



2013

# DIRECTOR SENTIMENT INDEX: RESEARCH FINDINGS SECOND HALF 2013

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# Director Sentiment Index

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# Director Sentiment Index

A random sample was sourced from the Australian Institute of Company Directors' member database.

Fieldwork period: 14 - 27th October 2013

Total respondents 527

No. of current directorships	%
1	31 (29)
2	27 (31)
3 or more	41 (40)
Prefer not to say	1 (-)
Positions held on board(s)	
Executive Director	41 (41)
Non-Executive Director	67 (63)
Chairman	34 (34)
Other	6 (7)
Prefer not to say	1 (2)
Primary directorship company	
Publicly listed Australian entity	11 (14)
Private/non-listed Australian entity	55 (53)
Not-for profit entity	31 (31)
Prefer not to say	3 (2)

Primary directorship business sector(s)	%
Health and Community Services	20 (22)
Finance and Insurance	15 (18)
Property and Business Services	12 (12)
Mining	10 (8)
Education	9 (9)
Personal and Other Services	9 (8)
Agriculture, Forestry and Fishing	8 (8)
Manufacturing	7 (9)
Construction	7 (6)
Government Administration and Defence	6 (5)
Communication Services	5 (6)
Energy	5 (4)
Cultural and Entertainment industry	4 (2)
Transport and Storage	3 (5)
Retail Trade	3 (4)
Wholesale Trade	3 (2)
Accommodation, Cafes and Restaurants	1 (1)
Other	- (-)
Gender	
Male	84 (84)
Female	16 (16)

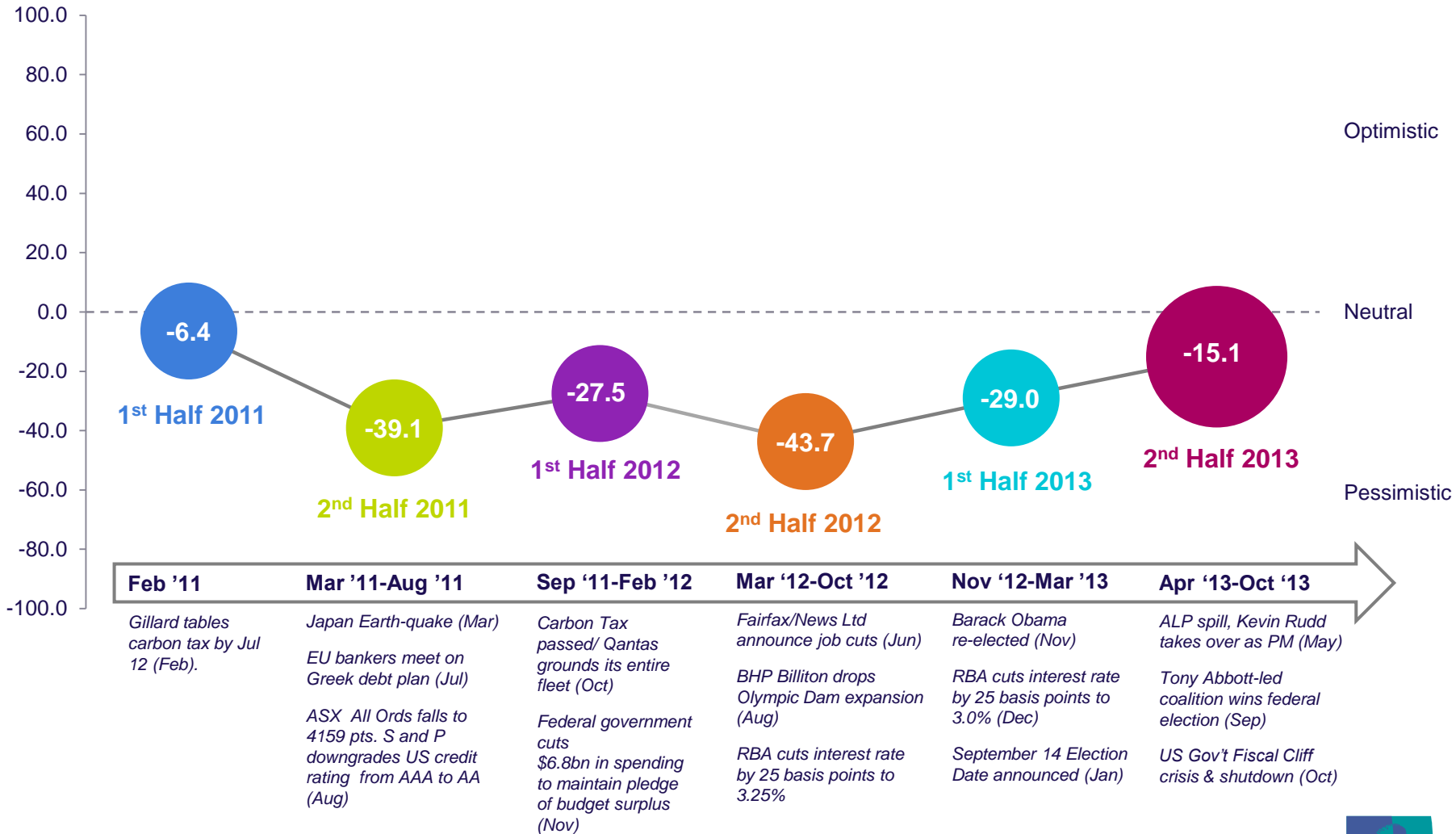
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# Director Sentiment Index

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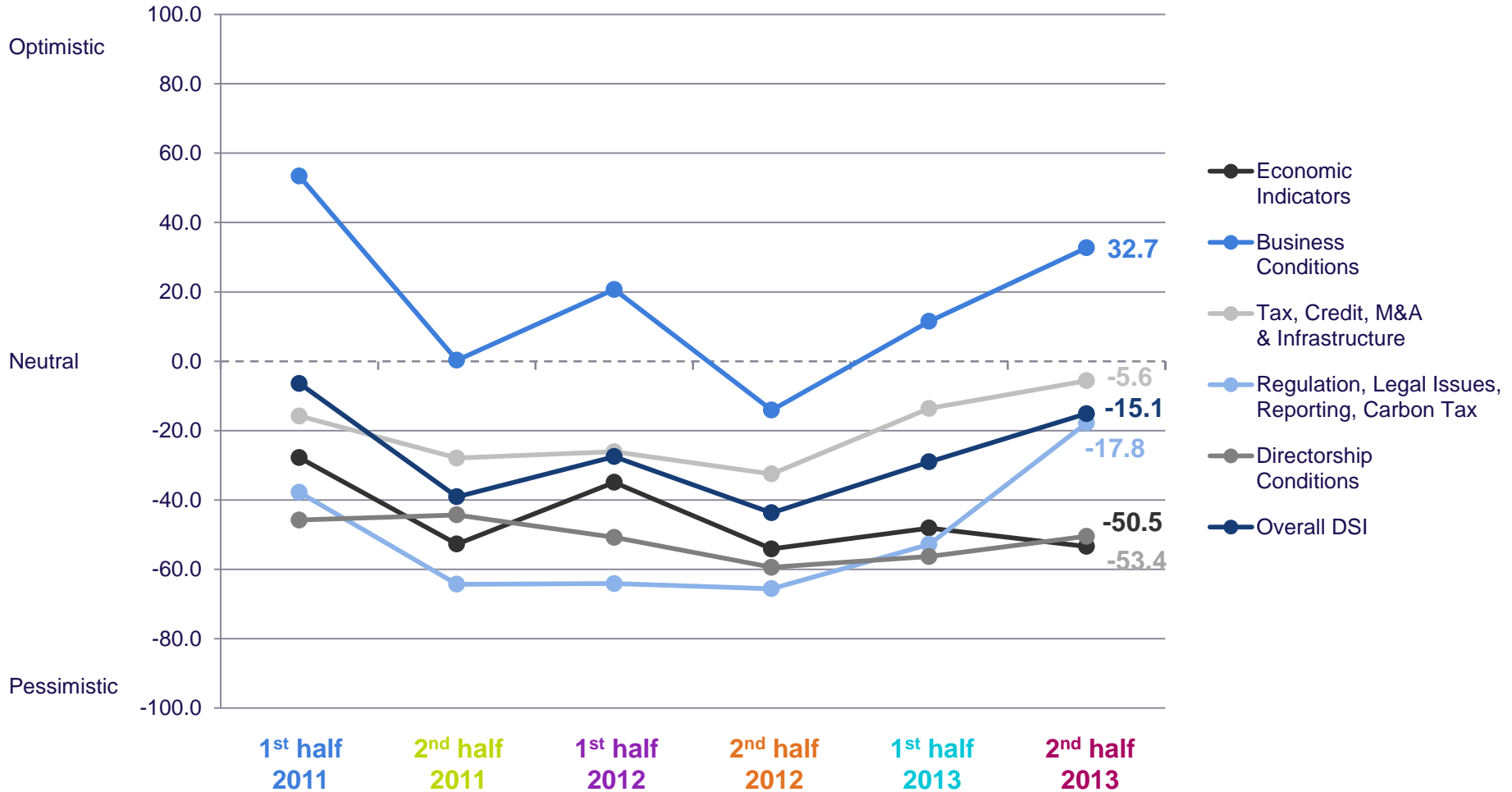
# Overall Director Sentiment Index

The overall sentiment in the 2<sup>nd</sup> half of 2013 is up 13.9 points on the last survey. Sentiment is at its highest level since the 1<sup>st</sup> half of 2011 but remains pessimistic.



# Overall Director Sentiment Index by segment









*This survey finds increased optimism across most Index segments, with the exception of economic indicators. Sentiment regarding business conditions has become more optimistic, but all other Index segments remain pessimistic.*



# Summary of key indicators and headlines

# Summary of key indicators







(1 of 4)

Indicator (expected change in coming 12 months)	Scale	2 <sup>nd</sup> Half 2013 net balance	1 <sup>st</sup> Half 2013 net balance
<b>Economic conditions</b>			
Health of the Australian economy	Weak/strong	-9 	-26
Health of the Asian economy	Weak/strong	29 	37
Health of the European economy	Weak/strong	-76 	-87
Health of the US economy	Weak/strong	-43 	-30
Inflation rate (Australia)	Lower/higher	28 	21
Exchange rate (value of AUD versus USD)	Lower/higher	-36	-40
RBA cash rate	Lower/higher	12 	-18
Level of wages growth	Lower/higher	13 	25
Unemployment rate	Lower/higher	42 	35




# Summary of key indicators

(2 of 4)

Indicator (expected change in coming 12 months, with the exception of *)	Scale	2 <sup>nd</sup> Half 2013 net balance	1 <sup>st</sup> Half 2013 net balance
<b>Business conditions</b>			
Growth of primary directorship business	Weak/strong	30 	24
Change in business investment levels	Decrease/increase	23 	13
Change in business staffing levels/labour demand	Decrease/increase	11 	7
Change in level of business exports	Decrease/increase	14 	3
Change in level of outsourcing	Decrease/increase	21 	13
Expectations of profits for Jan-Jun 2014 actual versus forecast*	Below/up	15 	6
Confidence in general business outlook*	Pessimistic/optimistic	16 	-1
Confidence in business outlook for primary directorship sector*	Pessimistic/optimistic	14 	0
<b>Directorship conditions</b>			
Impact of directors' liability on willingness to serve on a board*	Negatively/positively	-52	-53
Impact of compliance requirements on willingness to serve on a board*	Negatively/positively	-40 	-47
Impact of remuneration on willingness to serve on a board*	Negatively/positively	5 	-1
Impact of contribution to economy/society on willingness to serve on a board*	Negatively/positively	82	84








# Summary of key indicators

(3 of 4)

Indicator (expected change in coming 12 months, with the exception of *)	Scale	2 <sup>nd</sup> Half 2013 net balance	1 <sup>st</sup> Half 2013 net balance
<b>Tax, credit, M&amp;A</b>			
Credit availability for investment purposes	Low/high	3	2
Credit availability for asset purchases	Low/high	12	9
Credit availability for working capital	Low/high	6 	2
Expected change in ASX All Ordinaries index	Fall/rise	52	50
Expected change in level of mergers and acquisitions	Fall/rise	66 	59
Perception of current level of corporate taxation*	High/low	-43	-43
Perception of current level of personal taxation*	High/low	-56 	-65
<b>Infrastructure</b>			
Perception of level of government spending on infrastructure*	Low/high	-88	-89
Agreement with building of NBN being a positive thing for Aust*	Disagree/agree	35 	12
<b>Regulation, legal issues, reporting, Carbon Tax</b>			
Agreement with 'Federal Government understands business'*	Disagree/agree	32 	-76
Expected change in level of 'red-tape' in coming 12 months #	Increase/decrease	9 	-54

# Summary of key indicators

(4 of 4)

Indicator	Scale	2 <sup>nd</sup> Half 2013 net balance	1 <sup>st</sup> Half 2013 net balance
<b>Regulation, legal issues</b>			
How do you expect the new Federal Government's performance will affect your business decision making? #	Negatively/Positively	58 	-67
How do you expect the new Federal Government's performance will affect consumer confidence? #	Negatively/Positively	71 	-86
Perception of governance regulations	Onerous/weak	-53	-53
How is legislation affecting your business decision-making?	Negatively/positively	-31 	-38
How is legislation affecting your willingness to continue on a board?	Negatively/positively	-40	-46
How is legislation affecting your willingness to accept new board appointments?	Negatively/positively	-53	-58
Extent legal judgments affect your business decision-making	Negatively/positively	-30	-35
Extent legal judgments affect your willingness to continue on a board	Negatively/positively	-38	-44
Extent legal judgments affect your willingness to accept new board appointments	Negatively/positively	-49	-54
Adequacy of business directorships and officers' insurance	Inadequate/adequate	1	-3
Adequacy of public company remuneration reports	Inadequate/adequate	-13 	-19
Priority of the reform of laws and regulations governing public company remuneration*	Low priority/high priority	27 	35
Functionality of International Financial Reporting Standards (IFRS)	Dysfunctional/functional	-9 	-5
How is the Carbon Tax affecting your business?	Negatively/positively	-45 	-44

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# Executive summary

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# Executive Summary 2<sup>nd</sup> Half 2013

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- Director sentiment has improved a further 14 points since the last survey, and is at its highest point since the 1<sup>st</sup> half of 2011. However, overall sentiment remains pessimistic.
- Directors remain mostly pessimistic about the health of world economies, particularly the US and Europe, although the positive sentiment regarding the Asian economy continues.
- There is renewed optimism about business growth over the coming year, while sentiment regarding the general business outlook and specific sector outlook are at their highest since the 1<sup>st</sup> half 2011.
- For the first time a majority of directors agree the current Federal Government understands business.
- Too much regulation or 'red-tape' and global economic uncertainty are viewed by directors as the biggest economic challenges facing Australian business, followed by low productivity growth. The high value of the Australian dollar has dropped from being the biggest concern in the 1<sup>st</sup> half of 2013 to being the fifth biggest concern.

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## Executive Summary 2<sup>nd</sup> Half 2013

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- Directors believe that the level of 'red-tape' and the time by the board on regulatory compliance has increased over the last 12 months. However, there is a new optimism that 'red-tape' will decrease over the coming year.
- General economic conditions followed by 'red-tape'/regulation are seen as the biggest impediments to productivity growth.
- For the sixth survey in a row, infrastructure is rated as the top priority for the Federal Government to address both in the long and short term.
- Sentiment regarding the building of the NBN has become more positive with a more than 60 per cent of directors agreeing it is a positive thing for Australia.
- More than half of directors agree that abolishing the Carbon Tax would have a positive impact on their business.

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# Research findings

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# Research findings

## *The economic environment*

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### Health of economies

- There has been a significant increase in pessimism about the present and future health of the US economy. Most directors continue to rate the European economy as the weakest while the outlook for the future health of the Australian economy has significantly improved (although remains slightly pessimistic). The outlook for the Asian economy continues to be positive.

### Economic challenges

- With the fall in the value of the Australian dollar, directors are now less concerned about its high value and have instead identified the amount of regulation or 'red-tape' as the biggest current economic challenge facing Australian business. This is followed by global economic uncertainty and low productivity growth.

### Economic indicators

- The exchange rate is expected to decline in the coming 12 months, but directors expect inflation, RBA official cash rate, wages growth and the unemployment rate all to rise in the coming 12 months.



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# Research findings

## *The business environment*

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### **Business growth**

- More than 40 per cent of directors claim the growth of their business had weakened in the last six months. Expectations for growth in the future have become more optimistic.

### **Profits**

- Over 40 per cent of directors expect an increase in profits for their primary business looking forward to the second half of this year.

### **Business outlook**

- Business outlook has improved from a neutral point to become optimistic. More than 35 per cent of directors are optimistic about the general business outlook, and the outlook for their own sector. The general business outlook is at its most optimistic level since the 1<sup>st</sup> half of 2011.

### **Credit availability**

- In the last six months, credit availability for investment, asset purchases and working capital purposes has remained constrained. Predictions regarding credit availability over the coming year have remained slightly optimistic, with credit for investment purposes, asset purchases and working capital purposes expected to be more available.

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# Research findings

## *Regulation and perception of Federal Government*

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### **Regulation**

- More than 60 per cent of directors believe that the level of 'red-tape' has increased in the last 12 months, but 30 per cent of directors expect a decrease in the coming year.
- More than 70 per cent of directors identify workplace health and safety and preparing/paying taxes as the aspects of their business most affected by 'red-tape'.
- Directors estimate 'red-tape' compliance consumes an average of 24 per cent of their total board commitment. Akin to 1<sup>st</sup> half 2013 results, almost half believe that this level of commitment has increased in the last 12 months.

### **Perception of the Federal Government in the wake of the election**

- For the first time, directors believe the current government understands business (55 per cent agree compared to 8 per cent in the last survey).
- Almost 70 per cent of directors expect the new government will have a positive impact on their business decision making, and 80 per cent expect it to affect consumer confidence positively.
- Economic policy/management was identified as the top factor that influenced directors' votes at the recent election, followed by the character of the leadership teams.

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# Research findings

## *Infrastructure and productivity*

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### **Infrastructure**

- Infrastructure is again rated the number one priority for the Federal Government to address in the short and long term, as it has been for all six Director Sentiment Index surveys conducted. More than 90 per cent of directors believe that the current level of government spending on infrastructure is too low.
- Sentiment about the building of the National Broadband Network has become more positive, with more than 60 per cent of directors now agreeing the NBN is a positive thing for Australia.

### **Productivity**

- Productivity follows infrastructure as the second most urgent issue for the Federal Government to address in the short term, and the fourth-most important issue for the long term.
- General economic conditions were identified as the top impediment to productivity growth (72 per cent) followed by 'red-tape'/regulation (55 per cent), and workplace relations laws and regulations (43 per cent).

# Research findings

## *Legal and reporting issues*

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### **Director liability**

- More than 40 per cent of directors believe that legislation on director liability has a negative impact on their business decision making and willingness to continue on a board, and more than half believe it has a negative impact on their willingness to accept new board appointments.
- Pessimism remains regarding the effect of legal judgments on director liability, with more than 40 per cent of directors maintaining that legal judgments negatively impact their business decision making and their willingness to continue on a board.

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# Research findings

## *Ethical considerations, shareholder relations and ESG*

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### **Ethics of company directors**

- Most directors continue to perceive Australian listed public companies as generally ethical and more so than overseas listed companies. Directors believe the public perception regarding the ethics of Australian company directors has improved since the 1<sup>st</sup> half of 2013.

### **Board diversity**

- Around two-thirds of directors are actively seeking to increase board diversity in terms of skills, and more than 40 per cent in the area of gender.

### **Carbon tax**

- Pessimism regarding the Carbon Tax legislation remains, with almost half of directors maintaining it has a negative impact on their business. Most directors maintain the perception that energy costs and profits are negatively impacted by the Carbon Tax, but to a lesser extent compared to the 1<sup>st</sup> half 2013 results.
- More than 50 per cent of directors continue to believe that abolishing the Carbon Tax would have a positive effect on their business.

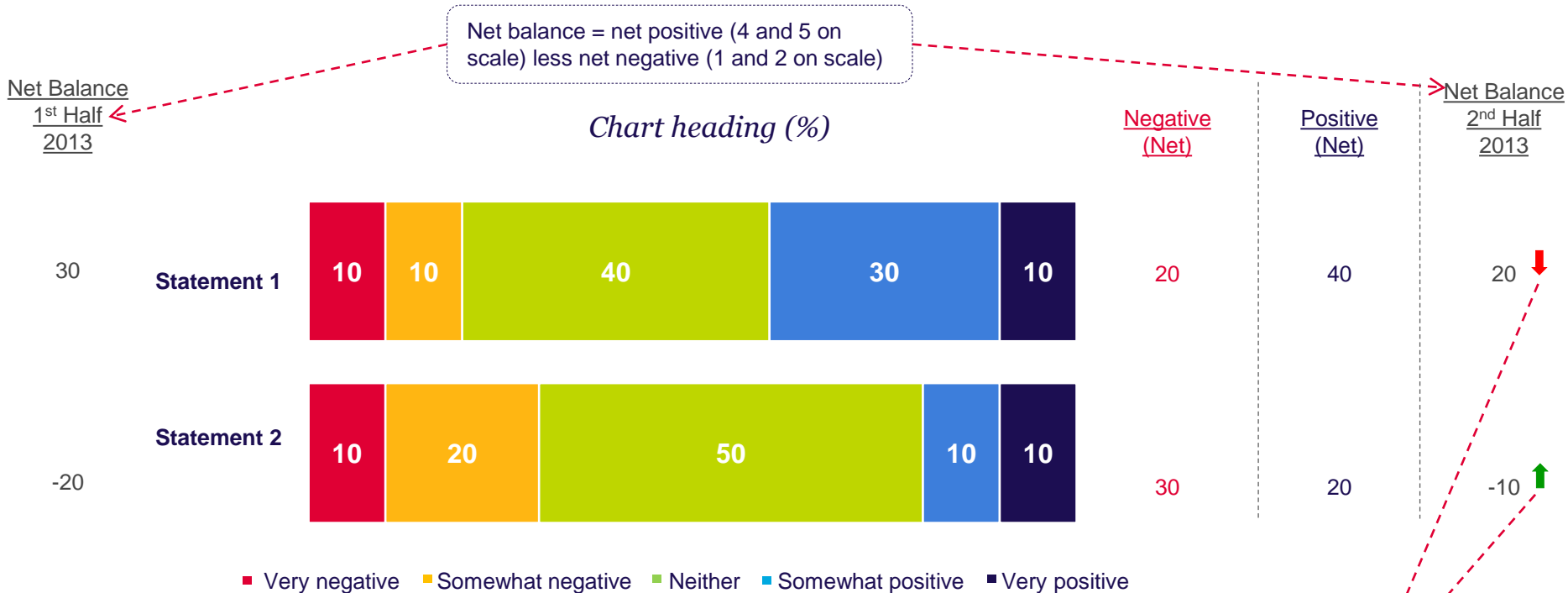
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# Detailed results

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# Explanation of charts

*Example only*



5 -point scale where 1= very negative and 5= very positive

↓ Indicates a significant **decrease** from 1st half 2013 net balance  
↑ Indicates a significant **increase** from 1st half 2013 net balance

Total number of respondents that answered the question

← Question number: Question text  
Base: All respondents n=xxx

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# Economic outlook

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# Health of economies: summary

*Pessimistic outlook remains regarding the current and future state of world economies, except Asia.  
Directors continue to perceive Asian and Australian economies as stronger than US and European economies.*

Health of economies		Survey	Australian	Asian	US	European
<b>Mean score (on a 5-pt scale, where 1 is 'Very Weak' and 5 is 'Very Strong')</b>						
Past six months	(Jul-Dec'12)	1 <sup>st</sup> Half 2013	2.5	3.2	1.9	1.4
	(Jan-Jun'13)	2 <sup>nd</sup> Half 2013	2.4	3.1	2.1	1.5
Present		1 <sup>st</sup> Half 2013	2.6	3.3	2.3	1.7
		2 <sup>nd</sup> Half 2013	2.6	3.2	2.1	1.8
Next 12 months		1 <sup>st</sup> Half 2013	2.7	3.4	2.6	1.8
		2 <sup>nd</sup> Half 2013	2.9	3.3	2.4	2.0

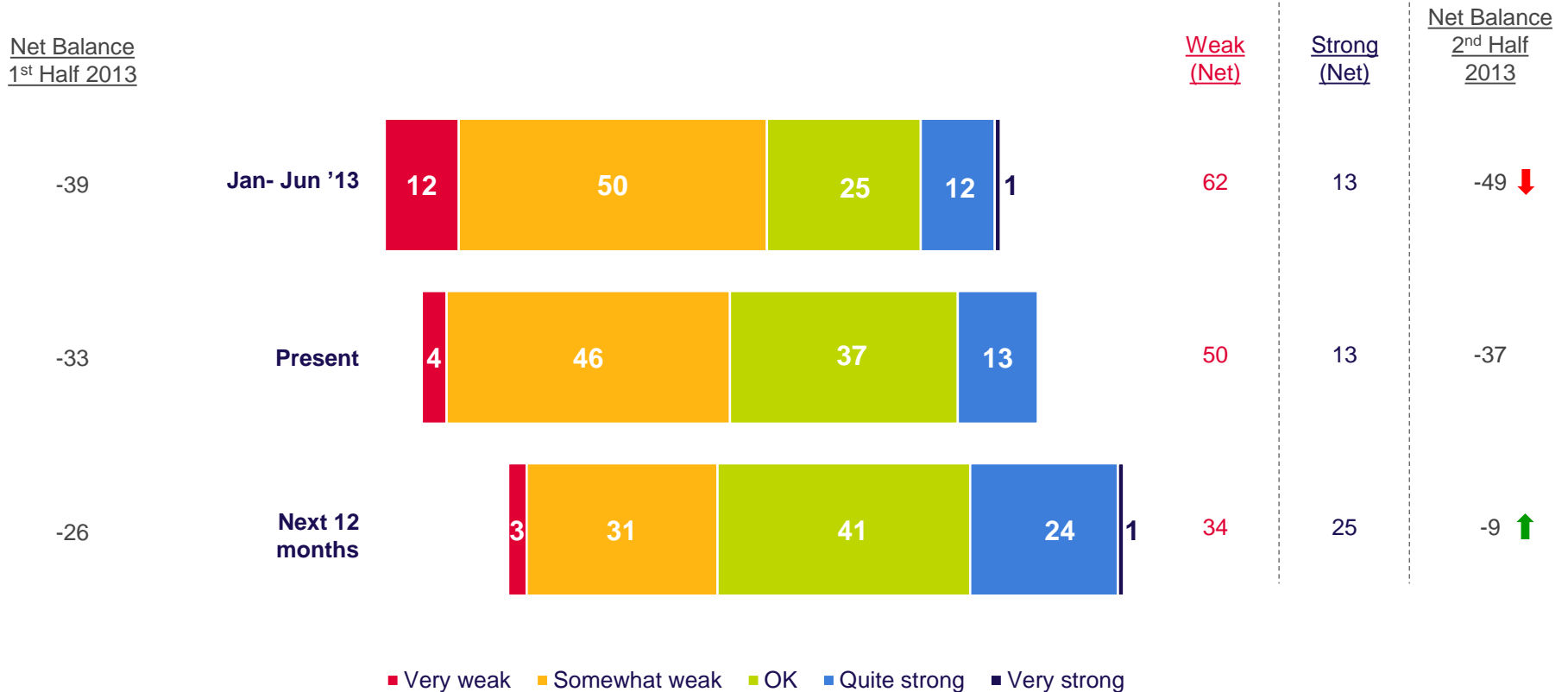
# Health of the Australian economy

*Pessimistic view remains regarding the health of the Australian economy.*

*More than 60 per cent of directors perceived our economy as weak in the past 6 months, while half see it as weak at present.*

