests of our families to meet the needs of our communities. We must create an environment in which the communities that we serve are better off because we are there. I call this being bigger than our bottom line – our own and our company's. That's another great example of leadership and another way for Southern Company to play offense.

See the World as It Is

Be realistic in the assessment of our own abilities, the threats we face and the opportunities available

to us. Consider carefully our strengths and our weaknesses. Please understand, I am an optimist. But I try not to let my optimism cloud the realities of the situation at hand. Where we are inadequate or just not as good as we should be, we must commit to work with all vigor and haste to get better. Moreover, it's equally important to understand how things might go wrong. I believe in our ability to improve, to anticipate challenges *before* they occur, to take hard action before it is required.

Being Passionate and Dispassionate

A real challenge for leadership is to muster not only our personal energy but also to solicit the support of others. This requires a great deal of passion in carrying out our job responsibilities, especially where we've got to overcome tough obstacles.

Where the path is less clear and the risks are typically higher, we require courage along with the passion. At the same time, we must be dispassionate about the result. We must not

let our enthusiasm for the effort override good common sense. We've got to exhibit an ability to rise above the task at hand to see whether, in fact, it is worthwhile and whether corrective actions should be taken. We've all seen that it is easy to start things but terribly difficult to stop them.

Tough Love

The human element must be evaluated with the same rigor. We have the advantage of scale. We have a deep pool of talent. But numbers alone are not enough. We must further our advantage by attracting, developing and retaining people with a competitive mindset.

The "tough love" of performance management might be one of our greatest developmental areas. Candid and rigorous performance evaluations enable employees who have developmental needs to improve before "the wolf is at the door." It is much more cost-effective to train and develop internal personnel than to socially promote people with significant deficiencies in their performance and then have to "sever" them in the future.

“Bless his heart” is a wonderful southern expression. But sometimes I think what we’re really saying is, “Man, that guy is an idiot.” Our inclination is to soften the blow. I think one of the things we have to do is to work at saying what we really mean. I know that we have to be sensitive in how we do that, but saying what we really mean engenders trust with our co-workers.

In a book called *Managing From the HEART*, “heart” is actually an acronym, with each letter standing for a concept. The “R” is “recognize my loving intent.” That is a powerful statement – that when we hold each other accountable and we call it out in a clear and sensitive manner, we are doing so because we want us all to be better. It is not to be seen in a destructive or injurious light, but in an effort to make us as good as we can be. People who will speak truthfully to you are like gold.

Therefore, a principle of management should be one of holding ourselves and others accountable to a challenging level of performance – dealing honestly with employees, telling them

everything we can as soon as we can to enable them, as adults, to make their own choices. Keeping a low bar, a paternalistic attitude, a parochial perspective and an accommodating business environment destines us for future pain.

No Results + Excuses ≠ Results

Charles McCrary, Alabama Power CEO, has a great expression for personal accountability. The expression is, “No results plus excuses does not equal results.” Rest assured, I realize we all have our challenges, perfectly good reasons why our objectives are tough to meet. Overcoming obstacles, often with great effort, fulfills our sense of accomplishment. When we allow challenges to turn into excuses, we subconsciously subvert our ability to achieve greatness. “Excuses” seem to make it okay for us to fall short. That’s not what makes Southern Company one of the most admired companies in our industry. One final thought: Have you ever heard anyone explain away – or make excuses for – a great success? I’ll bet not often.

Burning Platforms

I'm often dismayed by people who suggest that we need to build a "burning platform" to get people to act. In my view, any fool will jump off a burning platform. Where is the leadership in that? Having a clear strategic vision and acting on it – before we're compelled to – is an important element of true leadership. Planning carefully, communicating relentlessly and acting consistently are critically important to getting a broad base of support throughout the company.

Taking hard action is always a challenge. When significant changes are required, we find out very quickly that change has no constituency. Sometimes we are seduced into believing we must have a burning platform to drive behavior change. If we initiate action under false pretenses, we lose the trust of the organization. It takes real leadership and real skill to get people to act before they are compelled to.

If you were in a car driving toward a cliff, the sooner you began to take action to avoid driving off the precipice the more subtle your turns could

be. Those who fail to have the vision to see the cliff or fail to take action in the near term often produce the worst result.

I think we'll all admit that getting a broad base of support isn't always easy. From time to time, top-down, coercive direction will be effective. But where we have the luxury of time, we should engage the broadest practical level of participation in strategy development, so that when it comes time to move, people understand the context in which they are being asked to act. This is especially true when dealing with harsh realities, especially as they may relate to people. The broad employee base should not be surprised by our actions.

Leadership Accountabilities

The roles of management and leadership are ever more challenging. Promotions are to be celebrated, but recognize that the bar just got raised. "I've got it made now – they all work for me." Wrong!

Leadership is all about putting concern for others and the well-being of the enterprise before

our own self-interest. We must value substance over style. When we succeed, credit the team. When we fail, take personal responsibility for fixing the problem.

Your explicit new accountability is to lead:

- To commit to the strategy of the enterprise.
- To have a broad perspective.
- To exhibit enough self-confidence to embrace challenges and dissent.
- To communicate relentlessly about why we're doing what we're doing.
- To hold people accountable for *SouthernStyle*.
- To inspire and encourage people.

Leadership is a tremendous opportunity to make a positive difference!

BALANCE

We have all heard that we need to achieve balance in our work and personal lives. We can't let the challenges of the workplace cause us to lose sight of the need to renew our spirits; renew

our marriages; pay attention to our children, our parents and our friends; and commit to our spiritual life. We must find a way to achieve balance. But when I think about the many competing interests we all share – self, family, friends, spouse, children, relatives, parents, work and religion – it is clear that if we were to try and maintain absolute dedication to all those ideals all the time, we would likely drive ourselves crazy.

