



Director Sentiment Index Survey

DIRECTOR SENTIMENT INDEX: INSIGHTS SUMMARY FIRST HALF 2023

WHAT IS THE DIRECTOR SENTIMENT INDEX (DSI)?

Working with board directors at the forefront of the Australian business community provides the AICD with valuable insights into what matters to Australia's future productivity and prosperity, ensuring it is perfectly placed to support boards navigating contemporary business challenges. Through its Board Advance offering, the AICD brings together the AICD's skills, knowledge and expertise to boost an organisation's performance at the board level.

The DSI seeks to gauge the sentiment inside Australian boardrooms by canvassing the opinions of its members on government policy, market conditions, the local and global economy as well as the broader business and governance environment.

The online survey of more than 1,300 directors across Australia was conducted by Roy Morgan from 22 February-14 March 2023.

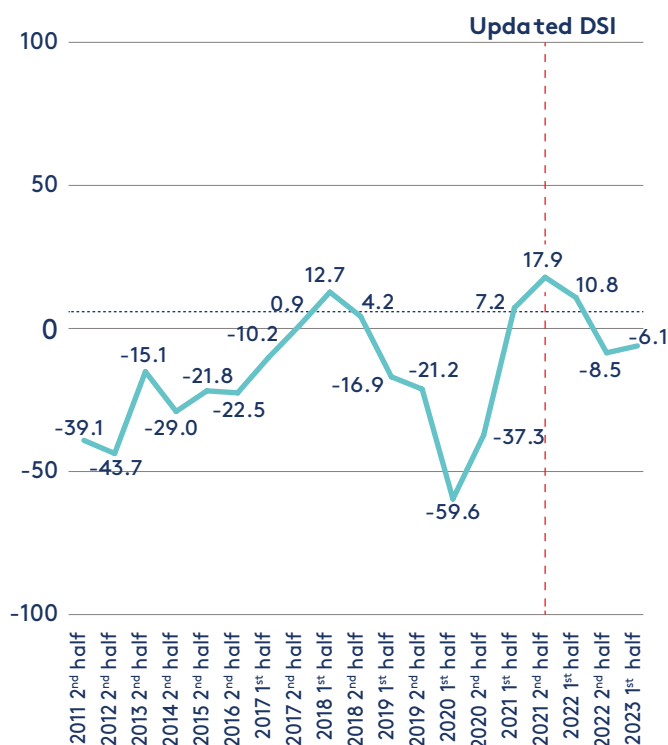
“Having tracked business and economic attitudes for the past 12 years, the latest **Director Sentiment Index** lifts the lid on business and community sentiment, delivering robust and context-driving insights around the key concerns of Board leaders across Australia's not-for-profit, private and public sectors.”

DSI SCORES

The first half 2023 DSI Scores point to mounting concerns over deteriorating business conditions with directors anticipating a further weakening in the economic outlook over the coming year.

While overall director sentiment picked up slightly from the previous survey, it remains in negative territory at -6.1 compared with -8.5 in the second half of last year. The lift in director sentiment was largely due to a stronger assessment of the global economic outlook, particularly China.

Overall Director Sentiment Index 12Y to 1st Half 2023



Source: AICD Director Sentiment Index Survey 1st half 2023. Base: AICD Directors 18+; n=1,324. Note: Revised index from 2nd half 2021 onwards is not directly comparable with previous index scores. First wave was not conducted between 2012 and 2016.



Inflation and rising interest rates are now the top economic challenges facing Australia's boardrooms, with most directors (56%) nominating these as leading economic challenges for Australian businesses. This has surpassed labour shortages (52%), with cost of living coming in as the third main challenge (33%), while energy policy (24%) also entered the top five.

In a fluctuating economic environment, a board must make clear-headed, intelligent decisions. To assist boards in assessing and managing their readiness for economic challenges, the AICD's Board Advance provides objective, expert guidance. Board Advance specialises in equipping directors and business leaders with the understanding, insight and guidance required for boards to unlock their performance potential.

To measure board effectiveness, the **AICD's Board Advance** offers a comprehensive assessment process that utilises proprietary diagnostic tools and meaningful dialogue to accurately chart a board's performance against modern benchmarks of best-practice governance. The output generated by this analysis helps inform the approach to achieving structured, strategic improvements.

Having been a trusted third-party supporter to leading Australian boards for decades, the AICD is the ideal independent partner to assist boards in conducting a rigorous governance assessment that allows a board to track its performance over time as well as identify opportunities for improvement.

A clear and systematic approach, combined with a focus on the right key performance drivers, is fundamental to keeping a board sharp on governance matters: understanding strengths and weaknesses, identifying blind spots and providing insight into performance improvement opportunities. For example, the Board Advance Independent Evaluation draws on the confidential, anonymous insights of the board to explore measures that can improve performance.

Independent board evaluations offer an opportunity to dive deep into board performance, using a series of interviews with directors and providing documented analysis of any governance issues as well as recommended solutions to improve board performance.