*Future outlook is less pessimistic than the 1<sup>st</sup> half of 2013, with 25 per cent of directors expecting it to be strong over the next year.*

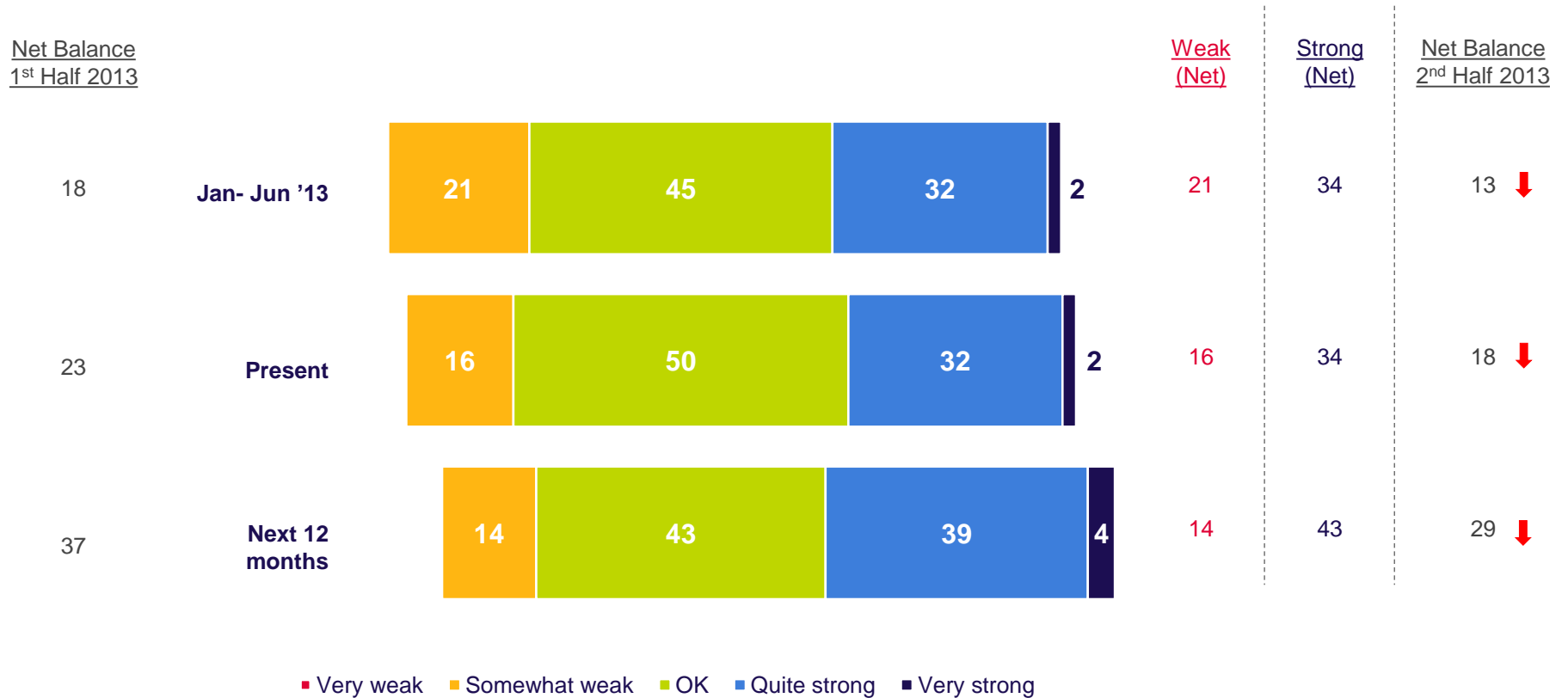
What is your assessment of the health of the Australian economy? (%)



# Health of the Asian economy

Sentiment regarding the health of the Asian economy remains optimistic, although less so than in the 1<sup>st</sup> half of 2013. More than 30 per cent of directors believe the Asian economy was strong for the past 6 months and at present, and more than 40 per cent believe it will stay strong in the coming year.

What is your assessment of the health of the Asian economy? (%)



# Health of the European economy

Sentiment regarding the European economy has remained very pessimistic. More than 90 per cent of directors continue to view the European economy as weak at present, although nearly 25 per cent of directors expect it to be OK or strong in the next 12 months.

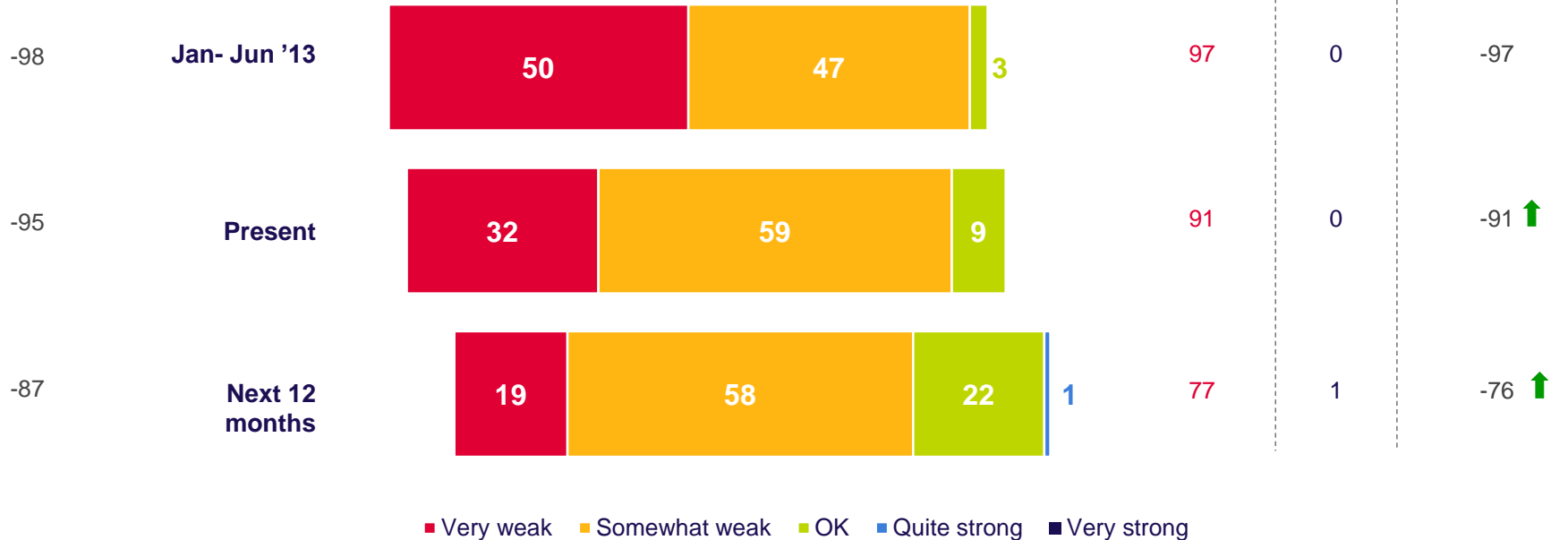
What is your assessment of the health of the European economy? (%)

Net Balance  
1<sup>st</sup> Half 2013

Weak  
(Net)

Strong  
(Net)

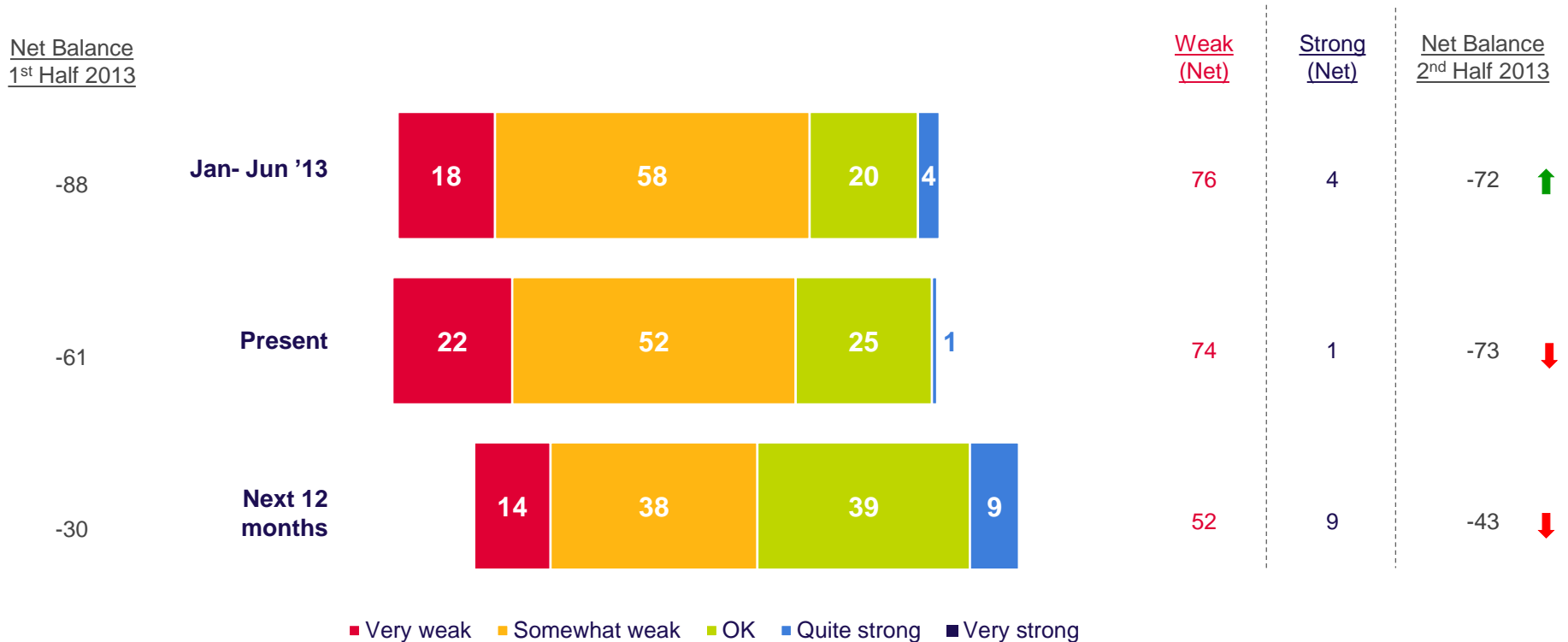
Net Balance  
2<sup>nd</sup> Half 2013



# Health of the US economy

There has been a significant increase in pessimism about the present and future health of the US economy. Around 75 per cent of directors believe the US economy was weak for the past 6 months and is weak at present, while more than half expect it to remain weak over the next year.

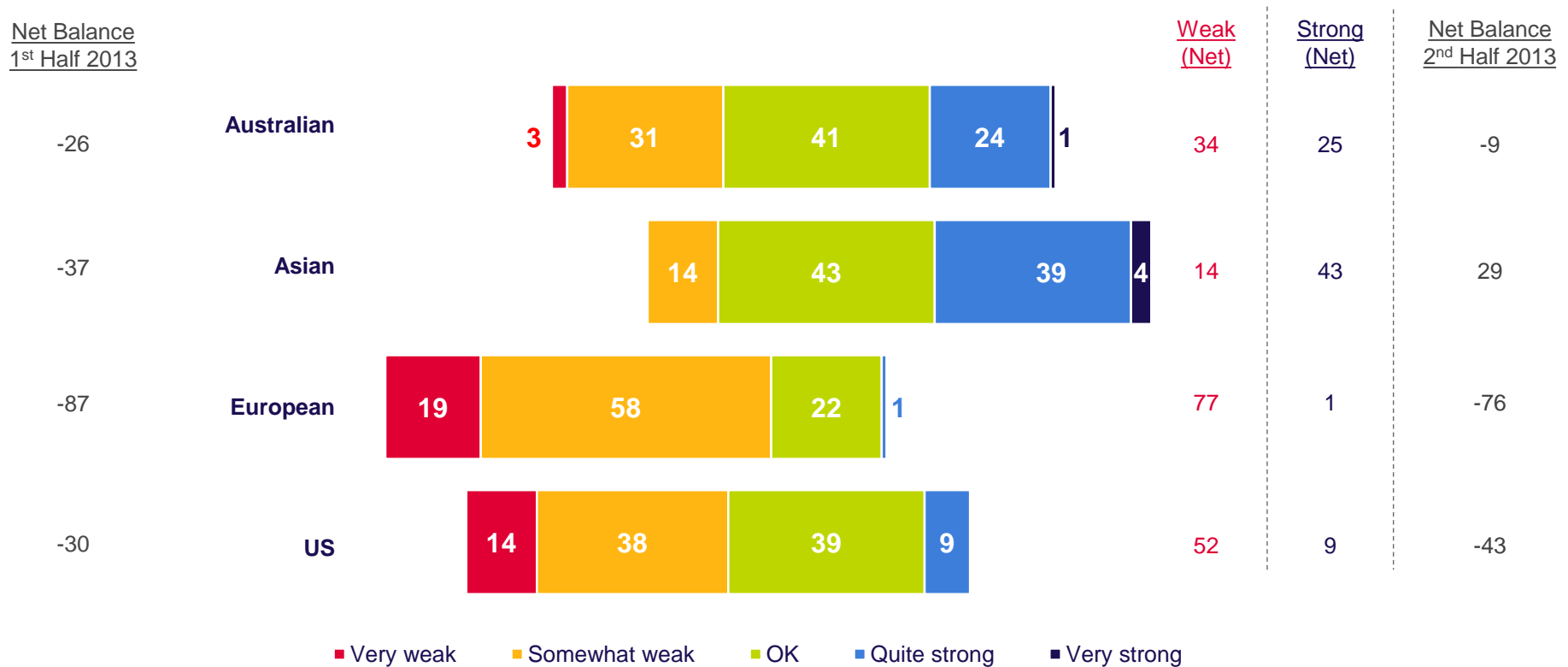
What is your assessment of the health of the US economy? (%)



# Next 12 months health of economies: summary

The outlook for world economies in the next 12 months continues to be pessimistic, except for Asia which is predicted to be mostly strong.

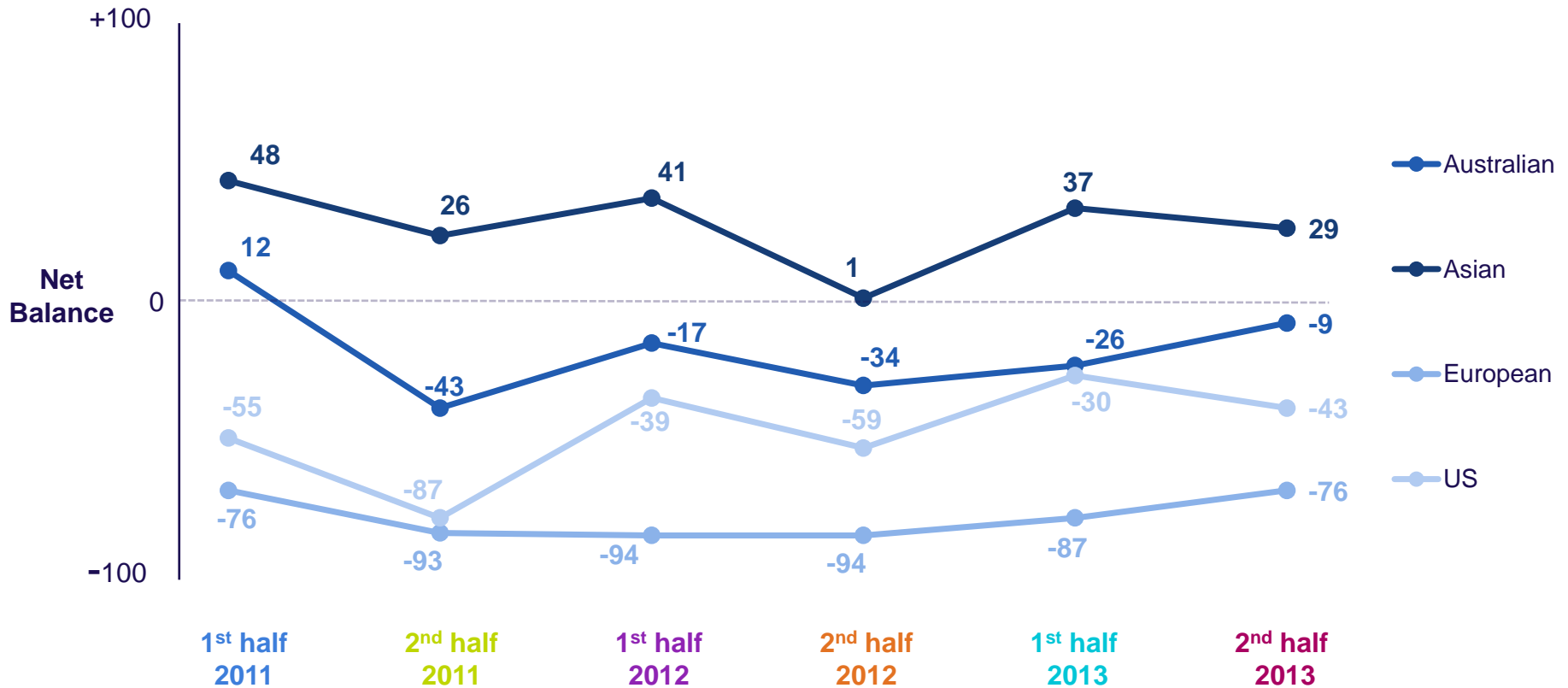
Next 12 months health of economies (%)



# Next 12 months health of economies – semi-annual trend

Since the start of the DSI (1<sup>st</sup> half 2011), the Asian economy has consistently been expected to be the strongest looking forward, with the European economy always rated the weakest. Since the 2<sup>nd</sup> half of 2011, the Australian economy has been expected to be weak, although relatively stronger than Europe and the US.

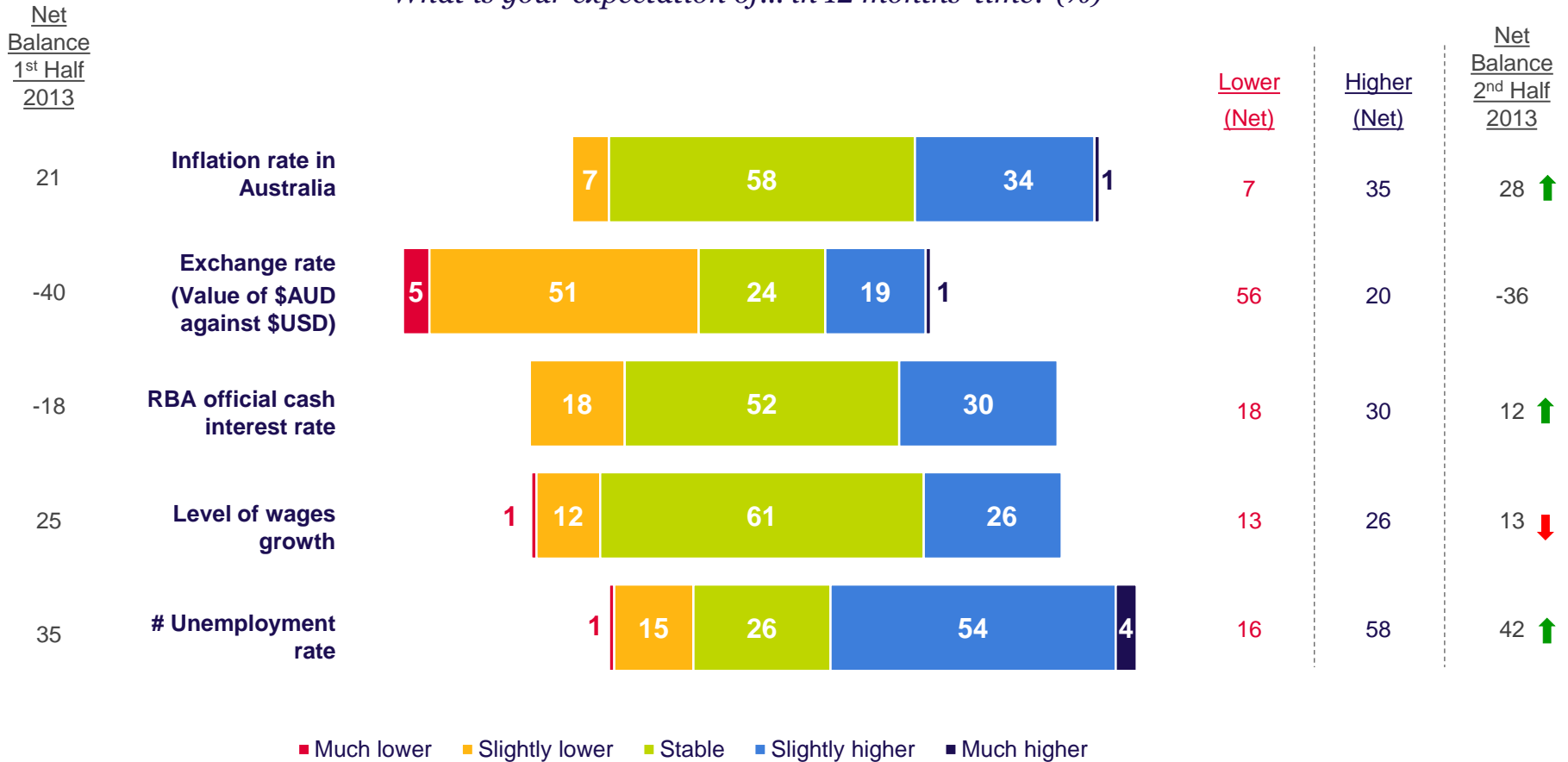
Next 12 months health of economies – semi-annual trend (net balance)



# Economic indicators (Australia) – expectation in next 12 months

Sentiment is varied regarding economic indicators. More than half of directors still believe that the value of the Australian dollar will further decline, while around 30 per cent expect the inflation rate and RBA cash interest rate to increase. More than 60 per cent of directors expect wages growth to remain stable, and nearly 60 per cent expect an increase in the unemployment rate.

What is your expectation of... in 12 months' time? (%)

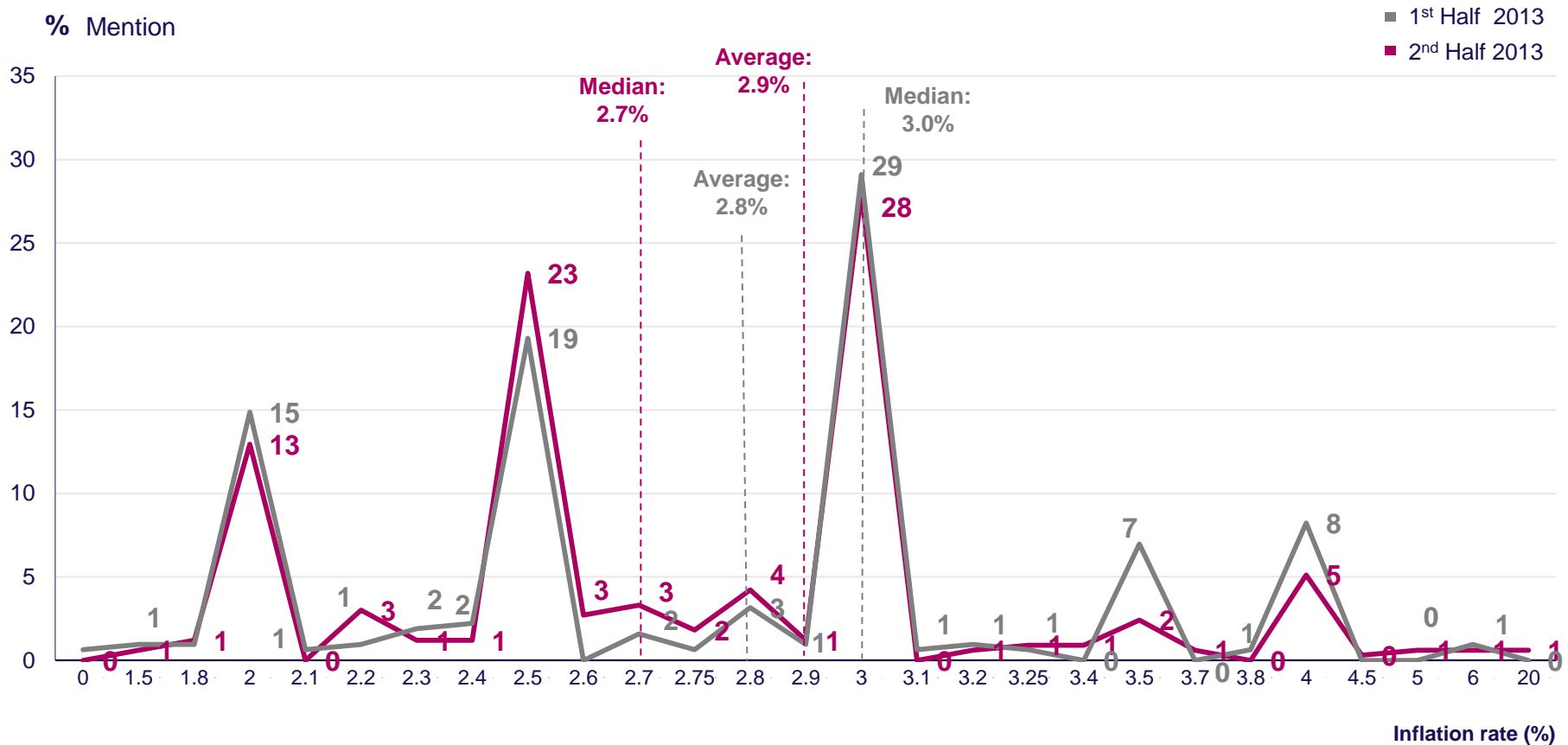




# Economic indicators – Australian inflation rate in next 12 months

Estimations of the Australian inflation rate in the coming 12 months are slightly higher, at an average of 2.9 per cent, with estimates clustering around 2, 2.5 and 3 per cent. The actual inflation rate during survey fieldwork was 2.2 per cent\*.