Former Southern Company CEO David Ratcliffe used the metaphor of the entertainer on the old Ed Sullivan Show who would spin plates on poles. He could have as many as 10 plates spinning at one time. As one plate would start to lose its spin and go wobbly, he would run to that plate and spin it again, and then find the next plate wobbling and spin it again. In essence, he focused on balancing the needs of all the plates, focusing on the one that was the weakest at the appropriate time. How many plates can we as human beings actually keep in balance? And if complete balance is our objective, I am

afraid we will become more and more personally frustrated. I think we need to think about the different phases of life and pay attention to the priorities of each phase. Every plate has the same urgency.

I made my own choice early in my career. I had been married to my wife, Beverly, for four and a half years. We had two sons, Brad, six months old at the time, and Matt, two and a half. I was sent to Australia to work on the Loy Yang B acquisition. That kind of work can be awfully intense – 16 hours a day, seven days a week is not unusual. For that reason, and also because Bev’s family support network was here in Atlanta, we decided that she and the boys would remain behind.

I guess I spent about nine months in Australia. During one six-month period, between October and March, I returned home only twice – Thanksgiving and Christmas. I had run myself so into the ground that I caught pneumonia and spent that Christmas back home in the hospital. I saw my kids for one hour on Christmas Day. As

soon as I got out of the hospital, I got back on a plane and went back to Australia. Very selfishly, from a professional standpoint, those were some of the best times that I have ever had in my career. From a personal standpoint, they were the worst.

I used to speak to Beverly in the morning in Australia, as it was evening in Atlanta. It was the time she was getting the boys ready for bed, and I could at least talk to them on the phone. Brad was still a very little boy, and I could listen to his gurgling. I could talk to Matt, my oldest son. He was always a daddy’s boy in his very early years. When I was out in the yard cutting the grass, he was right behind me with his little red lawn mower. He would follow me around the house and help me with my various “honey-do’s.” He loved to sit beside me and watch the Braves games. I am not sure he always knew what was going on in the game, but he could tell when I was happy and when I wasn’t and he mirrored my emotions. He was right there with me.

One day I had an epiphany. I was talking to Beverly on one of these calls, and she said,

“You have to talk to Matt,” and she put him on the phone. He was turning three, and Beverly was presenting him with a great birthday party, one to which a magician was coming. Matt just couldn’t understand why I couldn’t come home for his party. He was beside himself crying. I felt terrible. Even as I think about that conversation today, I just feel awful. I reminded myself after hanging up the phone that day how selfish I was. Certainly, I was having a great time pursuing this battle in Australia, but it was clear to me that I was neglecting my family.

When I think about the period of time in which our children are at home, it is such a fleetingly short moment. In 16 to 18 years, they are gone. I made up my mind I would never ignore my family again, and I haven’t. I have chosen career paths that allowed me greater balance. While I’ve moved several times since for various company assignments, I’ve been able to keep my family together. In the Atlanta community, I have coached at the Northside Youth Organization over a span of four decades.

Later, I helped out with the Riverwood High School football team when my sons were there. My wife and I support our church.

I think you have to understand where you are in life and pay attention to the priorities at that stage. Certainly, you have to take into account yourself, your spiritual life, your spouse, your kids, your parents, your friends and your relatives. You must have a clear sense as to what is important at what time. I think if you pay attention to the highest priorities, you can achieve the best balance possible. Meeting the needs of all those constituents all the time is virtually impossible. Paying attention to the most important things and doing what you can for the rest can give you at least peace of mind.

That’s my interpretation of balance. It’s certainly not perfect, and it’s clearly not a “one size fits all” proposition.

As leaders, we should recognize that balance should be an expectation of the work force. From time to time, we all have circumstances in which we have to put in 80-hour work weeks.

There are times we miss ballgames and recitals. Hopefully, those situations will be balanced by times when we can seek personal renewal, get away from the office and invest in ourselves and our families. We'll be better off and fresher when we do return. Deal with near-term realities; keep a long-term perspective.

COMMUNICATE RELENTLESSLY

True leaders understand the need to communicate relentlessly, with conviction and enthusiasm. Make your messages personal – what it means to you and why they should engage. Studies have shown that, especially in mass communication, you may need to repeat the message as many as six times in order for people to truly hear you. One personal test I've used over the years is that when you're reasonably sick and tired of communicating a particular message, you're probably about 75 percent of the way there.

Communication is a two-way exercise. Find ways to elicit feedback, to repeat the message, to

react and, best of all, to debate. Embrace the give and take.

Different people process information differently. Therefore, take into account all different types of media to reach the greatest number of people in the most effective way – electronic forms of communication, newsletters and verbal presentations. Use data and pictures; appeal to logic and feelings. Make sure that appropriate context is provided. If necessary, provide a clear call to action.

Most importantly, make sure that messages are accompanied by consistent actions. Follow through and be obvious about it. As Sun Tzu wrote in *The Art of War*, "Cymbals, drums, banners and flags are used to focus and unify people's eyes and ears. Once people are unified, the brave cannot proceed alone and the timid cannot retreat alone."

Define Yourself

You may find throughout your career that others – especially competitors – will try to "label"

you or your company. A defensive mindset responds to their characterizations. Taking the opportunity to continually define yourself is an offensive behavior. From a personal standpoint, make sure others understand the context of your thinking and actions. From a corporate mindset, be able to articulate enthusiastically why we're doing what we're doing. Leaders engage in the challenge of presenting our perspective in a forceful, constructive manner.

