

The Great... what?

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IN 2008 CORPORATE GOVERNANCE ran smack into the Great Recession, and the resulting mashup wasn't pretty.

Welcome to the third of our annual Governance Year in Review special issues. Publisher Robert Rock in his opening note (*see page 2*) articulately states the theme we've chosen to characterize the state of play — the "New Normal." As Bob explains, "Although many overarching governance principles endure ... the 'new normal' requires directors to be more involved" as certain of the board's responsibilities have "ratcheted up" in response to economic conditions. So what you'll find

in the pages ahead is a sense of how this "new normal" will play out as we continue to emerge from this challenging business environment — i.e., how the practice of board oversight has been impacted and may have been indelibly altered.

The Great Recession is one term that has entered the mainstream, but there are other ways that some have characterized what we're living through and its follow-on implications. Let's review a few:

• *The Great Reset*: This is Steve Ballmer's view of the world, that this is no normal recession and that the economy is resetting to an ongoing lower level of growth and profitability. But a reset needn't just mean to a lower level; from out of the ashes of visible board failures (hello Bear Stearns, Lehman Brothers, AIG, GM, Citigroup et al.) we should be resetting director oversight at a higher level in the years ahead.

• *The Great Unwind*: Sure, we're unwinding financial leverage, but we can also think of this time as an unwinding of board practices that have not served shareholders well, such as a too-casual attitude toward financial and operational

risk oversight.

• *The Great Reconditioning*: I credit Larry Kramer of Polaris Ventures for this sense of the future, as when he says, "You [management] have to recondition your company, including all of the shareholders, that this is going to be a very different company" coming out of this recessionary decline. And, perhaps, one with a very different governance dynamic.

• *The Great Reimagining*: Wharton leadership professor Stewart Friedman teed up this concept for where we go post-crisis when he says, "The current moment in our social and economic history — while

devastating and tragic for so many people — has created an opening for a reimagining" of organizational structure and ways of working. How about an opening to reimagine how the board can and should deliver greater value to managers and shareholders?

• *The Great Resect*: A pre-eminent surgeon had this to say recently in *The New*



Yorker about the need for new thinking in treating a certain form of cancer as having to "resect the unresectable.... You have to believe that what you're offering is at least as good as the standard of care." Suggested treatments for governance infirmities exposed by the Great Recession arguably go beyond "at least as good" to try to achieve a higher standard of duty and care.

Then, again, there is *The New Normal* — coming back from the brink a bit wiser and willing not just to accept but to embrace a change in behavior for survival and success in a new era. We hope this edition points the way forward.