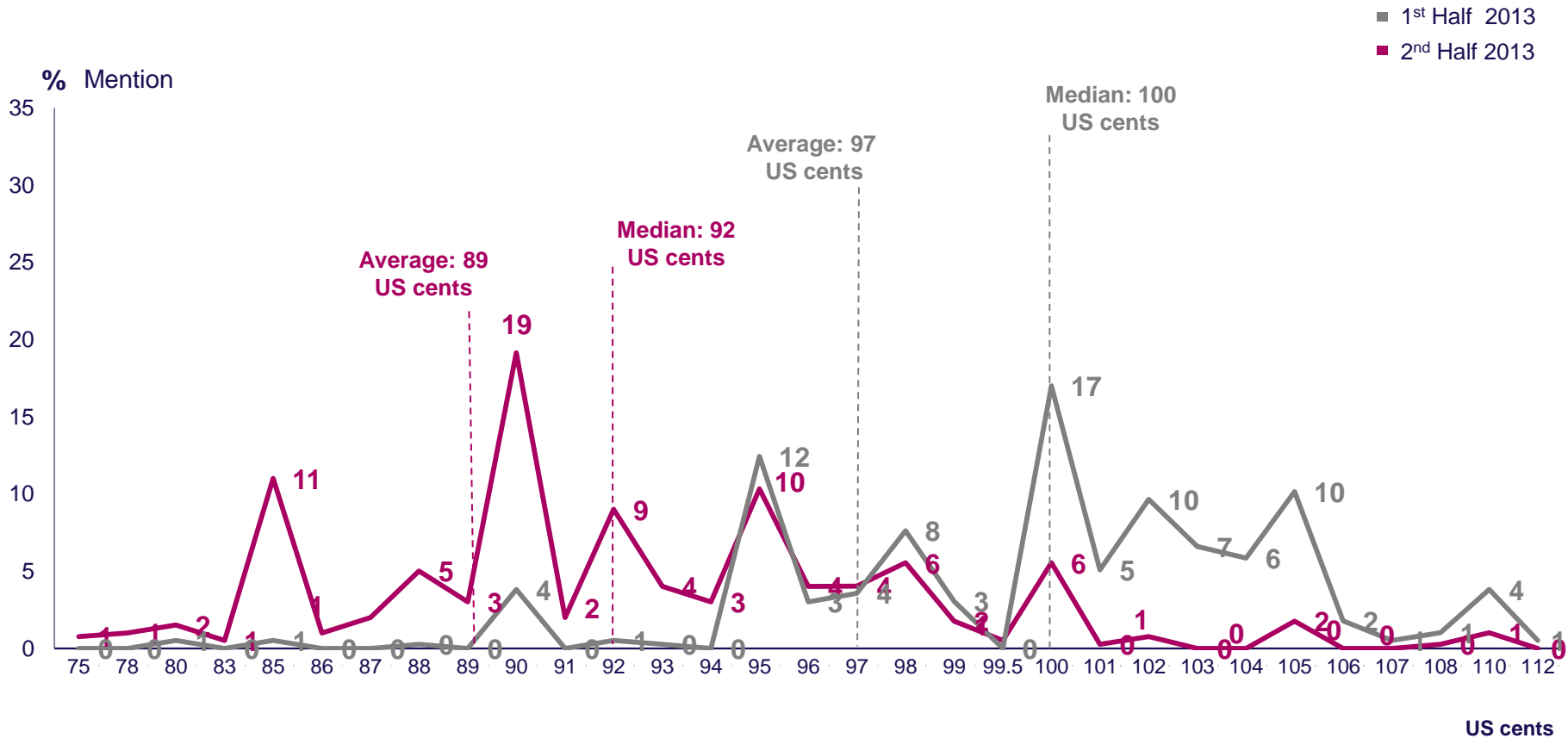
Nominate a numeric value for “the inflation rate in Australia in 12 months’ time” (%)



# Economic indicators – AUD/USD exchange rate in next 12 months

Estimations of the exchange rate for the next 12 months are much lower, at an average of 89 US cents, with estimates clustering around 85, 90, 92 and 95 US cents. The average rate during survey fieldwork was 96 US cents\*.

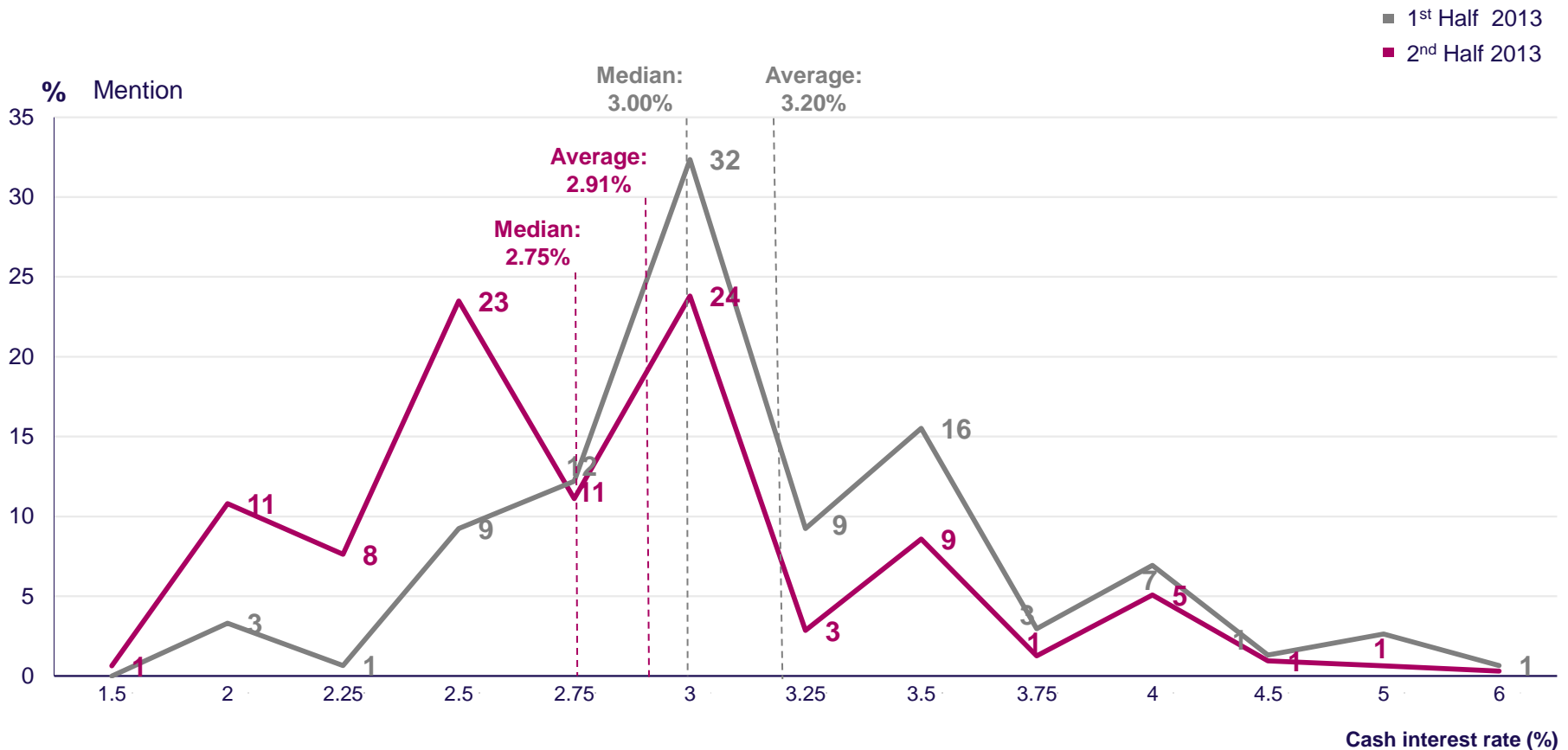
Nominate a numeric value for “the AUD/ USD exchange rate in 12 months’ time”  
(1\$A = how many US cents)



# Economic indicators – RBA official cash interest rate in next 12 months

Estimations of the RBA official cash interest rate in the next 12 months are lower, at an average of 2.91 per cent, with estimates clustering around 2.5 and 3 per cent. The actual interest rate during survey fieldwork was 2.50 per cent\*.

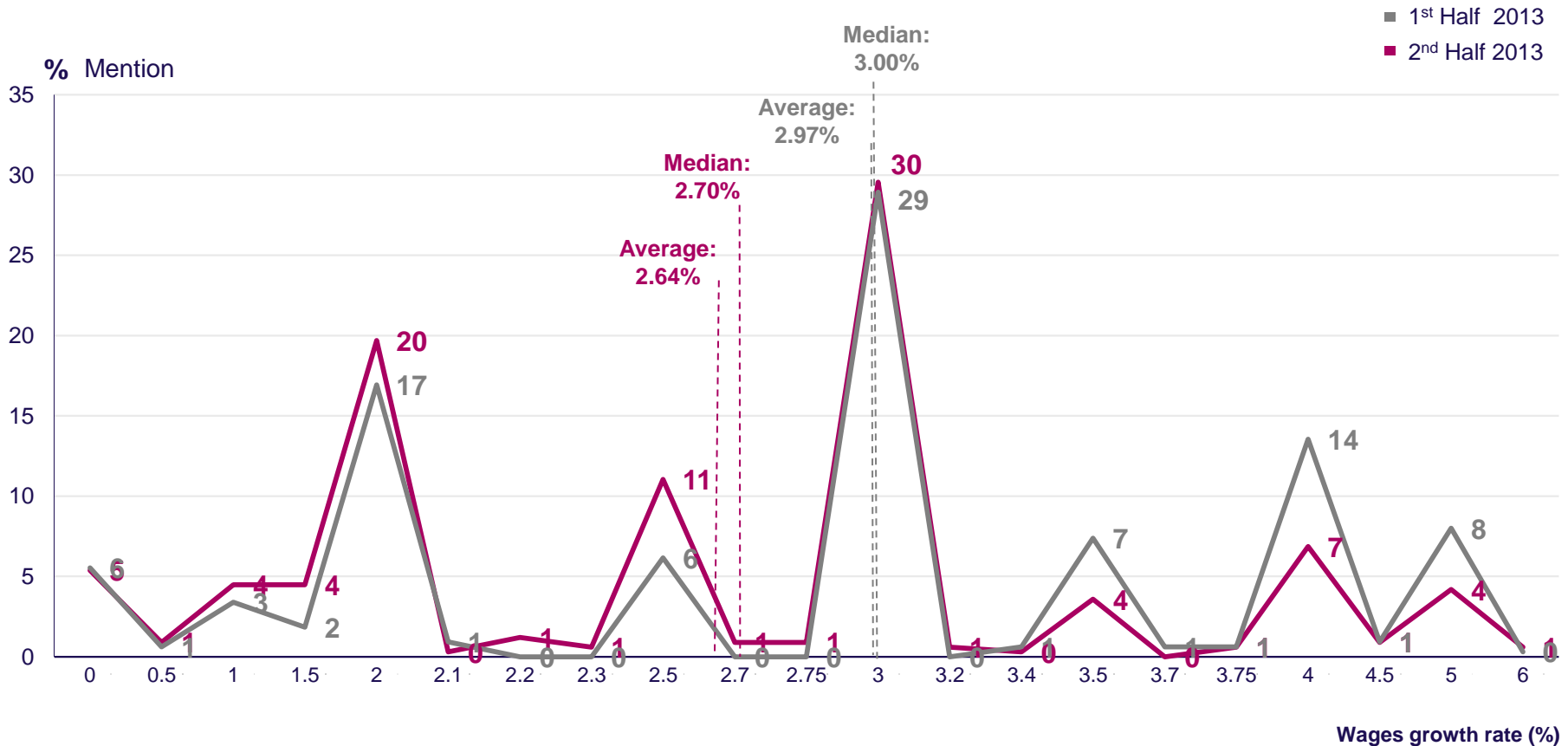
Nominate a numeric value for “the RBA official cash interest rate in 12 months’ time” (%)



# Economic indicators – wages growth rate in next 12 months

The expected level of wages growth in the coming year is lower, at an average of 2.64 per cent, with estimates clustering around 2 per cent, 2.5 per cent and 3 per cent. The actual growth for the most recent year to the survey fieldwork was 2.9 per cent\*.

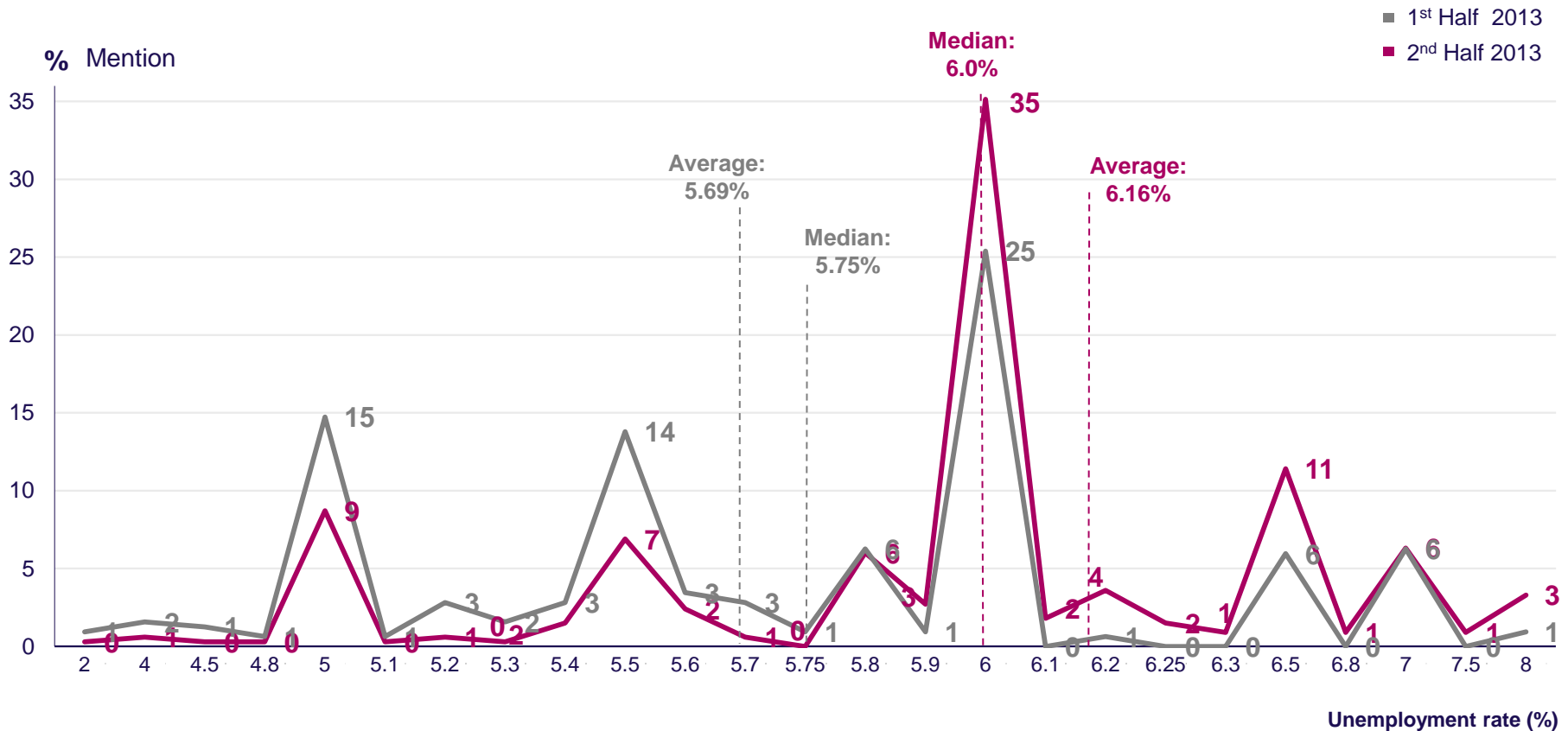
Nominate a numeric value for “the rate of wages growth in 12 months’ time” (%)



# Economic indicators – unemployment rate in next 12 months

The average expected unemployment rate in the coming year is higher at 6.16 per cent, with estimates clustering mostly around 6 per cent. The known unemployment rate during survey fieldwork was 5.7 per cent\*.

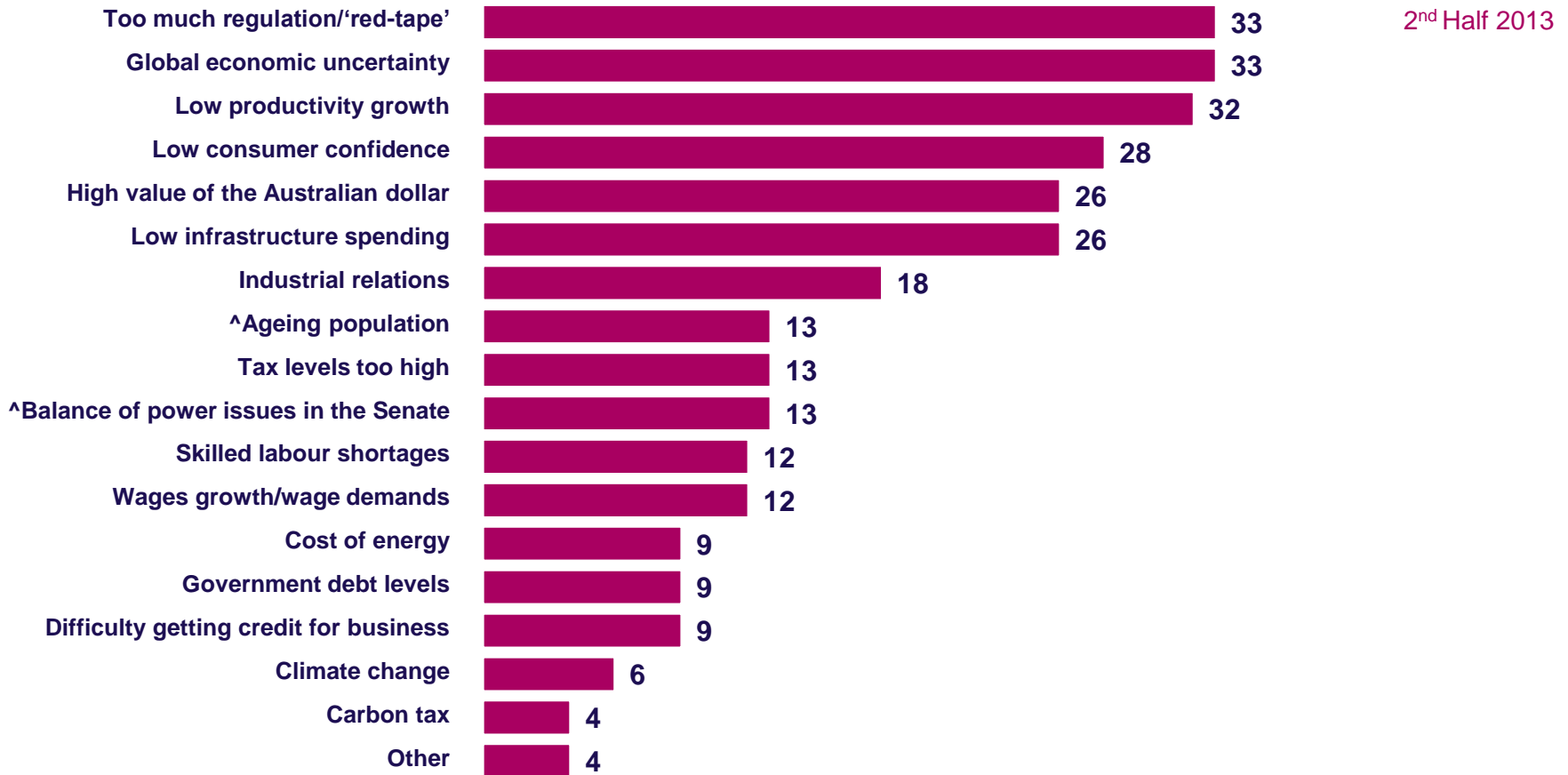
Nominate a numeric value for “the unemployment rate in 12 months’ time” (%)



# Main current economic challenges (Top 3)

Too much regulation or 'red-tape' and global economic uncertainty are viewed by directors as the biggest economic challenges facing Australian business, followed by low productivity growth. The high value of the Australian dollar has dropped from being the biggest concern in the 1<sup>st</sup> half of 2013 to being the fifth biggest concern. The main challenge identified in the 1<sup>st</sup> survey in 2011 was skilled labour shortages.

# What are the 3 main economic challenges currently facing Australian business? (%)



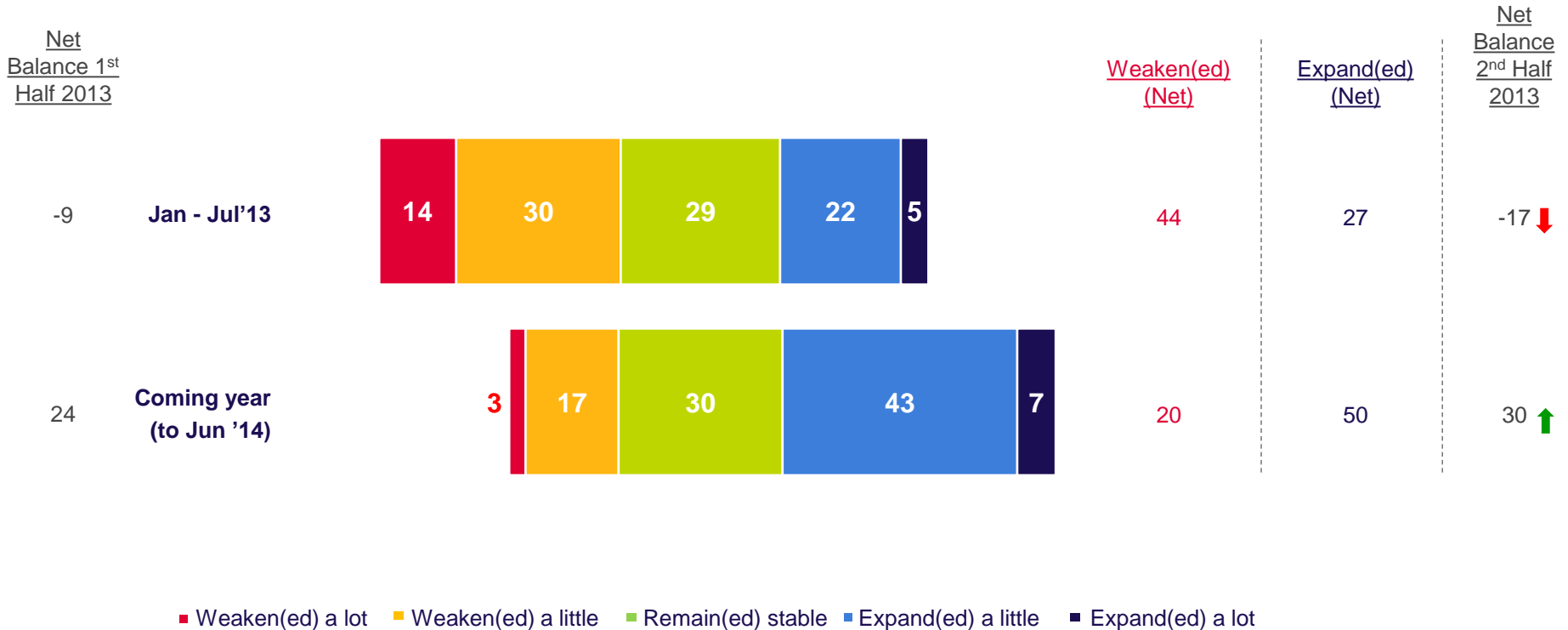
^ Note: New statements added in 2<sup>nd</sup> half 2013 #Note: Two statements removed in 2<sup>nd</sup> half 2013

8: In your opinion, what are the 3 main economic challenges currently facing Australian business? (Select 3 answers only) Base: All respondents n=527

# Growth of the business (primary directorship company)

More than 40 per cent of directors reported that business growth weakened in January-June 2013. In line with the previous survey results, future projections are optimistic, with exactly half of all directors expecting their business to grow in the coming year.

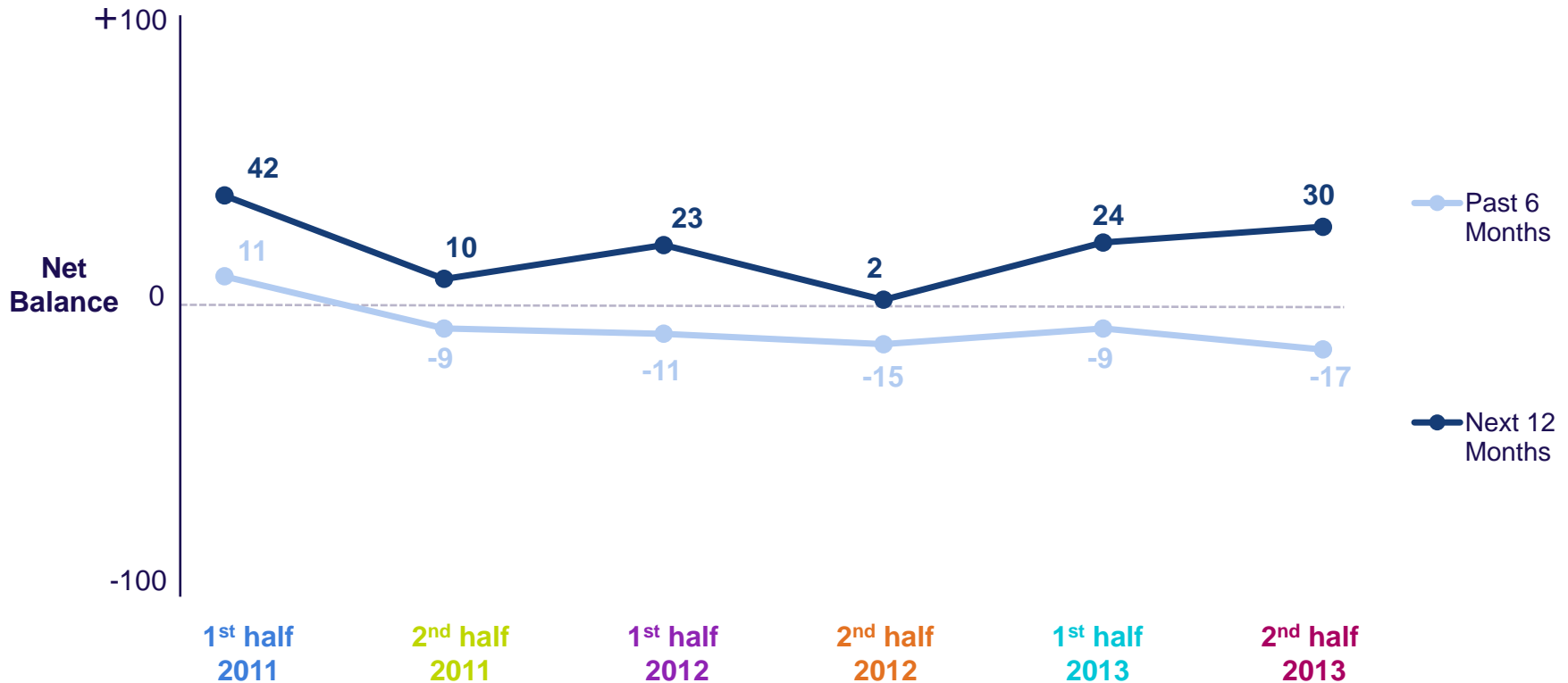
Growth of the business – Past and future (%)



# Past and future growth of business – semi-annual trend

Since the 2<sup>nd</sup> half of 2011, directors have said their business contracted over the six months leading up to each survey. Directors have remained consistently optimistic, however, about the growth of the business in the coming year, with expectations for the next 12 months being positive in all six studies conducted.