III | THE "WHATS" – BUILDING A COMPETITIVE MINDSET

HOW TO WIN A FISTFIGHT

Before we get into how to win a fistfight, I think we should understand that no one ever really wants to get into a fistfight. Certainly, if you have been in one, you know that unless you are Clint Eastwood or Sylvester Stallone, most people get hurt. If we can avoid the fight and still win the battle, that's what we want to do.

The first rule of a fistfight is to pick the time and place and get ready. History tells us that the greatest determinant of success is being able to influence the conditions under which the battle will be fought. I could even beat Mike Tyson in a fight if I could pick the time and place. If I know that I am faced with that battle, I'll go off on

my own, get in shape, lift weights, take boxing lessons, kung fu, whatever. And I am going to hit Mike Tyson just as they are wheeling him out of surgery. I will likely win that fight.

The second rule is to swing first and make it count. Now, if you are going to be in a fistfight, that first punch better be your best – you may not get another swing!

The third rule of a fistfight is to kick them while they're down. Now any of you who have been to business school have heard people in academia telling you to “build a competitive advantage.” That is exactly what we mean here. When you have prepared effectively, when you have given it your best first shot, then you must consolidate your advantage to sustain a long-lasting victory.

Don't Worry about Winning

In a competitive world, “Don't worry about winning” sounds like crazy advice. What it really means is that there is a level of performance that we all seek to achieve – doing the right things, doing them to the best of our ability and bringing

a sense of fun and spirit into the workplace. If we are able to accomplish those three objectives, winning will take care of itself.

Winning is important, but it can be a limiting concept. “Being the best we can be,” as an aspiration, encourages us to adopt an offensive mentality.

BIRDS OF PREY, MOVING PREY AND ROADKILL

From a merger and acquisition perspective, there are really three kinds of companies: birds of prey, moving prey and roadkill. These characterizations generally refer to a company's ability to succeed in the short and long term. “Birds of prey” manage both well; “roadkill” companies – neither. “Moving prey” companies typically are successful in one phase – generally they choose short-term success and are willing to impair their long-term prospects.

Southern Company is clearly a bird of prey. Our customer-focused business model attributes

are, if not the best, among the best in the industry. Our reliability statistics are super. For example, our fossil/hydro EFOR has led the industry for most of the past decade. Transmission and distribution SAIDI and SAFI have shown a trend of improvement that stretches over the past decade. Our prices are below the national average even with the pressure of rising prices associated with rising fuel costs and a historically large construction program. Our customer satisfaction has been rated among the best among electric utilities in the United States for the last decade.

Our financial performance, likewise, has been excellent. We have paid more than six decades of dividends without having a reduction or omission of payments. And over the past 30 years, we have delivered to investors compound annual returns of approximately 15 percent – a stellar record. We adhere to the principles of Southern *Style* in our interactions, and we hold each other accountable for that. And Target Zero positions the very critical element of safety as a corporate value in a truly excellent way. Clearly,

Southern Company is a bird of prey. We deliver short-term success and long-term value.

What are the characteristics of moving prey? These are companies that are currently successful but are driving themselves in areas in which they may not succeed in the long term, companies that are imposing enormous price increases on their customers and receiving short-term financial gains. These conditions are not sustainable. They deliver short-term success but, in the process, imperil their long-term performance.

For example, compare Southern Company’s vertically integrated, predominantly state-regulated market to the deregulated markets of the Midwest and the Northeast. Southern Company’s prices are cheaper, and our price increases over the past few years have been rising at a slower rate.

Consider customer satisfaction. Companies in the deregulated markets are sowing seeds of discontent among their customers. When you look at the American Customer Satisfaction Index

rating, it is clear that while Southern Company has been at the top, companies in deregulated markets have been at the bottom of the list.

For a while following deregulation, those companies produced excellent financial returns. So should we change our principles in order to chase those gains? In my opinion, those returns are not sustainable in the long term. Those companies that are exacting short-term gain at the risk of long-term detriment will find that their economic profits – that is, profits that are beyond what would normally be expected to represent a fair return – will be either captured through windfall profit taxes (see Illinois) or through re-regulation (see California, Virginia, Connecticut).

Then there is the third category of companies – roadkill. These are companies that, for whatever reason, have not been able to perform either financially or operationally in the short term and are at the mercy of market competitors and regulators in the long term. Some may even go bankrupt. Remember “Peace through strength?”

Lose sight of your fundamentals and watch the barbarians rush to your gate.

When I think about companies in a merger and acquisition context, it is easy to think about two strategies. One is to buy someone whose strategy is consistent with your own strategy – who is either moving prey or who may be on the verge of roadkill – and fix them. The second is to consider a merger with another bird of prey with whom the union may propel Southern Company further into new, differentiated and attractive markets or who may provide opportunities to expand our top-line growth. It is clear if you are a bird of prey, you hold the cards in the merger-and-acquisition battlefield. Clearly, it is more fun to be the acquirer than the acquiree. A real challenge for us then is to not become complacent.

BUREAUCRACY AND HIERARCHY

Particularly in engineering-dominated organizations, bureaucracy and hierarchy are standard ways of approaching business. Of course, there are benefits

to bureaucracy and hierarchy. For example, solving complex problems within organizations becomes much easier when you break them up into modules. An organization works as a system. The bureaucracy of the system is the orderly process by which things get done, and the hierarchy relates to the management structure. Both work great when you have a rather static business environment. For example, reliability will always be one of the major tenets of Southern Company's business strategy. Therefore, any organization around the very complex problem of maintaining reliable electric systems requires a great deal of discipline. One caution, though – let's not let these structures unnecessarily hinder our ability to communicate and act with speed and agility. Don't let them stifle creativity.