RISK MANAGEMENT, CYBER AND CLIMATE CHANGE

“While actively managing risk has always been a top priority of high-performing boards as an integral part of good governance, since the global financial crisis and more recently, the global COVID-19 pandemic, there is a greater focus by boards, their auditors, regulators, investors, customers and employees on risk management.”

Compounded by the increasing investor and community focus on environment, social and governance (ESG) issues, and the macro themes of climate change and cyber risk, this is presenting boards with greater complexity and mounting pressure around risk management.

This is reflected in the latest DSI Scores, with 53% of directors surveyed saying cyber-attacks, inflation (47%) and the COVID-19 pandemic (45%) have impacted their board's risk appetite.



In fact, cyber-crime and data security emerged as the number one concern affecting director confidence. Following several high-profile data breaches in late 2022, cyber-crime and data security are keeping directors awake at night with 50% of respondents selecting this as the top issue for their boards in the first half of 2023, up from 37%.

In addition, 42% of respondents nominated climate change as the leading long-term priority the government should address in the next 10-20 years.

Being well-educated on contemporary governance topics, such as cyber-crime, data security and climate change, and learning strategies to manage their impact is vital for boards wishing to operate successfully in an uncertain and constantly shifting market.

To support boards navigating contemporary governance topics, the AICD's Board Advance brings together the AICD's skills, knowledge and expertise to boost an organisation's performance at the board level.

Board Advance offers board governance training enabling the board as a whole to stay ahead of the curve on regulatory and governance issues, giving boards and senior executive teams the opportunity to undertake the AICD's world-class board governance training in-house, as a team, facilitated by practising directors. This includes short courses designed to cover governance fundamentals and sector-specific governance development, as well as engage with topical and emerging issues.

“Covering both governance and broader market topics, the Board Advance interactive courses leverage the AICD's proprietary research, advocacy work and extensive experience to deliver valuable insights and learnings to your board.”

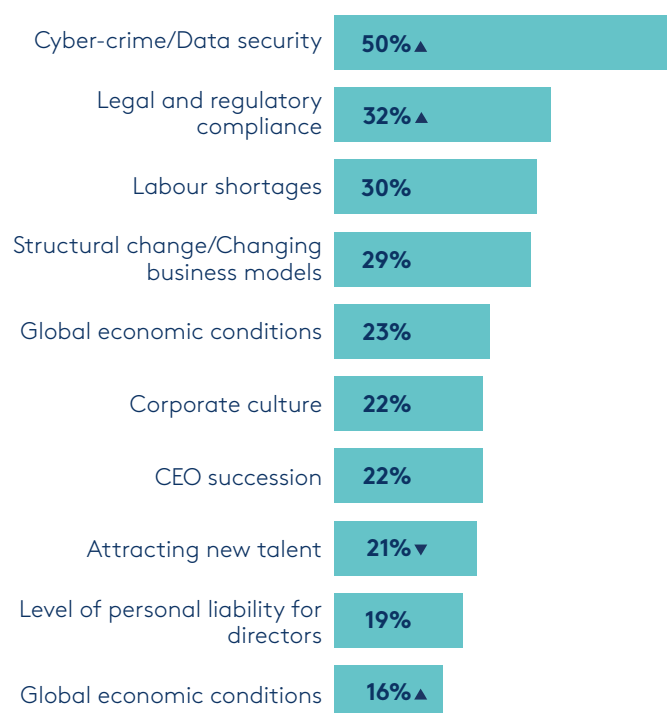
Boards are increasingly having to factor reporting and disclosure expectations into their discussions. Board Advance can help boards prepare with on point short courses which focus on preparing for climate change governance requirements.

These short courses - virtual or face to face - are facilitated by subject matter experts, helping promote practical discussion and shared understanding amongst participants. Some of the more popular course topics include the board's role in cyber governance and culture, applied risk, boardroom responsibilities and board reporting, as well as specific content suited to NFP governance and governing to protect vulnerable people.

REGULATORY COMPLIANCE

The number of directors concerned about the impact of regulatory compliance (32%) has also increased significantly in the last six months, with uncertainty and change around complex regulations impacting productivity and economic growth.

What are the top issues that keeps you awake at night?



Source: AICD Director Sentiment Index Survey 1st half 2023. Base: AICD Directors 18+; n=1,324. TQ1. What are the top 3 issues most likely to “keep you awake at night” as a director on your board? Display % rounded to no decimal points, ranked to 1 decimal point. Percentage refers to respondents who nominated this as a top 3 issue. Top 10 issues included. Note: Amendments to list may impact comparability with previous results. Arrows represent significant increase or decrease at 95% confidence level since 2nd half 2022 survey.

Staying across a shifting regulatory and governance environment can be challenging, regardless of organisational size or sector. With the standards and practices of good governance constantly evolving, it’s vital that a board’s understanding of governance is continually evolving too.

Improving a board’s performance and governance understanding is exactly what Board Advance can deliver.

An experienced member of the Board Advance Team will guide the board through a fully consultative process, working with specialist AICD facilitators and subject matter experts.

For more information

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