Growth of Business (Past 6 Months and Next 12 Months) – semi-annual trend (net balance)

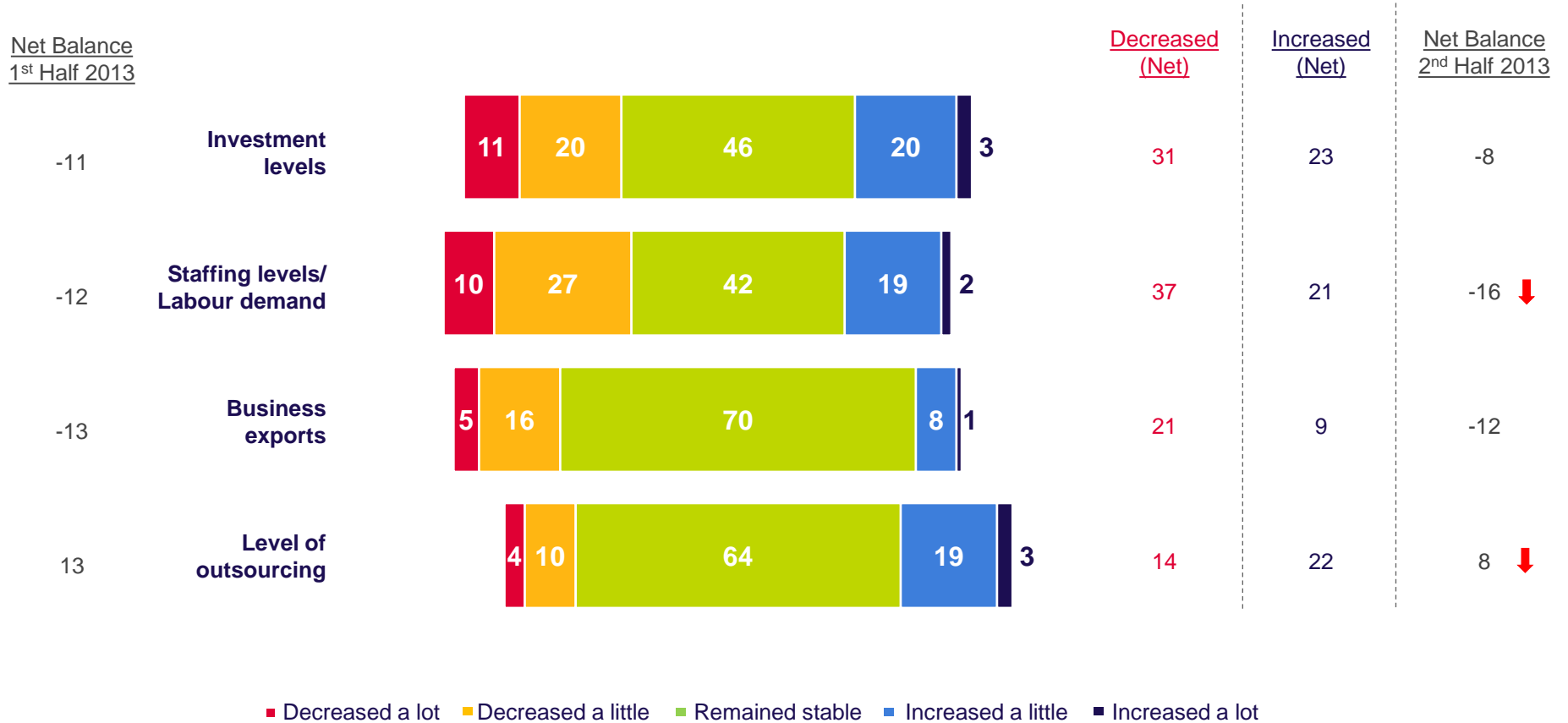




# Changes in the business – Jan-Jun '13

A substantial proportion of directors have experienced stability across four facets of business in the last six months, although nearly 40 per cent have experienced a decrease in staffing levels.

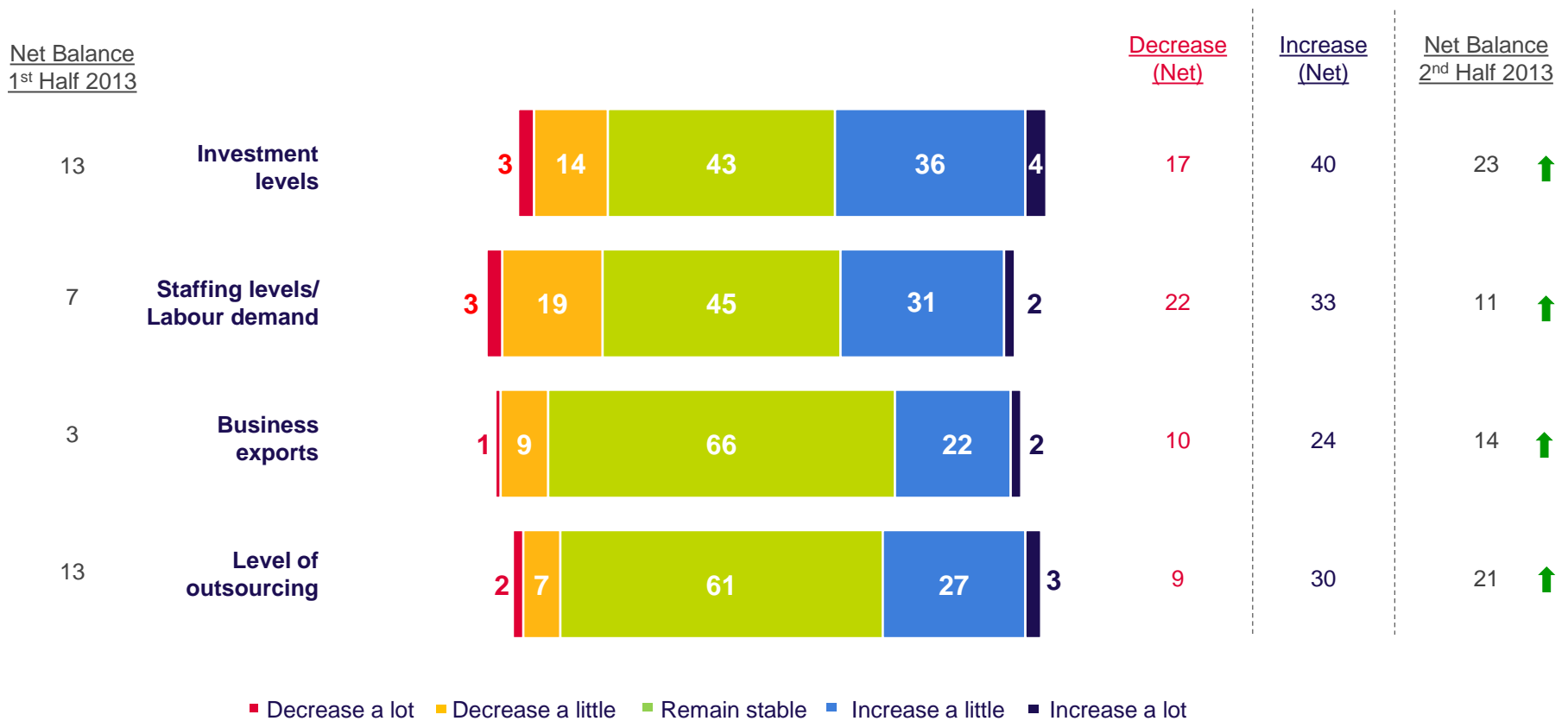
Changes in the business - Jan - Jun '13 (%)



# Changes in the business – coming year (to Jun '14)

Higher expectations of growth in the next 12 months across four facets of business, with more than 30 per cent of directors expecting an increase in investment and staffing levels. As per the 1<sup>st</sup> half 2013 results, more than 60 per cent of directors expect business exports and the level of outsourcing to remain stable.

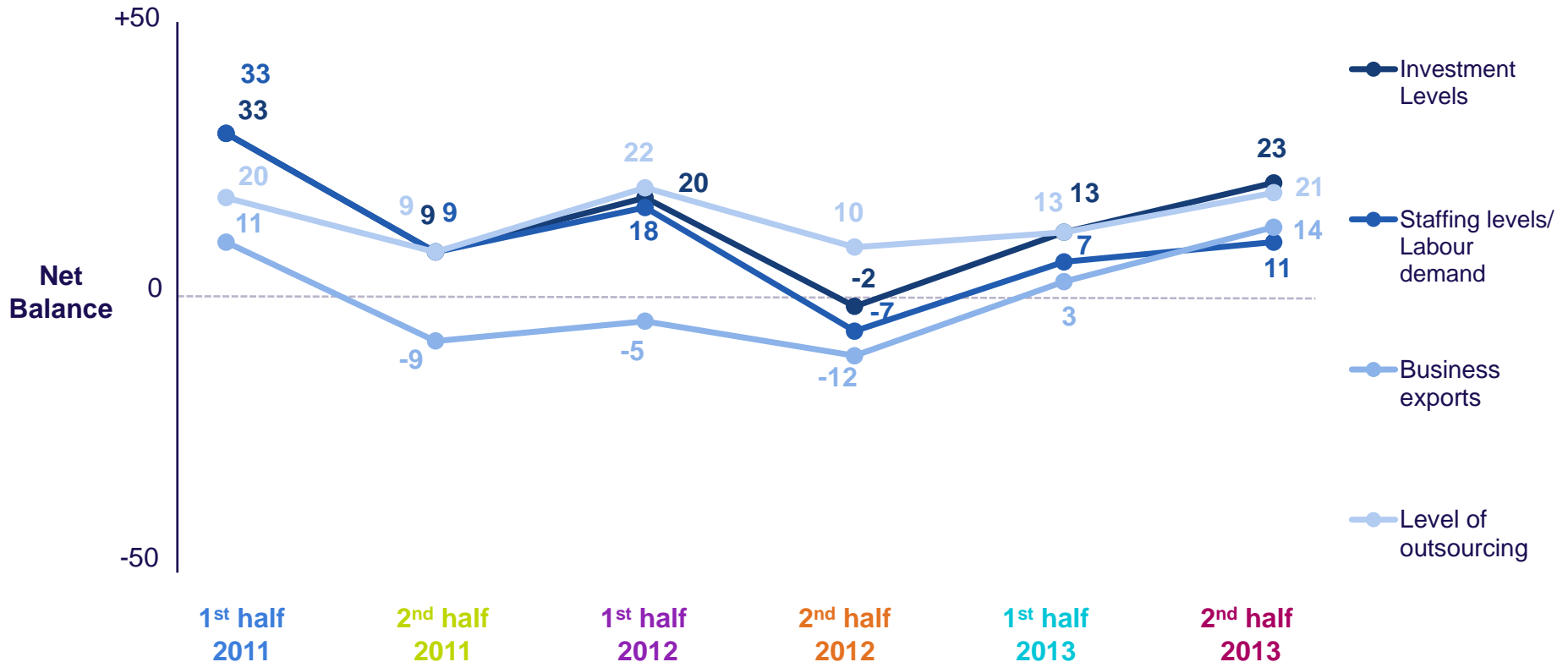
Changes in the business: over coming year (to Jun'14) (%)



# Changes in the business: over coming year – semi-annual trend

Directors have consistently expected outsourcing to increase over the coming year, since the inception of the survey. Sentiment regarding investment, staffing and business exports was at its most pessimistic in the 2<sup>nd</sup> half 2012 survey.

Changes in the business: over coming year – semi-annual trend (net balance)



# Main reason for change in staffing levels/labour demand

A change in business conditions was identified as the main reason for a change in staffing levels.

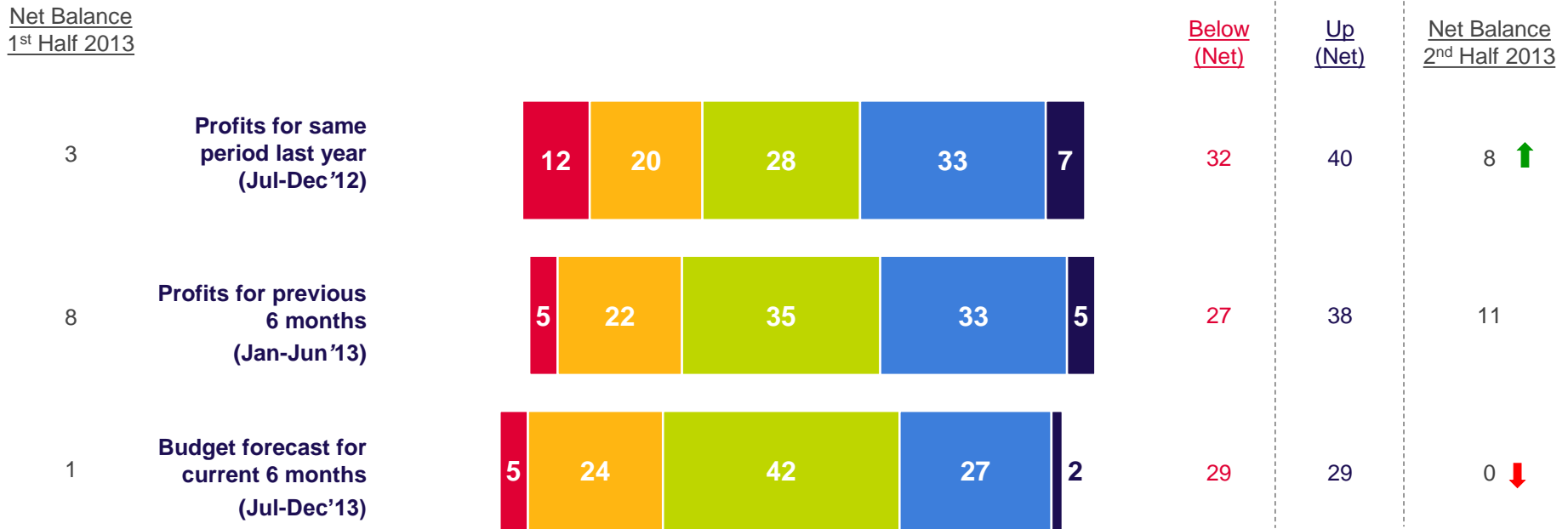
## Main reason for expected change in staffing levels/labour demand (%)

Main reason for expected change in staffing levels/ labour demand (%)	Survey	Total (Those who expect change)	Those who expect decrease	Those who expect increase
Changed business conditions	1st Half 2013	55	48	61
	2nd Half 2013	52	50	54 ↓
Changed economic conditions	1st Half 2013	25	30	22
	2nd Half 2013	27	28	25
Workplace laws	1st Half 2013	8	13	4
	2nd Half 2013	6	9 ↓	3
Changed wage levels	1st Half 2013	2	3	1
	2nd Half 2013	2	4	2
Parental leave laws	1st Half 2013	-	-	-
	2nd Half 2013	2 ↑	3 ↑	2 ↑
Other	1st Half 2013	10	6	12
	2nd Half 2013	11	7	14

# Profits for current six months compared to...

*In line with the 1<sup>st</sup> half 2013 results, directors are slightly optimistic about actual profits for the current 6 months, with around 40 per cent expecting an increase in profits compared to the same period last year and the previous six months, while an equal proportion expect profits to be up or down on the current budget forecast.*

Actual profits for the current six months (Jul-Dec'13) compared to... (%)



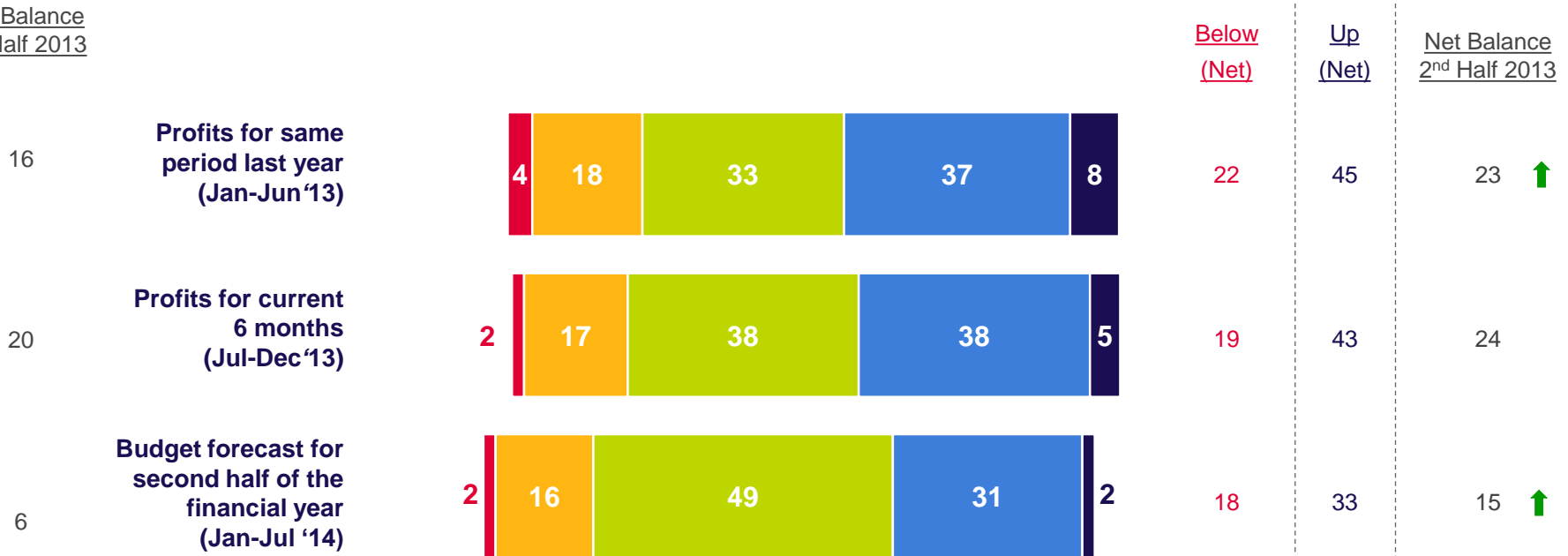
■ Significantly below  
 ■ Slightly below  
 ■ About the same  
 ■ Up slightly  
 ■ Up significantly

# Profits for second half of year compared to...

Expectations of profits for the second half of the year to June 2014 are higher compared to the previous survey's results. More than 40 per cent of directors expect an increase in profits for the second half of the year compared to the same period last year and the current six months. Nearly half of directors believe their second half profits will be in line with budget forecasts.

Expected profits for the second half of this year (Jan –Jun 2014) compared to... (%)

Net Balance  
1<sup>st</sup> Half 2013

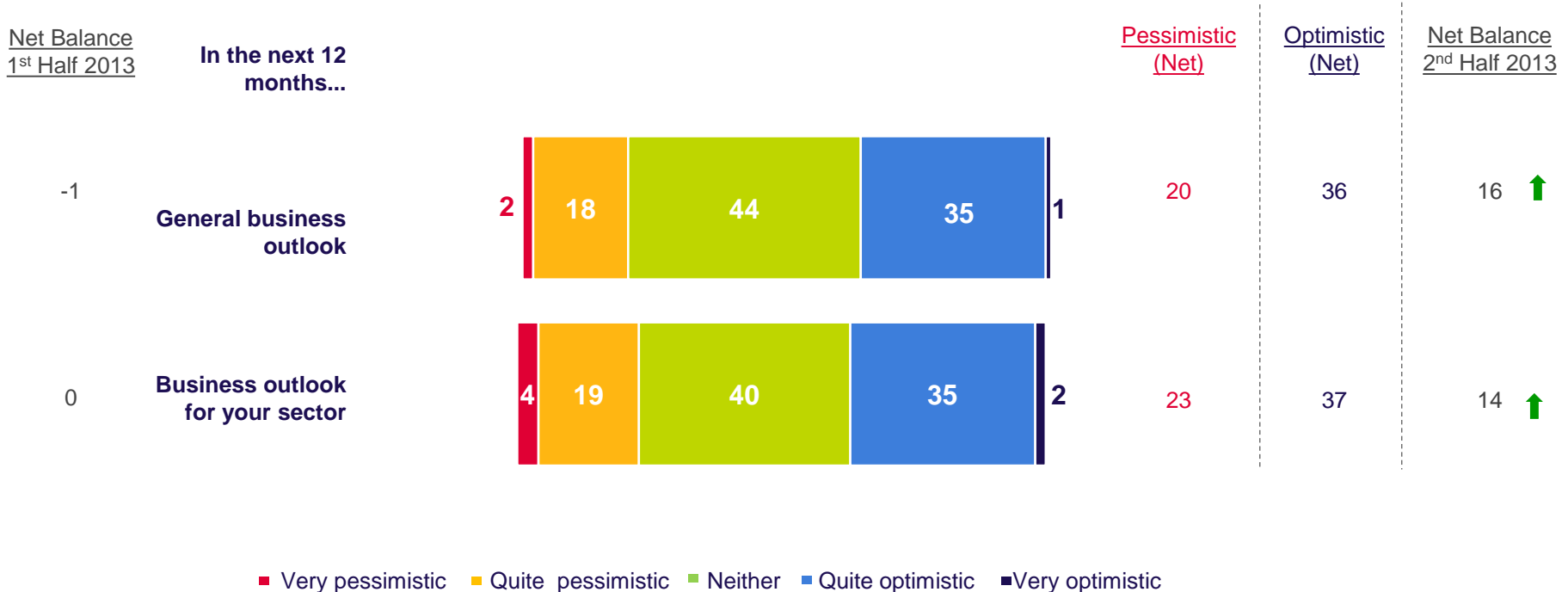


■ Significantly below ■ Slightly below ■ About the same ■ Up slightly ■ Up significantly

# Confidence in business outlook – next 12 months

Directors are more optimistic about the business outlook for the 2<sup>nd</sup> half of 2013 compared to the previous survey's results, with more than 35 per cent indicating they are optimistic about the general business outlook and the outlook for their own sector.

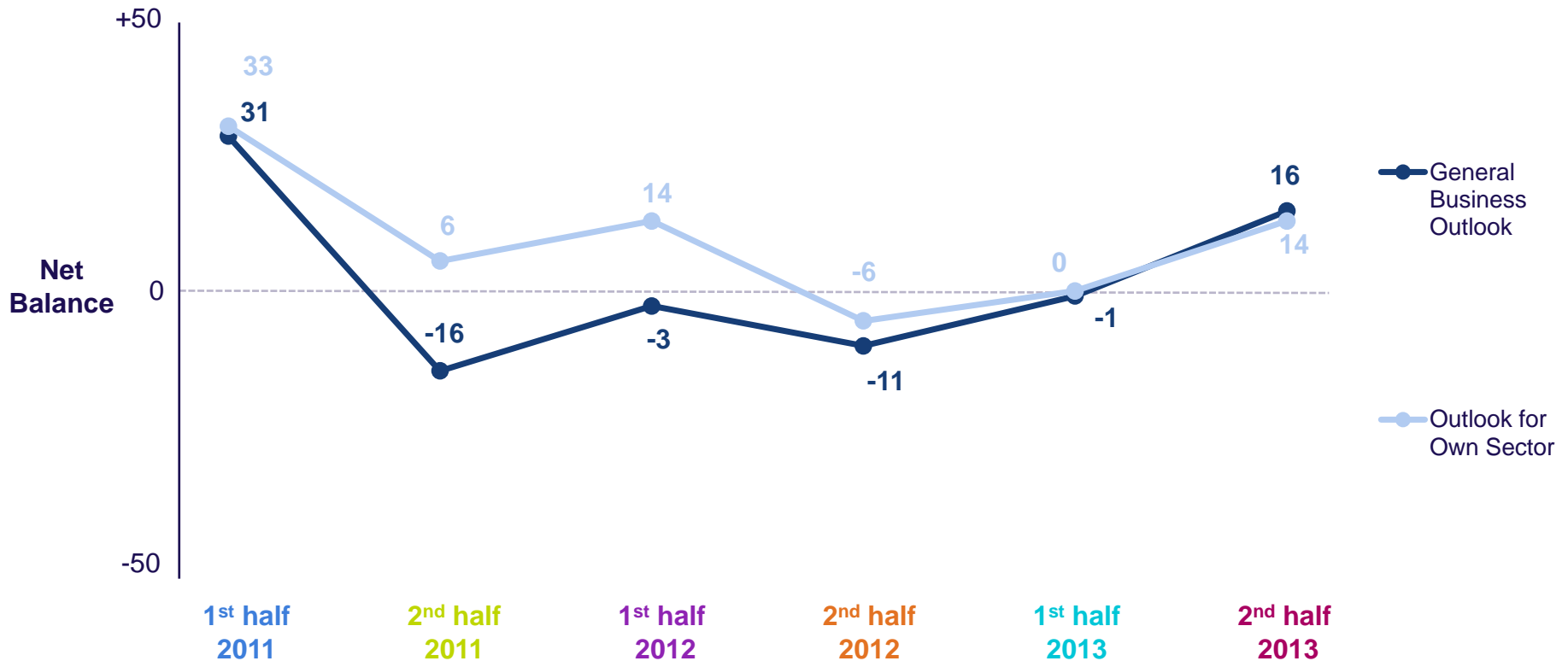
Confidence in business outlook – general and sector  
next 12 months (%)



# Confidence in business outlook: next 12 months – semi-annual trend

This is the first year since the inception of the survey where confidence in business outlook has gone up from the 1<sup>st</sup> half of the year to the 2<sup>nd</sup> half. General business outlook and specific sector outlook confidence are now at their highest levels since the first survey in the 1<sup>st</sup> half of 2011.