Southern Company's Corporate Structure

There are two models of organizational formation. One end of the spectrum is a highly centralized holding company that establishes policy, rules and procedures for the benefit of the system. It takes maximum benefit of our scale.

But in its extreme, complete centralization will be challenged to recognize the needs of the local regions and customers we serve. Decentralization is the other end of the organizational spectrum. In that model, we let each division at every operating company operate to meet the needs of every town we serve. It is clear that what we lose in this approach is a common purpose and economies of scale.

Southern Company operates in the middle. We centralize functions that are removed from direct customer contact. We decentralize in areas that are close to the customer. We give great deference to operating company management to deliver business results that ensure the needs of our states are met.

Certainly, this approach produces confusion from time to time. It has been said about democracy that it is one of the most convoluted, complicated and poorly designed structures of government in the world and, at the same time, it is the best form of government in the world. We may feel that way about our own organizational structure. At times, it seems too complicated. It

requires an immense amount of teamwork to harness the benefits of the structure.

Resolving the differences of the two approaches invariably stresses our purpose. That is why *SouthernStyle* is such an important part of our DNA. We must have a common language across all of our personnel, across all of our business units, so that we can act with a set of accepted behaviors to resolve the differences that invariably occur. In small organizations, where we know each other, we can resolve differences on a personal level. The challenges really arise in an organization as large as Southern Company – about 26,000 people – as we may engage the efforts of people who may never have met. *SouthernStyle* is our common code for interaction, our currency.

Local Realities

Local realities cannot be appreciated adequately by employees who reside primarily in ivory tower headquarters buildings. It is the people in the field who understand best the needs of our

customers and how to meet them. We should remind ourselves that many other utilities have forsaken their commitment to maintain local offices in order to reduce costs. We at Southern Company view that investment as a major strategic advantage.

There’s another, related challenge. In addressing business issues, we must think in the broadest terms possible – even when the issues appear to be local – in order to take into account the different realities faced around the system. Often, an action in one area may produce an unintended consequence elsewhere. Thinking strategically and implementing outstanding tactics with a sensitivity for local realities will produce the best business results for Southern Company over the long term.

The Genius of “And” and the Tyranny of “Or”

In the book *Built to Last*, by James Collins and Jerry Porras, the authors describe the notion of “the genius of the ‘and’ and the tyranny of the ‘or.’” We cannot let ourselves be forced into accomplishing

business objectives with an “either/or” mindset. Those are generally false choices. We must find a way to do it all – to deliver outstanding reliability and low prices and achieve superior customer satisfaction. We must also earn attractive financial results with excellent financial integrity and, at the same time, maintain constructive regulatory relationships. We must clearly understand and take into account the human element, whether it’s our employees, our customers, our external publics or even our competitors. We must fulfill the promise of Target Zero. We must find a way to accomplish a clear balance among all these objectives.

FIX THE ROOF WHILE THE SUN IS OUT

Self-renewal is leadership without “burning platforms.” We must always have a balanced sense of urgency about our business. We know the world is changing. We know the competition is ready to attack our markets. We’ve got to feel that pressure even when we can’t see it.

Companies that are in fast-changing markets are generally better able to adapt to changing business conditions. When you have been in a fairly stable environment and have had success for so long, it is easy to see how hubris, inflexibility, even lethargy, can reside in the workforce.

A great example is Southern Company’s response to Hurricane Katrina. Within 12 days, we were able to supply power to all our customers who could take it. It was an absolutely amazing accomplishment that I think set the standard for years to come in the electric utility industry. But even after that disaster hit the United States, and even after we were able to perform as well as we did, we still held sessions to critique our own performance. In fact, we found ways in which we can provide even better service to our customers in the future.

A Bias for Action

We all should have a bias for action. However, the bigger the decision, the more long-lasting the impact and the greater the long-term risk. We

must promote a pace of action consistent with the magnitude of the consequence. For issues having a potentially significant impact, we must move carefully and consider the consequences thoroughly. We must take the time to think it through.

Certainly, there are a variety of approaches. In competitive situations, it is clear we need to respond to our customers' pricing and reliability requirements and structure our proposals as timely and efficiently as possible. On the other hand, when we think about cultural change, it cannot be achieved and should not be sought with a short-term perspective. Those kinds of changes can require years to take effect, and, therefore, we must understand the need to be relentless in our communication and to be patient in our approach.

When we think about the long-term imperatives, particularly for cultural change, we must be willing to devote considerable energy and resources to revitalizing those efforts from time to time. We can't just take for granted that

everyone sees the same reality and, therefore, will have the same amount of energy and steadfast dedication over time. What can you do to renew people's enthusiasm? Seeking long-term consequence requires a great deal of energy, dedication and sometimes even courage.

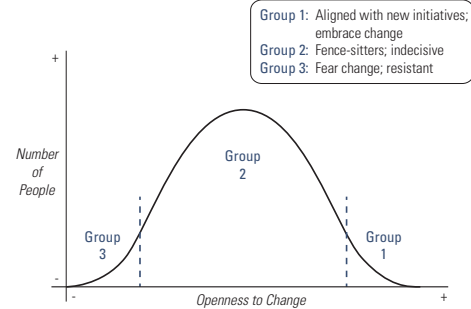
Moving the Aircraft Carrier

When we think about enacting change within Southern Company, we often use the metaphor of how far and how fast we can move an aircraft carrier. Some would use that as an excuse for avoiding near-term change. Others, with good reason, are concerned about our ability to sustain the change over the long term and desire more time to communicate and inculcate the issues among our employees. In my opinion, we can move as fast as we need to. For big, quick, comprehensive change, we will likely need to communicate relentlessly, even after the fact, and test the "stickiness" of the change over time. Moving the aircraft carrier is a tough, complex task, but it can be done.

When we think about the scale of our business, it may be helpful to divide issues into “digestible bites.” Think about the broad initiatives as having several supporting sub-objectives. Assign responsibility to key leaders, people who have a bias for action and are influential among their peers. Show public support for them and celebrate their success. Their achievements will help us to grow our institutional courage.

Change Management

When we are implementing corporate strategy, we should consider the different factions inside the company. We must realize there will always be a small group of people who will be completely aligned with new initiatives. There will be a great number of people who will likely sit on the fence until they are motivated to act – first, in their self-interest and, second, in the corporate interest. There will probably likewise be a small number of people who will always fear change and resist any initiative that challenges the status quo.



The majority of employees, Group 2, often change only when they are asked.
For change to be successful, Group 2 must buy into the new way.

We must cultivate an alliance with the people in the middle. It is this group that requires our intense focus. With the third group, we have to make some hard decisions. Will they come along? If they can, then we will create every opportunity for them to succeed. If they can't, we cannot burden our team with trying to appease people who will not join in the fight. An institutional developmental need for Southern Company is to inculcate the notion that change is a normal part of our business

and, as a result, to make that third group as small as possible.

CHALLENGE CONVENTIONAL WISDOM

We must always be able to deliver on achieving the fundamentals of the customer-focused business model, building a strong culture that values diversity and provides for a safe work environment. At the same time, we should embrace attacks on our conventional wisdom. Remember that for all of the long-term consistency of our operation and constancy of our mission, we must always seek a sense of renewal – new ideas and new perspectives. “Creative destruction” can be exceedingly helpful in keeping our approach to business fresh.

All Cards on the Table

Certainly, we may have different points of view about strategy and tactics. Having differing views on those matters is actually a blessing. From a defensive perspective, how do we preserve our

outstanding fundamentals? From an offensive perspective, how can we create more value by optimizing risk/return relationships and seizing attractive new opportunities in our markets? We have to get the best minds together; we have to challenge ourselves “with all our cards on the table.” We have to debate in a respectful but rigorous way. At the end of the day, we have to decide on a course of action.

It may be that, having given every bit of your input in the most complete way possible, you still disagree with the decision reached. As a requirement of being a good teammate, you must walk out of that room arm-in-arm with your teammates. You cannot show either active or passive disagreement. We must articulate the decision completely and enthusiastically and work to accomplish the business objectives for the benefit of all. If we continue to have challenges in undertaking the strategy agreed to, we owe it to our teammates to revisit the issue with them rather than subvert the effectiveness of the plan with the greater public.

Past Success Can Breed Future Failure

In business, one of the greatest harbingers of future failure is past success, especially where such success is relied upon exclusively as the pattern for the future. We must recognize that the world is changing around us in ways we don't even know. One of the tenets of chaos theory is that the variance in nature is likely bigger than what we typically measure. There is really no such thing as perfect information. What appears as fact may have already changed by the time we assess it. It's OK to have point estimates, but we should factor the range of probabilities around the estimate into our analysis. Within the range of uncertainties, we must value the options inherent in developing robust solutions, not single deterministic conclusions.

Success breeds success. It is a learned behavior. While a characteristic of high-achieving organizations is to be self-critical, we must always remember to celebrate our successes. Whether it's an organized event, a handwritten note or simply a pat on the back and a thank-you,

celebrations reinforce success. Think of it as a form of training. Think back also to the concepts of risk and return. Success can be thought of as a proxy for returns. Why would some people "fear" success? Perhaps because they are frozen by their fear of the risk of failure. In our culture, the pain of failure can be multiples of the thrill of victory. Let's recognize and value our conservative nature, but let's also learn the value of seeking success. Continuous improvement is an offensive concept that builds positive momentum.

DON'T CHASE FADS

The nature of our long-lived assets requires a long-term expectation of fair financial return. Our interactions with customers and external publics have long-lasting implications. Therefore, it is absolutely imperative for us as a company to have a clear long-term strategy and to stick with it. Now, of course, we must evaluate other opportunities and other threats and adjust accordingly. We should also, from

time to time, attack our own conventional wisdom and strategic beliefs. But that does not mean wholesale change is our approach to doing business. We don't chase fads.

I believe Southern Company's average shareholder is in his or her mid-60s. Shareholders buy our stock for its attractive, low-risk profile relative to the market and for the dividend that has either been maintained or increased every year for more than 60 years. When we think about legacy, we think about a foundation of financial performance that will stand the test of time for years to come, both in good markets and in bad.

WE ARE ALL SAFER IF WE CROSS THE STREET TOGETHER

David Ratcliffe, who served as CEO before me, has given me a lot of great advice over the years. One of the great sayings he adopted comes from the book *All I Really Need to Know I Learned in Kindergarten* by Robert Fulghum. In the book, Fulghum wrote, "We're all safer if we cross the

street together." Crossing the street with little children can be a pretty risky exercise. When we think about navigating a highly uncertain, risky business environment, the more we are able to drive consensus within our company and throughout the industry, the better off we are going to be. There certainly are times when it is important to show leadership and act without consensus, but when we can show strong leadership and work through others, we are probably all better off.

IV | THE “WHAT’S”– CREATING VALUE

EVERY OPTION HAS VALUE

In financial terms and in business, every option has value. By that, we mean that even if today’s circumstances don’t favor a particular strategy, there is a chance that the environment will change in the future. The option that was formerly “out of the money” may become viable or “in the money.” Of course, options come with a cost. We must assess whether the cost is worth the probability-weighted outcome.

When we have the ability to modify our strategy and tactics, we enhance our ability to be successful, given the ever-changing circumstances of today’s business environment.