Confidence in business outlook: next 12 months – semi-annual trend (net balance)





# Level of taxation in Australia

Directors remain pessimistic regarding the level of corporate and personal taxation in Australia, with more than half of directors maintaining the belief that corporate taxation is too high, and 65 per cent of directors believing that the level of personal taxation is too high.

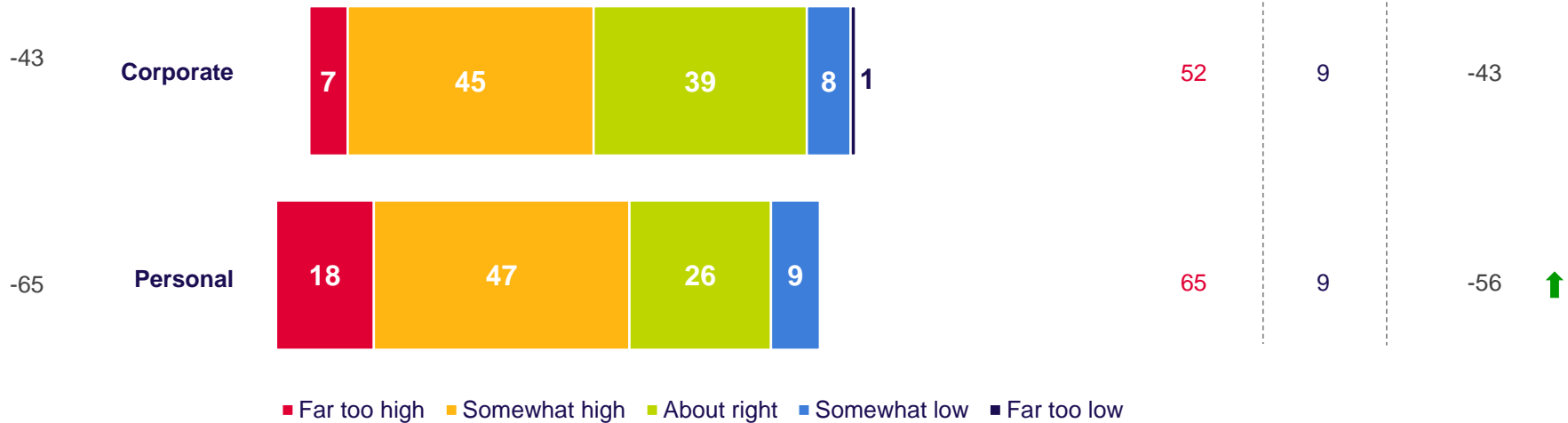
View on level of taxation in Australia – corporate and personal (%)

Net Balance  
1<sup>st</sup> Half 2013

High  
(Net)

Low  
(Net)

Net Balance  
2<sup>nd</sup> Half 2013



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# Lifeblood of the economy

## *Credit availability*

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# Credit availability for business – Jan-Jun’13

In line with the previous survey results, credit availability was perceived as constrained for the past six months.

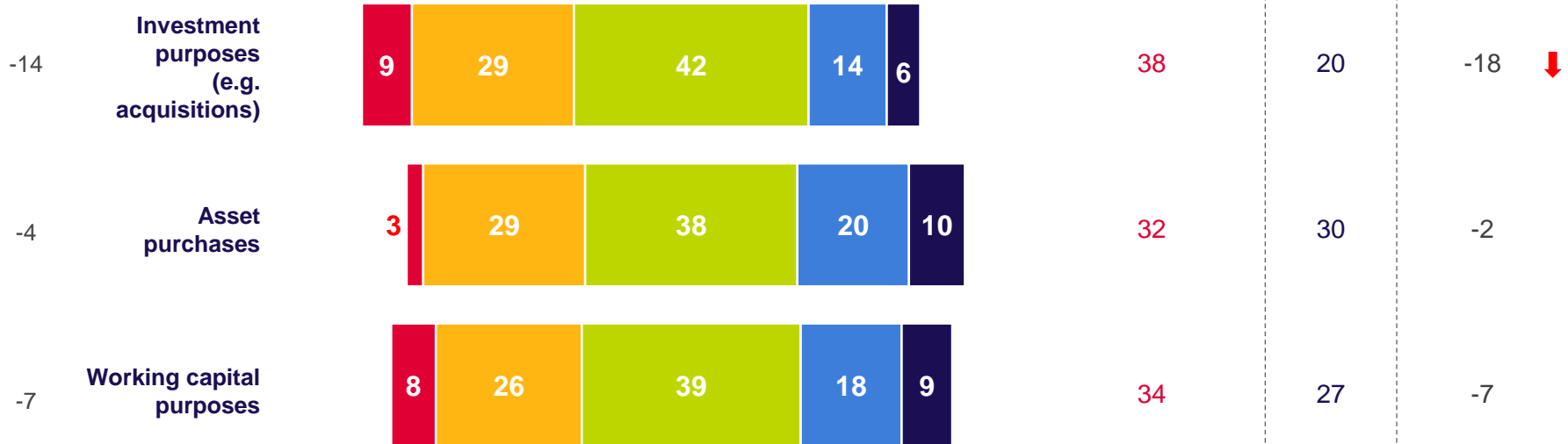
Credit availability for business – Jan-Jun’13 (%)

Net Balance  
1<sup>st</sup> Half 2013

Unavailable/  
Constrained (Net)

Available  
(Net)

Net Balance  
2<sup>nd</sup> Half 2013

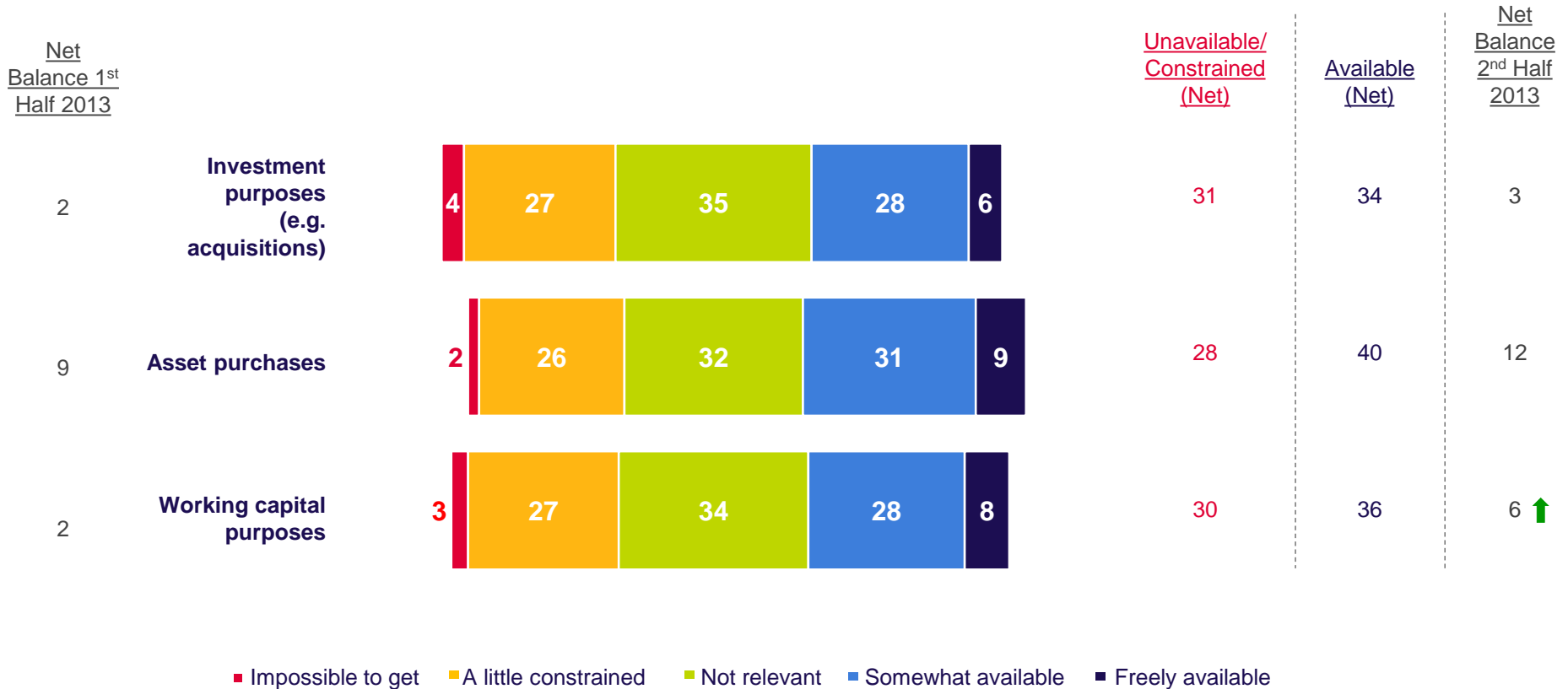


■ Impossible to get   ■ A little constrained   ■ Not relevant   ■ Somewhat available   ■ Freely available

# Credit availability for business – next 12 months

Directors have become more optimistic regarding credit availability in the future, with more than 30 per cent of directors predicting that credit for investment purposes and working capital purposes will be somewhat or freely available over the coming year, and 40 per cent believing the same of credit for asset purchases.

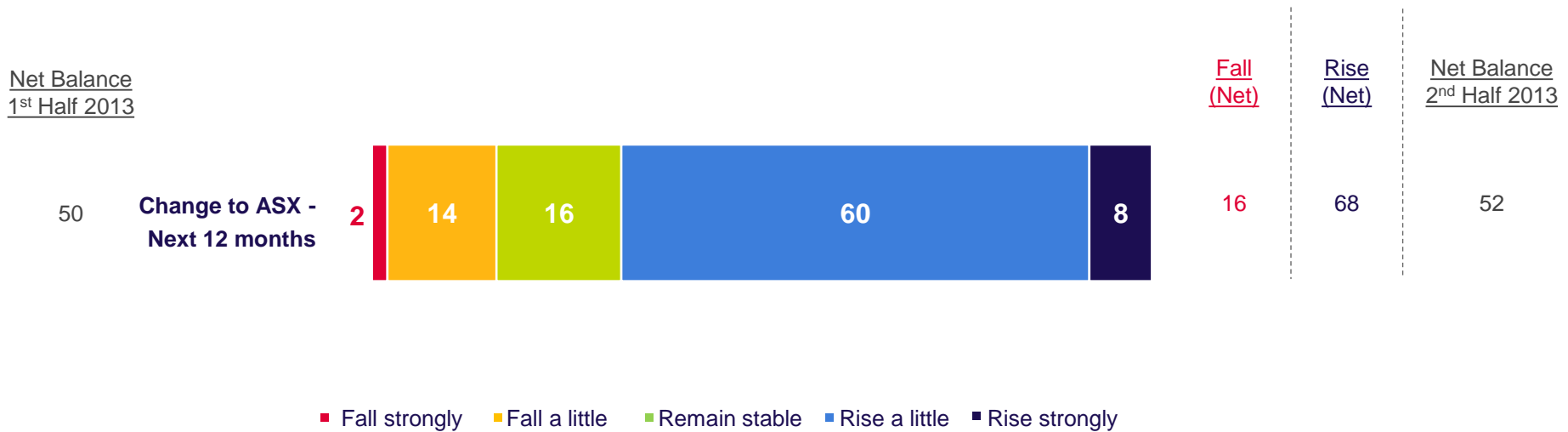
Credit availability for business - next 12 months (%)



# Expected change to ASX All Ordinaries index - next 12 months

Sentiment regarding the ASX All Ordinaries Index remains optimistic in the 2<sup>nd</sup> half of 2013, with nearly 70 per cent of directors expecting a rise in the ASX All Ordinaries in the coming year, in line with the previous survey's results.

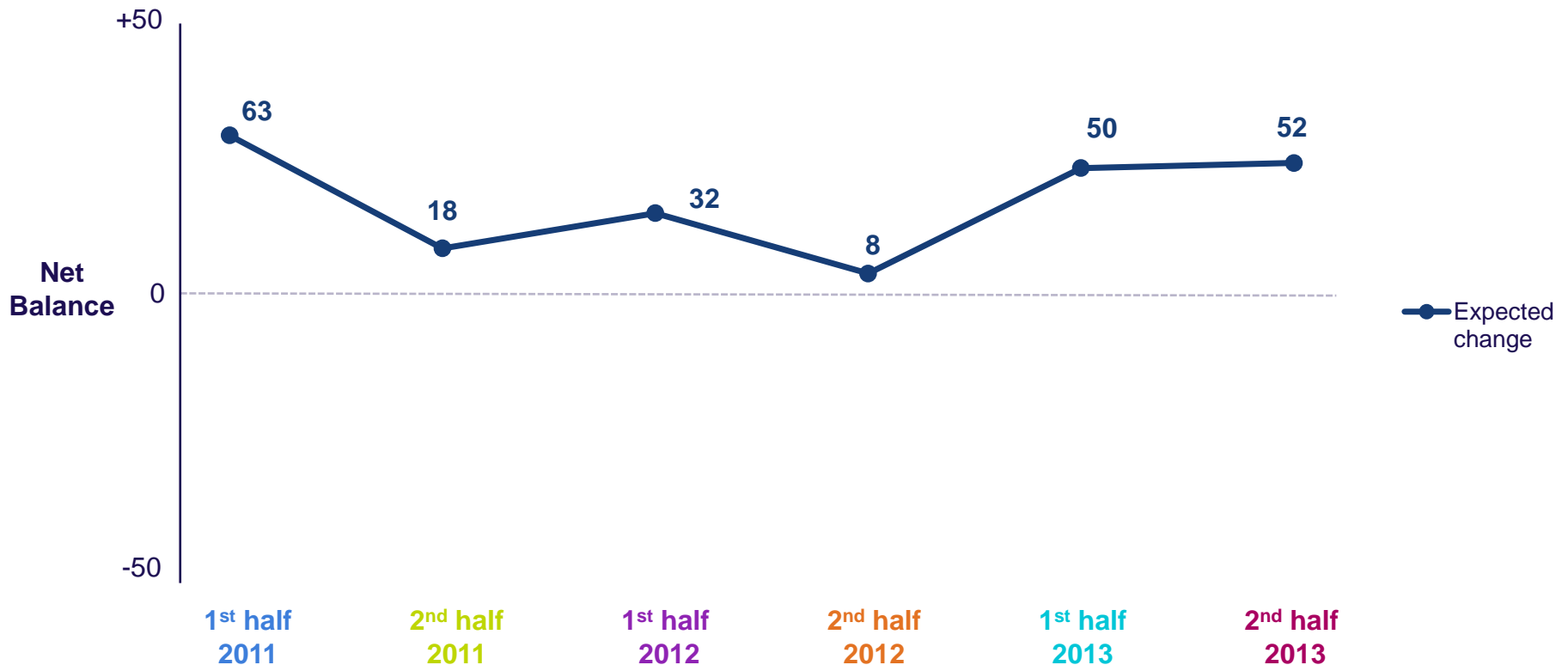
Expected change to ASX All Ordinaries index– next 12 months (%)



# Expected change to All Ordinaries index: next 12 months – trend

Directors are consistently optimistic regarding the change to the ASX All Ordinaries index over the coming year. This is the first year where sentiment has remained stable from the 1<sup>st</sup> half to the 2<sup>nd</sup> half of the year, rather than declining.

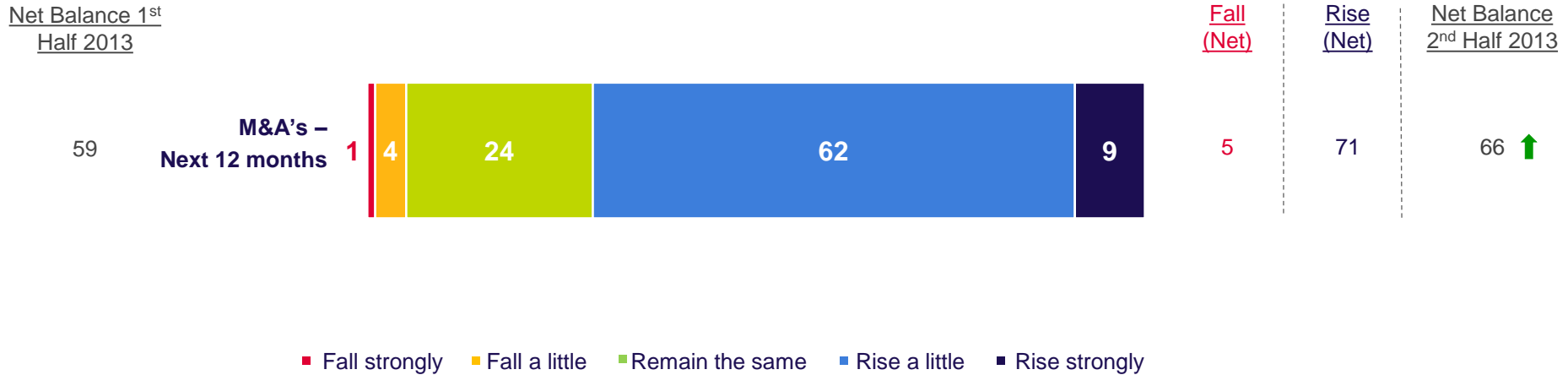
Expected change to ASX All Ordinaries index: next 12 months – semi-annual trend (net balance)



# Expected change in level of mergers and acquisitions – next 12 months

More than 70 per cent of directors expect a rise in mergers and acquisitions over the next 12 months, a figure which has risen from the 1<sup>st</sup> half 2013 results.

Expected change in level of mergers and acquisitions - next 12 months (%)



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# Infrastructure

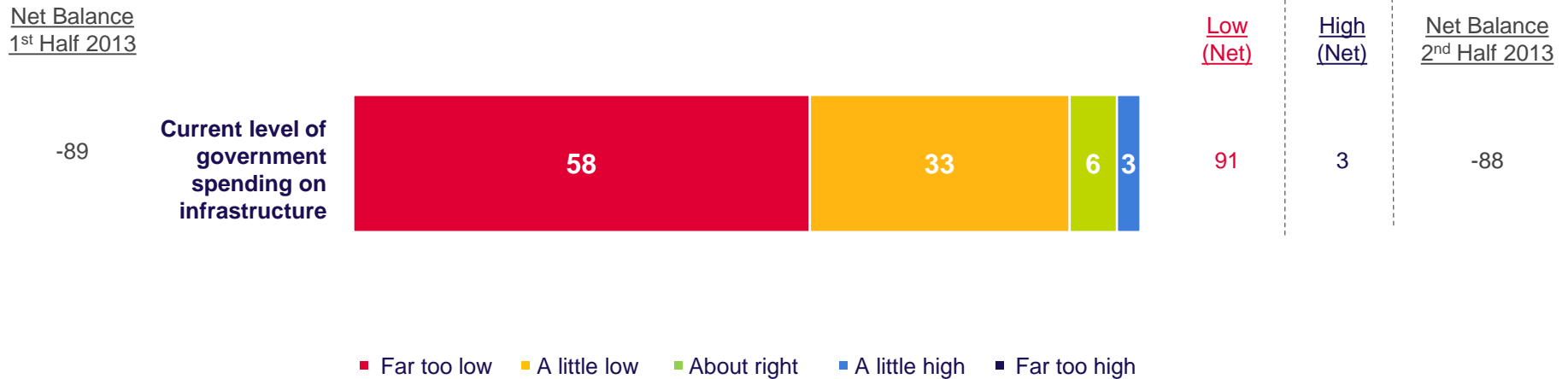
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# Current level of government spending on infrastructure

For the sixth survey in a row, more than 90 per cent of directors believe that the current level of government spending on infrastructure is too low.

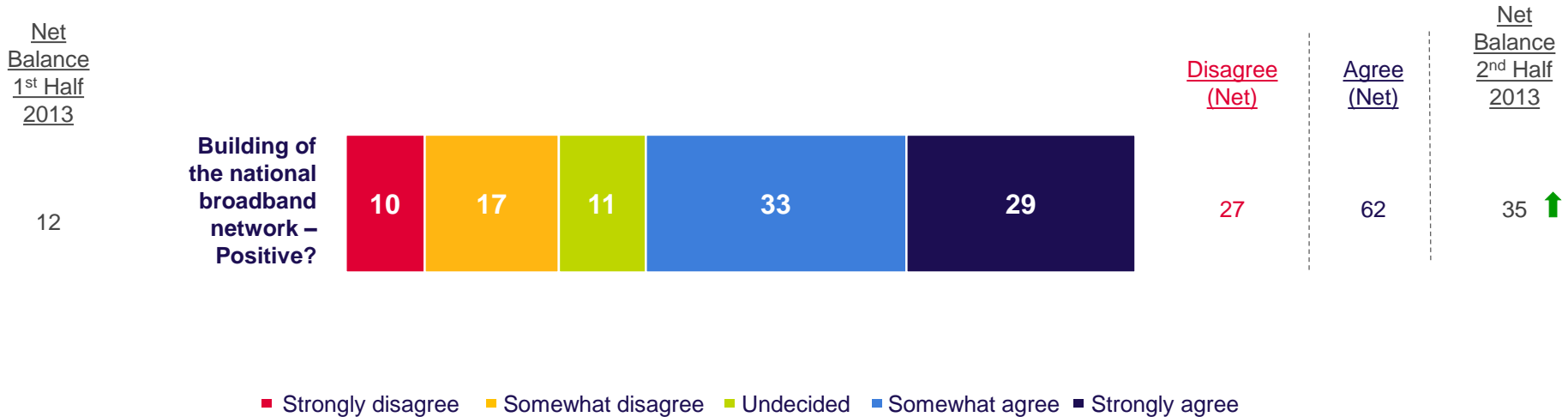
Opinion on current level of government spending on infrastructure (%)



# Building of National Broadband Network (NBN)

Sentiment regarding the building of the NBN has become more positive. More than 60 per cent of directors now agree that the NBN is a positive thing for Australia, while less than 30 per cent of directors disagree with this statement. More than 55 per cent of directors disagreed with this statement when it was first asked in the 1<sup>st</sup> half of 2011.

*Is the building of the National Broadband Network a positive thing for Australia? (%)*



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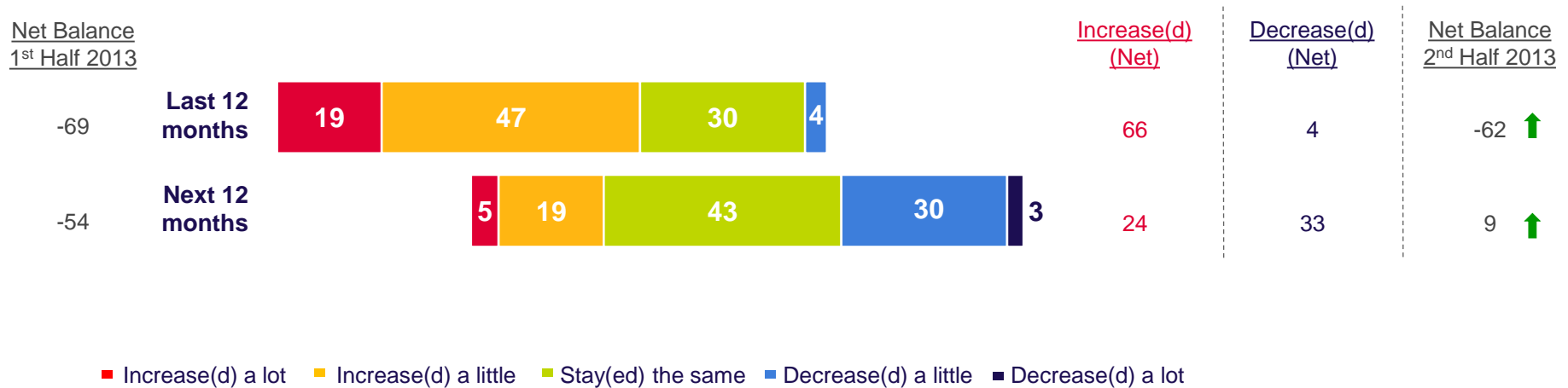
# Regulatory environment

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# Level of 'red-tape'

Directors remain pessimistic regarding the level of 'red-tape' in the past 12 months. However, directors are more optimistic about the level of 'red-tape' over the next 12 months, with more directors expecting a decrease than an increase in 'red-tape'.

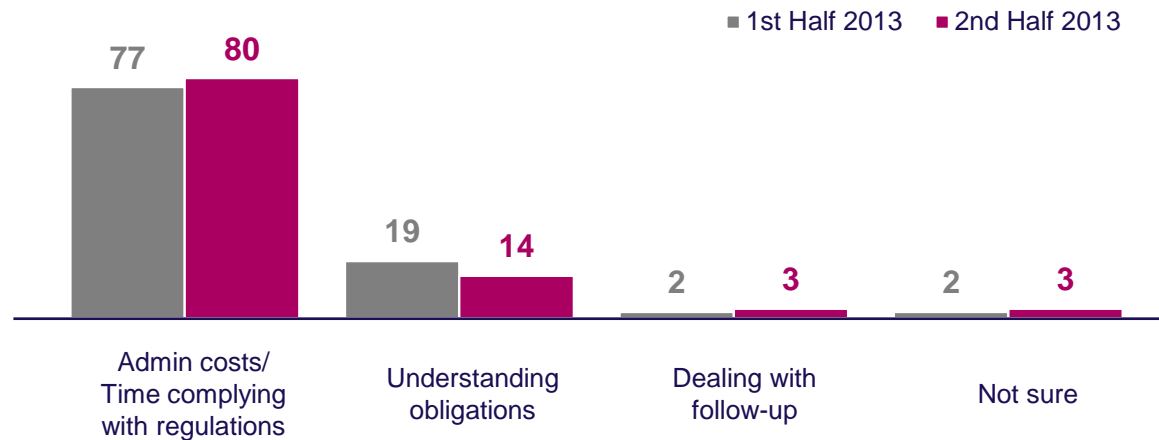
Level of 'red-tape' – past and future



## Level of 'red-tape' (cont)

Eighty per cent of directors identify administrative costs and the time associated with compliance as having the greatest impact on their business.

Aspects of red-tape – most impact on business (%)



# Impact of 'red-tape' on business productivity

Around 70 per cent of directors identify workplace health and safety and preparing/paying taxes as the aspects of their business most affected by 'red-tape', followed by workplace flexibility and employing new workers.