That means we can’t be rigid in our thinking. We must be flexible in our approach.

Option Values in Operations

Southern Company adopts proactive, long-term plans for operating and maintaining our transmission lines and generating plants. Too much focus on short-term consequences can imperil long-term performance.

In developing our commitment of operational dollars, we must understand the balance between all of the facets of our operation. We value optionality in our spending patterns. Delivering a regular, predictable and consistent financial result, within a reasonable range of volatility, has great value.

To deliver that value, we prioritize expenditures within and across functions and then allocate resources to give us the best return on our investment. When revenues are high, we allocate to projects with the highest priority. During periods of lower-than-expected revenue, projects that have the least consequences may

go unfunded. This ongoing evaluation requires a great deal of discipline and teamwork. One caution: Ensure that the cost of developing the option, the cost of providing the flexibility, is warranted.

Understand what creates value in our company for the role you play and focus on those contributions. Try to minimize or stop the unimportant. Don't do things that don't matter.

CONSERVATIVE DNA

One of the things we like to say at Southern Company is that we are genetically conservative. Conservatism underpins the principles of the foundation upon which we were built – the customer-focused business model, Target Zero and *SouthernStyle*.

Conservatism also has a downside. What is the implication in developing budgets, project estimates or business plans? In my prior life as CFO, we were always kidding each other in our meetings by saying if we

were 50 percent confident, that meant that we were really 75 percent confident. If we said we were 75 percent confident, it meant likely it was already done. In some respects, that seems humorous. However, when you are developing a business plan for a company and every silo within the organization develops a conservative set of assumptions, every estimate will have multiple layers of allowances for uncertainty. In fact, we run the risk of over-allocating resources to certain projects and not being able to undertake others that should be pursued. As a result, we are likely to get a performance bar that is too low. Being conservative is a good thing, but we can't let it overwhelm our business.

Continually pushing for the highest standards possible creates tension in the workforce. Recall the notion of tough love. Holding people to the highest standards possible is actually the highest compliment you can give them. That is, rather than allowing people to operate in a comfort zone, we require some strain, some effort and perhaps even some pain and sacrifice

in seeking to achieve great results. Certainly, we must respect the stress created over time and we must allow balance in people's lives. We must be sensitive to the needs of different individuals. But in preparing for long-term success, we must push ourselves beyond normal limits by challenging each other and providing the support necessary to succeed in those challenges. We breed a level of confidence that is missing in a benevolent, less-demanding environment. I believe people want to be challenged. People want to make a difference. People want to achieve and do great things. We all want to "succeed," but are we all really willing to commit to the effort necessary to achieve excellence?

One of the challenges of leadership is knowing when to push and when to lay back. As a caring company, we often are reluctant to take hard action. In fact, setting a high bar is one of the most compassionate behaviors we can exhibit as leaders of the enterprise.

Think about the hundreds of companies that have failed to recognize a changing environment

or have failed to take hard action to maintain their success. Ultimately, we know what the conclusion might be. If we don't run our business as well as we can, someone else will.

Certainly, we can drive more short-term performance simply by working more hours and by doing more with less. In the long term, we have to make sure that we keep a balance in our approach to the workforce, allowing people the freedom to invest appropriately in the workplace while maintaining a satisfactory balance in their life outside work.

INFORMATION, NOT DATA

We need information, not data, to assess opportunities and threats. In this technologically advanced age, we often find ourselves inundated with data. Very often we ask questions and receive data in response. That's no good. We create information by using data to tell a story. Understand the story – insist on information, not data.

One other point: There is no such thing as perfect data or information. Even though we think we know what we are talking about, even though we think we have precision in our analysis, very often the inputs change with the passage of time, or the context of the analysis changes. Therefore, the information should be thought of not as determinative but within a context of variability. How will this information change as input variables change? We should view information as a dynamic notion, one that has temporal, probability-weighted characteristics.

DO YOUR OWN HOMEWORK

Many times companies are faced with tough, controversial choices in evaluating tactics and business strategies. Sometimes we bring in outsiders, like consultants, to deliver tough messages that perhaps we are unwilling to deliver ourselves. Sometimes we bring in outsiders, like financial advisors, to give us advice on complicated transactions.

In my view, as leaders of the enterprise, we ought to have enough courage to be able to take positions with our teammates across the company without the use of third-party consultants. And in terms of complexity in transactions, we have to be able to do our own homework. We have to be able to assess advantages and disadvantages and risks and benefits and act on them ourselves. We can't rely on someone else's "black box." Certainly, external advisors can provide a different perspective and be helpful, but we can't rely on other people to do our thinking for us.

HOW GOOD CAN YOU BE?

We must continue to seek ways to stretch our performance. We must evaluate our operations in comparison with others through benchmarking. And we should always seek to achieve the best balance of output (measured by cost, quality and timeliness) and input (resource requirements like O&M and capital costs, people and corporate focus).

Much of Southern Company's mindset is to seek top-quartile performance in everything we do. Should we always seek top quartile? What about maximizing value? And top quartile compared with whom? For example, reliability is one of the most important things that we can deliver for customers. But what about cost? How much cost is necessary to achieve that level of reliability? How do we know the per-unit output is worth the amount of cost that we devote? A defensive mindset takes comfort in benchmarked performance. An offensive mindset seeks to optimize the input/output relationship.

THE COMPETITIVE INCOME STATEMENT

I remember that when we evaluated whether to outsource the information technology organization, one of the concepts we developed was called the information resources income statement. An income statement has three simple forms: revenues, expenses and a margin of profit, or the difference between the revenue

and expenses. If we hold the important factors of quality and timeliness constant, then we can use this model to evaluate the competitiveness of the organization.

In our business model, the cost of our competitors' products and services was called revenue. We used as a proxy for expenses our own cost of doing business. Then we evaluated our performance relative to our competitors – that is, revenue less expenses. If we generated a profit, that was great. Then we worked on continuous improvement. If we produced a loss, we undertook the commitment to fix, outsource or even stop altogether that element of our business activities. We initially divided up the functions in information technology into major products and services and used this approach to measure our competitiveness.

DIVERSITY

Your character matters. Your values matter. And how you interact with others matters.

The “hows” in life are arguably more important than the “whats.” Those who achieve great results without regard for their impact on people are never as successful as they might be. Those who are most successful often find that the most powerful thing they will ever do is to touch people’s hearts.

Valuing diversity is one of the ways we can do that. And at Southern Company, valuing diversity is not an option; it’s our responsibility.

Putting “valuing diversity” into practice can be challenging. It’s easy to talk with each other about how we’re alike, but often we find it difficult to talk about the things that make us different from one another. Talking honestly feels risky. We aren’t sure how to do it or where it will lead. Too often in our search for common ground, we end up avoiding the very issues that could help us to better understand each other and bring us closer together.

At the same time that each one of us is different, we’re also all the same. We all love our families, we want to succeed personally in our

careers and we want to make a positive impact in the communities in which we live.

Creating a workplace environment in which people from varying perspectives and backgrounds can contribute to the best of their ability is why we value diversity at Southern Company. We will improve our productivity and effectiveness, and we will eliminate barriers for people to realize their full potential. Honoring, respecting and appreciating our differences will help make us a better company.

The demographics of our workforce give us a great opportunity to improve our diversity. Think about Southern Company’s workforce having an average age of 46 years. Within the next few years, about 50 percent of our workforce may turn over. To replace all of that institutional knowledge and talent, we have to focus on creating a great place to work for those coming into the job market. We must create an environment in which people of all different talents, races, genders and generational attitudes feel welcome and are able to contribute to the best of their abilities.

I come from a long background in sports, particularly coaching football. One of the most important strategies in athletics is to maximize what you do well and try to make your opponents do things they are not comfortable doing. For example, in football, if your opponent likes to run the ball, the classic strategy is to try to take away the run, to stack the line of scrimmage and make them win by passing. We call that making the opponent play “left-handed.” From a workforce diversity standpoint, we want to create an environment in which we don’t force people to play “left-handed.” How can we create a cultural climate that encourages people to feel comfortable contributing in a way that maximizes their talents?

Effortlessness

For anyone who has ever played baseball or golf, you know that when you hit that ball exactly in the sweet spot, you almost don’t feel the impact. It feels almost completely effortless. When we think about performing to the maximum of our

ability, it’s the same way. The physical or mental activity just flows with a minimum of effort. In a certain sense, that translates into the workplace. When people don’t have to “fit in,” they can play to their own strengths. This concept of effortlessness in the workplace is an aspiration of valuing diversity.

One of the great blessings of Southern Company’s culture is its consistency and its emphasis on the customer-focused business model. How can we broaden our culture to embrace challenges to conventional approaches and still maintain our focus on customers? If we really believe that customers are the primary focus of our efforts, then shouldn’t our culture accommodate, as an imperative, the changing demographics of our communities?

Diversity in Teams

We don’t want to have teams in which everyone is alike. In fact, teams should be composed of a diverse group of people. Because of the diversity in skill and talent, we are challenged at times

with harmonizing the interest of the team. But it is in diverse teams that creating harmony has the greatest value. That is how we accomplish the most rigorous thinking on the issues of the day.

In Myers-Briggs personality test terms, we should welcome the talents of those extroverts who find their energy by interacting with others. At the same time, we must value the skills of those whose energy is driven internally. We must appreciate those who live in the “here and now” and at the same time value those teammates who are focused on “what might be.” When we consider the “whats” of our business, we must always make sure we take into account the impact on human beings. Therefore, the harmonizer within the organization must be valued. Finally, while it is critical to set clear agendas, firm deadlines and action plans that will cause us to execute as flawlessly as possible, we must always be aware of the need to incorporate creativity, change and optionality into our plans.

Blind Spots

We are all familiar with the story of the people who can drive the same route to work every day and never notice a landmark on the road. When a passenger who is unfamiliar with the road points out the landmark to them, that is the first time they have ever really “seen” it. The psychologist would call that a “scotoma” – a mental blind spot, something we look at every day but never really see.

That is an example of how a diverse workforce can really work to build value. Bringing together different people with different backgrounds adds to our fabric of knowledge and how we see the world. Valuing differences, encouraging disagreement and embracing conflict in a constructive way is good business.

Networking

Southern Company is a very social company. Networking is a critical skill in which we seek to develop personal relationships with people with whom we work, or even simply from whom we seek to learn something.

I have mentored lots of people over the years. One of my first requirements of mentees is that they develop a networking plan. The networking plan begins with a simple elevator speech. That is, in the most concise manner possible, be able to explain to people why you are here and how you can help them be more successful. Secondly, it is important to reach out to people, to take them out to lunch, to go visit them, to try to learn from people who can help you achieve your personal objectives. I don't mean for that to sound too ambitious. If, in fact, you contribute to Southern Company's business objectives, then it is in everyone's interest to move you along. But you have to be able to demonstrate excellence from both a "what" and a "how" standpoint.

Courage and Vision in Workforce Planning

I've always thought that layoffs are generally the result of a lack of vision and a lack of courage. Certainly, at Southern Company, we have a rather steady level of attrition in the employee base.