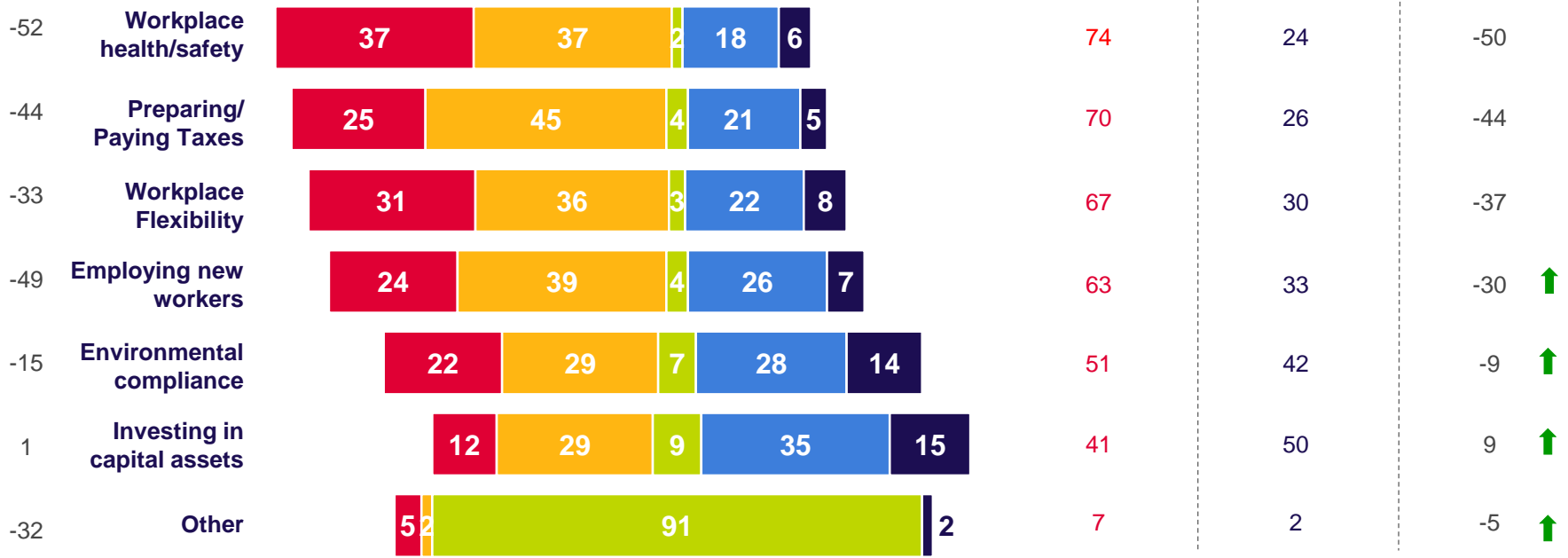
## Impact of 'red-tape' on the productivity of your business in...

Net Balance  
1<sup>st</sup> Half 2013

Moderate/High  
Impact (Net)

No Impact/Low  
impact (Net)

Net Balance  
2<sup>nd</sup> Half 2013

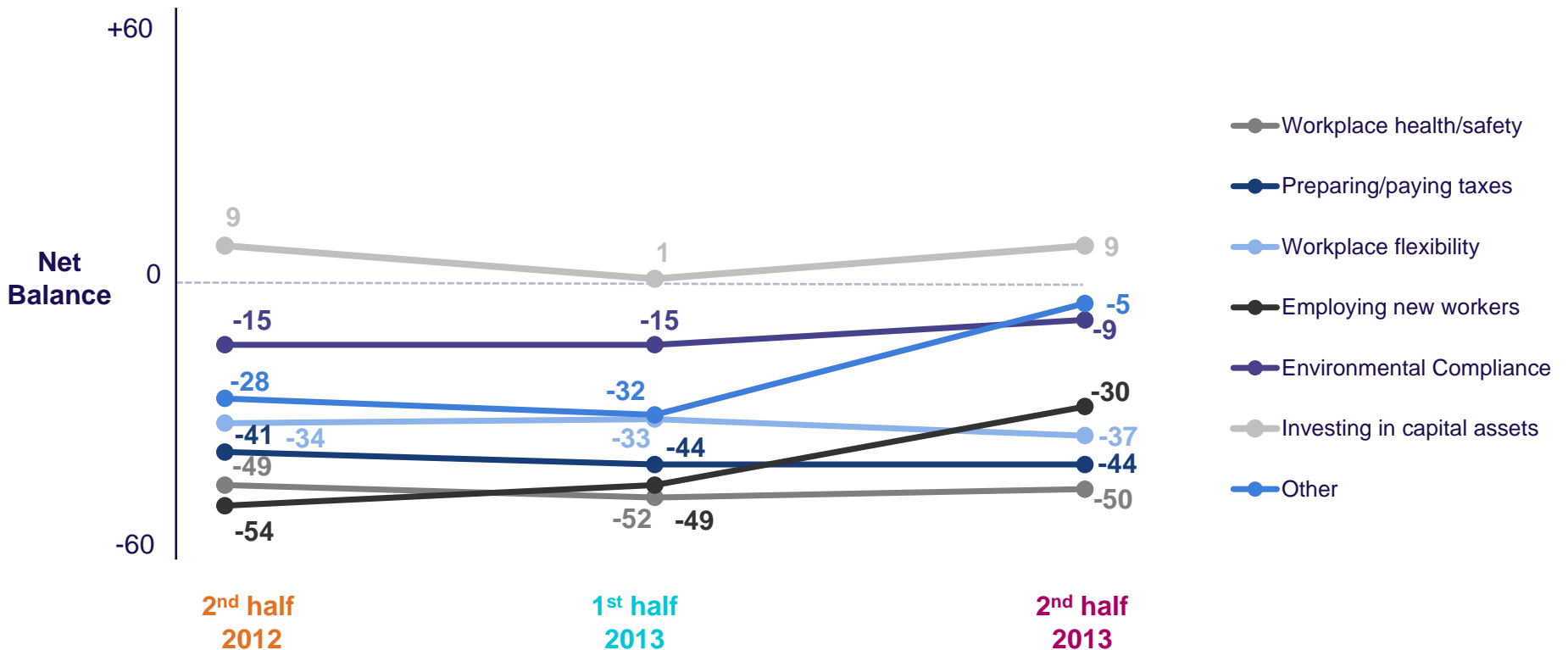


■ High Impact ■ Moderate Impact ■ Not Applicable ■ Low Impact ■ No Impact

# Impact of 'red-tape' on business productivity – semi-annual trend

Since the 2<sup>nd</sup> half of 2012 (when this question was first asked), directors have been mostly consistent in their assessment of 'red-tape' and its negative impact on the productivity of their business. 'Red-Tape' has the most negative impact in the areas of workplace health & safety, preparing/paying taxes and employing new workers.

Impact of 'red-tape' on the productivity of your business in... – semi-annual trend (net balance)

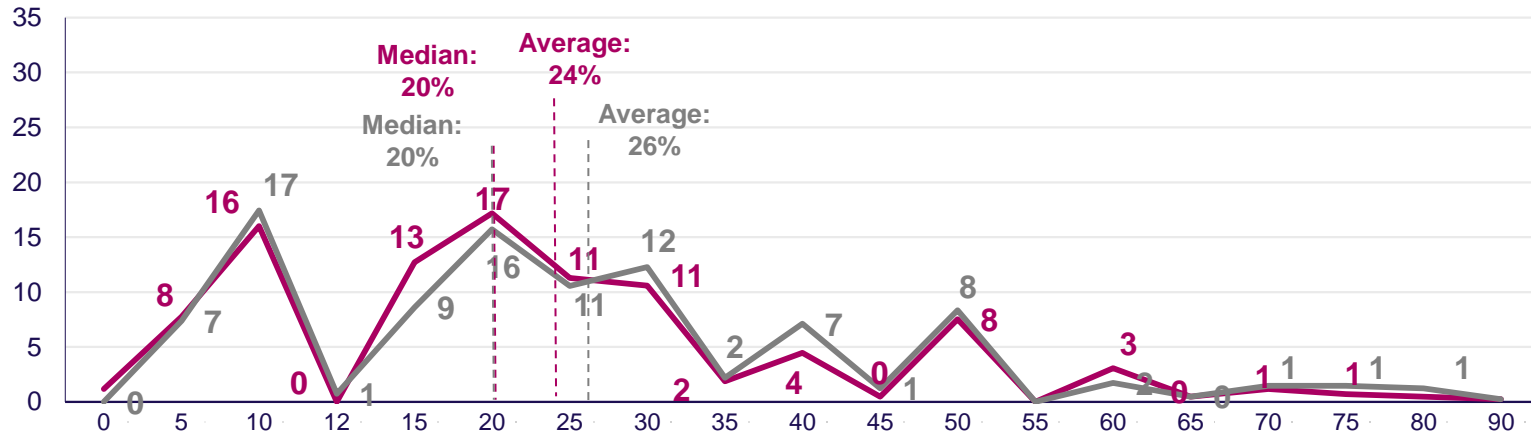


# Percentage of board commitment on 'red-tape' compliance

On average, directors rate 'red-tape' compliance as consuming about one-quarter of their total board commitment. Directors are less pessimistic about the change in percentage commitment over the past 12 months, with less than half believing this commitment percentage has increased, and around half believing it has stayed the same.

Percentage of board commitment spent on 'red-tape' compliance... (%)

■ 1<sup>st</sup> Half 2013  
 ■ 2<sup>nd</sup> Half 2013

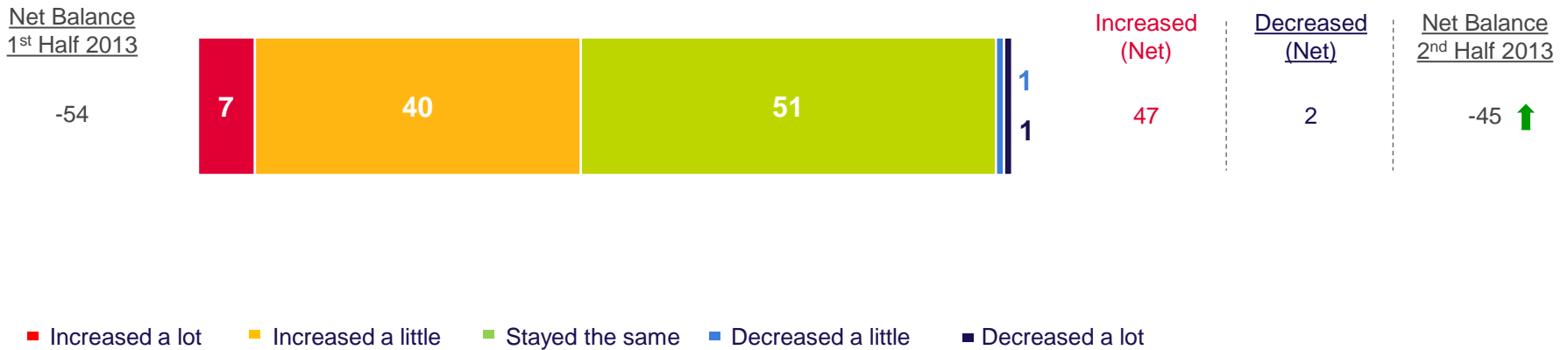




# Percentage of board commitment on 'red-tape' compliance (cont)

On average, directors rate 'red-tape' compliance as consuming about one-quarter of their total board commitment. Directors are less pessimistic about the change in percentage commitment over the past 12 months, with less than half believing this commitment percentage has increased, and around half believing it has stayed the same.

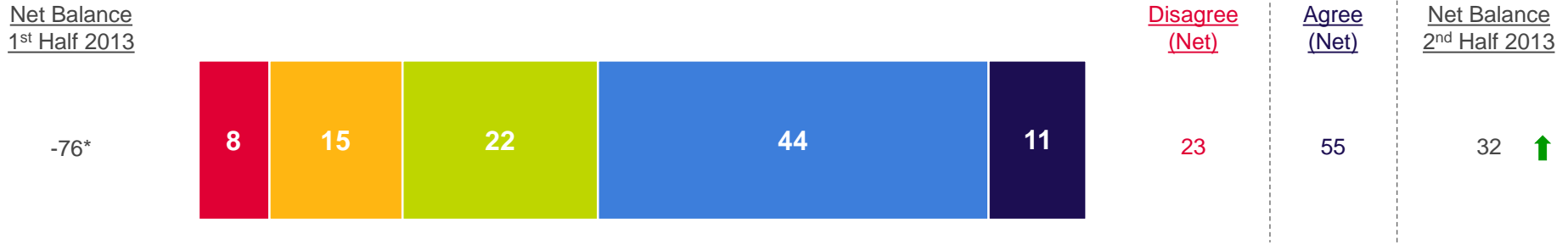
Over the last 12 months, has this commitment percentage...? (%)



# Federal Government understanding of business

Directors are more optimistic about the new Federal Government's understanding of business compared with the sentiment displayed in the 1<sup>st</sup> half of 2013, with more than half of directors agreeing the current Federal Government understands business.

Does the current Federal Government understand business? (%)



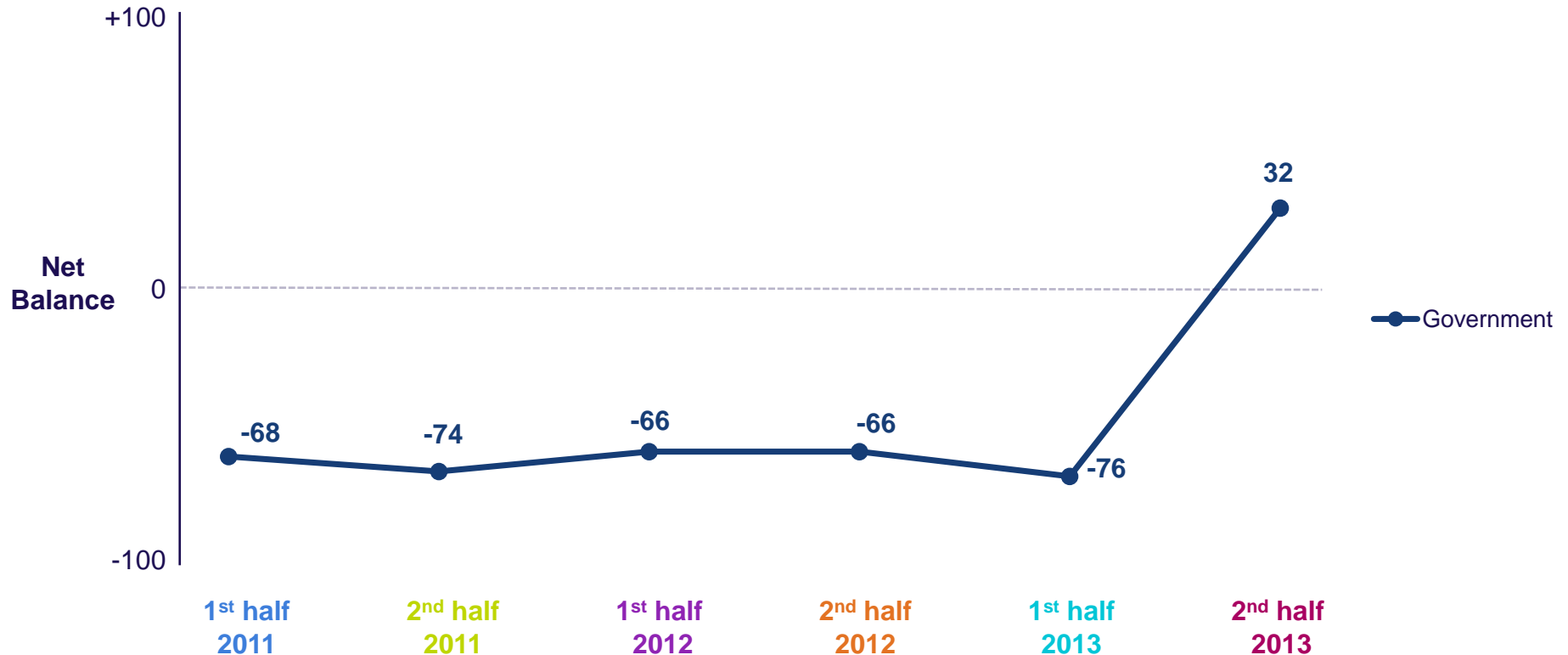
■ Strongly disagree  
 ■ Somewhat disagree  
 ■ Neither agree nor disagree  
 ■ Somewhat agree  
 ■ Strongly agree

\* Note: Net Balance for "The current Federal Opposition understands business" in 1<sup>st</sup> Half 2013 = 18

## Federal Government understanding of business – semi-annual trend

The change in Federal Government has seen a marked improvement in directors' confidence in the government's understanding of business. Sentiment about the Federal Government's understanding of business is positive for the first time since the survey's inception.

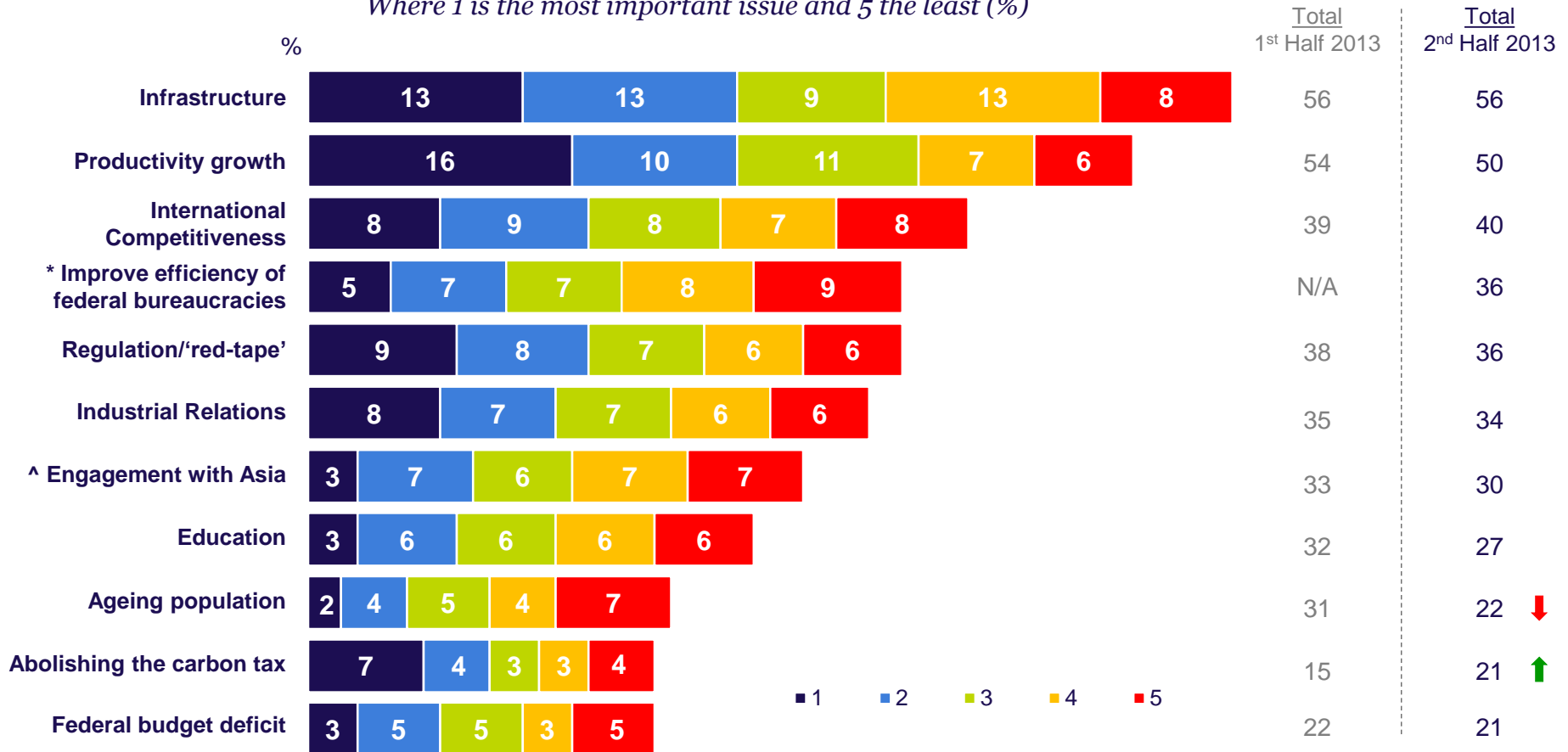
Does the current Federal Government understand business? – semi-annual trend (net balance)



# Issues Federal Government should address in short term (part 1)

Infrastructure is still rated by directors as the top priority the Federal Government should address in the short term, followed by productivity growth. Infrastructure has been identified as the top priority in every survey since the 1<sup>st</sup> half of 2011.

# Top 5 issues of importance the Federal Government should address in the short term - Where 1 is the most important issue and 5 the least (%)



# Note: Question reworded for 2<sup>nd</sup> half 2013

\* Note: New statement added in 2<sup>nd</sup> half 2013

^ Note: Statement reworded in 2<sup>nd</sup> half 2013

# Issues Federal Government should address in short term (part 2)

Defence is rated by directors as the lowest short term priority for the Federal Government, followed by abolishing the mining tax, border protection, energy resources and superannuation. Defence was also the lowest priority in the first survey results, in the 1<sup>st</sup> half of 2011.

# Top 5 issues of importance the Federal Government should address in the short term - Where 1 is the most important issue and 5 the least (%)



# Note: Question reworded for 2<sup>nd</sup> half 2013

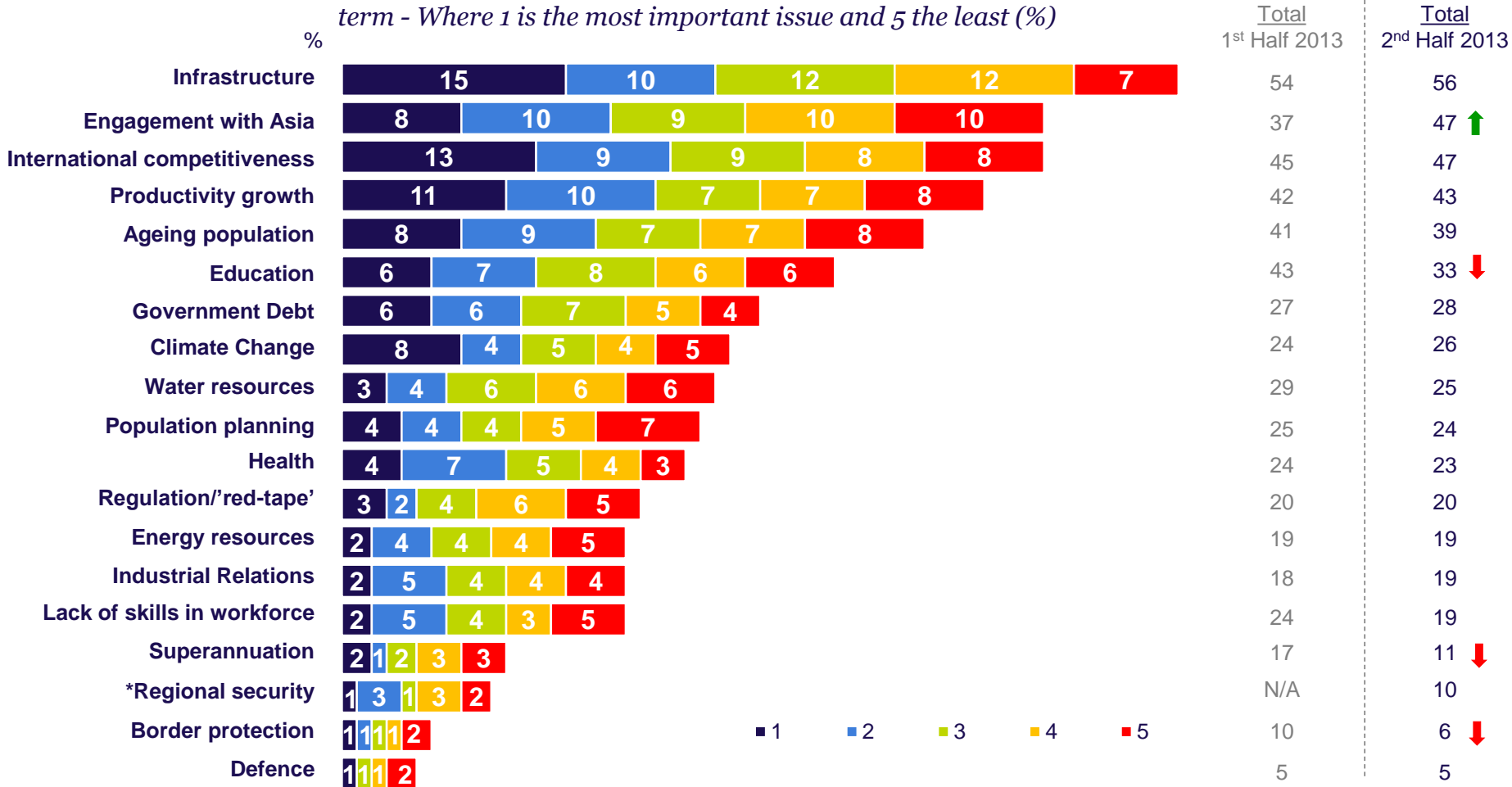
29: Please nominate the top 5 issues of importance, in your opinion, that the Federal Government should address in the short term (i.e., in the next 3 years), where 1 is the most important issue and 5 is the least important.

Base: All respondents n=527

# Issues Federal Government should address in long term

Infrastructure is also rated by directors as the top long term priority. This is followed by engagement with Asia (rise of China/India) and international competitiveness. Infrastructure has been the top long term priority since this question was first asked in the 2<sup>nd</sup> half of 2012.