We should understand clearly through strategic workforce planning what skills will be required in the future and the number of jobs we will need to carry out our required business strategies. What opportunities will we have to improve our profile of inclusion? We can use the power of attrition so that, over time, we can adjust our workforce in the most humane way possible.

ETHICS

I have a copy of Enron's corporate code of conduct, and it looks great. But the company failed. Everything we say or do matters. We've seen that even a momentary lack of ethics can be lethal and can ruin the great foundation built by the people who came before us. Whether it is the slight scent of smoke that indicates there may be a fire or whether it is a feeling based on instinct, we should listen to that internal voice and evaluate situations that just don't feel right. There is no question in my mind that one of the most important moments in my career came

when I defied a former executive's actions that I believed to be inappropriate, even if it meant losing my job.

The Three Most Important Words

This sounds like parenting advice, but what you tell your kids is very often what is important in the workplace. That is, the three most important words to live by in the workplace are “tell the truth.” And if someone was to ask me the second three most important words, I would say “all the time.” Telling the truth is elemental to ethics, to trust, to seeing the world the way it is, not the way we want it to be.

V | OUR CALL TO ACTION

WHAT IS YOUR LEGACY?

In years past – when Southern Company still had SEI (later Mirant) in the fold – we had an institution called Southern Company College. One of the primary benefits of the college was to bring people from all over the world together in one place to transfer learning and preserve and enhance the institutional benefits of the Southern Company culture.

Company leadership regularly visited Southern Company College to debate corporate issues. One particular session has stayed with me. At the session's conclusion, about 20 of us discussed how we were going to commit to the issue of the day. We sat at a U-shaped table in a

darkened room, and we went around the table, each of us talking about how we personally would make a commitment to carry out the objective. Allen Franklin, a former Southern Company CEO, was one of the last to speak. Franklin, rather than talking about the business issue, talked about the need to preserve Southern Company's legacy. He spoke impactfully about how his predecessors had delivered to Southern Company a lasting foundation of excellence. And the absolute imperative that he felt was to preserve and enhance that great bedrock of performance on which we were built.

In essence, he was talking about preserving and improving our legacy. And that is something that has struck me recently. As a father of young men who were once two little boys, I can see a time in the very near term when they will both be out of the house and Beverly and I will become empty nesters. I am in my fifties, and I can now see the end point of my own career. I think back to the words of Allen Franklin. I wonder what people will say about my time at Southern Company. Will

they feel that Southern Company's foundation was preserved and improved after *my* generation "graduates?" What will be the fingerprints that I will have left upon this great company?

I guess it's easy to see how legacy comes to mind at this stage of life. Wouldn't it be great if we considered our legacy throughout our lives? Personally, it has been manifested in how I think about my sons. It's important to me that they see Beverly and me as role models for how they might choose to lead their lives. How might your work life or community efforts have changed if we broadened our consideration of our legacy to something that is much more rigorous much earlier in our lives?

THE BREAD TRUCK

If you are a longtime Southern Company employee, you may have heard my predecessor, David Ratcliffe, tell his "bread truck" story. I heard it for the first time just after being named CFO of Mississippi Power. David was CEO

there then. After work one evening, David and I drove up and down the Mississippi Coast, from Pascagoula to Bay St. Louis, and talked about life. At one point, he mused about what would happen if we were ever hit by the proverbial bread truck. Certainly, in the very near term and perhaps even for a day following the accident, people would be saying, “Man, wasn’t that a shame?” Around day two, three or four, they would likely be tempted to say, “Isn’t that a shame?” and then pause and say, “I wonder who is going to get that job.”

We all like to think our contribution is something that is critical to us all. You put your fist in a pail of water and the water level rises. You take it out and the water nearly returns to the same level. What’s changed? How do we leave a lasting contribution? What will be viewed as our legacy?

MAKE A DIFFERENCE

My father was a “Great Santini” type of guy. He was stern and tough, a disciplinarian. He was

raised in a home in which he lost his own father at the age of about 12 and had to become the man of the house. He enlisted in the Marine Corps during World War II and earned a Purple Heart in the Pacific Ocean theater. He shouldered that responsibility then and essentially carried that mindset with him almost his whole life. He was never particularly communicative with my brothers and me. My mother really balanced the relationship with us. She was the friend and the nurturer and still remains the eternal optimist. She was also the intellectual, earning a full academic scholarship to Smith College.

My father died several years ago. As the end of his days approached, he suddenly opened up to us. In one conversation, he told me about the “visitor program.” My father was the head of benefits for Western Electric. He created a program in which employees would go visit recent retirees to get their feedback on the positives and negatives of working at Western Electric. The objective was clear – to preserve and enhance the good and rectify the deficiencies.

He told me about two common findings. The first was something I am sure you all would expect. That is, the most powerful benefit people saw from their work experience was the wonderful friendships and relationships they developed over the years. I am sure that would be true for all of us.

The second finding made me think a bit. It was the notion that whatever they did, whatever their job or status in the company, recent retirees took great pride in having “made a difference.” When I consider what we do at Southern Company, it’s easy to see that what we do matters. Energy is so elemental to our quality of life and so vital to the economic fabric of the nation.

THE THREE MOST IMPORTANT OCCUPATIONS

In closing, I am reminded of the CEO of PepsiCo, John Sculley, who left that company and moved to Apple Computer, then a relative upstart, to succeed Steve Jobs. Many longtime

industry professionals were incredulous that he would make such a move. His explanation was simple. At PepsiCo, he led a company that made “brown sugar water.” At Apple, he had a chance to impact the well-being of people.

Banks Farris, a former executive vice president of Alabama Power, put it another way. He said that the three most important occupations in life were tilling the soil, preaching the gospel and working for the power company. It’s true. It’s an honor to do what we do.