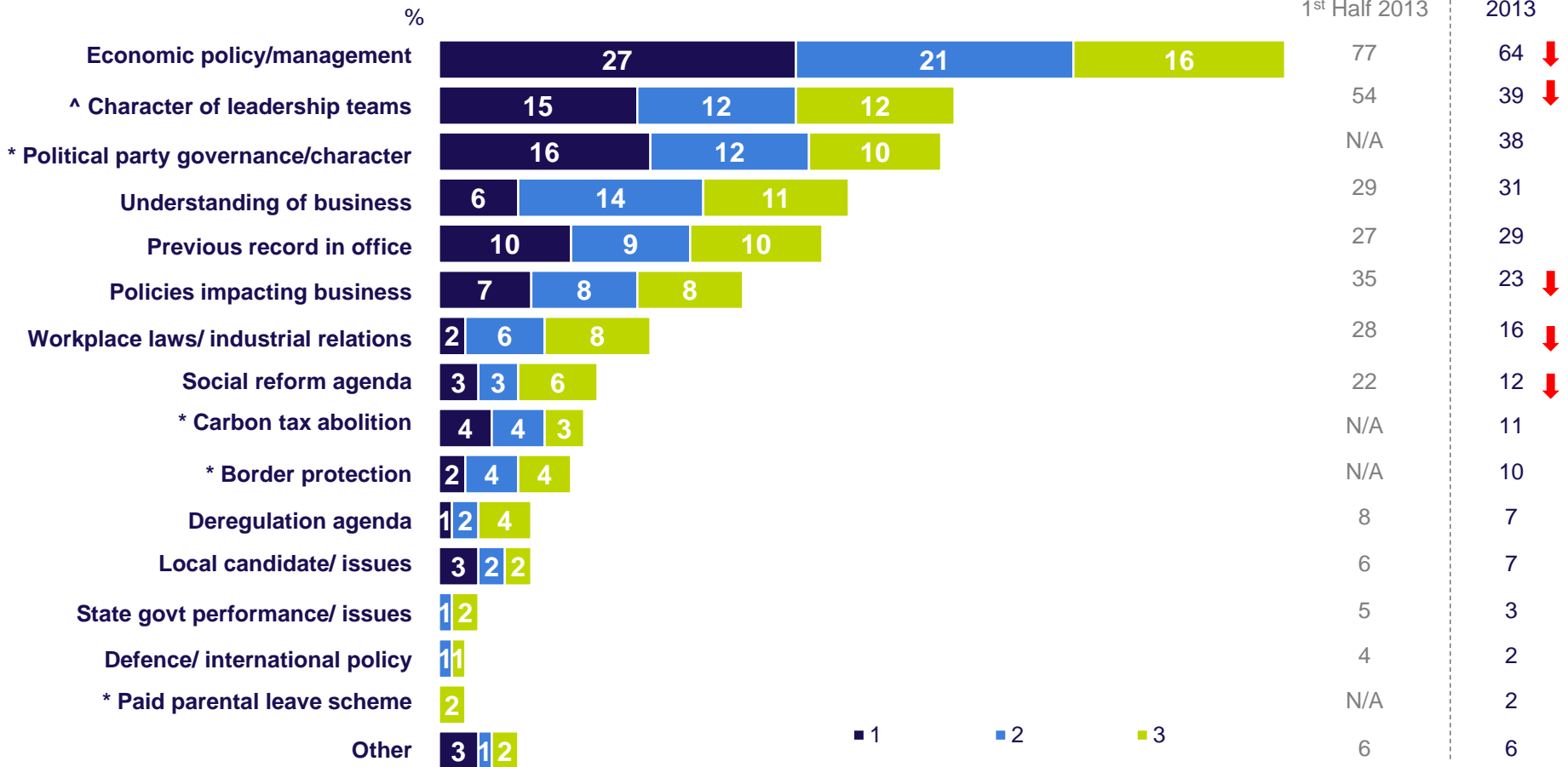
# Top 5 issues of importance the Federal Government should address in the long term - Where 1 is the most important issue and 5 the least (%)



# Factors influencing votes at the recent election

Directors identify economic policies and management as the top factor that impacted their vote at the Federal election, followed by character of the leadership teams and political party governance/character.

# Top 3 factors impacting your vote at the recent Federal election  
Where 1 is the most important factor and 3 is the least important (%)



# Expected impact of Federal Government's performance on business

Directors are optimistic about the new Federal Government's effect on business, with more than 65 per cent of directors expecting the Federal Government's performance will have a positive effect on their business decision making and 80 per cent expecting the new Federal Government's performance will have a positive impact on consumer confidence.

# Effect you expect the new Federal Government's performance will have on... (%)

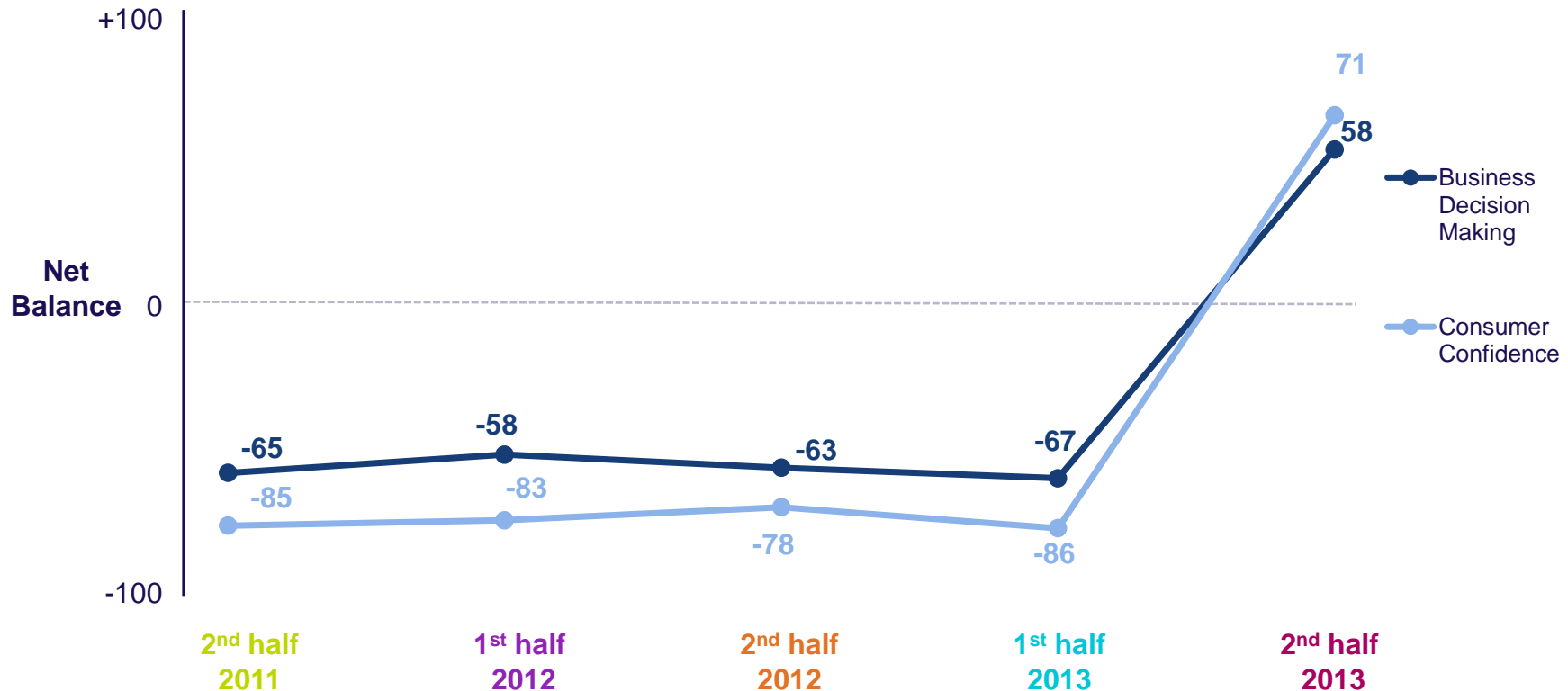




## Impact of Federal Government on business – semi-annual trend

Since the 2<sup>nd</sup> half of 2011, directors have assessed the federal government's performance as having a negative impact on their business decision making and consumer confidence. The change in federal government has seen this sentiment – in terms of expectation – move to positive for the first time.

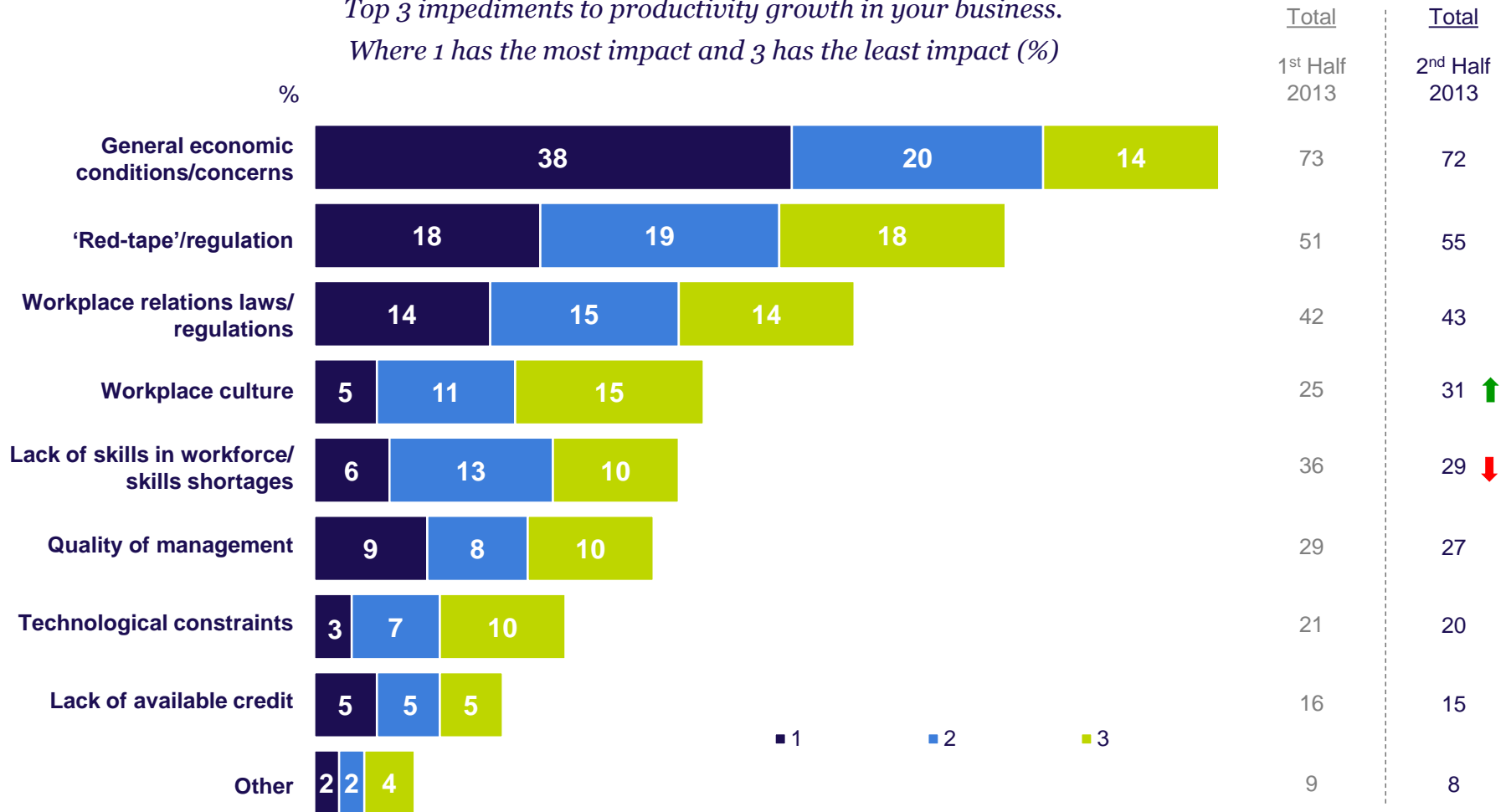
# Federal Government's performance affecting... – semi-annual trend (net balance)



# Impediments to productivity growth

In line with 1<sup>st</sup> half 2013 results, directors identify general economic conditions/ concerns as the top impediment to productivity growth in their business, followed by 'red-tape' and regulation and workplace relations laws/regulations.

Top 3 impediments to productivity growth in your business.  
Where 1 has the most impact and 3 has the least impact (%)



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# Governance

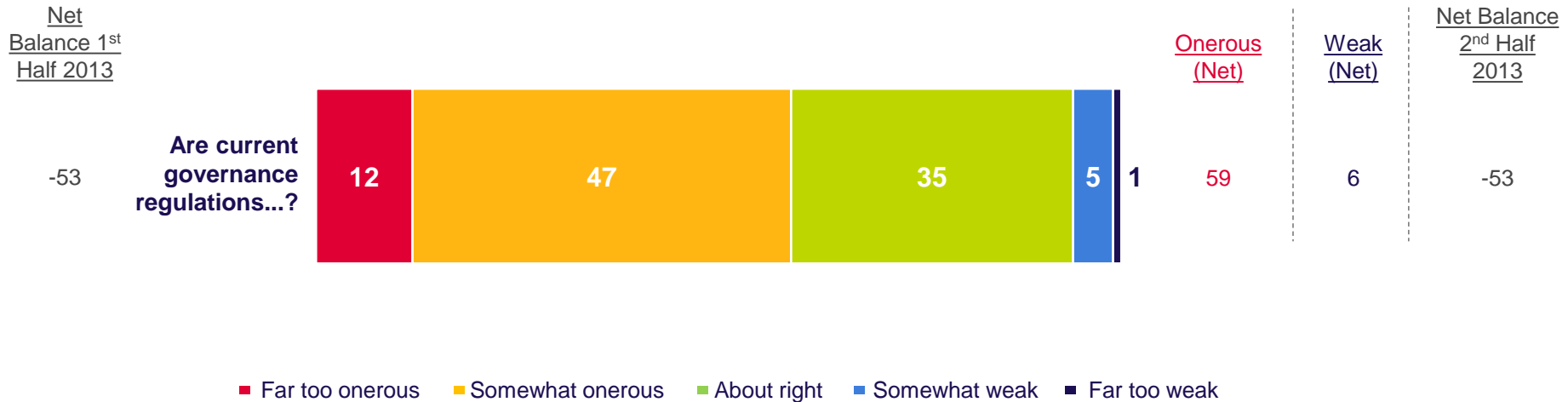
## *Key issues for directors and boards*

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# Current governance regulations under the Corporations Act

In line with 1<sup>st</sup> half 2013 results, more than half of directors believe that current governance regulations under the Corporations Act are onerous.

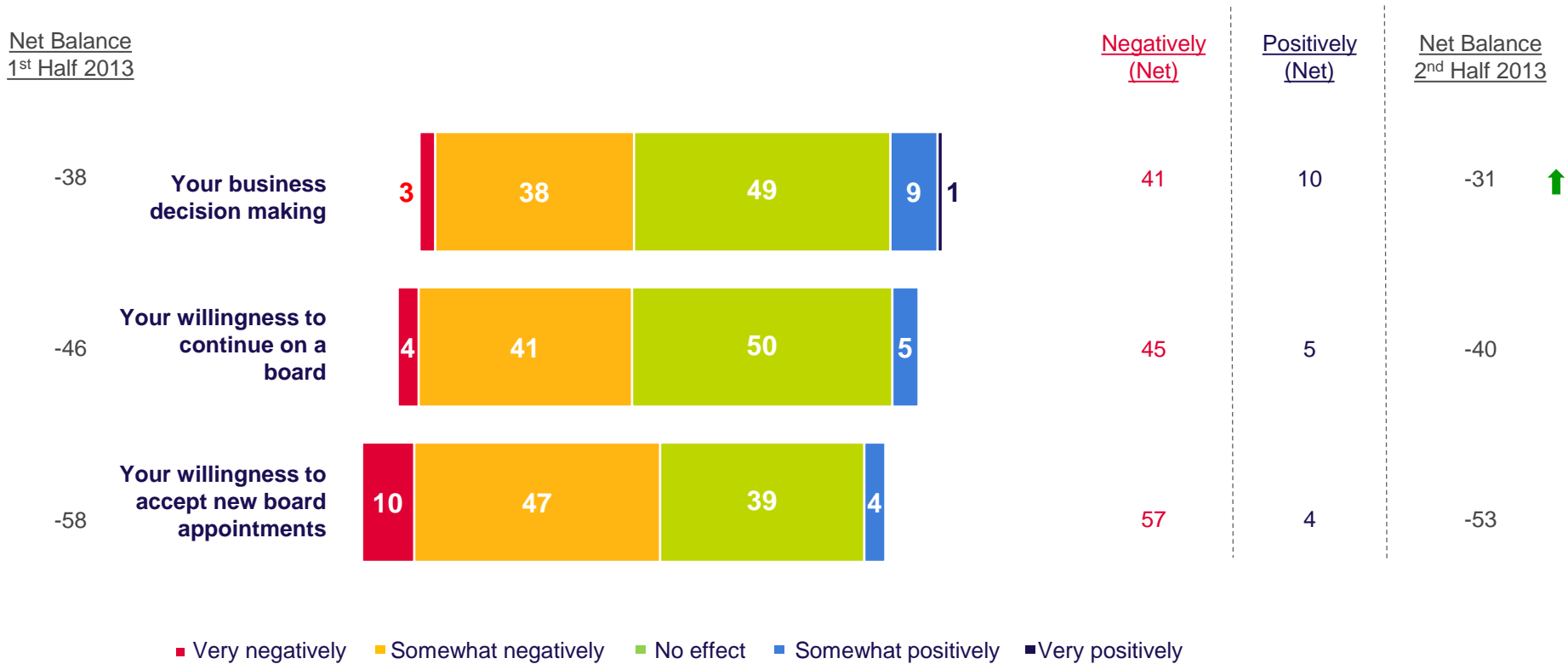
# Are current governance regulations...? (%)



# Impact of legislation on director liability

More than 40 per cent of directors still believe that legislation on director liability has a negative impact on their business decisions and willingness to continue on a board, while more than half of directors agree that director liability legislation negatively impacts their willingness to accept new board appointments.

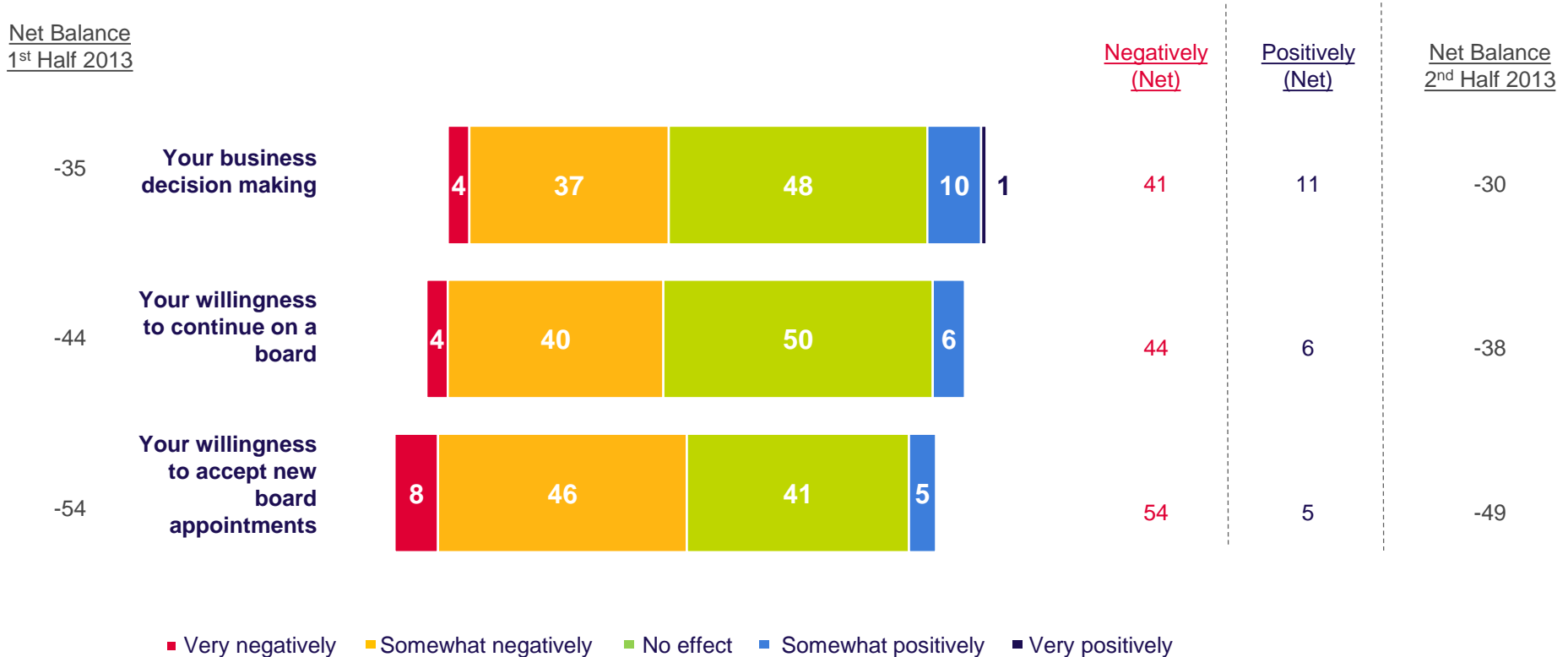
# How legislation on directors' liability is affecting...(%)



# Impact of legal judgments on director liability

Directors remain pessimistic regarding the impact of legal judgments on director liability. More than 40 per cent of directors believe that legal judgments negatively affect their business decision making and willingness to continue on a board, and more than half believe that legal judgments negatively affect their willingness to accept new board appointments.

# How legal judgments affect... (%)



# Adequacy of Directors and Officers insurance

More than 80 per cent of directors perceive their business' Directors and Officers insurance as adequate, or about right. This is a slight improvement on the 1<sup>st</sup> half 2013 survey findings.

Adequacy of business' Directors and Officers Insurance (%)

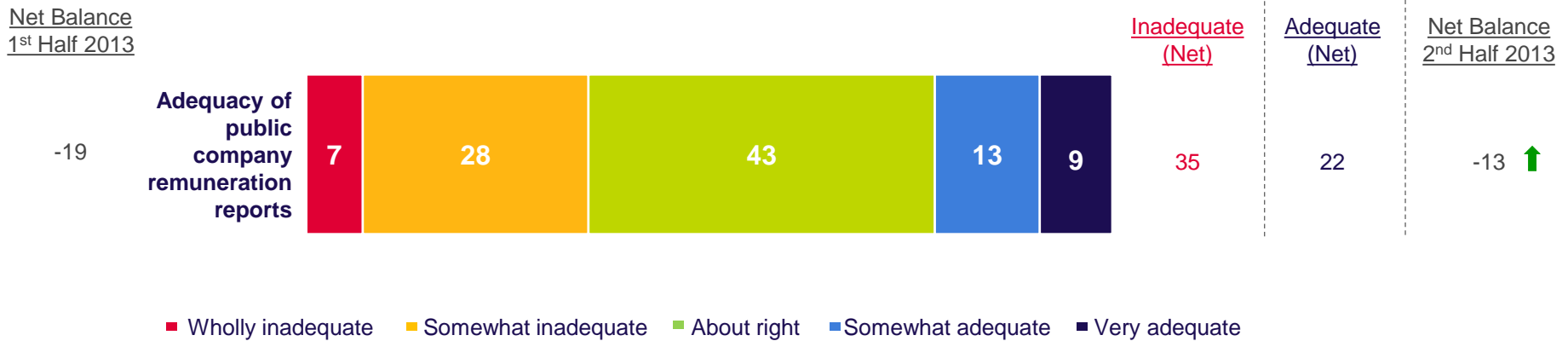


■ Very inadequate 
 ■ Somewhat inadequate 
 ■ About right 
 ■ Somewhat adequate 
 ■ Very adequate

# Adequacy of public company remuneration reports

More than 40 per cent of directors perceive public company remuneration reports as about right, while 35 per cent of directors hold the view that they are inadequate.

Adequacy of public company remuneration reports (%)

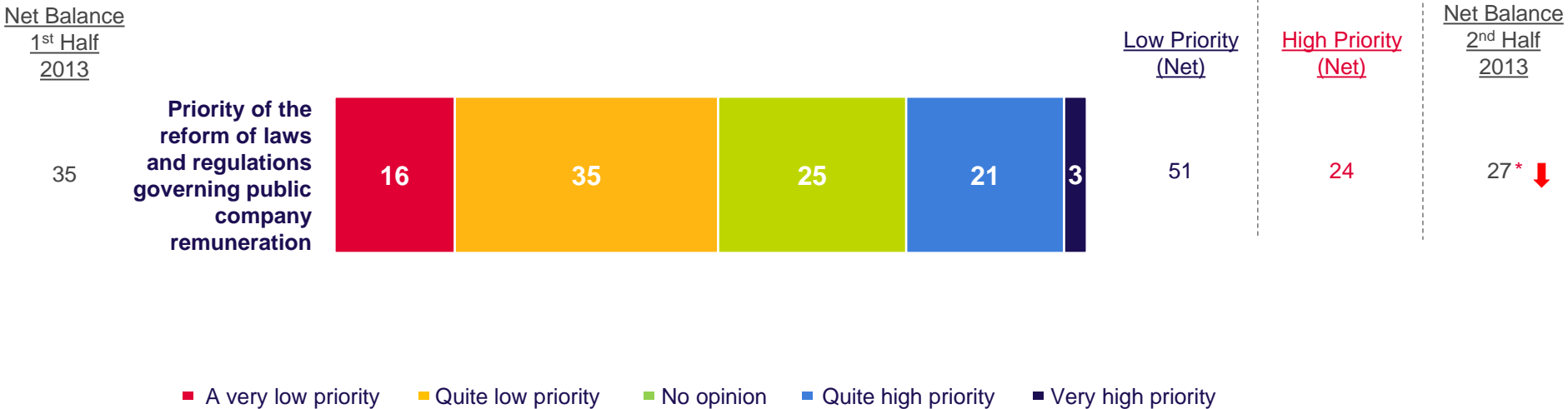




# Reform of laws and regulations governing public company remuneration

Directors continue to assign low importance to the priority of the reform of laws and regulations governing public company remuneration, with more than half of directors believing it should be a low priority.

Level of priority of the reform of laws and regulations governing public company remuneration (%)

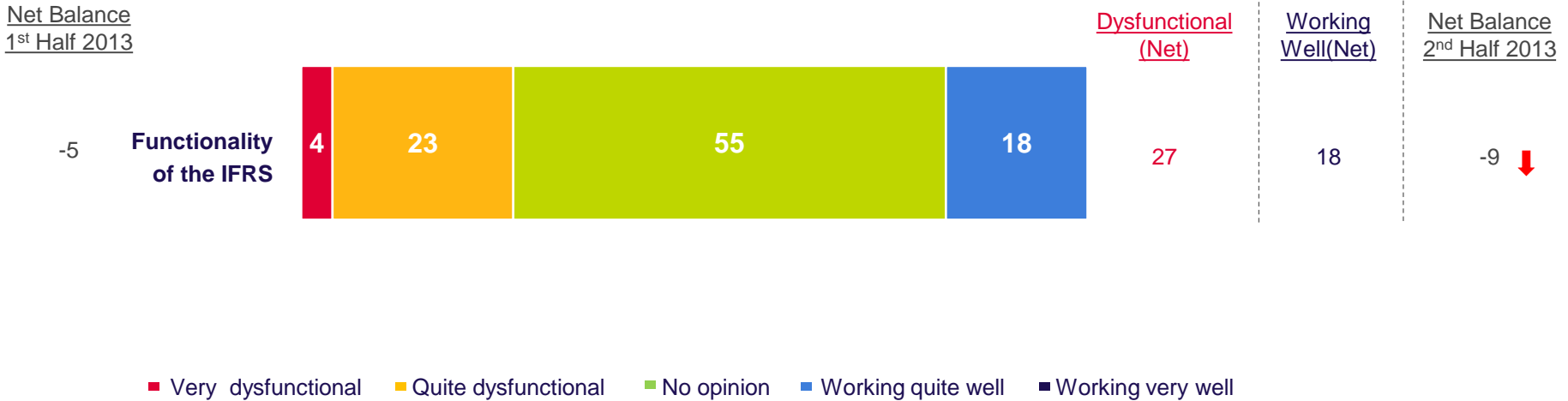


\* Note: Net balance for priority of the reform of laws and regulations governing public company remuneration calculated in reverse

# International Financial Reporting Standards (IFRS)

Sentiment regarding the IFRS remains slightly pessimistic, with more than 25 per cent of directors perceiving the IFRS as dysfunctional.

Functionality of the International Financial Reporting Standards (IFRS) (%)



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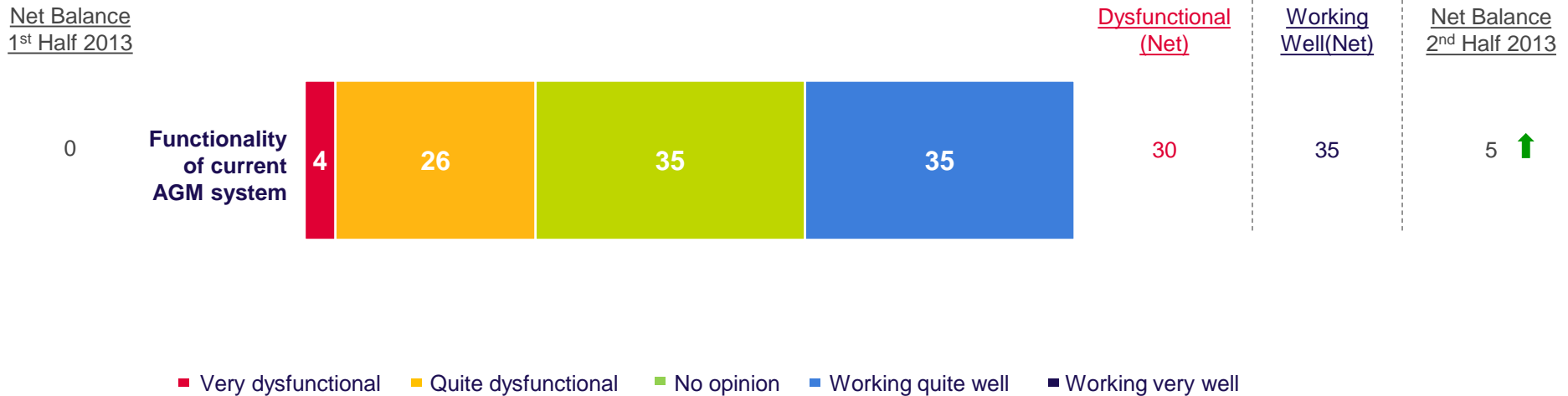
# Shareholder relations

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# Current AGM system

Sentiment is slightly more positive regarding the current AGM system in the 2<sup>nd</sup> half 2013, with 35 per cent of directors of the opinion that the current AGM system is working well and 30 per cent perceiving the current AGM system as dysfunctional.

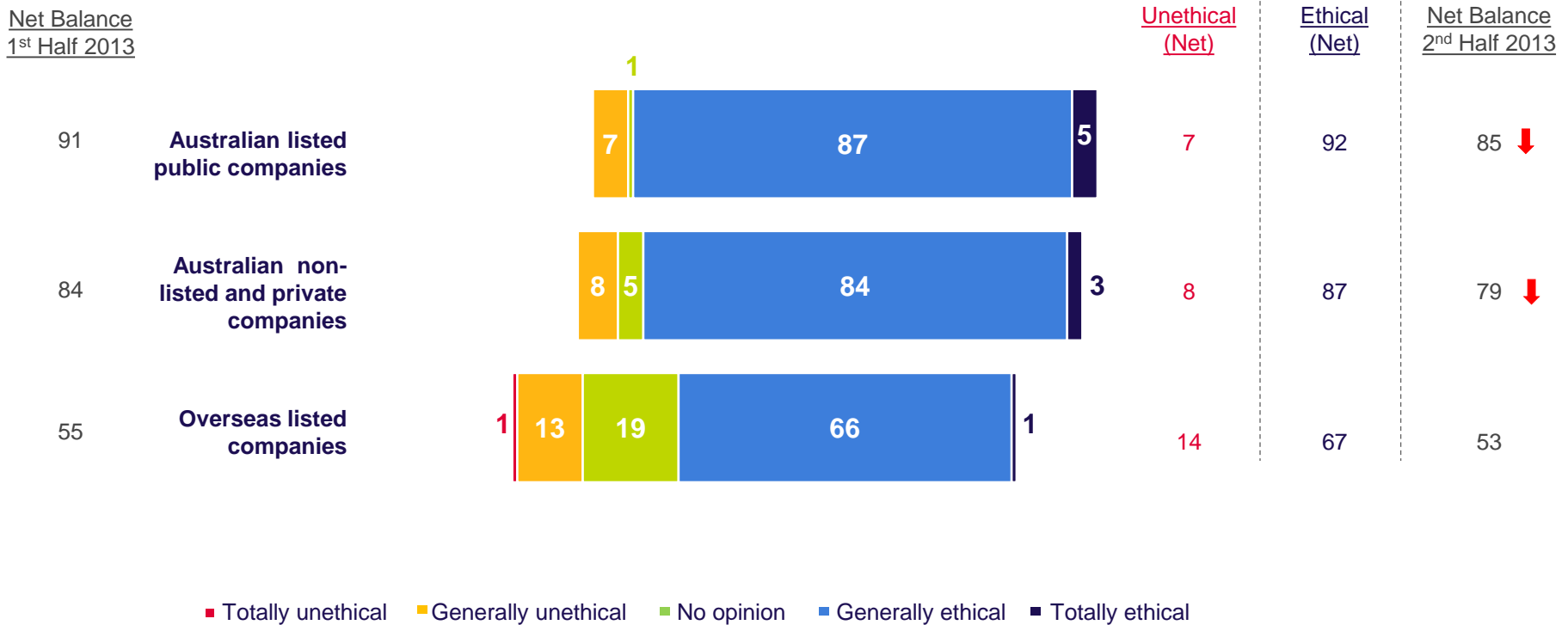
Functionality of the current AGM system (%)



# Personal perception of company directors' ethics

Most directors still perceive Australian companies as generally ethical and more so than overseas listed companies.

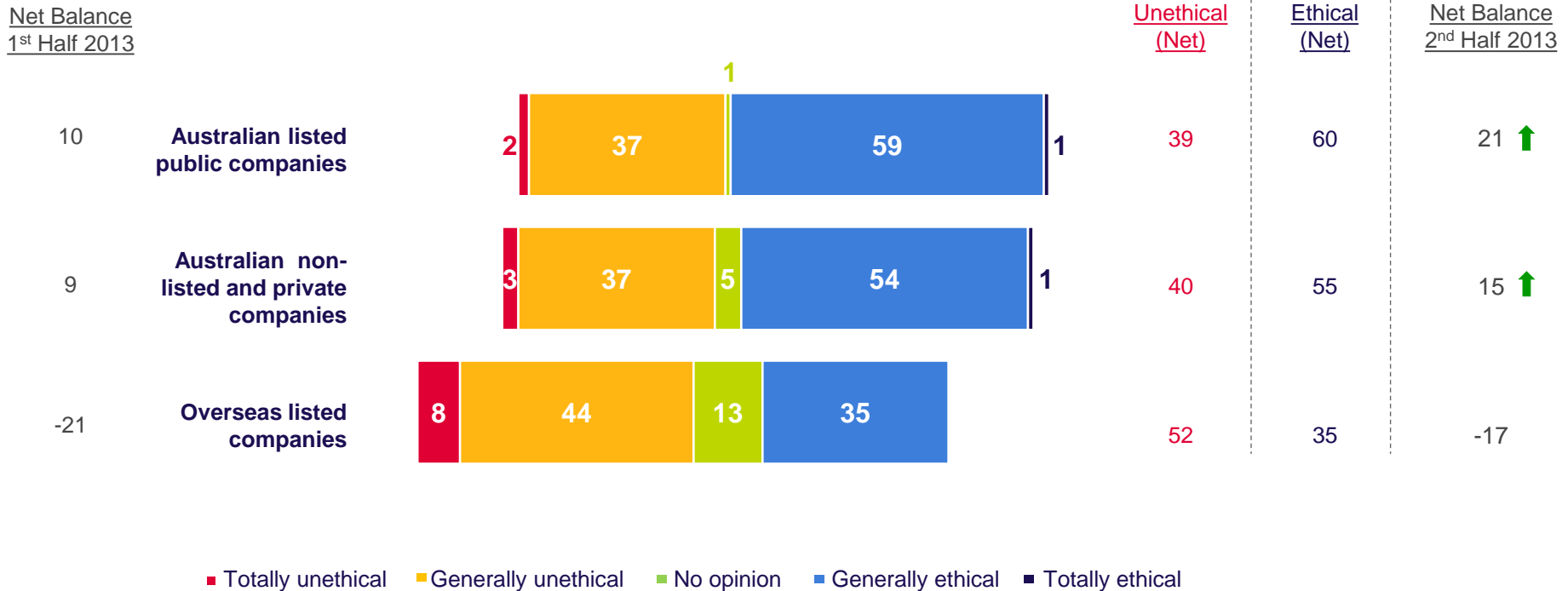
^ How do you, personally, perceive the ethics of directors of ... (%)



# Personal perception of company directors' ethics (cont)

Directors believe that the public perception regarding the ethics of Australian company directors has improved since the 1<sup>st</sup> half of 2013.

^ How do you think the general public perceive the ethics of directors of ... (%)



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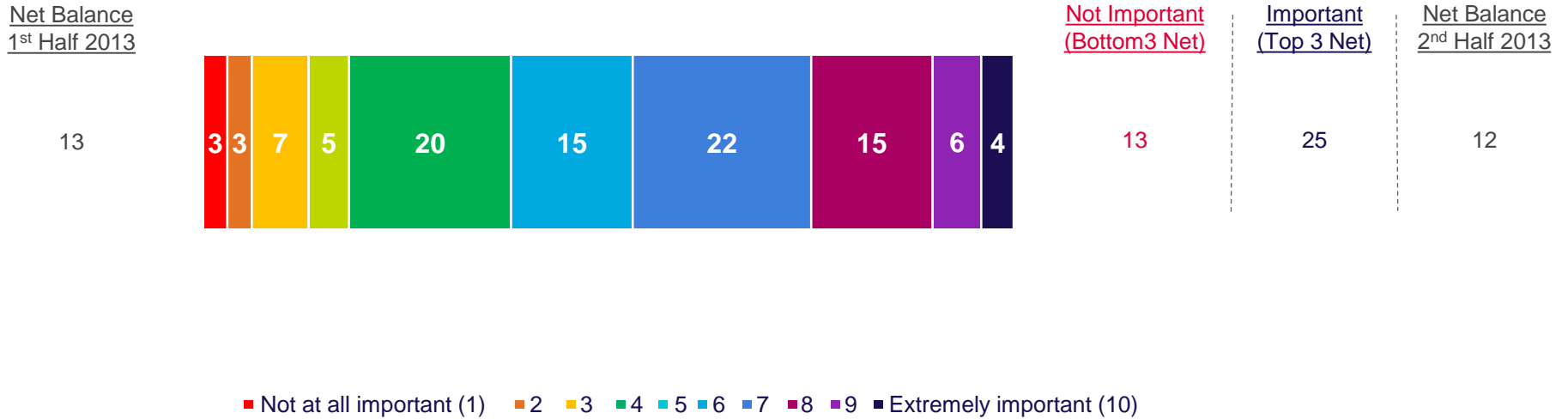
# Environmental, Social and Governance issues

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# Importance of ESG issues/extent of change - next 2 years

In line with the 1<sup>st</sup> half 2013 results, one quarter of directors perceive ESG issues to be very important.

*Importance of ESG issues within business  
(10-pt scale, where 1 is 'not at all important' and 10 is 'extremely important') (%)*

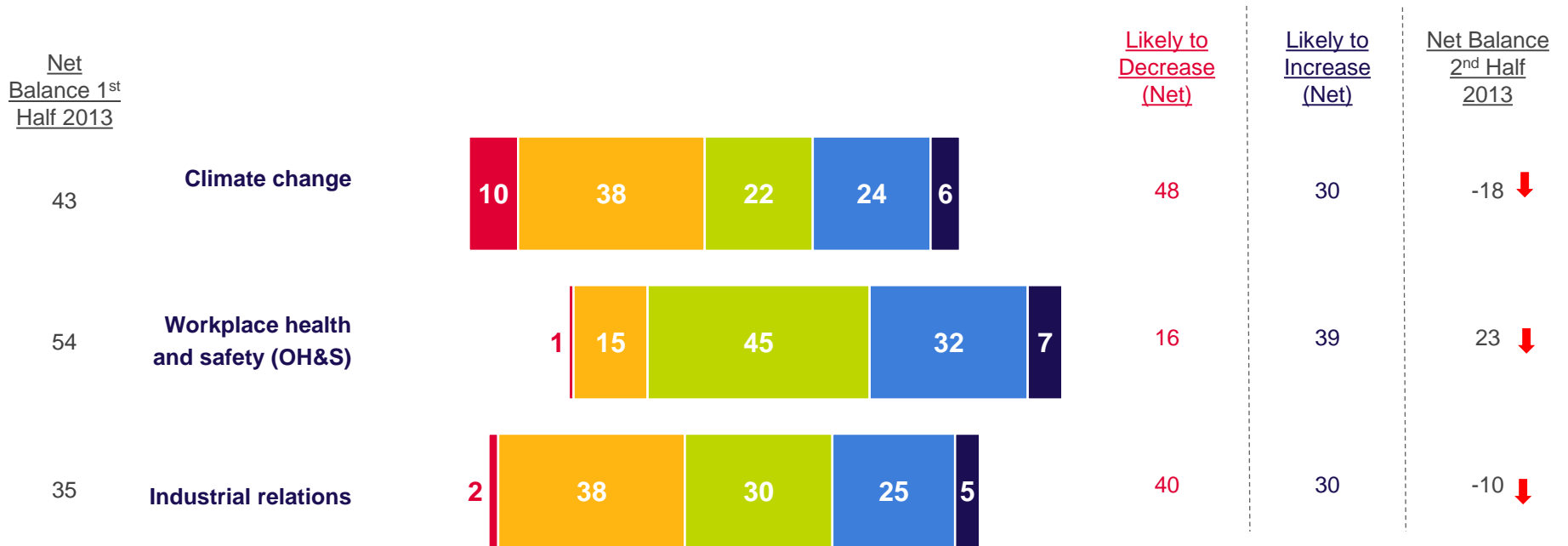




# Importance of ESG issues/extent of change - next 2 years (cont)

A far higher proportion of directors believe that ESG regulations relating to climate change, occupational health and safety and industrial relations will decrease over the next 2 years.

Extent of change of Environmental, Social and Governance (ESG) issues - next 2 years (%)



■ Likely to decrease a lot 
 ■ Likely to decrease a little 
 ■ Likely to remain stable 
 ■ Likely to increase a little 
 ■ Likely to increase a lot

# Effect of carbon price on business

In line with the 1<sup>st</sup> half 2013 results, nearly half of directors maintain the belief that the Carbon Tax is affecting their business negatively. When this question was first asked following the implementation of the carbon tax in the 2<sup>nd</sup> half of 2012, 53 per cent of directors believed it was affecting their business negatively.

# Is the legislation for the Carbon Tax affecting your business negatively or positively? (%)

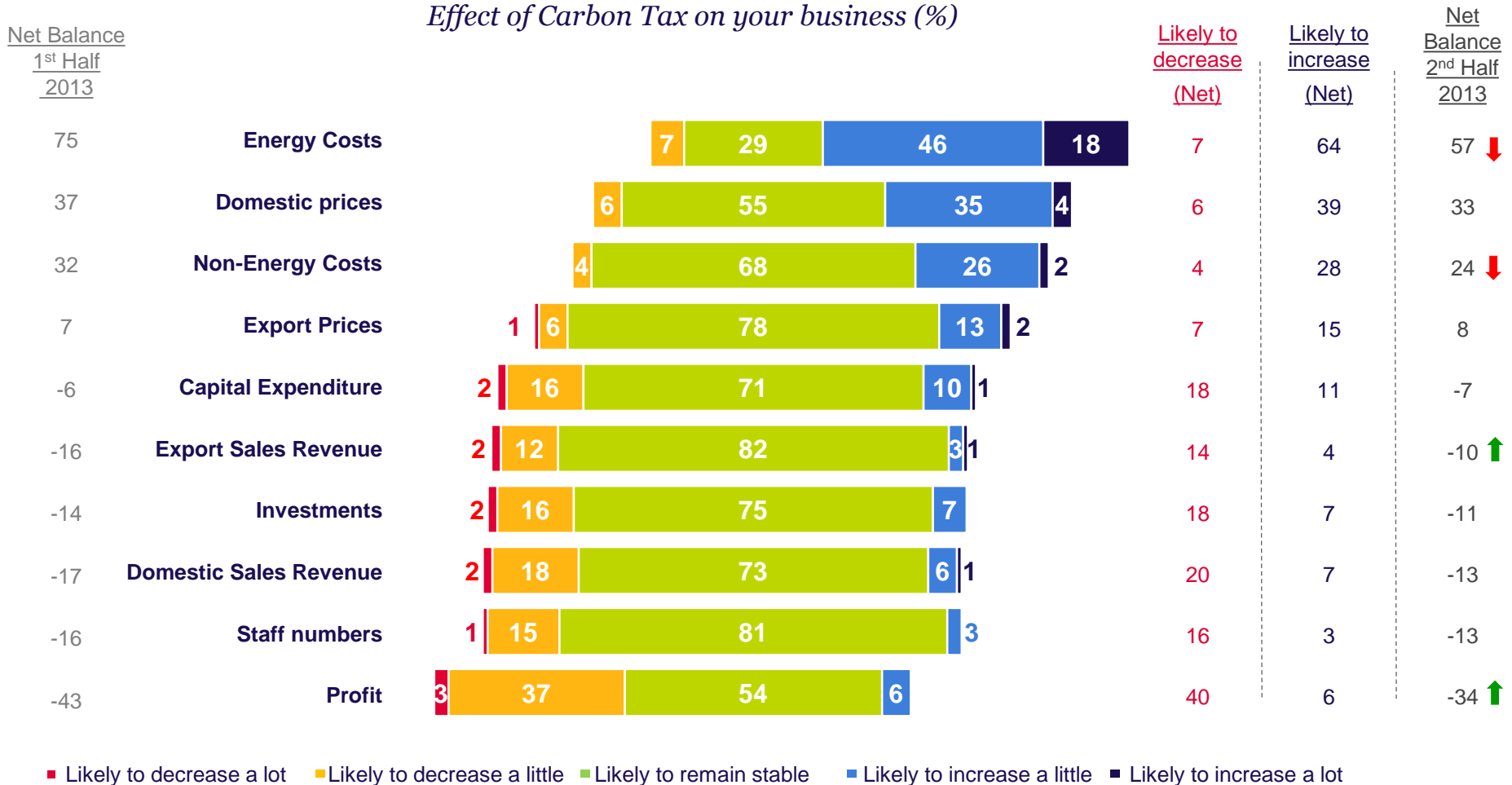
Net Balance  
1<sup>st</sup> Half 2013



■ Very negatively ■ Somewhat negatively ■ Not affecting ■ Somewhat positively ■ Very positively

# Impact of Carbon Tax on business

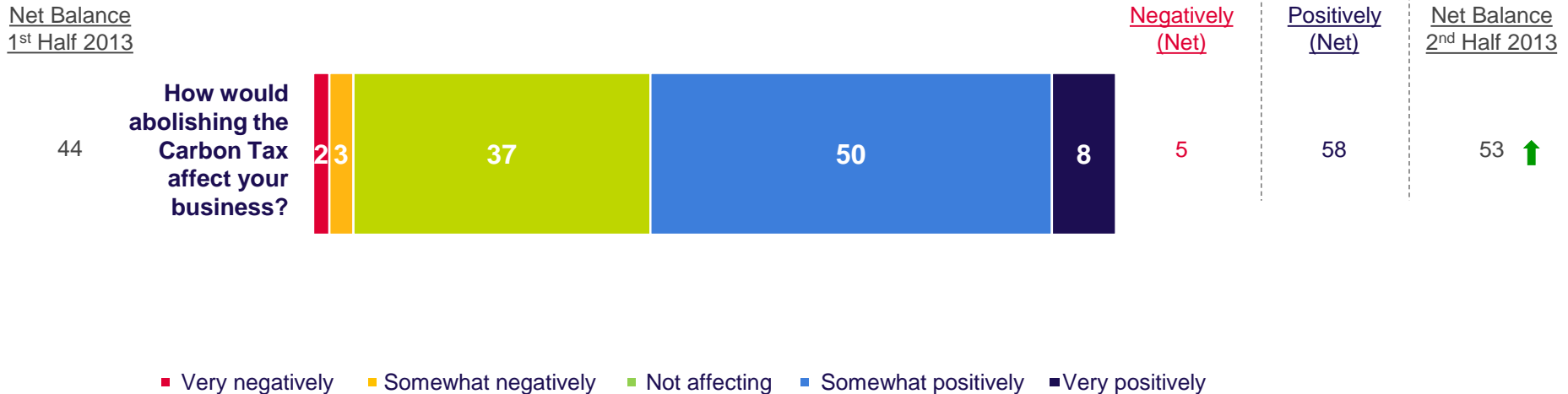
A high proportion of directors still believe that the Carbon Tax has a negative impact on energy costs and profit, although the pessimism regarding these aspects of the business has decreased since the previous survey. Energy costs, domestic prices and profit have been expected to be the aspects of the business most affected by the carbon tax since asked in the 2<sup>nd</sup> half of 2012.



# Perceived impact on business of abolishing Carbon Tax

More than half of directors agree that abolishing the Carbon Tax would have a positive impact on their business, and a decreased proportion of directors believe it would affect their business negatively. Around half of directors have consistently believed the abolition would have a positive impact on their business since first asked in the 2<sup>nd</sup> half of 2011.

^ How would abolishing the Carbon Tax affect your business? (%)



^ Note: Question reworded for 2<sup>nd</sup> Half 2012 onwards due to implementation of the Carbon Tax

50: How would you expect abolishing the Carbon tax to affect your business?

Base: All respondents n=527

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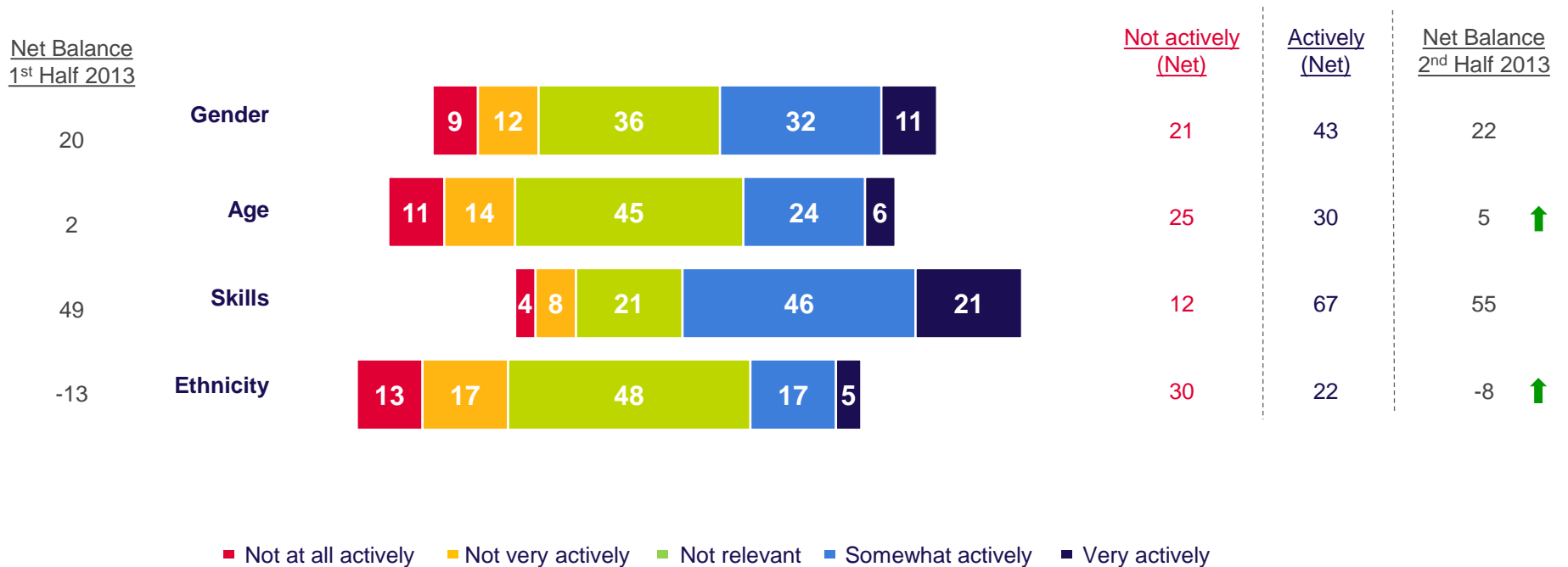
# Directorships and diversity

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# Board diversity: policy and efforts to increase

In line with the 1<sup>st</sup> half 2013 results, more than 60 per cent of directors state that their business is actively seeking to increase diversity of their board in terms of skills, and more than 40 per cent in the area of gender.

^To what extent is your board actively seeking to increase diversity of board membership in the following areas? (%)



# Factors influencing your willingness to serve on a board

Directors believe that director liability and compliance requirements negatively impacts their willingness to serve on a board. Remuneration for non-executive directors has no effect for more than half of directors, while more than 80 per cent of directors believe the contribution they make to the economy and society influences their willingness to serve on a board.

Factors influencing your willingness to serve on a board (%)



^ New statement added from 2<sup>nd</sup> Half 2012 onwards